Decision

Proposed methodology for Electricity Bill Discount Scheme cost allowance

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Contact:	Christopher McDermott
Team:	Retail Price Regulation
Email:	retailpriceregulation@ofgem.gov.uk

In May 2026 we published a consultation on our proposed methodology to account for costs associated with the Bill Discount Scheme (BDS) in the default tariff cap ('the cap'). These costs will allow suppliers to recover the efficient costs they will incur as a result of the government's decision to introduce the Electricity Bill Discount Scheme (BDS) for transmission network infrastructure.

The BDS scheme has already been legislated for by the government. Our role as the energy regulator is not to determine whether the scheme should be introduced but to determine how the price cap methodology should appropriately reflect the BDS costs suppliers will incur. Therefore, this document sets out our decision on how costs associated with the BDS will feed into the price cap methodology from April 2027. We have carefully considered all the responses we received to our May consultation, and this has informed our final decision on how to implement an allowance that is reflective of the BDS costs to which suppliers are exposed.

Contents

1. Introduction

This chapter provides context surrounding our decision to introduce a cap allowance to reflect the costs incurred by suppliers as a result of the Bill Discount Scheme (BDS) allowance. It highlights our main decisions with respect to both the introduction of the allowance and the methodology by which it will be calculated, as well as outlining our decision-making process.

Background and context

The default tariff cap

1.1 The price cap (also known as the default tariff cap, or 'the cap') protects domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that they pay a fair price for their energy, which reflects the efficient underlying costs to supply that energy. We set the cap by considering the different costs suppliers face. The cap is made up of a number of allowances which reflect these different costs.

1.2 The cap is provided for in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the 'Act') and we are required to exercise our functions under the Act with a view to protecting existing and future domestic customers who are on default tariffs which are covered by the price cap.

1.3 The price cap currently includes allowances for a range of government obligations, including those relating to environmental and social objectives. These costs currently form part of 'Annex 4: Policy cost allowance methodology' and include obligations such as Renewables Obligations (ROs), Feed in Tariffs (FiTs), Warm Home Discount (WHD) and more.

The Electricity Bill Discount Scheme (BDS)

1.4 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, with the scheme commencing from 1 April 2027. Eligible households within the 500-metre zone would receive a discount of up to £250 a year for up to 10 years.

1.5 The scheme is intended to recognise the role that host communities play in enabling the timely delivery of critical transmission network projects and to support community acceptance of this 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.

1.6 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.

1.7 In May, in response to the government decision, we launched a consultation on our proposed approach to incorporate BDS costs into the price cap methodology. This is in accordance with our statutory duties pursuant to the Act to have regard to, amongst other things, the need to ensure that supply licensees who operate efficiently are able to finance activities authorised by the licence.

Our decision

1.8 We have carefully considered the feedback provided as part of our consultation and have decided to proceed with the implementation of an allowance to reflect costs associated with BDS from 1 April 2027 (price cap period 18a), aligned with when the scheme is intended to commence. The BDS cost allowance will be informed by government estimated annual profile of BDS costs set out via its impact assessment. We provide further detail below on how we have reached this decision and the main points of feedback provided by stakeholders in response to this consultation.

Context and related publications

1.9 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

1.10 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
- Scheme design for bill discounts for new transmission network infrastructure – update
- Electricity bill discount scheme for transmission network infrastructure: expected eligible projects

Decision-making stages

Stage 1 Consultation opened: 27 May 2026

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

Stage 3 Decision and responses published: 28 August 2026

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 decision. 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.

2. Decision, stakeholder feedback and considerations

This chapter sets out our decision, a summary of stakeholders' responses, and our considerations of those comments. We have included the various methodological considerations that some stakeholders raised which subsequently shaped our final decision.

In our May consultation we sought views on the following 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.

Decision

2.1 We have carefully considered all of the representations and evidence submitted as part of the consultation and have decided to introduce an allowance to reflect costs associated with BDS from 1 April 2027 (price cap period 18a). This will amount to an estimated annualised 20p – 30p increase to an electricity customer's bill for the first price cap period it will have effect (April - June 2027). However, this 20p - 30p allowance for April – June 2027 includes the one-off recovery of government administrative costs incurred by suppliers prior to the commencement of the scheme, informed by government assessment of 2026 to 2027 scheme year administrative costs.

