

Decision

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

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In December 2025 we published a [consultation](#) on our price cap methodology to reflect the Department for Energy, Security and Net Zero's (DESNZ) proposal to move Warm Home Discount (WHD) scheme costs from the standing charge to the unit rate. DESNZ have now published their [government response](#) and decided to amend the Warm Home Discount reconciliation process associated with WHD costs so that obligations are settled against energy volumes supplied for scheme year 2026 to 2027 onwards.

Ofgem's consultation process was to determine the consequential changes to the price cap methodology should DESNZ proceed with the decision to proceed with WHD volumetric recovery. Following the DESNZ policy direction set by the government response, this document sets out our decision on how costs associated with the WHD will feed into the price cap methodology from 1 April 2026 onwards. We have carefully considered all the responses we received to our December consultation, and this has informed our final decision on how to change the price cap methodology to move WHD scheme costs from the standing charge to the unit rate, giving effect to DESNZ's decision.

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1. Introduction

This chapter provides context surrounding our decision on the WHD cost recovery methodology, following DESNZ's proposal to move WHD costs from the standing charge to the unit rate. It highlights our main decisions with respect to the price cap methodology, as well as outlining our decision-making process.

Background and context

The default tariff cap

- 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 to supply that energy. We set the cap by considering various factors, including 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'), and 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 which are covered by the price cap.
- 1.3 The price cap currently includes allowances for a range of government obligations, including those relating to environmental and social objectives. These costs form part of 'Annex 4: Policy cost allowance methodology' and include the Warm Home Discount (WHD) scheme.

The WHD scheme and how it was previously calculated in the cap

- 1.4 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. From 1 April 2026, the WHD allowance in the price cap will be £41.19 for a typical consumer. £34.37 of this will be related to the forward-looking (scheme year 2026 to 2027) WHD costs and will be applied to the unit rate. £6.82 of WHD costs will remain on the standing charge as these reflect historic costs associated with the previous (2025 to 2026) scheme year.
- 1.5 Prior to April 2026, the costs of the WHD scheme have been included in the 'nil consumption' benchmark, split across gas and electricity customers on a 50:50 ratio. This means gas and electricity default customers previously paid for WHD costs via the daily standing charge rather than on a per unit of energy basis. This aligns with the WHD reconciliation mechanism in place until 31 March 2026 (scheme year 2025 to 2026), which required that the costs of WHD Core Group rebates were based on the number of customers supplied, rather than on the volume of energy they consume.

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1.6 In October 2025 [we decided to change the cost recovery profile of WHD costs in the price cap from 1 January 2026](#), to reflect the government’s decision to expand the WHD scheme in 2025-26 and extend the WHD scheme post April 2026. As set out in our December consultation, we do not plan to make any changes to the WHD costs in the cap for the 2025 to 2026 scheme year. This means that there will remain an additional £6.82 (per dual fuel customer) on the fixed daily standing charge element of the price cap from 1 April 2026 to 31 March 2027, irrespective of the decision set out in this document.

DESNZ’s consultation and decision on proposals to move WHD cost recovery

1.7 In 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 is intended to create a fairer, more progressive approach to cost recovery by linking the costs of WHD to customer usage.

1.8 Following consultation, [DESNZ have decided to proceed with their proposal to update the supplier reconciliation process](#) so that supplier obligations are settled against actual energy volumes supplied, rather than the number of customers they supply. The associated change in reconciliation Regulations will give effect to the moving of WHD costs from the standing charge to the unit rate. Specifically, DESNZ have decided to:

- Update how the supplier reconciliation process is conducted so that supplier obligations are settled against actual energy volumes supplied rather than customer numbers.
- Introduce an industry wide feedback loop so that any aggregate under- or over-recovery, owing to differences between forecast and actual outturn demand in one scheme year is corrected in the following year.
- Implement changes from 1 April 2026, and subject to parliamentary approval, carry out the necessary amendments to the Warm Home Discount (Reconciliation) Regulations 2022, in order to give effect to the decision.
- In line with their consultation position, not proceed at this stage, with placing a greater share of WHD recovery onto gas.

