

Proposed methodology for Electricity Bill Discount Scheme cost allowance

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We are consulting on proposals to introduce a new cost allowance in the default tariff cap (the cap) from October 2026 to allow suppliers to recover the efficient costs they will incur as a result of the Department for Energy Security and Net Zero's (DESNZ) decision to introduce [the Electricity Bill Discount Scheme \(BDS\) for transmission network infrastructure](#).

This consultation seeks views on the price cap methodology only. It does not seek views on the policy design or merits of the BDS, which are matters for government. We are consulting on how the cap should be updated to reflect the scheme costs that suppliers are expected to face, including the appropriate inputs and calculation approach we propose to use in setting a cap allowance.

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

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1. Introduction

Background and Context

- 1.1 We set the price cap (also known as the default tariff cap, or ‘the cap’) with reference to the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the ‘Act’). This Act requires us to put in place and maintain the licence conditions which give effect to the cap. The objective of the Act is to protect existing and future domestic customers on standard variable and default tariffs (which we refer to collectively as ‘default tariffs’). We consider protecting customers to mean that prices reflect underlying efficient costs of a notional supplier, ensuring that customers pay a fair price for their energy. The cap is made up of a number of cost allowances each of which reflects a different component of suppliers’ costs (e.g. wholesale energy costs, network costs, operating costs and policy costs).
- 1.2 In accordance with section 1(6) of the Act, we must have regard to five matters when setting the cap:
- The need to create incentives for holders of supply licences to improve their efficiency.
 - The need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts.
 - The need to maintain incentives for domestic customers to switch to different domestic supply contracts.
 - The need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence.
 - The need to set the cap at a level that takes account of the impact of the cap on public spending.
- 1.3 The requirement to have regard to the five matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In reaching decisions on particular aspects of the cap, the weight to be given to each of these is a matter of judgement. Often, a balance must be struck between competing considerations.
- 1.4 In our [2018 Default Tariff Cap Decision](#) we set out the conditions by which we would consider making changes to the cap methodology. For example, this may include where there are clear material and systematic impacts on the costs of supplying default tariff customers that are not appropriately accounted for by the existing cap methodology. In line with this, and our legal duties set out in the Act, we are consulting on our proposed methodology to reflect the costs of the BDS in the energy price cap.

Electricity Bill Discount Scheme

- 1.5 In March 2025, the government announced its intention to introduce an electricity bill discount scheme, which has been established through the Planning and Infrastructure Act 2025. The government intends for the scheme to provide electricity bill discounts to eligible households living within 500 metres of certain new or significantly upgraded electricity transmission network infrastructure. Eligible households within the 500-metre zone would receive a discount of up to £250 a year for up to 10 years.
- 1.6 The scheme is intended to recognise the role that host communities play in enabling the timely delivery of critical transmission network investment and to support community acceptance of new infrastructure. The scheme will be funded through an obligation on electricity suppliers. Given this is an additional unavoidable cost that all suppliers will face, it is expected that they will pass these additional costs to customers through a small increase in their electricity tariffs.
- 1.7 Since the government announced its policy position, DESNZ has published its government response and a corresponding impact assessment on 24 March 2026. These documents provide further detail on the final policy design of the BDS and the expected costs associated with its implementation. Taken together, this provides sufficient direction for Ofgem to consult on how the scheme should be reflected in the energy price cap methodology.

Purpose of this consultation

- 1.8 As set out above, we have statutory duties under the Domestic Gas and Electricity (Tariff Cap) Act 2018, including to protect the interests of existing and future domestic customers, while having regard to the need to ensure that efficient suppliers are able to finance activities authorised by their supply licences. In light of these duties and our framework for making changes to the cap methodology set out in our 2018 default tariff cap decision, we are consulting on whether to include a BDS cost allowance in the price cap, and our proposal for how to reflect such BDS costs in the price cap methodology so that suppliers can recover the efficient costs associated with the scheme from customers on default tariffs in a timely and efficient manner.
- 1.9 This is consistent with our existing treatment of other policy costs within the cap e.g. FiTs (Feed-in Tariffs), WHD (Warm Home Discount) and RO (Renewables

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Obligations), which are related to mandatory government obligations that gives rise to additional costs outside of suppliers' control. This consultation will support greater predictability and certainty on the level and timing of cost recovery, which is important for the effective functioning and investability of the retail market.

- 1.10 This consultation seeks views on the price cap methodology only. It does not seek views on the design or merits of the BDS itself, which are matters for government.
- 1.11 Subject to consultation responses, we propose for the outcome of this consultation to be implemented from October 2026 (cap period 17a) onwards. However, we may review this timetable in response to any unexpected changes to the implementation of the BDS scheme itself.
- 1.12 We have published a revised 'Annex 4 – Policy Cost Allowance Methodology' of Standard Licence Condition (SLC) 28AD of the electricity standard supply licence conditions alongside this document, which outlines the requisite modelling changes based on the proposals set out in this consultation.
- 1.13 Details of how to respond and how we will handle your data and confidentiality can be found in Appendix 2 of this document.

