

Consultation

Amending the price cap methodology to reflect the change in Warm Home Discount (WHD) cost recovery

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We are consulting on our methodology to reflect the Department for Energy, Security and Net Zero's (DESNZ) proposal [Warm Home Discount \(WHD\): cost recovery - GOV.UK](#) to move Warm Home Discount (WHD) scheme costs from the standing charge to the unit rate. The department is considering the policy decision to move WHD costs to the unit rate as part of the design of the scheme. This consultation seeks views on the consequential changes to the price cap methodology should DESNZ decide to proceed with their proposed changes on WHD volumetric recovery. This consultation, therefore, seeks views on the price cap methodology only, it does **not** seek views on the policy proposal to move WHD costs to the unit rate. Stakeholders with views on the policy proposal itself may wish to engage with the DESNZ consultation, which is running in parallel with this consultation.

Should the department decide not to proceed with their proposed move of WHD costs, the current cap methodology will remain as is. However, in anticipation of the proposal coming into force, we are consulting to ensure that the changes can be reflected in the cap from 1 April 2026, which is the start of the 2026 to 2027 WHD scheme period.

This document outlines the scope, purpose, and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](#). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Introduction

This chapter sets out the background and context to this consultation, the purpose of the consultation, along with related publications and next steps.

Background and Context

- 1.1 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 the efficient underlying costs. We set the cap by considering the different costs suppliers face.
- 1.2 The cap is provided for in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the ‘Act’). We are required to exercise our functions under the Act with a view to protecting existing and future domestic customers who are on default tariffs covered by the price cap. As part of this duty, we must have regard to five matters when setting the cap:
 - 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.
- 1.3 The requirement to have regard to the five matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In reaching decisions on particular aspects of the cap, the weight to be given to each of these is a matter of judgement. Often, a balance must be struck between competing considerations.
- 1.4 In our [2018 Default Tariff Cap Decision](#) we set out the conditions by which we would consider making changes to the cap methodology. For example, this may include where there are clear material and systematic impacts on the costs of supplying default tariff customers that are not appropriately accounted for by the existing cap methodology. In line with this, and our legal duties set out in the Act, we are consulting on our proposed methodology for reflecting DESNZ’s proposal to move WHD scheme costs from the standing charge to the unit rate.

The Warm Home Discount (WHD)

What the WHD scheme is and how it is currently calculated in the cap

- 1.5 The WHD scheme supports low income and vulnerable households. It came into effect in April 2011. The WHD scheme supports eligible households by providing a £150 annual rebate on energy bills. The scheme currently adds £39 to a typical dual fuel bill.
- 1.6 The price cap includes an allowance for the WHD scheme in ‘Annex 4: Policy Cost Allowance Methodology’, along with allowances for other government obligations, such as Renewables Obligations (ROs), Feed in Tariffs (FiTs), Energy Company Obligation (ECO) and Great British Insulation Scheme (GBIS).
- 1.7 Under the current price cap methodology, the costs of the WHD scheme are included in the ‘nil consumption’ benchmark, split across gas and electricity customers on a 50:50 ratio. This means gas and electricity default customers pay for WHD costs via the daily standing charges rather than on a per unit of energy basis. This aligns with the current WHD reconciliation mechanism, which ensures that the costs of the WHD scheme are shared in an equitable manner across participating suppliers based on the number of customers supplied, rather than the volume of energy they consume.
- 1.8 In October we [consulted](#) on proposed changes to the cost recovery profile of the WHD scheme within the price cap and subsequently decided to bring the remaining cost recovery associated with the 2025 to 2026 WHD expansion forward to 1 January 2026 until 31 March 2027. We do not plan to make any changes to the WHD costs in the cap for the current 2025 to 2026 scheme year. As set out in our decision document, this will result in an additional £6.82 on the fixed daily standing charge element of the price cap from 1 April 2026 to 31 March 2027
- 1.9 This consultation, therefore, only proposes to make an adjustment on a forward-looking basis (from scheme year 2026 to 2027 onwards), subject to DESNZ’s decision on moving WHD costs to the unit rate, to ensure cost recovery in the cap is aligned with any decision on the reconciliation mechanism and resulting changes to The Warm Home Discount (Reconciliation) Regulations 2022 (‘reconciliation regulations’).

