

Consultation

Energy price cap: review of historical debt related costs

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This consultation sets out our minded-to position to not introduce any further adjustment to future cap periods to reflect differences between debt-related costs and revenues between 1 April 2022 and 30 June 2025.

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Executive summary

On 1 January 2019 we introduced the default tariff cap ('the Cap'), following the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act'), which protects households on standard variable and default tariffs. The Cap ensures that default tariff and standard variable tariff (SVT) customers (jointly referred to as default tariff customers) are protected and that the price of their energy reflects the efficient underlying cost to supply that energy. The Cap includes several allowances for the costs a supplier faces, including debt-related costs.

Debt-related costs include the costs of customer non-payment, administering debt processes and raising capital to finance differences in timing between payment and delivery of energy. These costs began to rise in response to the gas crisis as energy prices rose and customers struggled to meet the costs of higher bills. Our [latest data](#) shows, that, since the onset of the gas crisis, total energy debt and arrears has increased from around £1.8 billion to around £4.5 billion (October 2021 to September 2025), a two and a half times increase.

We are taking action to support customers in debt while also reducing the overall level of consumer energy debt. Our published [Debt Strategy](#) outlines our plans to reset the historic debt from the gas crisis, raise debt standards and reform how debt is managed.

It is also important for a resilient and investable market that suppliers can recover efficient costs. In most markets retailers recover their debt-related costs through the way they price products and services. In the energy market, because many tariffs are capped we therefore need to consider how to reasonably recover those costs.

The price cap has always allowed for some recovery of debt-related costs. In late 2023 we began consulting on the case for an increase to the Cap to reflect the significant rise in these costs. In the Cap period beginning 1 April 2024 we introduced a temporary allowance of £28 per dual fuel customer for additional debt costs incurred by suppliers between 1 April 2022 and 31 March 2024 ("[the Float](#)"). This allowance was initially expected to be in place for 12 months but was extended for a further 3 months to align with the introduction of a new higher enduring debt-related costs allowance ("[the DRC](#)").

Our stated intention from the outset was to review the Float once data on actual debt costs covering the full period the allowance was in place was available – we now have this data. With this we can assess whether the Float was set at the right level to enable suppliers to recover their efficient debt-related costs; or whether a further adjustment is required to deliver this outcome. This exercise we refer to as a "true-up". We have taken a Float and true-up approach previously in response to debt-related costs arising from [COVID-19](#).

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Having compared suppliers' reported debt-related costs against the debt-related revenues recovered from allowances over the full period from 1 April 2022 to 30 June 2025 we find that the Float was set at broadly the correct level. As a result, we are minded not to introduce any true-up adjustment.

Broadly, we are approaching this exercise in line with the approach set out in the Float. We are not proposing to re-open the allocation of debt costs to payment types or attempt to use this exercise to redistribute funds across customers or suppliers. While we have analysed the impacts across customer types and suppliers, we consider that retrospectively changing cost allocation decisions would pose significant challenges to the market through increasing regulatory and financial uncertainty. Such uncertainty could ultimately increase costs for all customers. Rather, we are concerned with whether, in aggregate, the Float has enabled broad market-level recovery of debt-related costs.

We are therefore largely proposing to retain the regulatory judgements used in setting the Float, including the broad definition of debt-related costs. We have, however, carefully reviewed the methodological choices first taken when setting the Float and propose a few changes for the true-up exercise. These changes more closely align with the approach taken when setting the DRC allowance as part of the [2025 Review of Operating Costs](#). In particular we propose to:

- Use a weighted average benchmark metric in place of the hybrid benchmark used in the Float methodology.
- Include costs and revenues across all tariff types, not just customers on variable tariffs. This reflects our view (established through the review of operating costs) that, as most debt costs are inherently a socialisation of costs from non-paying to paying customers, it would be inappropriate to recover them disproportionately from SVT customers.

In addition to these we are minded to make some smaller technical changes to reflect the introduction of a new Earnings Before Interest and Tax ('EBIT') allowance methodology in October 2023 and to use actual consumption data to estimate supplier revenues recovered from debt-related allowances.

To support stakeholders' understanding of the impact of these choices, we are making the underlying models and data used to assess net debt-related costs available through a disclosure process. We are publishing a disclosure notice alongside this consultation that sets out how stakeholders can participate. To accommodate stakeholders wishing to participate in disclosure, this consultation will, by exception, remain open for 12 weeks (closing 10 June 2026).

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We remain committed to monitoring supplier debt-related costs through quarterly data collection and are, as a result, able to instigate a review of the enduring debt allowance should evidence emerge of a material and systematic divergence between costs and allowances in either direction. This could include re-examining cost allocation on a forward-looking basis.

1. Introduction

This consultation focuses on assessing whether debt-related costs and allowances systematically and materially diverged from one another between 1 April 2022 to 30 June 2025.

Purpose of this consultation

- 1.1 We are seeking views on our proposal not to introduce a further temporary adjustment to the default tariff cap ('the Cap') for additional debt-related costs incurred between 1 April 2022 and 30 June 2025.
- 1.2 Our assessment shows that debt-related allowances, including the temporary debt allowance ('the Float'), were not materially or systematically different from efficient debt-related costs.

Context and related publications

- 1.3 In February 2024, we [introduced](#) the Float to reflect the unprecedented increase in debt-related costs. In February 2025 we [extended](#) it until the updated [operating cost and debt allowances](#) took effect on 1 July 2025. At that point, the Float ended.
- 1.4 We stated that we would "true-up" the Float once we had the information needed to do so (paragraph 7.28 [debt allowance decision](#)). This consultation fulfils that commitment.
- 1.5 For the true-up, our period of interest runs from the earliest Cap period used in setting the Float (1 April to 30 September 2022) to the final period in which the Float applied (1 April to 30 June 2025).
- 1.6 For this consultation, "true-up" means reviewing whether there was a material and systematic difference between debt-related allowances and actual efficient debt-related costs during the period covered by the Float allowance. If such a difference exists, we then consider if a temporary adjustment to the Cap is necessary, and at what level. Any adjustment made to match past allowances with actual costs is referred to as the "true-up."

Consultation stages

- 1.7 The dates below represent the current expected timelines for this consultation.

Stage 1 Consultation open: 26 March 2026

Stage 2 Consultation closes: 16 June 2026

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Stage 3 Consultation outcome (decision): August 2026

- 1.8 We are also running a disclosure exercise to enable stakeholders to understand our proposals by sharing the detailed modelling and analysis on which they are based.
- 1.9 Given the commercially sensitive nature of the underlying cost data, we will achieve this by setting up confidentiality rings which allow appointed advisers on behalf of suppliers, or other interested parties, to access our models and/or data.
- 1.10 For those wishing to participate in this exercise, detailed instructions and all key deadlines can be found in the disclosure notice published alongside this consultation.

How to respond to the consultation

- 1.11 We want to hear from anyone interested in this consultation. Please send your response to priceprotectionpolicy@ofgem.gov.uk.
- 1.12 We will publish non-confidential responses on our website.

Your response, data, and confidentiality

- 1.13 You can ask us to keep your response, or parts of your response, confidential. We will 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.
- 1.14 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 will contact 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.
- 1.15 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 United Kingdom'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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- 1.16 If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not 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.

How to track the progress of a consultation

1. Find the web page for the consultation you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

2. Estimation of debt-related allowances and related revenue

We propose to maintain most of the approach taken to estimating debt-related allowances used when setting the Float. We propose a small number of changes to reflect the updated Earnings Before Interest and Tax ('EBIT') allowance methodology and the availability of consumption data to more accurately calculate debt-related revenues.

Context

- 2.1 To determine if suppliers have recovered efficient debt-related costs, we need to: (i) identify the debt-related allowances in the Cap, (ii) estimate their impact at zero and benchmark consumption, and (iii) calculate potential revenue recovered based on these values.
- 2.2 We can then compare this revenue against reported costs to calculate net costs (set out in Chapter 3). By benchmarking net costs across suppliers, we can assess whether suppliers were able to recovery their efficient debt-related costs.

Estimating allowance values

Context

- 2.3 Before the dedicated debt-related costs ('DRC') allowance was introduced in July 2025, debt-related costs were included across various Cap allowances. Our [consultation](#) and [decision](#) documents for the Float explain how we estimated the share of each relevant allowance attributable to bad debt charges, debt administration costs, and working capital costs. For a detailed overview of this estimation method please refer to Appendix 1 of the [Float decision document](#).
- 2.4 In this chapter we set out some proposed changes to this methodology; this updated approach is outlined in Appendix 1 of this document.

