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E.ON response to Ofgem's Proposed methodology for Electricity Bill Discount Scheme cost allowance

Dear Chris,

Thank you for the opportunity to respond to Ofgem's consultation on the proposed methodology for Electricity Bill Discount Scheme (BDS) cost allowance¹.

E.ON welcomes Ofgem's proposal to reflect unavoidable costs arising from new obligations in the price cap from the point at which suppliers begin to incur those costs. The BDS is a new government scheme, outside of suppliers' control, and its costs are systematic. We agree this meets the threshold for a specific price cap allowance.

We recognise Ofgem's objective for maintaining regulatory stability and avoiding revisiting allowances every time a modest additional cost driver arises. However, whilst Ofgem proposes to include the government/Ofgem's administrative costs within the BDS allowance, we do not agree that efficient supplier administration costs should be excluded on the basis that they are a "foreseen uncertainty"² within the May 2025 operating cost decision.

Primarily, the 2025 operating cost decision should not create an open-ended allowance for all future schemes that require supplier administration. Ofgem did not set expectations on the nature, scope, or cumulative scale of the uncertainties that suppliers were expected to absorb through expected efficiency improvements³. Ultimately, the decision reduced operating cost allowances compared to the previous approach, reflecting the efficiency gains that suppliers had made since the cap was introduced. Recent aggregate supplier profitability⁴ also suggests that further efficiency gains should not be assumed to provide an offset for new mandatory obligations.

Since the 2023 operating cost baseline, suppliers have faced an expanding set of mandatory delivery obligations. The real issue is the cumulative effect of delivery obligations and whether the total is material and outside the reasonable scope of "foreseen uncertainty". Ofgem's own scheme

¹ [Proposed methodology for Electricity Bill Discount Scheme cost allowance | Ofgem](#)

² *ibid*, para 2.9.

³ Energy price cap operating cost and debt allowances decision (May 2025). Appendix 1, para 3.61

⁴ [Supplier financial resilience report | Ofgem](#) (June 2026), chart 3 and table 3.

administration costs have nearly tripled (+181%) since 2022-23⁵, supporting the point that scheme complexity and delivery burden are increasing across the system.

In our view, Ofgem's rationale for including BDS transfer and government/Ofgem scheme administration costs in Annex 4 applies equally to efficient supplier administration costs. It appears that the scheme will be more complex than Ofgem's implication that these are "pass-through policy costs"². Likely supplier activities include system changes, customer matching, exception handling, billing or credit application, prepayment treatment, customer communications, complaints, six-monthly reconciliations, audit evidence, compliance controls, and scheme reporting. There may also be working capital impacts for suppliers with lower than average consumption customers and/or disproportionate exposure to eligible customers.

Ofgem has said its forthcoming administration consultation will cover the arrangements for identifying eligible households, setting up delivery mechanisms and compliance arrangements, and ensuring payments reach eligible households within scheme timescales. **Ofgem should therefore revisit its minded-to position once the BDS delivery mechanism is clearer, and the cumulative impact of new schemes is evident.** In particular, the administration consultation should explicitly consider the supplier administration costs and the proportionality of reporting, compliance, and audit processes.

At minimum, we ask Ofgem to avoid closing off cost recovery before it has consulted on the delivery arrangements that will determine the scale of supplier activity. Once the balance of costs is clearer, Ofgem should either include an efficient supplier administration allowance within the BDS policy cost methodology or establish a light-touch monitoring and review mechanism if outturn supplier administration costs are materially higher than assumed. This would fit with Ofgem's recognition in the May 2025 decision that future regulatory changes with a material and systematic impact can justify review⁶.

We hope these comments are helpful and would be pleased to discuss any aspect of this response further.

Yours sincerely,

James Doig

⁵ Ofgem RDEL spend for Schemes (excl. Green Gas) was reported as £31.6m in 2022-23 Annual Report and Accounts. This compares to £88.8m planned in 2026-27 according to the Central Government Supply Estimates, an increase of 181%. Over the same period, Core Regulation and Supporting Activities RDEL spend has gone from £96.4m to £199.5m, an increase of 107%.

⁶ Ofgem decision, 'Energy price cap operating cost and debt allowances' (May 2025), para 2.49.

Responses to the 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.

Yes. BDS costs are unavoidable costs that suppliers will incur to meet their obligations whilst supplying default tariff 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.

Yes. The costs relate to a government-mandated scheme. Inclusion in Annex 4 should improve transparency, predictability, and timely cost recovery. However, we believe that Annex 4 should remain capable of accommodating efficient supplier administration costs once the delivery arrangements are clearer.

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.

Partly. We agree that Ofgem should use the best available estimates as inputs and that the allowance should be recovered on a volumetric basis (£/MWh). Given the supplier contributions will be based on the volume of electricity that a supplier supplies to the GB market, a volumetric allowance is necessary to ensure the price cap reflects the basis on which suppliers incur the cost. We recommend that Ofgem monitor the accuracy of the estimates against outturn costs, and consider action if there are systematic, material differences.

As noted in the letter above, we do not think that Ofgem should exclude efficient suppliers' administration costs on the basis that they are a "foreseen uncertainty". The 2025 operating cost decision should not be interpreted as an open-ended allowance for all future schemes, particularly given the cumulative increase in mandatory delivery obligations since the 2023 operating cost baseline. Once the BDS delivery mechanism is clearer and the cumulative impact of new schemes is evident, Ofgem should revisit its minded-to position.

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.

Yes, subject to the points on supplier administration costs covered in response to Q3.