What DESNZ are consulting on

- 1.10 On 8 December 2025, DESNZ published their consultation seeking views on a proposal to move WHD cost recovery from the standing charge to the unit rate — the per-kWh charge for electricity and gas usage. This change aims to address the regressive nature of standing charges and align WHD cost recovery with consumption.

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- 1.11 In their consultation, the department sets out the rationale and impacts of moving WHD costs and seek views on the fairness, feasibility, and potential impacts of moving WHD costs from the standing charge to the unit rate.
- 1.12 The department's WHD consultation builds on other work that Ofgem is doing to examine and reallocate costs across the energy system, namely [exploring how standing charges could be reduced](#) and our wider [Cost Allocation and Recovery Review \(CARR\)](#).

What are we consulting on

- 1.13 This consultation seeks views on the price cap methodology for reflecting DESNZ's proposals to move WHD cost recovery from the standing charge to the unit rate. It does **not** seek views on the proposal to move WHD costs themselves, given this is being considered by the department.
- 1.14 More specifically, we are consulting on:
- Changes to the inputs used in the WHD cost allowance methodology, replacing the relevant number of customers with relevant demand. Once the methodology has been determined by DESNZ, we propose to use the outlined reconciliation mechanism, using appropriate demand data in place of customer number data.
 - Changes to the mechanics of the price cap to ensure any WHD scheme costs from scheme year 2026 to 2027 are apportioned to the volumetric element of the price cap. We propose to continue to allow costs associated with scheme year 2025 to 2026 to be recovered on the nil consumption benchmark (standing charge).
- 1.15 Should the department decide not to proceed with their proposed move of WHD costs, the current cap methodology will remain as is. However, in anticipation of the proposal coming into effect, we are consulting to ensure that the changes can be reflected in the cap as promptly as possible.
- 1.16 On the assumption that DESNZ decide to proceed with their proposals, we intend for the outcome of this consultation to take effect from 1 April 2026.
- 1.17 We have published a revised 'Annex 4 – Policy cost allowance methodology' of Standard Licence Condition (SLC) 28AD of the electricity and gas standard supply licence conditions and 'Overview model (Default tariff cap level)' alongside this document, which outline the requisite modelling changes based on the proposals set out in this consultation.
- 1.18 Details of how to respond and how we will handle your data and confidentiality can be found in Appendix 3 of this document.

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Related publications

1.19 The main general documents relating to the cap are:

- [Domestic Gas and Electricity \(Tariff Cap\) Act 2018](#)
- [2018 Decision on the default tariff cap methodology](#)
- [Energy Prices Act 2022](#)

1.20 The main documents relating to this publication are:

- [Warm Home Discount \(WHD\): cost recovery - GOV.UK](#)
- [Warm Home Discount Scheme: Overview](#)
- [The Warm Home Discount \(Reconciliation\) Regulations 2022](#)

Next steps

1.21 This consultation is open from 9 December 2025 and closes on 9 January 2026.

Following the consultation close, we will carefully consider all responses before publishing our decision, which, on the assumption that DESNZ proceed with their proposal we expect to announce in February 2026.

2. Proposals

This chapter sets out the options we are considering for amending the price cap methodology to reflect the potential move of WHD costs from the standing charge to the unit rate.

Questions

1. Do you agree with our proposal to amend the inputs used to calculate the WHD allowance? Please expand on your answer.
2. Do you agree with our proposed changes to the models used to calculate the WHD allowance? Please expand on your answer.
3. Do you have any other views you would like to share in response to this consultation?