Proposals

- 2.5 We propose to continue using the same method for calculating debt-related allowance values as was applied when setting the Float.
- 2.6 However, this method will be updated with two small changes regarding how working capital allowances are estimated, to account for changes to the EBIT allowance made in October 2023:

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- i. Effective from 1 October 2023, the working capital value assumed in the EBIT allowance will be sourced directly from the updated EBIT allowance calculations. For periods prior to this date, we maintain the previous approach based on 2018 supplier submitted data.
- ii. The working capital element in the EBIT allowance will be multiplied by the updated cost of capital values starting 1 October 2023; before that, the existing 10% cost of capital applies.

2.7 In addition to the allowances previously included, as part of the true-up we also need to include the value of the Float itself. The Float, and a temporary allowance for Addition Support Credit (ASC) were incorporated into the Cap through the Adjustment Allowance (“AA”).

Overview of allowances

2.8 The table below provides a summary of which Cap allowances are included, in whole or in part, in our estimation of total debt-related allowances over the period in question.

Table 2.1: Key on where debt-related cost allowances are included in the Cap (up to June 2025)

Debt-related costs	Payment method	Operating costs	EBIT	Variable payment method uplift (PAP)	Fixed payment method uplift (PAAC)	Debt Float	Additional Support Credit
Bad debt charge	DD	Yes		Yes		Yes	
Bad debt charge	SC			Yes		Yes	
Bad debt charge	PPM				Yes		Yes
Debt admin	DD	Yes			Yes	Yes	
Debt admin	SC	Yes			Yes	Yes	
Debt admin	PPM	Yes					
Working capital	DD		Yes	Yes		Yes	
Working capital	SC		Yes	Yes		Yes	
Working capital	PPM		Yes				

Notes: “Yes” indicates allowance is included, whole or part, in our assessment of debt-related allowances. Payment method uplift consists of two allowances, the Payment Method Adjustment Percentage (PAP) and the Payment Method Adjustment Additional Cost (PAAC).

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Methodological choices

Continuity with Float methodology

- 2.9 We propose to use the same methodology for estimating debt-related components of the following allowances as previously applied to the Float
- i. Operating costs
 - ii. EBIT (up to 30 September 2023)
 - iii. Payment method uplift (PAP/PAAC)

EBIT working capital from October 2023

- 2.10 In October 2023, we updated the EBIT allowance within the Cap. This introduced two changes relevant to our estimation of debt-related allowances:
- i. A price-per-customer value for working capital.
 - ii. A dynamic cost of capital.
- 2.11 We used neither of these new values to set the Float. They would only have been relevant for the final two periods covered by the Float (1 October 2023 to 31 March 2024) which were both forecasted as the underlying data was not yet available.
- 2.12 For cap periods between 1 October 2023 and the end of our period of interest (30 June 2025) we proposed to use these new working capital and cost of capital values. Specifically, this means:
- i. Calculating the working capital component of the EBIT allowance between 1 October 2023 and 30 June 2025 as follows:

$$EBIT\ working\ capital(\pounds/customer) =$$

$$\frac{\pounds 31.14\ working\ capital \times Cost\ of\ Capital}{Reference\ revenue\ level} \times Cap\ level\ (excl.\ EBIT\ \&\ Headroom)$$

- ii. Using the following cost of capital values when estimating the working capital component of the EBIT allowance.

Table 2.2 – Cost of capital values by period

Cap period(s)	< Oct.23	Oct.23- Sep.24	Oct.24 – Jun.25
Cost of Capital	10%	12.26%	12.82%

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2.13 We used a 10% cost of capital in calculation of the payment method uplift allowances, but these allowances weren't updated after the new EBIT allowance was introduced on 1 October 2023. Thus, we continue to estimate the debt-related components of PAP and PAAC allowances using a 10% cost of capital. With updated operating cost and debt allowances from 1 July 2025, PAP and PAAC are no longer included in the price cap calculation.

Adjustment allowance (Float & ASC)

2.14 To assess the total debt-related allowances suppliers received over this period, we must include the temporary adjustments made to the cap to reflect higher debt-related costs. These adjustments comprise both the Float and the Additional Support Credit ('ASC') allowance.

2.15 We applied the Float to the Cap via the adjustment allowance between 1 April 2024 and 30 June 2025. It was applied as a single uplift of £30.57 to the Direct Debt ('DD') and Standard Credit ('SC') caps at benchmark consumption and is not split by cost component (e.g. bad debt, debt admin and working capital).

2.16 To allow our modelling to consider each debt cost category separately (bad debt, debt admin, working capital) we apportion the Float value across these cost categories in line with the underlying modelling conducted at the time.

2.17 We introduced the [ASC allowance](#) on 1 October 2023 in response to increased levels of ASC being provided to customers, which in turn resulted in higher amounts of ASC bad debt. Only PPM customers receive ASC, so the allowance was solely added to the PPM cap. It applied as an uplift of £8.77 to the dual fuel PPM cap at nil consumption. Originally introduced for 12 months, it was also [extended](#) until the introduction of the updated operating and debt cost allowances (i.e. up until 30 June 2025).

Table 2.3 – Adjustment allowance values by cost category

Fuel	Adjustment	Payment Type	Bad debt	Debt admin	Working capital
Dual	Float	DD	£55.35	-£11.36	-£13.43
Dual	Float	SC	£55.35	-£11.36	-£13.43
Dual	Float	PPM	£0.00	£0.00	£0.00
Dual	ASC	PPM	£8.77	£0.00	£0.00

Notes: Values are at benchmark consumption (3,100 kWh electricity and 12,000 kWh gas)

Allowance values

2.18 Taking all the components of the debt-related allowance together, as set out in table 2.4, we arrive at the consolidated set of allowances by cost category given below.

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Table 2.4 – Debt-related allowances by category and payment type (value per dual fuel customer at typical consumption)

		Cap 8	Cap 9a	Cap 9b	Cap 10a	Cap 10b	Cap 11a	Cap 11b	Cap 12a	Cap 12b	Cap 13a	Cap 13b	Cap 14a
Bad debt	DD	£19.91	£33.93	£40.41	£31.72	£21.07	£19.73	£20.61	£68.85	£67.70	£69.18	£69.38	£70.42
Bad debt	SC	£73.15	£129.59	£155.59	£120.11	£77.10	£71.44	£75.01	£116.15	£111.51	£117.26	£118.06	£122.27
Bad debt	PPM	-£1.86	-£1.96	-£1.96	-£2.03	-£2.03	£6.67	£6.67	£6.65	£6.65	£6.63	£6.64	£6.57
Debt admin	DD	£9.83	£10.33	£10.33	£10.74	£10.74	£11.09	£11.09	£0.82	£0.82	£1.03	£1.03	£1.21
Debt admin	SC	£15.64	£16.43	£16.43	£17.08	£17.08	£17.64	£17.64	£7.42	£7.42	£7.76	£7.76	£8.05
Debt admin	PPM	£7.97	£8.37	£8.37	£8.71	£8.71	£8.99	£8.99	£9.07	£9.07	£9.24	£9.24	£9.39
Working capital	DD	-£6.80	-£12.16	-£14.71	-£11.31	-£7.17	-£5.99	-£6.30	-£17.73	-£17.33	-£17.67	-£17.74	-£18.10
Working capital	SC	£31.97	£57.48	£69.13	£53.05	£33.64	£31.72	£33.37	£16.77	£14.63	£17.41	£17.78	£19.73
Working capital	PPM	£3.09	£5.59	£6.67	£5.08	£3.17	£3.59	£3.79	£3.27	£3.03	£3.44	£3.48	£3.70
Total	DD	£22.95	£32.10	£36.03	£31.15	£24.64	£24.83	£25.40	£51.93	£51.19	£52.54	£52.67	£53.53
Total	SC	£120.76	£203.50	£241.15	£190.24	£127.82	£120.81	£126.03	£140.34	£133.57	£142.44	£143.60	£150.05
Total	PPM	£9.20	£12.01	£13.09	£11.75	£9.84	£19.25	£19.44	£18.99	£18.75	£19.31	£19.36	£19.66

Notes: Values presented at Typical Domestic Consumption Values (TDCV) of 2,700kWh for electricity and 11,500kWh for gas

Estimating debt-related revenue

Context

- 2.19 To estimate the total revenue suppliers can recover from debt-related allowances, we must apply allowance values (like those in Table 2.4) to each supplier's specific circumstances. This requires scaling the per-customer allowances.
- 2.20 When setting the Float, we scaled debt-related allowances using the following approach:
- **Standing charge revenue:** We multiplied the debt-related allowance values at nil consumption by each supplier's reported customer numbers.
 - **Unit rate revenue:** We multiplied the cap level at nil consumption by customer numbers and subtracted this from each supplier's reported total revenue to give non-standing charge revenue. We then expressed the debt-related allowances as percentages of the cap level excluding the standing charge and applied this percentage to the non-standing charge revenue.
 - **Total revenue:** We summed the standing-charge and unit-rate elements to obtain total debt-related revenues.
- 2.21 For the Float the customer and revenue values we used were specific to customers not on a fixed active choice tariff, reflecting that the cap only applies to customers on standard variable and default tariffs.