Ofgem’s consultation on the price cap methodology for reflecting the move of WHD cost recovery

1.9 In December 2025 we published our consultation seeking views on our proposed consequential changes to the price cap methodology to reflect DESNZ’s

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proposals to move WHD cost recovery from the standing charge to the unit rate. It did **not** seek views on the proposal to move WHD costs themselves, given this was the focus of the department's own consultation.

1.10 More specifically, we consulted on:

- Changes to the inputs used in the WHD cost allowance methodology, replacing the relevant number of customers with relevant demand.
- 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.

Our decision

1.11 We have carefully considered the feedback provided as part of our consultation and have decided to make input and modelling changes to the price cap methodology to reflect the volumetric recovery of WHD costs from 1 April 2026, in line with the minded-to positions set out in our December consultation. We provide further detail, in the next section, on how we have reached this decision and the main points of feedback provided by stakeholders.

1.12 In the event that legislative changes to the WHD scheme do not progress as expected, we would expect to make further changes to the cap methodology, as appropriate, in response to any unexpected change in circumstances not factored into this decision. We will consult stakeholders on the specifics of any reversals or material change in policy direction so that the cap continues to reflect the efficient costs incurred by suppliers.

1.13 Alongside this decision we have also published the relevant model changes associated with Policy cost allowance methodology model (Annex 4). We are also proposing to proceed with the minor changes to Overview model (Default tariff cap level) in line with the consultation position. All versions of the most up to date models can be found on our [website](#).

Related Publications

1.10 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](#)

1.11 The main documents relating to this publication are:

- [DESNZ's consultation and decision on Warm Home Discount \(WHD\) cost recovery](#)

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- [Warm Home Discount Scheme: Overview](#)
- [The Warm Home Discount \(Reconciliation\) Regulations 2022](#)

Decision-making stages

Stage 1 Consultation opened: 9 December 2025

Stage 2 Consultation closed. Deadline for responses: 9 January 2026

Stage 3 Decision and responses published: 25 February 2026

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

This chapter sets out our decision, a summary of stakeholders' responses, and our considerations of those comments. We have included the various methodological considerations that stakeholders raised which subsequently shaped our final decision.

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

Q1. Do you agree with our proposal to amend the inputs used to calculate the WHD allowance? Please expand on your answer.

Q2. Do you agree with our proposed changes to the models used to calculate the WHD allowance? Please expand on your answer.

Q3. Do you have any other views you would like to share in response to this consultation?

Decision

2.1 Given the government's decision to amend the Warm Home Discount (Reconciliation) Regulations so that WHD cost recovery moves from the standing charge to the unit rate, we will proceed with changes to the WHD allowance in the price cap to ensure it most appropriately aligns with the overarching design and mechanics of the scheme. Specifically, we will:

- Replace the current cap input in the WHD cost allowance methodology with an input based on customer demand. As set out in our consultation position we will base the relevant demand inputs on supply volumes provided by suppliers (via existing Request for Information processes) as at 31 December 2025. However, going forward, we will have regard to any data source detailed in the WHD Regulations, where appropriate. We expect these Regulations to be laid later in 2026.
- Make changes to Annex 4 and the Overview model to place the WHD allowance on the benchmark consumption (m) level but remove 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 per dual fuel customer) on standing charges from 1 April 2026 to 31 March 2027.

2.2 On an annual basis, update the WHD allowance in the cap based on any DESNZ estimate of over- or under-recovery of WHD costs, in line with the department's outlined feedback loop. We expect this mechanism to account for market-wide differences between forecast volumes (i.e. reported volumes for the previous calendar year) and actual reported volumes as at 31 December during the relevant scheme year. We also expect the DESNZ feedback loop will take into

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account any aggregate over- or under-recovery owing to the number of rebates issued being higher or lower than expected for a given scheme year, once known.

- 2.3 Moving WHD costs from standing charges to the unit rate from April 2026 and keeping 2025 to 2026 WHD expansion (£6.82 per dual fuel customer) 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 remain broadly comparable under the new cap methodology.