Summary of our proposals

- 2.1 We propose to amend the price cap methodology to reflect DESNZ's proposal to move future WHD costs from the standing charge to the unit rate.
- 2.2 Moving WHD costs from standing charges to the unit rate from April 2026 and keeping 2025 to 2026 WHD expansion (£6.82 for dual fuel) on standing charges will result in a reduction of £4 in the cap level (communicated at Typical Domestic Consumption Value) for a typical dual fuel customer. Broadly, we expect consumers' contribution to the scheme (in aggregate) to remain the same and so supplier revenues are expected to be comparable under the new proposed methodology.
- 2.3 We propose to continue to include the WHD allowance, within the 'Annex 4: Policy cost allowance methodology' and update on a six-monthly basis, and seek views on the following proposals, which are all dependent on DESNZ progressing with proposals to move WHD costs to the unit rate:
- 2.4 Replacing data on "WHD obligated customers" to a new "WHD obligated demand" input for scheme year 2026 to 2027, commencing 1 April 2026, onwards.
 - Formulae updates to the current WHD allowance model to ensure any WHD costs associated with scheme year 2026 to 2027 (onwards) are allocated to the volumetric (unit rate) element of the price cap.
- 2.5 Considerations regarding demand uncertainty with the proposed approach, noting that a range of factors can lead to energy demand for a given year to be higher or lower than forecast.
- 2.6 Below, and in Appendices 1 and 2, we provide further detail on our methodological proposals and model updates.

Proposal for updating WHD inputs

- 2.7 Currently, we use supplier data on the number of obligated WHD customers to calculate the allowance for any given cap period. Should the department proceed with their changes to move costs to the unit rate, we propose to use data on relevant suppliers' share of demand instead.
- 2.8 We therefore propose that our inputs on WHD obligated customer to be replaced with a new input – "WHD obligated demand" – and based on a per MWh basis. We note that the department is considering the rebalancing of costs between electricity and gas but don't propose any changes to the balance of WHD costs at this time. As a result, we propose to continue with the current assumption of a 50:50 split of the target spending between gas and electricity unit rates, subject to any specific decisions from DESNZ on the allocation of WHD costs between gas and electricity customers.
- 2.9 Until DESNZ have set out the final methodology in the revised WHD regulations, there will be some degree of uncertainty on the exact mechanics of the WHD reconciliation process, and the relevant volumetric inputs needed to facilitate this. However, our current expectation is that the WHD obligated demand inputs will be based on the same underlying supplier reported annual demand data used to inform the current ECO allowance.
- 2.10 While we expect the source data proposed will be similar to the data previously collected for ECO, we do not expect the inputs themselves to be identical, given there are some suppliers who are obligated by the WHD scheme, but not the ECO scheme. Previous iterations of the ECO scheme set obligations based on annual volumes of domestic supply by obligated parties in the previous year, with volume calculated as the supply over the 12 month period to 31 December each year.
- 2.11 We have set out below, for illustrative purposes, inputs for the current scheme year (2025 to 2026) under a volumetric cost recovery scenario, based on ECO scheme data. These figures may not reflect the final inputs used to set any WHD volumetric cost allowance from 1 April 2026, given this will be determined by the related reconciliation regulations, and based on more up to date data.
- 272,853,081.00 MWh WHD obligated demand (gas)
 - 96,662,719.32 MWh WHD obligated demand (electricity)
- 2.12 While WHD inputs depend on the reconciliation regulations yet to be laid by DESNZ, we expect that the information used to determine expected WHD obligated demand for a relevant price cap period to align with the inputs used to determine a given supplier's obligation via the WHD reconciliation process.

Proposal for updating Annex 4 (Policy cost allowance methodology) and Overview (Default tariff cap level) models

- 2.13 We propose changes to Annex 4 and the Overview model to put the WHD allowance on the benchmark consumption (m) level but removing it from nil consumption from April 2026 and keep the remaining cost recovery associated with the 2025 to 2026 WHD expansion (i.e. £6.82 dual fuel) on standing charges from 1 April 2026 to 31 March 2027
- 2.14 We have provided supplementary models alongside this consultation to help inform stakeholder feedback on the proposed changes to the relevant price cap models in order to implement the policy proposal to move WHD costs onto the unit rate.