Minded-to positions

- 2.22 We propose to adopt a revised approach for scaling per-customer allowances into total revenues. As with the Float, we will multiply allowance values at nil consumption by customer numbers to calculate the standing charge element. However, for the unit-rate element, we propose to multiply suppliers' reported consumption (kWh) by the unit-rate component of the debt-related allowances (£/kWh).
- 2.23 We propose to use customer and consumption values for all customers, regardless of tariff type, to scale-up allowances. This is a change from the Float methodology but in line with subsequent decisions. We also propose to include all customers in our assessment of debt-related costs, this proposal is discussed in Chapter 3.

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Considerations

Using reported consumption

2.24 The maximum suppliers can recover in revenue from the Cap in a cap period can be expressed as follows:

Maximum revenue

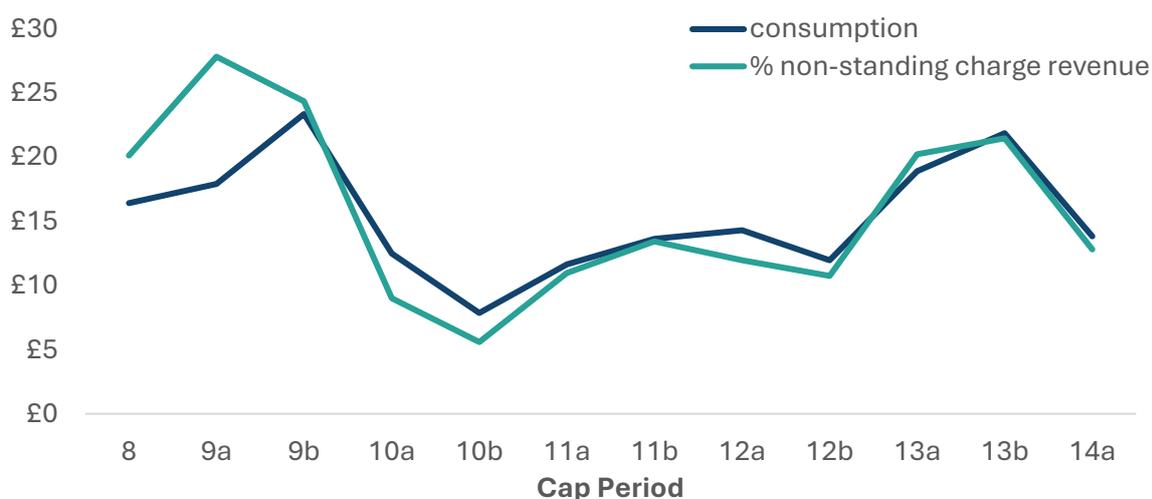
$$= (\text{Nil consumption Cap} \times \text{Num customer accounts}) \frac{\text{Num days}}{365} + \left(\frac{\text{Benchmark consumption Cap} - \text{Nil consumption Cap}}{\text{Benchmark consumption}} \times \text{total kWhs consumed} \right)$$

2.25 Our proposed method aligns with the expression above. We consider this an improvement on the methodology used when setting the Float. The Float methodology estimated the proportion of reported revenues that were related to debt-related allowances. This approach risks underestimating the maximum revenue suppliers could have collected because reported revenue will reflect any commercial decisions made to price below the Cap.

2.26 In practice, non-standing charge revenue should scale in line with consumption, meaning both approaches should produce similar values. Chart 2.1 shows that the two values do follow each other closely, except for Cap periods 8 and 9a (1 April to 31 December 2022). We set out the impact of this methodological choice on our assessment of net debt-related costs in table 3.4 in Chapter 3.

Chart 2.1 – Revenue per customer by estimation method

Revenue per dual fuel customer per cap period (*not annualised*)



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Including customers on fixed tariffs

- 2.27 The October 2023 DRC Request for Information (RFI), which underpinned the Float calculation, asked suppliers to report their costs, customer numbers, revenue and consumption split by tariff type (“Fixed active choice” and “Other”). When estimating the value of debt-related allowances recovered, we used customer numbers and revenue data for SVT customers only (the “Other” tariff type).
- 2.28 Similarly, when setting the Float, we calculated debt-related costs for SVT customers wherever reliable tariff-level data existed. In practice, only bad debt charge costs could be isolated to SVTs. For debt administration and working capital costs, suppliers did not provide robust tariff-type breakdowns. As a result, these costs were calculated across all tariff types and then scaled down in proportion to the SVT customer share—implicitly assuming equal per-customer costs across SVT and fixed-term contract (FTC) customers.
- 2.29 In setting the new DRC allowance, we took a different approach. We calculated all debt-related costs and revenues across all tariff types. While this decision was partly driven by the same data limitations affecting debt admin and working capital costs in the Float, we also chose not to isolate bad debt costs to SVT customers even where such data existed.
- 2.30 Costs arising from non-payment are inherently socialised across the customer base, with non-paying customers leading to higher costs for paying customers. Allocating these costs separately to SVT and FTC customer groups would shift responsibility for a shared cost from more engaged FTC customers to less engaged SVT customers. We consider this to be inappropriate for two reasons
- i. customers move between SVT and fixed contracts; and
 - ii. placing a higher cost burden on SVT customers would disproportionately affect disengaged and vulnerable customers, whom the price cap is designed to protect.
- 2.31 We recognise that we cannot know or control the way debt costs are factored into fixed tariffs and that competition means suppliers may not have full control of competitive pricing, but we do not consider these factors mean only SVT customers should face the burden of socialised costs.
- 2.32 Whichever approach is taken, it must be applied consistently to both revenues and costs. Using different customer bases for each would distort the resulting net value (revenues minus costs), which is the key measure for assessing whether suppliers over- or under-recovered their debt-related costs.

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2.33 In the following chapter (Chapter 3) we set out our proposal to calculate debt-related costs over all tariff types. We do so for the reasons set out in the above paragraphs. While suppliers provided the data required to estimate SVT-only revenues, consistency requires that we apply debt-related allowances over all customers as well.

Debt-related revenues

2.34 Table 2.5 below shows the distribution across eight suppliers of revenue per customer recovered from debt-related allowances over all customers between 1 April 2022 and 30 June 2025.

2.35 The distribution of net costs (i.e. revenue minus costs) cannot be inferred from the combination of this table and the distribution of costs per customer (Table 3.2) as individual suppliers can sit at different points on the revenue and cost distributions.

Table 2.5 – Distribution of debt-related revenues per dual fuel customer across suppliers (1 April 2022 to 30 June 2025)

	Bad debt charge	Debt admin	Working capital	Total
Lower quartile	£156	£27	-£15	£169
Median	£169	£29	-£3	£191
Weighted average	£159	£24	-£9	£175
Upper quartile	£184	£29	£0	£199

Notes: Values calculated for each supplier as debt-related revenues (£m) divided by number of customer accounts in cap period 1 April - June 2025 multiplied by two. Quartiles calculated separately for each cost category and therefore do not sum; values calculated over sample of eight suppliers (see paragraphs 3.31-3.35 for discussion of sample choice).

3. Calculating and benchmarking net costs

We propose to maintain the broad approach taken to assessing debt-related costs and therefore net costs used when setting the Float. However, we also propose to update the costs of capital values and to expand the set of customers included in our assessment of bad debt charge costs to include those on fixed tariffs.

Context

3.1 To determine whether a further adjustment to the Cap is needed, we must assess not only the revenues suppliers could have recovered, but also the debt-related costs they actually incurred. Chapter 2 set out our approach to estimating debt-related revenues. In this chapter, we explain how we calculate net debt-related costs and how we benchmark them to assess whether suppliers have over- or under-recovered their efficient costs.

3.2 Our approach involves three steps:

1. **Calculate suppliers' debt-related costs:** We estimate the bad debt charge, debt-related administrative costs, and working capital costs that suppliers incurred over the period.
2. **Calculate net debt-related costs:** We subtract debt-related revenues from the debt-related costs.
3. **Benchmark net costs across suppliers:** We compare net costs across a sample of suppliers to establish a benchmark for efficient net debt-related costs. This benchmark provides the basis for determining whether any market-wide adjustment is justified.