Related publications

1.14 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](#)

1.15 The main documents relating to this publication are:

- [Scheme design for bill discounts for new transmission network infrastructure](#)
- [Ofgem to administer government's Bill Discount Scheme to recognise communities hosting new electricity infrastructure](#)

Consultation stages

Stage 1 Consultation open: 27 May 2026

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 24 June 2026

Stage 3 Responses reviewed and decision published following consultation close.

How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

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.

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.

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.

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 call for input 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.

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

2. Methodology

Summary of our proposals

- 2.1 We propose to include the BDS allowance in Annex 4 ‘Policy Cost Allowance Methodology’ and update it on a six-monthly basis. Subject to feedback we propose to introduce the new cost allowance from October 2026. This reflects our expectation that suppliers will begin to incur costs associated with the Bill Discount Scheme over the October 2026 to March 2027 period. Our expected October 2026 implementation timetable for the price cap allowance is therefore subject to change should scheme timings deviate from current expectations.
- 2.2 Since BDS costs will be applied to electricity suppliers and recovered across eligible demand (exempting energy-intensive industry), we intend to ensure the cap is cost reflective and therefore propose to set a volumetric allowance (electricity unit rate) only.
- 2.3 We propose to include two broad categories of costs within the BDS allowance methodology:
- **Transfer costs:** these costs relate to the payments made to eligible customers under the scheme and will constitute the vast majority of incurred costs.
 - **Administrative costs:** these costs relate to the administrative costs incurred by the government appointed administrator of the scheme (Ofgem) which will be passed through to domestic electricity consumers.
- 2.4 In order to calculate the BDS cost allowance, we propose to use the annual profile of costs (set out below) estimated by DESNZ.
- 2.5 As the BDS scheme payments are set in nominal terms (not adjusted for inflation), we do not propose to index the allowance to inflation.

Minded to position on the enduring allowance input

- 2.6 To calculate the BDS allowance our minded to position is to use the annual profile of costs (set out below) which have been estimated by DESNZ.

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Year	Transfers (£/MWh supplied)	Government administration costs (£/MWh supplied)	Total (£/MWh supplied)	Indicative annual BDS cost at Typical Domestic Consumption Values (p)
2027	0.071	0.004	0.076	20.434
2028	0.094	0.004	0.098	26.485
2029	0.129	0.004	0.133	35.851
2030	0.124	0.004	0.128	34.579
2031	0.121	0.004	0.125	33.670
2032	0.117	0.004	0.121	32.682
2033	0.118	0.003	0.122	32.836
2034	0.117	0.003	0.121	32.607
2035	0.114	0.003	0.118	31.787
2036	0.112	0.003	0.115	31.007

Note- Figures are rounded to three decimal places for presentation purposes. In calculating the allowance, we will use the unrounded figures.

- 2.7 DESNZ has estimated the annual cost by dividing total estimated scheme costs by projected electricity volumes. DESNZ sourced the projected electricity volumes from [DESNZ Energy and Emissions Projections](#) and then exclude 4.5% (which is the assumed consumption proportion of energy-intensive industry, which DESNZ has decided to exempt from paying BDS costs). As the energy projections are measured on an electricity supplied-to-customers basis, the costs set out in the table (£/MWh supplied) already reflect delivered electricity. We therefore do not propose to apply electricity transmission loss multipliers to these values.
- 2.8 We propose to include the ‘Transfer’ and ‘Government administration cost’ values for each scheme year as individual inputs in the model. To arrive at the BDS cost allowance for each cap period, we propose to combine the relevant expected scheme year transfer payments with the associated government administration costs.
- 2.9 We do not propose to include supplier administration costs in the BDS allowance. In 2025, we set an operating cost allowance that built in some flexibility to absorb future cost changes by benchmarking costs at weighted average rather than lower quartile. In our [May 2025 decision](#), we said that we consider our approach will account for foreseen uncertainties in operating costs, reducing the need to revisit the allowance every time a modest additional cost driver occurs. We consider the supplier administration cost to be an example of a non-material additional cost driver in relation to supplier operating costs (with an expected materiality approximating 3 pence per year for a typical consumer). We consider the transfers

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and government administration cost lines to be more akin to pass-through policy costs from a supplier perspective.

Minded to position on inputs for price cap periods 17a and 17b

- 2.10 DESNZ is expected to publish an estimate of government administration costs for the 2026/27 financial year in £/MWh in the summer 2026. If this information is published in time to include in our August price cap calculation for rates taking effect from 1 October 2026, then we would rely on this estimate to set the BDS allowance for price cap periods 17a and 17b (1 October 2026 to 31 March 2027).
- 2.11 However, if the published figures are expressed as an annual total it will not be directly compatible with the proposed price cap methodology, which requires costs to be calculated on a volumetric (£/MWh) basis. We therefore would propose to convert DESNZ's annual cost estimate into a £/MWh allowance using a clear and consistent methodology if required for price cap periods 17a and 17b (1 October 2026 to 31 March 2027). This approach would, when uprated to account for seasonal demand, equate to the 2026 annual cost total.

