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Dear Christopher

**CONSULTATION ON PROPOSED METHODOLOGY FOR ELECTRICITY BILL
DISCOUNT SCHEME COST ALLOWANCE**

We welcome the opportunity to respond to Ofgem's consultation on the proposed methodology for the Electricity Bill Discount Scheme (BDS) cost allowance.

We support Ofgem's proposal to introduce the BDS allowance within the existing policy cost framework in the price cap. The scheme creates a mandatory cost for suppliers, and it is essential that suppliers are able to recover efficiently incurred costs through the price cap in a clear and consistent way.

We also support the proposed approach to recovering costs on a volumetric (£/MWh) basis using DESNZ cost estimates. This is consistent with the treatment of existing electricity policy costs and should provide a practical and predictable approach to cost recovery.

We note that Ofgem does not currently propose to include supplier administration costs within the allowance, on the basis that these costs are expected to be non-material and can be absorbed within the existing operating cost allowance. This differs from DESNZ's position that supplier administration costs should be recoverable, as well as its more recent proposal to include suppliers' scalable administrative costs as a set amount per customer. We therefore ask Ofgem to align the proposed methodology with the latest DESNZ position. While we recognise that supplier administration costs may be assessed as non-material based on current assumptions, there remains significant uncertainty regarding scheme design and delivery. As these details are finalised and the scheme is implemented in practice, costs may evolve beyond current expectations. It is therefore important that the methodology allows for the recovery of efficient administration costs, even if the initial allowance is set at a relatively modest level.

We note that suppliers currently have limited visibility of how the scheme will operate in practice including the number of eligible customers. Further detail will be important to assess whether this assumption remains reasonable.

In this regard, we welcome Ofgem's planned consultation on the administration¹ and delivery of the scheme and look forward to engaging further on the proposed arrangements.

Our responses to the consultation questions are in Annex 1.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

¹ [Ofgem to administer government's Bill Discount Scheme to recognise communities hosting new electricity infrastructure | Ofgem](#)

**CONSULTATION ON PROPOSED METHODOLOGY FOR ELECTRICITY BILL DISCOUNT
SCHEME COST ALLOWANCE – SCOTTISHPOWER RESPONSE**

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.

We agree that it is appropriate to introduce a policy cost allowance within the energy price cap to reflect the Bill Discount Scheme (BDS). The scheme introduces a mandatory and systematic cost exposure which sits outside suppliers' control and therefore aligns with the types of costs that are already recovered through the existing policy cost allowance framework.

Reflecting these costs within the cap is consistent with the principle that efficient suppliers should be able to recover unavoidable costs associated with meeting government policy obligations. We consider this approach supports supplier financeability and market stability, while maintaining consistency with the treatment of other policy costs such as WHD, RO and FiTs.

We also agree that timely cost recovery will be important in limiting unnecessary working capital and cashflow impacts for suppliers. In this regard, continued coordination between DESNZ and Ofgem ahead of implementation will be important to ensure that the allowance reflects updated cost estimates and implementation assumptions before the scheme takes effect from October 2026.

While current estimates suggest supplier administration costs may be non-material, this assessment is highly sensitive to assumptions that remain uncertain. Key elements of scheme design have not yet been finalised. As a result, there is a material risk that realised costs differ from current estimates once the scheme is implemented at scale.

Suppliers currently have limited visibility of the operational requirements associated with the scheme, including data flows, exception management, customer contact volumes, disputes, eligibility verification, and reconciliation processes. The scheme imposes substantive obligations on suppliers including system and process build, identifying and paying eligible customers, delivering and reporting PPM vouchers, particularly for suppliers with a high proportion of PPM customers, participating in reconciliation, and managing customer communication and enquiries. The scale and complexity of these activities will directly influence supplier costs, but cannot yet be robustly quantified given the evolving nature of the scheme design.

The assumed materiality of 3 pence per year for a typical customer (paragraph 2.9) risks understating these costs. As set out below, we estimate costs for ScottishPower could be at least [X] per customer per year. The updated DESNZ Impact Assessment (March 2026)² estimated the total supplier administrative costs at £3.3m-£3.8m over the full appraisal period (2025–2044), based on administrative activities and estimates set out in Table 1 below.

Furthermore, while the scalable administration costs are broadly aligned with ScottishPower's estimates (rows 2-5 in Table 1), the assessment underestimates communication costs and

² [DESNZ \(2026\) Electricity Transmission Network Bill Discount Scheme: Final stage impact assessment](#).

does not account for the management of customer complaints and queries (rows 1, 6 and 7 in Table 1). The 2025 operating cost allowance was not set with the BDS in mind and does not reflect the additional activities required under the scheme.