Calculating net debt-related costs

Context

3.3 When setting the Float, we assessed the following debt-related costs were incurred by suppliers:

- **Bad debt charge** – an entry in the income statement which reflects estimates for the amount that will never be paid (known as provisions) as well as realised debt write-offs.
- **Debt-related administration** – costs involved in managing customers in debt (e.g. payment plans, collections activity, warrants).
- **Working capital costs** – the cost to suppliers of raising capital for day-to-day operations and funding customers paying in arrears.

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3.4 These costs were sourced from the October 2023 DRC Request for Information (RFI), which has since been issued quarterly to all suppliers with at least 100,000 default tariff accounts.

Minded-to positions

- 3.5 We propose to assess the same set of costs (bad debt charge, debt-related administrative costs and working capital costs) using the same calculation approach as was used for the Float (set out in Appendix 2).
- 3.6 We propose to align the cost of capital value used to calculate working capital costs with the value used to calculate the EBIT allowance.
- 3.7 We propose to calculate all cost categories, include bad debt charge costs, over all tariff types. This is a departure from the Float methodology where bad debt charge costs were calculated over SVT customers only.

Considerations

Maintaining cost categories and calculation approach

- 3.8 When developing the enduring DRC allowance, we reviewed both the cost components included in our assessment and the use of the DRC RFI as the primary data source (Chapter 3 of Appendix 2 of the DRC decision document).
- 3.9 We concluded that the three existing categories - bad debt charge, debt-related administration costs, and working capital costs - remained the appropriate scope for assessing debt-related costs. We also confirmed that the DRC RFI continued to be the most robust and comprehensive source of data for these cost components.
- 3.10 Our view on these choices has not changed. We therefore propose to maintain the same approach in this true-up exercise. The table below summarises the cost categories, the high-level calculation method, and the associated data sources.

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Table 3.1 – Debt-related cost categories and calculation methodology

Category	Methodology	Break-downs used	Data source
Bad debt charge	<ul style="list-style-type: none"> Sum of bad debt charge excluding debt write-offs (Q1a) and debt write-offs (Q1b) reported by suppliers in response to the DRC RFI. 	None	Jan '26 DRC RFI
Debt-related admin costs	<ul style="list-style-type: none"> Sum of all debt-related admin costs reported by suppliers in response to Q2 of the DRC RFI. 	None	Jan '26 DRC RFI
Working capital costs	<ul style="list-style-type: none"> Subtract the average of account payables over a period (Q3b) from the average of account receivables over a period (Q3a) to get net account receivables, then multiply this by the cost of capital to give customer working capital costs. Take non-customer net account receivables (Q3c) and multiply by the cost of capital to give non-customer working capital cost. Sum customer and non-customer working capital costs. 	None	Jan '26 DRC RFI

Notes: For a more detailed description of the calculation steps please refer to Appendix 2.

Working capital costs

3.11 A key difference between the cost categories used in this true-up and those used in the DRC allowance is the scope of working capital costs.

3.12 Working capital costs arise primarily because customers pay for energy in arrears, as agreed with their suppliers. However, when customers fall behind on payments beyond their agreed schedule, suppliers must hold additional working capital to cover the shortfall.

3.13 Paying in arrears outside of agreed terms is typically seen as a form of debt – also described as arrears. For example, in our [published statistics](#) define arrears as bills unpaid for more than 91 days (13 weeks) where no repayment plan is in place.

3.14 Working capital costs are therefore influenced by the level of customer non-payment, even though they are not solely driven by it. We cannot accurately

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separate the portion of working capital costs attributable specifically to debt and arrears. However, excluding working capital entirely would give an incomplete picture of cap performance.

- 3.15 For this true-up, our aim is to assess whether allowances enabled efficient cost recovery. This requires comparing working capital costs against the relevant allowance which, as discussed in Chapter 2, is the working capital element of the EBIT allowance. This provides a return on all working capital employed by suppliers, not just that related to arrears. We therefore need to include both customer and non-customer working capital in our calculations to ensure a like-for-like comparison.
- 3.16 We also consider the of total working capital costs to be appropriate because the Float was a crisis measure. Our primary duty is to protect customers, and in responding to a crisis we must consider both cost pressures and areas where suppliers may have benefited. We have generally found that working capital costs during this period have been lower than the cap allowed for and it is in customers' interests to take account of this.
- 3.17 This contrasts with the DRC allowance where we sought to design an allowance to reflect the differences in working capital driven by the differences in the timing of customer payments across payment types. As a result, we used only customer working capital costs when setting this element of the DRC allowance.

Cost of capital values

- 3.18 To estimate working capital costs, we multiply net account receivables by a value for the cost of capital. When setting the Float we used a fixed 10% cost of capital value. This was the value used to set the EBIT allowances between the first cap period and the end of September 2023. From October 2023 onwards a new EBIT allowance methodology has been in place, which makes use of an updated set of cost of capital values.
- 3.19 In line with our earlier discussion in Chapter 2 (paragraph 2.12), we propose to align cost of capital values with the values used to calculate the EBIT allowance at each relevant point in time. This ensures both allowances and costs are treated symmetrically and reflect the latest cost of capital estimates. See earlier table 2.2 for the costs of capital values used.

Including customers on fixed tariffs

- 3.20 Again, in line with our earlier discussion in Chapter 2 (paragraphs 2.27-2.33) we propose to calculate total debt-related costs across all tariff types (SVTs and FTCs) for all cost categories, including bad debt charge costs.

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3.21 This proposal aligns our methodology with the approach we took for the DRC allowance. It does, however, differ from the Float, where bad debt charge costs were calculated for SVT customers only. We set out the reasons for this departure earlier in paragraph 2.30.

3.22 The data limitations that prevented tariff-level breakdowns of debt administration and working capital costs during the Float calculation continue to apply in the latest DRC RFI returns. However, these limitations do not influence our approach as we are making a principled proposal to include all customers.

3.23 We present the impact of this proposal on net debt-related costs later in this chapter (see Table 3.4).

Debt related costs

3.24 Table 3.2 below shows the distribution of debt-related costs per customer across all customers between April 2022 and June 2025.

3.25 The distribution of net costs (i.e. revenue minus costs) cannot be inferred from the combination of this table and the distribution of revenue per customer (Table 2.5) as individual suppliers can sit at different points on the revenue and cost distributions.

Table 3.2 – Distribution of debt-related costs per dual fuel customer across suppliers (1 April 2022 – 30 June 2025)

	Bad debt charge	Debt-related admin	Working capital	Total
Lower quartile	£166	£15	-£41	£173
Median	£212	£26	-£10	£215
Weighted average	£176	£25	-£27	£174
Upper quartile	£230	£47	£12	£295

Notes: Calculated for each supplier as debt-related costs (£m) divided by number of customer accounts in cap period Apr-Jun '25 multiplied by two. Quartiles are calculated separately for each cost category and therefore do not sum; values are calculated over sample of eight suppliers (see paragraphs 3.31-3.35 discussion of sample choice).

Benchmarking net debt-related costs

Context

- 3.26 Our focus is on whether suppliers' debt-related revenues and costs have been materially and systematically higher or lower than one another. To assess this, we calculate net debt-related costs by subtracting debt-related costs from debt-related revenues. We express this on a per-customer basis, using customer numbers from the final cap period in which the Float applied (1 April to 30 June 2025). A positive net figure indicates over-recovery of costs; a negative figure indicates under-recovery.
- 3.27 For a given set of net debt-related cost figures across suppliers we need some way of summarising the distribution of values – this is the process of benchmarking. There are three key choices we face when benchmarking, these are:
- i. The suppliers include in the sample.
 - ii. The benchmark metric (e.g. lower quartile or weighted average).
 - iii. The parameters over which the benchmark(s) are calculated (e.g. whether to benchmark total net costs or break them down by payment type).

Minded-to positions

- 3.28 We propose to exclude two of the ten suppliers that submitted data in response to the October 2025 DRC RFI. We consider that these submissions do not meet the data quality dimensions of completeness and accuracy. This is in line with the approach taken when setting the DRC allowance.
- 3.29 We propose to use a weighted average benchmark. While this differs from the hybrid approach used for the Float, it aligns with the benchmark metric adopted for the DRC allowance.
- 3.30 We propose to benchmark at the aggregate level. That is, using a single benchmark value across fuels, cap periods, tariff types and payment type. This is consistent with both Float and DRC allowance methodologies.

