

22 June 2026

Proposed methodology for Electricity Bill Discount Scheme cost allowance

Dear Christopher,

Thank you for the opportunity to respond to this consultation. We have responded to your specific consultation questions below, but we also think that this consultation surfaces two important broader points that need to be considered by both Ofgem and DESNZ:

1. **Levies need to be controlled and forecastable.** We have already had conversations with DESNZ and Treasury about the urgent need for a levy control framework. This would enable a more strategic approach to recovering levies and provide a more comprehensive and predictable view of the total levy burden and its impact on the cost of electricity and gas for consumers. This particular scheme is another example where a certain group of customers are receiving a discount, but it will put up the cost of power for others. When considered in isolation, the benefits case of this particular scheme are positive and the bill impact low. But without a levy control framework there is insufficient consideration of the damage the aggregate growing cost of levies is having on customer affordability, economic growth and on meeting Government's ambitions for electrification. Scrutiny needs to be placed on each additional cost on the customer bill, and pressure needs to be focused on removing costs (which will benefit *all* customers) rather than adding them. In addition, suppliers and Ofgem need to be provided with an advanced view of any changes or additions to levies, and when they will be incurred. Without this, Ofgem cannot reflect these new costs into the price cap in a timely manner and suppliers cannot factor them into fixed tariff offers, meaning suppliers face significant unrecoverable levy costs. We urge Ofgem to work with Government to ensure that the timing of levy introductions allows for suppliers to be kept revenue neutral.
2. **The price cap has become too complex.** We agree that suppliers need to be able to recover their fair costs incurred, but individual consultation processes such as this one, for adjustments of 20-30pence, adds a huge amount of regulatory burden for limited benefit. Ofgem needs to consider a more holistic review of the price cap so that it is more fit for purpose, and does not require numerous minor adjustments, or true-ups in certain areas. In the longer term, reviewing the design of the price cap is appropriate e.g. looking at the option of a relative price cap which would avoid many minor changes based on the cost stack. But in the shorter term, Ofgem should consider if there are ways to wrap up individual updates into annual revenue adjustments to reduce admin and complexity, whilst using back dating etc to ensure revenue recovery.

It is critical that Ofgem, DESNZ and Treasury work together to address the above points as soon as possible, as we have seen the price cap become more complex and difficult to manage over recent years, and levy costs rising without sufficient management.

The answers to your specific questions are below.

1. 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 we agree that suppliers should be able to recover fair costs under the price cap and so this should be included in the price cap allowances. However, as mentioned above, we think there needs to be a more holistic review of the price cap to avoid numerous incremental changes that add complexity and regulatory burden.

2. 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 cost fits most appropriately in policy costs. As mentioned above, there should be a more holistic framework to review and control the number and amount of levies on customer bills.

3. 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 do not agree with the recovery of this being on a volumetric basis given this is not how the costs are incurred. Costs are incurred on a per MPAN basis and therefore it is more appropriate to recover the charges on a meterpoint basis. We have previously seen examples where the price cap recovers fixed costs on a volumetric basis and this has led to revenue underrecovery across the market which needs to be avoided. In addition, recovering these costs on a volumetric basis will add to electricity unit rates, which are already too high. It is critical that focus is put on how to reduce electricity costs in order to support electrification.

We are also unclear as to why the administration costs for Ofgem is included in the allowance, and on the surface do not agree with this. We are not aware of other schemes where Ofgem's costs are recovered in this way and would encourage Ofgem to think about whether these costs can be absorbed through efficiencies rather than adding them on to customer bills. It is notable that the expectation on suppliers is that they can cover administration costs through existing price cap

allowances which appears inconsistent with the approach to Ofgem's administrative costs. If Ofgem's administrative costs are included in the allowances, then it is important that it does not reduce any transparency on the reporting of Ofgem's costs which are already too high.

The use of estimates feels reasonable in this scenario and given the relatively small cost allowance to be added. If it appears that the cost estimates are significantly wrong, there might be a benefit in a subsequent review of the methodology.

4. 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.

Some of our responses above answer part of this question.

We agree that if there are expected costs in the period then the price cap allowances should start in October. We had anticipated that the majority of costs would be incurred in 2027 but Ofgem has since indicated that there may be administrative costs incurred by Ofgem in 2026 which was unexpected until this consultation. As per Q3, we encourage Ofgem to think about whether Ofgem's administration costs need to be recovered through consumer bills in this way instead of being absorbed through efficiencies. We repeat our previous points that we need enough warning on scheme costs to be able to reflect them in our fixed tariff pricing as well as the price cap.

We are happy to discuss the above if helpful.

Yours sincerely,

Anne-Marie Spalding

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