Ofgem says it expects suppliers to absorb changes in future costs within the price cap and notes (paragraph 2.9) that the recent move to benchmarking at the weighted average rather than the lower quartile provides some additional flexibility. Whilst we welcome the change to weighted average, it does not justify the exclusion of supplier administration costs from the new allowance. While the operating costs allowance may offer some contingency for genuinely unexpected costs, BDS administration costs are a direct and foreseeable consequence of implementing this new government policy and should not be treated as something suppliers can simply absorb within existing headroom. We do not believe the headroom allowance is an appropriate way to reflect the costs of regulatory changes where those changes can be identified, assessed and reflected in the price cap, leaving the headroom for genuinely unforeseen future regulatory costs.

This approach also appears inconsistent with DESNZ's position, as set out in the Government's response to the consultation on scheme design (see Question 17)³, that suppliers should be allowed to recover their administration costs.

At the BDS Supplier Delivery Group meeting on 9 June 2026, DESNZ indicated that suppliers should be able to recover a set amount per customer to cover scalable administrative costs, with this amount indexed to inflation. We agree with this approach. We also understand that DESNZ proposes to estimate annual scalable costs using EBSS figures, rebased to current prices (see Table 1 below). However, this approach may not fully capture suppliers' additional administrative costs, including those associated with managing customer accounts and handling customer queries.

We therefore ask Ofgem to fund efficient supplier administration costs explicitly within the BDS allowance, in a manner consistent with DESNZ's position. At present, suppliers may not be able to fully assess the operational impacts until more detailed delivery arrangements are confirmed, including the practical implementation of the proposed MPAN and UPRN matching processes by the scheme administrator.

Given this uncertainty, we consider it would be appropriate for Ofgem to align BDS cost recovery with the most recent updates issued by DESNZ, while monitoring actual implementation costs and retaining flexibility to revisit the treatment of supplier administration costs if realised impacts differ materially from current assumptions.

Table 1. Estimated annual scalable costs*.

#	Activity	DESNZ estimated costs	Frequency	ScottishPower estimated costs
1	Communication to eligible customers (email and/or post ahead of first and last payments)	Assumed unit cost of ~£1 (printing and postage)	Each recipient will receive 2 emails/letters total: 1 at the beginning of their eligibility period, then 1 to notify them that the period is ending	[X]

³ [DESNZ \(2026\) Consultation on Scheme design for bill discounts for transmission network infrastructure: government response](#), p.37.

#	Activity	DESNZ estimated costs	Frequency	ScottishPower estimated costs
2	Processing of payments to eligible automatic scheme customers	Assumed unit cost of £0.04 per payment processed for direct debit, credit and smart PPM customers	2 payments per eligible customer per year	[X]
3	Billing updates (to reflect additional £250/yr credit on accounts)	Assumed unit cost of ~£0.60 per billing update	2 payments per eligible customer per year	[X]
4	Manual processing (assume small number of auto enrolment cases (5%) would require manual processing due to errors in auto delivery)	~£0.20 per case	TBC, ~5% of auto enrolment cases	[X]
5	Voucher delivery for traditional PPM customers	Assumed unit cost of ~£1.50 per voucher delivery	2 vouchers to be sent to each recipient each year	[X]
6	Managing customer complaints (per complaint)	Not included	Not included	[X]
7	Managing customer queries	Not Included	Not Included	[X]

** Estimates from EBSS IA, rebased to 2025 prices. Source: based on DESNZ Final stage Impact Assessment, March 2026, DESNZ BDS Supplier delivery group meeting, June 2026, and ScottishPower estimates.*

Currently, the number of eligible ScottishPower customers under the scheme is uncertain. However, the DESNZ Impact Assessment estimates up to 166k participating properties. Assuming an illustrative ScottishPower market share of ~10% implies around 16k eligible customers. If total scalable administrative costs of £[X] per eligible customer per year are applied, this results in annual costs of approximately £[X] (16k × £[X]). Assuming that [X]% of these customers (c. [X]) contact us with complaints or queries, and applying an estimated cost of c.£ [X] per case, this implies an additional cost of around £[X]. On this basis, total annual administrative costs could be in the region of c.£ [X] or circa £[X] per customer per year. This does not account for queries from non-eligible customers.

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.

We support the proposal to include the Bill Discount Scheme allowance within Annex 4 – Policy Cost Allowance Methodology.