Considerations

Supplier sample

- 3.31 Of the 12 suppliers that responded to the October 2023 DRC RFI used to set the Float, one has fallen below the 100,000-customer threshold and therefore is no

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longer in scope of the DRC RFI, and another was acquired and no longer reports separately. This leaves ten suppliers in our total sample.

- 3.32 Because the Float used a hybrid benchmarking approach (see paragraph 3.37), different samples were required. Ten suppliers were used for the weighted-average bad debt charge benchmark, while a restricted sample of six suppliers were used for the lower-quartile benchmark for debt administration and working capital costs.
- 3.33 In contrast, the DRC allowance used a single benchmark metric (weighted average), and therefore a single sample. Eight of the ten suppliers in the then sample were included. One supplier was excluded due to incomplete data across all three debt-related cost components, and another because its multi-utility business model made it difficult to isolate retail energy costs
- 3.34 These same considerations apply to the October 2025 DRC RFI data used for this true-up. Accordingly, and in line with the DRC approach, we propose to exclude the same two suppliers from our benchmarking sample.
- 3.35 Our final sample of eight suppliers currently represent around 94% of the total number of domestic customer accounts and around 93% of domestic SVT customer accounts.

Benchmark metric

- 3.36 In the [Float decision](#), we noted that delivering a true-up may require us to “reconsider the stringency at which we benchmark costs” (executive summary final paragraph).
- 3.37 We set the Float using a ‘hybrid’ benchmark. The bad debt charge costs were benchmarked using a weighted average while debt-related administrative and working capital costs were benchmarked collectively using a lower-quartile metric.
- 3.38 This choice reflected a judgement that a lower quartile benchmark created incentives for suppliers to reduce cost in areas where they have more direct control, such as debt administration and working capital costs. A less stringent weighted average benchmark for bad debt charge costs would in contrast help fund suppliers to offer customers support.
- 3.39 The DRC allowance was set using a single weighted average benchmark. This choice in part reflects a greater consideration of the role of non-efficiency factors in driving differences in costs across suppliers. Non-efficiency factors, such as the proportion of a supplier’s customers in receipt of Warm Home Discount (WHD) or on the Priority Services Register (PSR), can drive debt costs in a way that is outside of a suppliers control.

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Lower quartile benchmark

- 3.40 The variation in debt-related costs during this period (Table 3.2) suggests there may have been scope for efficiency improvements across all categories, although the spread is proportionately smaller for bad debt charge costs.
- 3.41 If this cost variation reflects efficiency differences, a lower-quartile benchmark would help ensure customers pay only for efficiently incurred costs. However, if variation reflects non-efficiency factors, such as differences in customer bases, then a lower-quartile benchmark risks preventing suppliers from recovering their efficient costs.
- 3.42 When setting the DRC we concluded that variation in suppliers' costs were "driven by factors other than efficiency" (paragraph 4.42 [DRC debt decision](#)). While it is generally difficult to empirically identify the relative contribution of efficiency and non-efficiency factors, we have previously found positive correlations between a suppliers' bad debt charge and debt admin costs and the proportion of their customers on the Priority Services Register (PSR) or in receipt of Warm Home Discount (WHD) (paragraph 5.14 [DRC debt decision](#)).
- 3.43 In the context of our stated vision to create an investable retail market, as set out in our "[Markets Regulatory Strategy and Vision to 2030](#)" statement, we judge that a lower-quartile benchmark risks undermining investability by placing suppliers with higher-cost customer bases at a disadvantage.
- 3.44 A further limitation is that a lower-quartile benchmark is highly sensitive. The position of one or two suppliers can materially affect the benchmark, making it unstable and sample-dependent.

Hybrid benchmark

- 3.45 A hybrid benchmark, which combines a weighted average metric for bad debt charge costs and a lower-quartile metric for debt-admin and working capital costs, seeks to address the concerns set out above regarding a purely lower-quartile approach.
- 3.46 A hybrid approach implicitly assumes that non-efficiency factors are less significant for debt-admin and working capital costs than for bad debt charge costs. This is an assumption for which we have no firm evidence. Indeed, working capital costs vary widely across suppliers, from being negative costs to substantial positive costs. It is reasonable to expect that differences in business models and payment type mixes likely explain some of this variation.
- 3.47 Overall, we judge that the risks and limitations of a lower quartile metric described in the section above also apply to debt admin and working capital costs, not just bad debt charge costs.

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3.48 Coincidentally in this specific case a lower-quartile and hybrid approaches result in largely similar benchmark values (see Table 3.3). This is sensitive to the use of a restricted sample (six suppliers) to calculate the lower-quartile values and an unrestricted sample (eight suppliers) to calculate the weighted average.

Weighted average

3.49 A weighted average benchmark can help account for suppliers with different customer bases. It reduces the risk of setting a benchmark that is unachievable for suppliers with higher-cost customer bases – a key consideration given our vision for an investible and innovative retail market.

3.50 It also better reflects uncertainty about individual suppliers' reported costs. Differences in provisioning methodologies and other reporting choices mean that relying on a one or two supplier's positions, as happens under a lower-quartile approach, could distort the benchmark. A weighted average avoids this.

3.51 A weighted average approach means that we are considering total market costs and total market revenues for sample. This includes the costs of less efficient suppliers that may have not had optimal debt practices through this period.

3.52 We do not consider it necessary for the Cap to enable recovery of all market-wide costs in all circumstances. Two arguments support a more stringent approach. First, we know from engagement with suppliers that not all had mature or efficient debt processes in place over this period. Second, in a crisis it is reasonable for some costs to go unrecovered. In fact, the cap can help formalise ex-post recovery in a way that would otherwise be harder to achieve in certain competitive environments. We consider these arguments have some merit and that they could support a more stringent benchmark (e.g. hybrid).

3.53 However, these considerations must be balanced against other methodological choices that already increase stringency—such as assessing net costs across all customers rather than only SVT customers.

3.54 It is for these reasons we propose to move away from the initial Float hybrid approach, which incorporates a sensitive lower-quartile metric, towards a pure weighted average benchmark.

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Table 3.3 - Net debt-related costs (revenue minus costs) by category and benchmark; £ per dual fuel customer (April 2022- June 2025)

Benchmark	Bad debt charge	Debt admin	Working capital	All costs
Lower quartile	-£1.57	£0.30	£25.07	£23.80
Hybrid	-£16.28	£13.15	£24.48	£21.35
Weighted average	-£16.28	-£1.23	£18.72	£1.22

Notes: Positive values indicate over-recovery, negative values under-recovery. Restricted sample of six largest suppliers used for lower quartile and lower quartile element of hybrid benchmark. Unrestricted sample of eight suppliers used for weighted average benchmark and weighted average element of hybrid benchmark. Lower-quartile values calculated as the 75th percentile of net costs given positive values represent more efficient costs.

Benchmark parameters

- 3.55 Both the Float and the DRC allowance were set after benchmarking at an aggregate level. This means that the supplier level net debt costs, which are the inputs into the benchmark metric calculation, were not broken down by categories like cap period, fuel or payment type. The benchmarking process therefore only resulted in one value.
- 3.56 Although payment method is a driver of debt-related costs, we have previously concluded that differences in net costs per customer across payment types are not cost-reflective (see paragraph 4.56 in the [DRC decision](#)). They do not represent the underlying cost of serving a “typical” customer. Instead, they partly reflect the tendency for higher-debt customers to end-up on standard credit, regardless of which payment type they first accrued debt on. rather than direct debit or prepayment.
- 3.57 It was this lack of cost-reflectivity that led us, when setting the DRC allowance, to benchmark at an aggregate level rather than separately by payment type.
- 3.58 For this true-up exercise, an additional consideration reinforces this approach. As set out earlier in table 3.1, included in our calculation of working capital costs are the costs associated with working capital not related to customers (i.e. non-customer working capital). This is the cost of raising the net cash owed to suppliers by non-customers such as other business or for certain government or industry schemes. These costs cannot be reliably allocated across payment types because they are not linked to individual customers. As a result, it is not possible to produce accurate figures for net debt costs by payment types if non-customer working capital costs are included.
- 3.59 This issue was not a concern when setting the DRC allowance as non-customer working capital was not part of the methodology. It is included in this true-up as

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we are seeking to compare costs against allowances, including the EBIT allowance which provides a return for all capital held (i.e. customer and non-customer related capital).