Summary of responses and considerations

- 2.4 In this decision document we have focussed on substantive points that are relevant to our decision on updating the cap methodology. Points which were raised as part of the government's wider policy consideration of moving WHD cost recovery are not specifically addressed here unless they were applicable to our implementation of the revised WHD policy in the cap.
- 2.5 We received 17 responses; nine from suppliers, two from consumer groups, five from individuals and one from a private business. Non-confidential responses have been published on our website.
- 2.6 Stakeholders were mixed in their support for the move of WHD costs to the unit rate. In line with the views gathered in the government's response to their consultation on WHD cost recovery, the public largely supported moving cost recovery from the standing charge to the unit rate, on fairness and progressivity grounds. However, consumer groups and individuals in particular stressed the need to consider the impacts of any move on vulnerable consumers with high energy use.
- 2.7 Suppliers were more mixed in their support for moving WHD cost recovery to the unit rate. However, on the basis that the government proceed with the decision to change WHD reconciliation to settle supplier obligations against actual energy volumes, generally supported Ofgem reflecting this change within the price cap.
- 2.8 More specifically, on our proposed cap methodology changes, comments mainly came from suppliers who outlined concerns around input data and demand volatility.
- 2.9 We present our consideration of stakeholder representations below.

Stakeholder views on proposals for updating WHD inputs and models

- 2.10 A large number of suppliers raised concerns around proposals to update demand data to determine a new input – "WHD obligated demand" – based on a per MWh

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basis. Suppliers stressed that demand data needed to be timely and supported by a robust supplier-specific reconciliation process. One supplier detailed support for an input based on data already used for the Renewables Obligation (RO) for electricity, with development of an equivalent process for gas.

- 2.11 The government has made clear in their decision that they will update how the supplier reconciliation process is conducted so that supplier obligations are settled against actual energy volumes supplied.
- 2.12 We will reflect the data source that the department detail in their corresponding reconciliation Regulations such that the price cap input uses the same underlying data and assumptions. This will avoid any discrepancies in inputs and ensure the cap methodology is fully reflective of scheme calculations.
- 2.13 We expect the department to lay these Regulations later this year, therefore in the interim, we will rely on customer demand data collected from WHD obligated suppliers by Ofgem through existing RFI processes.
- 2.14 One supplier expressed support for updating Typical Domestic Consumption Values (TDCVs) in time for the April 2026 cap update to help alleviate cost pressures faced by suppliers. As indicated in our November 2025 price cap benchmark review decision, we are aiming to consult on this soon as we review the latest data recently made available. If we do decide to make changes to TDCVs, the implementation of any change to benchmark consumption in the cap will take place at the next available price cap in which it is practical to do so.

Stakeholder views on accounting for demand uncertainty

- 2.15 A large number of suppliers cited concerns around variations in demand forecast versus outturn demand and seasonal cash-flow pressures if rebates are concentrated in autumn and winter while volumetric recovery is lower in spring and summer. Suppliers stressed that these variations could lead to under- or over- recovery and may lead to competitive distortions between suppliers.
- 2.16 We continue to acknowledge the increased supplier risk of under- or over-recovery given that estimating volume of energy consumed by domestic customers is more challenging and influenced by complex factors such as weather, energy efficiency improvements, and socio-economic variables.
- 2.17 The government has confirmed that it will introduce an industry wide feedback loop so that any aggregate under- or over- recovery, including owing to differences between forecast and actual outturn demand in one scheme year, is corrected in the following year. They have also confirmed that they will continue with an earlier interim reconciliation in scheme year 2025 to 2026.
- 2.18 DESNZ will keep the reconciliation process and feedback loop under review and if evidence shows that energy supplier stability or the timeliness of rebates is being

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adversely affected, will work with Ofgem to consider targeted in-year adjustments, including additional interim reconciliations.