Accounting for demand uncertainty

- 2.15 We expect that suppliers will be able to recover their efficient costs associated with the WHD scheme under the proposed approach. This is on the basis that the energy consumed by relevant customers is the same as the assumed demand which informs the cost allowances on a forward-looking basis.
- 2.16 However, we recognise that demand for a given year or period may not necessarily reflect the amount of energy consumed in the following year or period. There are numerous and complex factors which will drive changes in energy consumption. These include weather and climate patterns, energy efficiency improvements, demand elasticity and socio-economic variables, which are inherently difficult to forecast ex-ante.
- 2.17 We note that there is some residual risk associated with the current methodology, as the number of relevant customers assumed in the price cap methodology may be slightly higher or lower than the actual outturn number. However, we recognise that estimating the volume of energy consumed by relevant domestic customers is more challenging and more likely to result in outturn variance than the current approach. The risk of under or over-recovery for a given period is therefore likely to increase.
- 2.18 We note that DESNZ raise the issue of demand uncertainty as part of their consultation, noting that a feedback loop could be incorporated to correct for any discrepancies between forecast demand and outturn demand, and to mitigate the risk of any supplier under-or over-recovery.
- 2.19 We therefore do not propose to explicitly account for the lagged impact of outturn demand being higher or lower than expected but will review this position as the policy design from DESNZ becomes clearer. As a general point, we are aware that some suppliers have suggested that we should make greater use of

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reconciliations in the cap, but we consider that this is best considered holistically through our price cap reform work.

3. Your response, data and confidentiality

Consultation stages

- 3.1 This is a statutory consultation which is open from 9 December 2025 until 9 January 2026. We will then consider consultation responses to inform our decision, and, assuming DESNZ proceed with their proposal, expect to implement from 1 April 2026.

How to respond

- 3.2 We want to hear from anyone interested in this consultation. We welcome views on any of the proposals on how to reflect DESNZ's proposal to move WHD scheme costs from the standing charge to the unit rate, into the price cap methodology.
- 3.3 Please send your response to retailpriceregulation@ofgem.gov.uk on or before 9 January 2026.
- 3.4 We will publish non-confidential responses on our website at [Ofgem Consultations](#).

Your response, your data and confidentiality

- 3.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 3.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 3.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

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- 3.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 3.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?

- 3.10 Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

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How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

[ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

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Appendix 1 - Detailed model modifications: Annex 4

A1.1 We summarise in this appendix the modifications to ‘Annex 4 – Policy cost allowance methodology’ of SLC 28AD standard supply licence conditions based on our proposals in Chapter 2.

A1.2 We have published alongside this consultation a revised Annex 4. We invite stakeholders’ views on this. A summary of the modifications can be found below.

Worksheet	Change	Description
3f WHD	New input added for ‘supply volumes of obligated suppliers’ for gas.	A18:BF18 added to input for supply volumes of obligated suppliers (in £MWh) for gas.
3f WHD	New input added for ‘supply volumes of obligated suppliers’ for electricity.	A19:BF19 added to input for supply volumes of obligated suppliers (in £MWh) for electricity.
3f WHD	New calculation row added for ‘WHD Gas’ cost estimate.	A22:BF22 calculation formula added to calculate the WHD cost estimate at £/MWh for gas.
3f WHD	New calculation row added for ‘WHD Electricity’ cost estimate.	A23:BF23 calculation formula added to calculate the WHD cost estimate at £/MWh for electricity.
3f WHD	Input cells for standing charges calculations removed.	AN14:BF17 containing ‘core’ and ‘non-core’ split inputs, ‘customer numbers’ and ‘compulsory suppliers % of core group’ removed. The WHD cost of 2025/26 to be recovered in 2026/27(i.e. the £3.41 single fuel or £6.82 dual fuel) will remain on the standing charges only until 31 March 2027, this is going to be hardcoded input in cells AN21:AQ21.
3f WHD	Calculation cells for standing charges calculations removed.	AR21:BF21 containing the calculations for ‘WHD cost estimate’ (£/customer) on the standing charge removed. The