Sensitivity of net debt-related costs to proposed methodology changes

- 3.60 Table 3.4 summarises how our estimate of net debt-related costs varies under different methodological choices across the three benchmark options (weighted average, hybrid, and lower quartile).
- 3.61 We find a small increase in the level of over-recovery when using revenue rather than consumption to scale allowances under a weighted average benchmark. As indicated in Chart 2.1, using revenue produces slightly higher allowances in early cap periods and broadly the same values beyond this. This finding is therefore not unexpected.
- 3.62 Our proposal to include costs and revenues from FTC customers when calculating net bad debt charge costs has a material impact. Without this change, we observe an under-recovery under the weighted-average benchmark (–£15.55), although over-recovery remains under the hybrid and lower-quartile benchmarks. We consider the rationale for including FTC customers to be strong and consistent with the principles applied when setting the DRC allowance.
- 3.63 Overall, the sensitivity analysis shows that under most methodological approaches suppliers appear to have over-recovered their debt-related costs during this period. Some of the methodological changes we propose increase this degree of over-recovery, while others reduce it.
- 3.64 The effects shown in Table 3.4 isolate individual methodological choices. In practice, these choices interact, and other decisions not captured in the table may also influence the final result. To support transparency, we are making the underlying models and data available through confidentiality rings so that stakeholders can explore these interactions directly.
- 3.65 We recognise that providing these materials may allow participants to identify combinations of methodological choices that produce outcomes more favourable to their interests. Nonetheless, we consider transparency important, and the disclosure exercise provides stakeholders with a clear basis for understanding our proposals.

Table 3.4 – Sensitivity of benchmark values to select changes in proposed methodology

Methodology	Weighted average	Hybrid	Lower quartile
<i>Baseline (proposed methodology)</i>	£1.22	£21.35	£23.80
Use reported revenue instead of consumption to estimate value of allowances ¹	£4.08	£25.00	£25.78
Calculate bad debt charge costs over SVT (“Other” tariff type) customers only ²	-£15.55	£4.58	£22.01
Use unrestricted (eight supplier) sample for lower-quartile calculations	N/A	£5.27	£15.81

1. Where supplier’s reported revenue was not broken down by fuel, we apportion total revenue between fuels in line with the electricity and gas cap shares of the dual fuel cap for each relevant cap period.

2. Where tariff type breakdowns of bad debt charge costs are not available, we continue to assess costs over all customers. This applies to one supplier in the sample.

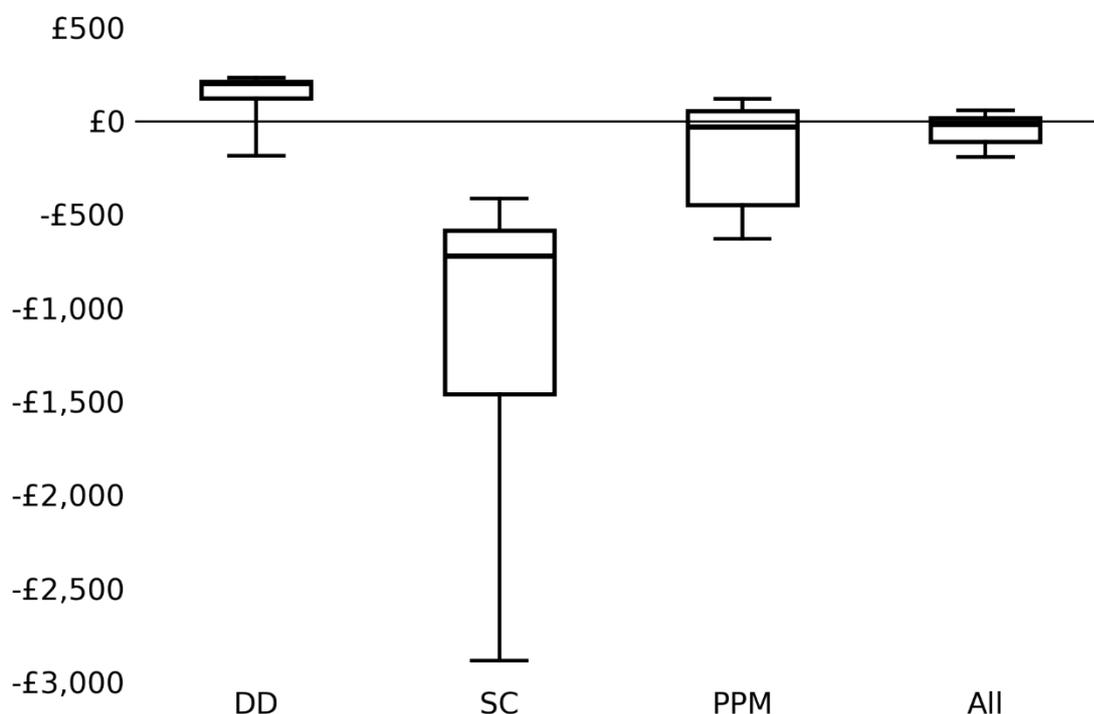
Distribution of net debt-related costs across suppliers

3.66 While, on average, suppliers appear to have recovered their efficient debt-related costs over this period, individual outcomes vary. Some suppliers over-recovered, while others under-recovered. It is not possible to determine precisely how much of this variation reflects differences in supplier efficiency, differences in how the price cap allocates costs across customer characteristics (e.g. fuel and payment type), or a combination of both.

3.67 Chart 3.1 shows the distribution of net debt-related costs by payment method across a sample of eight suppliers. Suppliers used different approaches to apportion costs between payment types in their DRC RFI submissions. For example, some allocated 100% of certain debt-related costs (such as debt administration) to standard credit customers by assumption. As a result, payment-type-level estimates are subject to greater uncertainty than aggregate figures. Nevertheless, they help illustrate how the direction and scale of net costs differ across payment methods.

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Chart 3.1 – Distribution of net debt-related costs by customer payment method (1 April 2022 to 30 June 2025)



Notes: Boxes show the upper quartile, median and lower quartile values. Whiskers show maximum and minimum values. Values calculated over sample of eight suppliers. Where no payment type breakdown was provided costs are apportioned in line with each payment type's share of total revenue.

3.68 As we expect we find that most suppliers over-recovered their debt-related costs across their direct debt (DD) customers and under-recovered across their standard credit (SC) customers. We do not consider this to be a significant source of distortion in the ability of different suppliers to recover their debt-related costs. This is because we do not see suppliers with unusually high proportions of SC customers, and we do not observe a significant negative correlation between the share of SC customers and net debt-related costs. We explored this in more detail using similar data in our [DRC decision](#) (see paragraph 5.43).

3.69 In the case of pre-payment meters (PPM) we observe suppliers on average under-recover their costs but to a significantly lesser extent than for SC, and not across the board. As above, there is significant uncertainty in these numbers given that suppliers have taken different approaches to allocating debt costs and this is particularly so for PPM where debt-related revenue is low.

3.70 When setting the Float, we deliberately chose not to recover additional debt-related costs from PPM customers. Our judgement was that, because PPM customers prepay for energy, they have limited ability to accrue new debt. Any substantial debt on PPM accounts is likely to have been accumulated while the

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customer was on another payment method (see paragraph 6.38 of the [Float decision](#)). We also recognised that PPM customers are more likely to be vulnerable. For these reasons, we decided to socialise debt-related costs from SC customers onto DD rather than PPM. For most suppliers we are therefore interested in the aggregate position across their portfolio of customers (which is the approach taken in the preceding sections to identify net costs). As such under-recovery on any single payment type is not necessarily a concern.

- 3.71 We acknowledge, however, that suppliers with relatively small DD customer bases may find it more difficult to recover debt-related costs. In the context of a “no change” proposal, we are not proposing to revisit historical payment-type allocation decisions. Doing so would create retrospective transfers between customer groups and suppliers, undermining regulatory certainty. Strong evidence of significant consumer benefits would therefore be needed to justify reconsidering the original decision.
- 3.72 If we were deciding on an aggregate true-up, particularly a positive one, the threshold for changing the allocation approach would be lower. In this case, any allocation method would only impact unrecovered costs without altering suppliers' previously recovered amounts.
- 3.73 Looking ahead, we will continue to consider variation in cost to serve across payment methods and are open to evidence on forward-looking issues. This includes whether the Cap, including debt-related cost allowances, supports sustainable incentives to serve PPM customers.

4. The case for an adjustment

Given the low materiality of the difference between debt-related costs and allowances over this period we conclude there is no substantive case to be made in favour of making a further adjustment to the cap.

Context

- 4.1 In Chapter 3, we presented our finding that, under our proposed methodological approach, suppliers recovered £1.22 per customer more in debt-related allowances than they incurred in debt-related costs over the period 1 April 2022 to 30 June 2025.
- 4.2 This chapter considers whether this difference is sufficiently material and systematic to justify making a further adjustment to the Cap.

