

Proposed methodology for Electricity Bill Discount Scheme cost allowance

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.

This approach is consistent with how other unavoidable, systematic costs are handled.

This cost is unrelated to the business of energy supply. It is a pure pass-through cost, where suppliers simply act as a collection mechanism. Given this, it is important that the mechanism allows the scheme to be as close to cost neutral as possible.

A policy cost allowance should permit this, provided that the money collected is reconciled across suppliers based on their actual share of 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.

Yes.

This is consistent with the treatment of other policy costs.

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.

No.

The use of DESNZ cost estimates has resulted in allowances being set too low in the past. The ECO scheme was recognised by Ofgem and DESNZ to have been materially underfunded over multiple years – an issue which arose due to reliance on initial DESNZ Impact Assessments. This resulted in suppliers having to commit tens of millions into a scheme in which they were obliged to participate. Issues such as this cause the sector to struggle with investability. Whilst an *initial* allowance being set by a DESNZ cost estimate is appropriate, the methodology should quickly adapt to make use of actual costs reported by suppliers.

The use of a DESNZ estimate as a starting point is appropriate, as eligible customer numbers will change over time. However, the allowance calculation must allow for deviations from DESNZ estimates to be accounted for. The actual costs for each scheme year should be compared to the total revenue collected – and subsequent allowances should be adjusted to ensure that the scheme is cost neutral (by lowering/increasing allowances).

The usual challenges of volumetric recovery apply here, such as sensitivity to changing consumption habits and reliance upon accurate TDCVs. Provided that total revenue collected is pooled and redistributed between suppliers (based on eligible customer numbers, a process like that used for the Warm Home Discount) then volumetric recovery is workable.

We note that even if funds are pooled and redistributed, temporary imbalances in cash flow (due to over/under recovery) will still create winners/losers between suppliers. If this method of collecting funds becomes more common, reconciliation processes will have to run more frequently.

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.

The proposed approach seems reasonable. Please see our answer above for our preferred approach once actual costs become available.