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		WHD cost of 2025/26 to be recovered in 2026/27(i.e. the £3.41 single fuel or £6.82 dual fuel) will remain on the standing charges only until 31 March 2027.
2a Aggregate costs	New rows added for 'WHD' for electricity single rate, electricity multi-rate and gas.	<p>A19:BF19 added to calculate WHD cost estimate at £/MWh supplied for electricity single rate metering arrangement,</p> <p>A27:BF27 added to calculate WHD cost estimate at £/MWh supplied for electricity multi-rate metering arrangement,</p> <p>A33:BF33 added to calculate WHD cost estimate at £/MWh supplied for gas,</p>
2a Aggregate costs	Calculation cells for standing charges calculations removed.	<p>The WHD cost of 2025/26 to be recovered in 2026/27(i.e. the £3.41 single fuel or £6.82 dual fuel) will remain on the standing charges only until 31 March 2027. Therefore, the following rows/cells will be retired from April 2027 onwards:</p> <p>AR18: BF18 containing the calculations for 'WHD cost estimate' (£/customer) on the standing charge for electricity single rate.</p> <p>AR26:BF26 containing the calculations for 'WHD cost estimate' (£/customer) on the standing charge for electricity multi-rate.</p> <p>AR32:BF32 containing the calculations for 'WHD cost</p>

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		estimate' (£/customer) on the standing charge for gas.
1a Policy Cost Allowance	New rows added for 'WHD' for electricity single rate, electricity multi-rate and gas.	<p>To move the WHD cost estimate to the unit rate the following have been added:</p> <p>A57:BE57 added to calculate WHD cost estimate at £/MWh supplied for electricity single rate metering arrangement,</p> <p>A65:BE65 added to calculate WHD cost estimate at £/MWh supplied for electricity multi-rate metering arrangement,</p> <p>A71:BE71 added to calculate WHD cost estimate at £/MWh supplied for gas,</p>
1a Policy Cost Allowance	Calculation cells for standing charges calculations removed.	<p>The WHD cost of 2025/26 to be recovered in 2026/27(i.e. the £3.41 single fuel or £6.82 dual fuel) will remain on the standing charges only until 31 March 2027. Therefore, the following rows/cells will be retired from April 2027 onwards:</p> <p>AQ56: BE56 containing the calculations for 'WHD cost estimate' (£/customer) on the standing charge for electricity single rate.</p> <p>AQ64:BE64 containing the calculations for 'WHD cost estimate' (£/customer) on the standing charge for electricity multi-rate.</p> <p>AQ70:BE70 containing the calculations for 'WHD cost</p>

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		estimate' (£/customer) on the standing charge for gas.
1a Policy Cost Allowance	Calculation formula updated to incorporate WHD on the unit rate into the total policy cost allowance.	<p>AM15:BE43 calculation formula updated in Table 1 to account for WHD costs on the unit rate in the total policy cost allowance.</p> <p>Also, as the WHD cost of 2025/26 recovered over 2026/27 fall over from April 2027. To avoid returning an error in the calculation, the formula from April 2027 in cells AQ15:BE43 are amended by removing the 2025/26 WHD cost recovered in 2026/27 in the last part of the formulas.</p>

Appendix 2 - Detailed model modifications: Overview model (Default tariff cap level)

A2.1 We summarise in this appendix the modifications to the ‘Overview model (Default tariff cap level)’ in Chapter 2.

A2.2 We have published alongside this consultation a revised model. We invite stakeholders’ views on this. A summary of the modifications can be found below.

Worksheet	Change	Description
3d PC	New rows added for ‘WHD’ for electricity single rate, electricity multi-rate and gas.	To move the WHD cost to the unit rate the following rows are added: Row 57 to calculate WHD cost at £/MWh supplied for electricity single rate metering arrangement, Row 65 to calculate WHD cost estimate at £/MWh supplied for electricity multi-rate metering arrangement, Row 71 to calculate WHD cost estimate at £/MWh supplied for gas

Appendix 3 - Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest i.e. a consultation.

4. We will not be sharing your personal data.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data

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- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.