Adjustment

Context

- 4.3 When determining whether to adjust the Cap, we consider whether the issue is:
- **material** - large enough to meaningfully affect suppliers or customers; and
 - **systematic** - unforeseen, clear, material, and necessitate changes.
- 4.4 This approach reflects the principles set out in the [2018 Default Tariff Cap decision](#) (paragraph 3.16). In setting the Float, we judged that rising debt-related costs met both these tests. Suppliers were facing sharp, unexpected increases in arrears and write-offs. We had no reason to expect a material over-allowance in subsequent periods suggesting a systematic effect and a £26 under-recovery was judged to be material.
- 4.5 Given we already concluded that debt costs were systematically higher than allowances during much of the period we are now considering, the test for this true-up is whether - after accounting for the Float itself and updated data - any remaining under or over allowance is material in size.

Minded-to position

- 4.6 We do not propose to introduce any further adjustment to the Cap for debt-related costs incurred between 1 April 2022 and 30 June 2025.
- 4.7 Our assessment is that the small degree of over-recovery observed is not material, especially when considered over a three-year period and relative to the inherent uncertainty in estimating efficient costs.

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Considerations

Materiality and uncertainty

- 4.8 We have not set explicit thresholds for materiality. What could reasonably be described as material will depend on contextual factors such as suppliers or customers financial positions in a given period. For example, in the context of continued strained household budgets and low returns for energy suppliers, what could be considered material now might be lower than under pre gas crisis conditions.
- 4.9 We estimate that the average dual fuel customer paid £1.22 more than was necessary for suppliers to recover their efficient debt-related costs. However, this was over a more than three-year period (1 April 2022 to 30 June 2025). On an annualised basis this over-recovery amounts to £0.38 per dual fuel customer per year.
- 4.10 This annualised value represents just 0.03% of the current cap level. This is well within the level of uncertainty around the “true” level of efficient costs inherent in setting the Cap. This uncertainty is designed to be captured with in the 1.46% headroom allowance, which exists to accommodate estimation challenges of this kind.

Sensitivity

- 4.11 Under our proposed methodological choices, we find that suppliers over-recovered their debt-related costs between 1 April 2022 and 30 June 2025. We consider the size of over-recovery to be immaterial and therefore further adjustment to the Cap is not justified.
- 4.12 However we acknowledge that this finding is sensitive to two key choices:
- The inclusion of fixed tariff customers in the calculation of net bad debt charge costs.
 - The choice of a weighted average benchmark metric.
- 4.13 As Table 3.4 previously presented, under the approach used to set the Float (hybrid benchmark and excluding FTC customers) we find a larger over-recovery. Equally, maintaining the exclusion of FTC customers but moving to a weighted average benchmark results in a potentially material under-recovery.
- 4.14 Our proposed approach results in a value somewhere in between these two extremes. This is not a justification for our proposals in themselves, but it does highlight that we are not taking an approach that generates an edge case outcome.

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4.15 Ultimately methodological choices are judgements, and reasonable cases can be made for alternative approaches. Our proposed approach is consistent with recent decisions made when setting the DRC allowance and they do not result in an extreme or outlier finding.

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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 consultation. 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.

Appendix 1. Calculation steps for debt-related allowances

A1.1 As set out in Table 2.1, prior to 1 July 2025 debt-related costs in the Cap sat across various allowances. In this Appendix we describe our approach to isolating the debt-related costs elements of each of these allowances. We present this by cost category (bad debt charge, working capital, debt-related administration).

Bad debt charge

Operating costs

A1.2 We have data on the bad debt charge for direct debit customers, as part of the detailed indirect cost information collected in 2018 (relating to 2017). We used this data to set the operating cost benchmark. We have used this data to calculate an estimate of the bad debt charge, based on the two suppliers closest to the operating cost benchmark. We take a weighted average of the debt-related costs for the two suppliers. This estimate does not account for the £5 efficiency factor that would have a very small impact.

A1.3 To calculate the estimated allowance for operating costs in each cap period, we index the 2017 value with inflation.

Payment method uplift (PAP)

A1.4 There is a specific line for bad debt in the Payment method Adjustment Percentage (PAP) allowance. We therefore can calculate this and do not need to estimate the allowance.

Working capital

EBIT (April 2022 to September 2023)

A1.5 Given that the working capital benefits of Direct Debit and the working capital costs of Standard Credit do not net out across suppliers' portfolios, there will be a net working capital impact. This forms part of the EBIT allowance.

A1.6 We do not have information on the amount relating to working capital in the EBIT calculation so this needs to be estimated:

- i. We take the initial Cap working capital data that is used to calculate the PAP allowance. We use this since this is the best data available.
- ii. Next, we take a weighted average of the Direct Debit and Standard Credit working capital data. To do this, we take a weighted average across

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payment methods and relevant suppliers. This is in a similar way to the weighted average percentages included in the payment method uplift model.

- iii. This gives weighted average working capital as a proportion of revenue.
- iv. We then translate this to a cost of working capital by applying a cost of capital. We use the 10% cost of capital used historically in the Cap.

A1.7 The EBIT analysis was based on a notionally efficient supplier (considering data from various sources), whereas the PAP data is for a particular selection of suppliers. When estimating an amount included in the EBIT allowance, we propose to use the same suppliers as the PAP analysis, given the lack of a clearcut alternative.

A1.8 Given that the EBIT allowance scales with other cap components (except headroom, VAT and EBIT itself), we can apply the cost of working capital (as a percentage of revenue) to the cap level excluding these components in each cap period.

EBIT (October 2023 to June 2025)

A1.9 From October 2023, a new methodology for calculating the EBIT allowance was introduced. This methodology includes a value of £31.14 per customer of working capital. It also includes updated cost of capital values.

A1.10 Multiplying these values together and dividing by the reference revenue allows us to isolate the element of the variable EBIT allowance that is related to working capital alone (i.e. excluding collateral capital).

A1.11 As before we can apply this percentage value to the cap level excluding headroom, VAT and EBIT itself to get a £ per customer value.

Payment method uplift (PAP)

A1.12 The PAP allowance already includes specific lines for the Standard Credit working capital uplift and the downward adjustment for the difference between weighted average and Direct Debit working capital.

A1.13 We can therefore calculate the amount included in each cap period without carrying out estimation.

Debt-related administrative cost

Payment method uplift (PAAC)

A1.14 We use suppliers’ responses to the payment method uplift RFI to look at the cost line for bad debt administration.

- i. We calculate the percentage of the difference in the administrative costs between a Standard Credit (SC) customer and a Direct Debit (DD) customer accounted for by bad debt administration.
- ii. We use the benchmark supplier from the payment method uplift calculation. The choice of using benchmark suppliers is consistent across individual allowances (i.e. operating costs and PAAC, although different suppliers set the benchmark for each component of the price cap).
- iii. We apply this percentage to the PAAC in each cap period, to provide the estimate of the costs included.

Operating costs

A1.15 We have data from the initial cap operating cost RFI relating to debt-related administrative costs (internal collections, external collections and warrant costs). We can use this data to estimate debt-related administrative costs as a percentage of total operating costs. Multiplying the £ per customer operating cost allowance by this percentage could give us the debt-related element of the operating cost allowance. However, the value in the RFI refers to costs across all customers, while the operating cost allowance relates to DD customers only. We therefore need to make an adjustment.

A1.16 We do this by treating the value just calculated as if it were a weighted average value across payment methods. Given this assumption we can follow the algebra steps below to conclude that .

$$\text{Weighted average (WA) costs} = (DD \text{ costs} \times \% DD) + (SC \text{ costs} \times \% SC) ;$$

$$WA \text{ costs} = (DD \text{ costs} \times \% DD) + (DD \text{ costs} + \text{Additional SC costs}) \times \% SC ;$$

$$WA \text{ costs} = (DD \text{ costs} \times \% DD) + (DD \text{ costs} \times \% SC) + (\text{Additional SC costs} \times \% SC) ;$$

$$WA \text{ costs} = DD \text{ costs} + (\text{Additional SC costs} \times \% SC) ; \text{ as } \% DD + \% SC = 1$$

$$\therefore DD \text{ costs} = WA \text{ costs} - (\text{Additional SC costs} \times \% SC)$$

A1.17 We have just calculated the “WA costs” term, know the payment type customer shares and know the “Additional SC costs” term from the PAAC calculations. We can therefore solve for the “DD costs” term. This term tells us the value of debt-

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related administration costs in the DD cap, and therefore the debt-related administration costs in the operating cost allowance.