Ongoing monitoring

- 2.12 We consider it appropriate to consult on a methodology informed by forward-looking expectation of costs from a government impact assessment. We note other previous policy cost allowances have been derived from impact assessment derived inputs. However, we will continue to monitor the outturn costs of the scheme against costs assumed in the DESNZ impact assessment. If actual costs were to materially and systematically depart from DESNZ's estimates, we may consider consulting on changes to the proposed inputs and/or an alternative approach to setting the allowance.

Questions

- Q1. Do you agree that it is appropriate to introduce a policy cost allowance in the energy price cap to reflect the Bill Discount Scheme, given that it represents an unavoidable systematic cost that electricity suppliers will be exposed to? Please explain your reasoning.
- Q2. Do you agree with our minded-to position to include the Bill Discount Scheme cost allowance in Annex 4 – Policy Cost Allowance Methodology of the price cap? Please provide reasons for your answer.
- Q3. Do you agree with our proposed approach to reflecting Bill Discount Scheme costs in the energy price cap on an enduring basis, including the use of DESNZ cost estimates as inputs and recovery on a volumetric (£/MWh) basis? Please provide reasons for your answer and set out any alternative approaches you think we should consider.
- Q4. Do you agree with our proposed approach to calculating the Bill Discount Scheme allowance for price cap periods 17a and 17b (1 October 2026 to 31 March 2027)? Please provide reasons for your answer and set out any alternative approaches you think we should consider.

Conclusions and next steps

- 2.13 In this consultation, we have set out our proposals for how to reflect the costs associated with BDS in the default tariff cap. In particular, we have consulted on introducing a policy cost allowance in the price cap to allow suppliers to recover the efficient costs associated with delivering the scheme, and on the proposed methodology for calculating and updating that allowance.
- 2.14 This consultation is open from 27 May 2026 and closes on 24 June 2026. Following the consultation close, we will carefully consider all responses before publishing our decision on how BDS costs should be reflected in the price cap methodology. Subject to the outcome of this consultation, we intend for the BDS allowance to take effect from 1 October 2026 (cap period 17a) onwards.

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. Detailed model modifications: Annex 4

- A1.1 We summarise in this appendix the modifications to ‘Annex 4 – Policy Cost Allowance methodology’ of SLC 28AD of the gas standard supply licence conditions based on our proposals in Chapter 2.
- A1.2 We have published alongside this consultation a revised Annex 4 that would come into effect from October 2026. We invite stakeholders’ views on this. A summary of the modifications can be found below.
- A1.3 In addition to the changes detailed below there will be minor updates to the ‘Overview model (Default tariff cap level)’ on tab ‘3d PC’ to incorporate new rows for BDS costs.
- A1.4 Table 1: Summary of modifications to ‘Annex 4 – Policy Cost Allowance Methodology’ Worksheet Change Description

Worksheet	Change	Description
3m BDS	Created new worksheet for the Bill Discount Scheme (BDS) allowance	This tab sets out the source of the input values used to determine the cost allowance. It also sets out the calculation to £/MWh.
3m BDS	New input added to worksheet for ‘Transfer payments for Scheme Year’	AP13:BF13 added to input the cost of the bill discounts paid to eligible households for the relevant scheme year, which will be published by DESNZ.
3m BDS	New inputs added to worksheet for ‘Eligible Scheme admin costs’	AP14:BF14 added to input the administration costs incurred by the government and the scheme administrator, which will be published by DESNZ.
3m BDS	New calculation added to worksheet for ‘BDS Cost Allowance’	AM16:BF16 calculation formula added to reference the BDS cost allowance by adding the transfer payments and admin costs.
2a Aggregate Costs	New rows added for ‘BDS’ across	In the calculation tab the following changes have been made:

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Worksheet	Change	Description
	electricity single-rate and multi-rate	Cells H23:BF23 calculation formula added in Table 1 to reference BDS for electricity single rate metering rate arrangement and cells H32:BF32 calculation formula for multi-rate metering arrangements. This table summarises our estimates for individual schemes.
1a Policy Cost Allowance	New rows added for 'BDS across single-rate and multi-rate	<p>In the Outputs tab the following changes have been made:</p> <p>Cells G61: BE61 calculation formula updated in Table 2 to include the BDS allowance for single-rate metering arrangement in '2a Aggregate Costs'. This table estimates the scheme-by-scheme policy cost allowance (Great Britain average).</p> <p>Cells G70:BE70 calculation formula updated in Table 2 to include the BDS allowance for multi-rate metering arrangement in '2a Aggregate Costs'. This table estimates the scheme-by-scheme policy cost allowance (Great Britain average).</p>
1a Policy Cost Allowance	Calculation formula updated to incorporate BDS into the total policy cost allowance	Cells G15:BE42 calculation formula updated in Table 1 to account for BDS costs in the total policy cost allowance.

Appendix 2. 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](#)”.