We consider Annex 4 to be the appropriate framework for recovery of BDS costs, as the scheme represents a government-mandated obligation that gives rise to largely unavoidable pass-through costs for suppliers, consistent with the treatment of other policy schemes already included within the policy cost allowance framework.

Including BDS within Annex 4 should support methodological consistency across policy cost recovery mechanisms; transparency of the individual cost components; greater predictability for suppliers and consumers; and clearer ongoing monitoring and governance arrangements.

Our support is conditional on the allowance being kept genuinely cost-reflective. This includes refreshing DESNZ inputs to reflect the latest published estimates as the scheme's cost forecast evolves and truing up the allowance against the actual scheme costs incurred by suppliers (see Q3).

We note that the current version of Annex 4 does not include supplier administration scalable costs, which DESNZ proposes to recover as a set amount per customer. We therefore ask Ofgem to update Annex 4 to reflect the most recent proposal from DESNZ.

We also consider that this approach is likely to avoid unnecessary complexity compared with introducing a separate bespoke recovery mechanism.

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.

We support the proposed approach to reflecting BDS costs in the energy price cap on an enduring basis. We consider an enduring methodology is appropriate given the scheme represents an ongoing policy obligation rather than a temporary or exceptional cost item. Embedding the allowance within the standard cap framework should provide greater predictability, consistency, and administrative simplicity compared to repeated ad hoc adjustments.

We also agree with the use of DESNZ cost estimates as the primary input for the allowance calculation. As the sponsoring government department, DESNZ is best placed to develop scheme-level forecasts and assumptions, and a centralised approach should support consistency across the market.

The proposed volumetric (£/MWh) recovery basis also appears appropriate. Recovery through electricity unit rates aligns costs with electricity consumption and is consistent with the approach adopted for a number of existing electricity policy costs. However, the effectiveness of the approach will depend on the robustness and accuracy of the underlying forecasts and the extent to which realised costs align with assumptions used in the allowance. Where actual costs deviate materially from forecast levels, suppliers may otherwise face temporary under- or over-recovery, with associated cashflow impacts.

We note that DESNZ held a meeting with the BDS Supplier Delivery Group after Ofgem's consultation was published, at which DESNZ proposed including supplier administration costs as a set amount per customer to cover scalable administrative costs. We welcome this proposal and ask Ofgem to update its methodology accordingly.

We also welcome DESNZ's decision to introduce a proportionate reconciliation mechanism administered by the scheme administrator. As set out in the DESNZ consultation, the reconciliation process would compare suppliers' actual scheme expenditure against their calculated share of total scheme costs based on adjusted GB electricity supply volumes, with balancing payments made between suppliers where appropriate.

We note that the detailed reconciliation arrangements are outside the scope of this consultation and expect further detail to be provided through subsequent Ofgem consultation on the administering and delivery.⁴

We support Ofgem's proposal to continue monitoring outturn scheme costs and to consider future adjustments where material deviations from DESNZ assumptions emerge. We also note that some operational aspects of scheme delivery remain under development, including eligibility identification, data quality requirements, treatment of tenancy changes and exception handling processes. These factors could influence the operational burden placed on suppliers and may ultimately lead to divergence between realised costs and current assumptions regarding supplier administration costs.

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.

We support Ofgem's proposed approach to calculating the BDS allowance for cap periods 17a and 17b. We recognise the practical constraints associated with implementing the scheme ahead of October 2026 and therefore consider it reasonable for Ofgem to rely on the best available DESNZ cost estimates during the initial implementation period.

We also agree that converting annual DESNZ cost estimates into a volumetric (£/MWh) allowance is a pragmatic approach that is consistent with the wider price cap methodology and existing treatment of electricity policy costs.

However, it will be important that the methodology used to convert annual estimates into cap period allowances is clearly defined and transparent. Suppliers should have sufficient visibility of the assumptions used, including any demand or seasonal adjustments, alongside sufficient notice of final values to support implementation and billing system changes.

As noted above, we consider that a prudent approach would be to include an explicit, albeit initially modest, allowance for supplier administration costs, with scope to refine this as implementation experience and better cost data become available.

We note DESNZ's proposed reconciliation arrangements and Ofgem's intention to monitor outturn scheme costs against forecasts. Given implementation and cost assumptions are still developing, it will be important that suppliers have sufficient clarity on how differences between forecast and realised costs will be treated within future cap periods, particularly where timing differences could create additional supplier cashflow exposure.

ScottishPower
June 2026

⁴ [Ofgem to administer government's Bill Discount Scheme to recognise communities hosting new electricity infrastructure | Ofgem](#)