PPM uplift

A1.18 The PPM uplift is an estimate of the overall additional costs of serving PPM customers. The CMA calculated this as part of the PPM specific price cap that it produced following the Energy Market Investigation in 2016.

A1.19 The CMA used several approaches to inform its calculation of the PPM uplift. The Energy Market Investigation final report contains a table that relates to one of the CMA's approaches. This approach is the only one with data on the bad debt breakdown. This breakdown is reasonably granular. There is a specific line for the bad debt charge, but not for the other debt-related costs.

A1.20 We calculate the bad debt charge as a percentage of the total cost under the CMA's granular approach. We then apply this percentage to the PPM uplift in each cap period.

Other costs within the PPM uplift

A1.21 For working capital and debt-related administrative costs, there does not appear to be data available to estimate what proportion (if any) these account for within the CMA's PPM uplift.

A1.22 These costs are expected to be small. Given that PPM bad debt is low, debt related administrative costs in relation to debt incurred on PPM in the initial cap should also be low. Working capital might be a small benefit to suppliers, given that PPM customers top up in advance of consumption (although by small amounts). This would need to be offset against any working capital costs from emergency credit.

A1.23 Given the points above, we therefore do not seek to estimate working capital and debt administration costs in the PPM uplift.

Appendix 2. Calculations steps for additional debt-related costs

A2.1 In this appendix we explain the steps involved in calculating per customer net debt-related costs values using the estimated debt-related allowance values described in Appendix 1 and supplier provided debt-related cost data.

Data request

A2.2 Additional debt-related costs were calculated using responses to the October 2025 RFI, which collected data from January 2017 to September 2025 across categories such as bad debt, debt-related administrative costs, working capital, revenue, customer accounts, and consumption.

A2.3 Ten domestic suppliers with at least 100,000 default customer accounts were asked to respond to the RFI.

A2.4 In the original float decision, we used data collected from the October 2023 debt-related costs RFI. That exercise covered twelve suppliers, though one is now excluded due to having fewer than 100,000 default customer accounts and another has subsequently been acquired.

Overview

A2.5 This appendix outlines the steps and methodology used to derive the key high-level figures presented in Chapter 3.

A2.6 We first determine suppliers' net costs for each cap period using the applicable allowance assumptions and the cost data provided through the October 2025 RFI. These figures are translated into a dual-fuel customer cost (£ per customer) and subsequently applied in the benchmarking step set out in this appendix.

Allowance calculations

A2.7 To calculate the revenue recovered from debt-related allowances in £'s we use the formula below.

$$\begin{aligned} & \textit{Revenue} \\ & = (\text{£} \\ & \textit{/year charge} \times \textit{number of customer accounts} \times \frac{\textit{number of days in cap period}}{365}) \\ & + (\text{£/kWh charge} \times \textit{total customer consumption}) \end{aligned}$$

A2.8 This calculation is used for each of the three allowance categories (bad debt charge, debt admin and working capital). Summing over these three categories for

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each cap period and then summing over all relevant cap periods gives us the total revenue value in £m's. we then divide this by the average number of customer accounts between 1 April and 30 June 2025 (cap period 14a) to get debt-related revenue per customer account for each supplier. We then multiple this by two to give the implied dual fuel value for each supplier.

$$\text{Revenue per dual fuel customer} = \left(\frac{\text{Revenue } \pounds m}{\text{Average number of customer accounts in 14a}} \right) \times 2$$

Cost calculations

A2.9 We use the October 2025 DRC RFI submissions to calculate each supplier's debt-related costs.

Bad debt charge costs

A2.10 In the DRC RFI suppliers submit separate monthly values in millions of pounds (£m) for their incurred bad debt charge (Q1a) and debt write-offs (Q1b). We sum across these values to give a single value for bad debt charge costs (including write-offs) per price cap period.

A2.11 We maintain the breakdown of these costs by tariff type and payment method as provided by suppliers to aid with analysis. These breakdowns are not used in our proposed approach. Where suppliers returns do not include a tariff type breakdown we use tariff type shares of total revenue (also reported via the DRC RFI) to apportion costs between them.

Debt-related administrative costs

A2.12 In the DRC RFI suppliers submit quarterly values in £m's for their incurred debt-related administration costs. Where needed, we sum these costs to give per cap period values. Again, we maintain any payment type breakdown provided by suppliers to use for analysis. No tariff type breakdown is extracted as this is generally not provided by suppliers.

Working capital costs

A2.13 In the DRC RFI suppliers submit quarterly values in £m's for the following three measures:

- i. Customer accounts payables
- ii. Customer accounts receivables
- iii. Non-customer net accounts receivables

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A2.14 These values are provided for the beginning of each quarter and the end of each quarter. As these are stock figures we average (rather than sum) over the quarterly values to give a value for each cap period.

A2.15 Using these values, we calculate customer working capital costs as follows:

$$\text{Customer WC costs} = \left[\left(\frac{AR_{\text{Beginning}} + AR_{\text{End}}}{2} \right) - \left(\frac{AP_{\text{Beginning}} + AP_{\text{End}}}{2} \right) \right] \times \text{Cost of Capital} \times \frac{\text{days in cap}}{365}$$

Where WC = Working capital; AR = Accounts receivable; AP: Account payable

A2.16 And we calculate non-customer working capital costs similarly as:

$$\begin{aligned} \text{Non – customer WC costs} \\ = \left[\left(\frac{\text{Net } AR_{\text{Beginning}} + \text{Net } AR_{\text{End}}}{2} \right) \right] \times \text{Cost of Capital} \times \frac{\text{days in cap}}{365} \end{aligned}$$

Where WC = Working capital; Net AR = Net accounts receivable

A2.17 The cost of capital values used vary by cap period in line with the discussion in the main body of this document (see Table 2.2).

A2.18 As with debt administrative costs, we maintain any payment type breakdown of working capital costs to use for later analysis – but we do not use, or attempt to create ourselves, any tariff type breakdown.

Total costs per dual fuel customer

A2.19 We sum over these four cost categories (bad debt charge, debt admin, customer working capital, non-customer working capital) and the over all relevant cap periods to give total costs in £m's for each supplier.

A2.20 As with allowances we divide this total cost value for each supplier by the average number of customer accounts between 1 April and 30 June 2025 (cap period 14a) to give us cost per customer account.

$$\begin{aligned} \text{Costs per dual fuel customer} \\ = \left(\frac{\text{Total costs } \pounds\text{m}}{\text{Average number of customer accounts in 14a}} \right) \times 2 \end{aligned}$$

Net costs per dual fuel customer

A2.21 We now have values for both costs and revenues per dual fuel customer over our period of interest for each supplier. For each supplier we then simply calculate the net costs as allowances minus costs. We choose this order so that if the net value is positive it indicates and over-recovery and if it is negative it indicates an under-recovery.

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$$\begin{aligned} & \text{Net costs per dual fuel customer} \\ &= \text{Allowances per dual fuel customer} \\ &- \text{Costs per dual fuel customer} \end{aligned}$$

Benchmarking

A2.22 Following the previous steps we now have values for net debt-related costs per dual fuel customer for each supplier in our sample, of which there are eight. Benchmarking is the process by which we summarise these eight values.

Weighted average

A2.23 To calculate the weighted average benchmark, we simply sum total costs in £m's and total allowances in £m's across the eight suppliers in our sample before subtracting one from the other. We then divide this by the sum of customer accounts across the eight suppliers and then multiply by two to give a dual fuel equivalent value. This is equivalent to calculating an average across supplier's individual net costs weighted by customer numbers.

Lower quartile

A2.24 To calculate the lower-quartile benchmark we order suppliers by their net debt-related costs per dual fuel customers. The lower-quartile value in an eight-supplier sample will sit at the 2.75th position, while under a six-supplier sample it will be at the 2.25th position. In practice we calculate these values using the QUARTILE.INC() function in Microsoft Excel.

Hybrid

A2.25 For this approach, we took a weighted average for bad debt charge costs and a (combined) lower quartile for debt administration costs and working capital costs.

A2.26 The weighted average bad debt cost is calculated in line with the methodology described above.

A2.27 For debt administration and working capital costs, we first sum the across these two cost categories before using the same lower-quartile approach described above.

A2.28 The hybrid benchmark is defined as the combined total of the weighted average bad debt charge costs and the lower-quartile allowances for the combined value of debt administration and working capital.

Appendix 3. Privacy policy

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. With whom we will be sharing your personal data

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.

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 (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project 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

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- 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
- 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 (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”).

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. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

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