- 2.19 In line with the government's commitment on introducing a feedback loop, we will work with the department on the operational detail (and supply volume reporting) which may support any aggregate under- or over-recovery related to demand outturn, including how this would inform future price cap allowances. In setting the WHD forecast spend target for a given scheme year we will have regard to any publicly available information provided by DESNZ on previous scheme year under- or over- recovery.
- 2.20 We consider that introduction of a feedback loop, and corresponding cap adjustment, means we do not think further changes to the cap model are needed to account for demand uncertainty at this time. As we work with the department on the details of this feedback mechanism, we welcome further engagement from stakeholders on the operationalisation if it.
- 2.21 We continue to recognise that some suppliers have suggested that we should make greater use of reconciliations in the cap, and will consider this holistically through our price cap reform work. However, we do not consider that it is appropriate or necessary to do so at this stage for the WHD allowance, on the basis that DESNZ's 'feedback loop' is expected to provide the same mitigation that any price cap reconciliation mechanism would seek to achieve. We will continue to engage with DESNZ and suppliers on the operational detail of such a feedback loop and implications for how and when it would be passed through via the price cap WHD allowance.

Other stakeholder views

Views on the impacts on other cap allowances

- 2.22 Some suppliers suggested that Ofgem should consider implications of WHD changes to supplier working capital and financial resilience and consider additional changes to Earnings Before Interest and Tax (EBIT) and other cap allowances to account for increased risks.
- 2.23 In general, we do not review the impact of indexed allowances on the cap following a single change in cost input - to do so would likely result in a symmetric bias. This is particularly true for relatively immaterial costs such as those associated with the impacts of moving WHD cost recovery.
- 2.24 We also consider that existing cap uncertainty mechanisms are able to account for any immaterial indexed impact and there is no clear evidence further changes are required to ensure the cap should function as it should and so that suppliers can continue to recover their efficient costs.

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2.25 Thus, we consider that the feedback loop and accompanying cap adjustment will manage risks associated with the move of WHD cost recovery and do not propose further changes. However, we will consider any further changes holistically through our price cap reform work.

2.26 In light of recent challenges to cost recovery and investability in the energy market, one supplier sought an update on the [‘Energy price cap programme of work’](#). Investability is a key pillar of Ofgem’s [‘Market Regulatory Vision and Strategy to 2030’](#), and, in line with this vision, we will shortly be consulting on a wider price cap reform package where we will be seeking views from stakeholders on potential changes to the price cap to align with this markets regulatory vision and strategy.

Views on the impacts on vulnerable consumers

2.27 A number of stakeholders raised concerns about the move of WHD cost recovery and the potential impacts on vulnerable households with high energy needs. One stakeholder stressed that the move of WHD cost recovery could be advantageous to customers who are able to invest in microgeneration and thus consume less energy. We take note of these concerns in light of our overall duty to protect existing and future domestic customers who are on default tariffs covered by the price cap.

2.28 Government policies announced at Budget 2025, including ending ECO and funding 75% of the domestic cost of the legacy Renewables Obligation for three years, the government estimate will result in significant reductions to household energy bills from 1 April 2026. In addition, the government’s [Warm Homes Plan](#) and [Fuel Poverty Strategy](#) provide the framework for longer-term support and improvements in targeting reductions of households in fuel poverty.

2.29 These government measures, combined with Ofgem’s review of energy system cost allocation and recovery, will continue to consider how energy costs can be more efficiently and fairly distributed.

Views on other work being led by Ofgem

2.30 Some suppliers referenced the move of WHD cost recovery, within the context of other work being led by Ofgem to examine how energy system costs are allocated to and recovered from consumers, namely exploring requiring suppliers to offer lower standing charge tariffs and our wider Cost Allocation and Recovery Review (CARR). Specifically, some suppliers asked for the work on introducing mandatory low standing charge tariffs to be stopped or delayed. Others asked to ensure that the work on related workstreams are considered holistically.

2.31 While we recognise that the movement of WHD cost recovery from the standing charge to the unit rate will reduce standing charges, we believe there is further scope to explore how we can make energy bills of the future efficient and fair. For

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example, our work on CARR aims to take a longer-term approach to ensuring costs are kept as low as possible, whilst supporting consumer understanding and empowerment by being open and transparent in how costs of the system are paid for. We will continue to proceed with the CARR workstream, and include consideration of the impact of moving WHD cost recovery on any further regulatory changes. We have also recently [published](#) an update on our work on lower standing charge tariffs .

Views on timing, communication and engagement on changes

- 2.32 Some stakeholders raised concerns about the timing of the implementation of cost recovery changes into the cap, and the condensed timetable for engagement. We take engagement with stakeholders on decisions seriously and appreciate the responses received as part of this consultation process. We think it is right that we update the cap methodology in line with government’s proposal to implement the change from 1 April 2026, to ensure that the cap is fully reflective of government policy.
- 2.33 One stakeholder suggested that we should advise the government against changes, and that further time is needed to think through the implications of the change. The government has decided to proceed with the change from 1 April 2026 in order to deliver improvements in fairness to consumers. We have worked closely with DESNZ on their proposal to move WHD cost recovery and will continue to engage with them as they further refine the reconciliation Regulations.
- 2.34 Some stakeholders also raised concerns around the need for clearer messaging to consumers on related changes to their energy bills. We will continue to work with government and other stakeholders on the impact of this policy on consumers. We also note that suppliers are required to communicate to their customers any change in their tariff pricing which might result in adverse impacts.

Next steps

- 2.35 We thank stakeholders for their feedback to our consultation, which has helped inform and support the decisions we have reached.
- 2.36 We will implement the methodological decisions set out in this document from charge restriction period 16a, commencing 1 April 2026. We will update the methodology in ‘Annex 4 – Policy cost allowance methodology’ and update on a six-monthly basis where there is more up to date cost information available for us to revise the WHD cost allowance. The corresponding model has been published alongside this 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 decisions in Chapter 2.

A1.2 We have published alongside this decision a revised Annex 4. A summary of the modifications can be found below.

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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' are greyed out/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.

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3f WHD	Calculation cells for standing charges calculations greyed out/removed.	AR21:BF21 containing the calculations for 'WHD cost estimate' (£/customer) on the standing charge greyed out/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.
2a Aggregate costs	New rows added for 'WHD' for electricity single rate, electricity multi-rate and gas.	A19:BF19 added to calculate WHD cost estimate at £/MWh supplied for electricity single rate metering arrangement, A27:BF27 added to calculate WHD cost estimate at £/MWh supplied for electricity multi-rate metering arrangement, A33:BF33 added to calculate WHD cost estimate at £/MWh supplied for gas,

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<p>2a Aggregate costs</p>	<p>Calculation cells for standing charges/£ per customer calculations greyed out/removed.</p>	<p>The WHD cost of 202526 to be recovered in 2026 to 2027 (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 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 estimate’ (£/customer) on the standing charge for gas.</p>
<p>1a Policy Cost Allowance</p>	<p>New rows added for ‘WHD’ for electricity single rate, electricity multi-rate and gas.</p>	<p>To move the WHD cost estimate to the unit rate the following rows/cells 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>

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<p>1a Policy Cost Allowance</p>	<p>Calculation cells for standing charges calculations greyed out/removed.</p>	<p>The WHD cost of 2025 to 2026 to be recovered in 2026 to 2027 (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 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 estimate’ (£/customer) on the standing charge for gas.</p>
<p>1a Policy Cost Allowance</p>	<p>Calculation formula updated to incorporate WHD on the unit rate into the total policy cost allowance.</p>	<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 to 2026 recovered over 2026 to 2027 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 to 2026 WHD cost recovered in 2026 to 2027 in the last part of the formulas.</p>

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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. The most up to date Overview model can be found on our [website](#).

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 from April 2026 onwards, Row 65 to calculate WHD cost at £/MWh supplied for electricity multi-rate metering arrangement from April 2026 onwards, Row 71 to calculate WHD cost at £/MWh supplied for gas from April 2026 onwards.