2.2 We have considered the feedback with respect to our proposed methodological approach and have decided to:

- allow recovery of the allowance on a volumetric basis (i.e. via the electricity unit rate), in line with the policy intent and design of the BDS scheme, under which suppliers are charged on a per megawatt hour basis;

- amend the methodology in 'Annex 4 – Policy cost allowance methodology' to include the allowance in the default tariff cap, and update this on a six-monthly basis;
- include within the allowance the cost categories identified in DESNZ's assessment of the scheme's impacts: transfers, government administration costs, and supplier administration costs. Pre-commencement supplier administration costs are not included within this recovery mechanism.

2.3 allow suppliers to recover the government administrative costs incurred prior to commencement of the scheme (October 2026 – March 2027). These pre-commencement costs will be recovered through the allowance over a 12-month period from 1 April 2027 (when the allowance is introduced) to 31 March 2028.

2.4 We have set out the stakeholder feedback to our proposals in the following section, including further detail on the methodological considerations which have shaped our final decision.

Summary of responses and considerations

2.5 In this decision document we have focused on substantive points that are relevant to this particular decision. We received 11 responses to our consultation; eight responses were from suppliers, one from a consumer group and two were from transmission owners. Non-confidential responses have been published on our website.

2.6 The stakeholders who responded were broadly supportive of the introduction of an BDS allowance in the cap. There was strong support for the introduction of the allowance, its inclusion within Annex 4 of the cap methodology, and our originally proposed implementation date from 1 October 2026 (see "Our consideration and decision" section for further details on implementation timings). Several stakeholders also provided comments on aspects of the proposed methodology, including the treatment of supplier administration costs, reconciliation arrangements, forecast accuracy, and the proposed recovery methodology. We consider these responses below.

Stakeholder views on the model annex

2.7 We received strong support for including the BDS allowance within Annex 4. Several suppliers also highlighted the benefits of maintaining consistency with the treatment of existing policy costs.

2.8 Some respondents stressed the importance of ensuring that the allowance remains cost reflective over time through the use of updated forecasts and appropriate reconciliation arrangements. However, no respondent proposed an alternative annex for inclusion of the allowance. We continue to consider Annex 4 to be the most appropriate location for the BDS allowance, as Annex 4 is intended to capture policy costs relating to obligations on suppliers to deliver government schemes or initiatives. We note stakeholder comments regarding the importance of tracking actual costs against the DESNZ Impact Assessment estimates. While we consider the DESNZ Impact Assessment to represent the best source of cost estimates currently available, we will keep this approach under review as the scheme develops. We will consider whether actual cost data or alternative sources of cost information are more appropriate as they become available.

2.9 Several suppliers supported the use of government cost estimates as the basis for the allowance but highlighted the importance of ensuring estimates remain up to date. These stakeholders encouraged forecast updates where appropriate and supported the use of reconciliation arrangements to minimise the risk of persistent over/under recovery.

2.10 We recognise the importance of ensuring allowances remain broadly cost reflective. We will continue to monitor developments relating to forecast costs and scheme implementation and, where appropriate, consider the merits of taking into account actual cost information and other BDS cost information as they become available.

Stakeholder views on the treatment of supplier administration costs

2.11 At consultation stage, we proposed not to include supplier administration costs within the BDS allowance. A number of suppliers raised concerns with this proposal. These respondents argued that implementation of the scheme may create additional costs associated with customer communications, reporting requirements, reconciliation activities, systems development, scheme administration and compliance.

2.12 Several suppliers argued that such costs arise directly from a new government-mandated obligation and therefore should be recoverable. Respondents highlighted uncertainty regarding final delivery arrangements and associated operational requirements and argued that actual administrative costs may differ from current assumptions.

2.13 We acknowledge stakeholder views regarding the potential administrative burden associated with scheme delivery. We recognise that suppliers are likely to incur additional administration costs in delivering BDS and this view is supported by DESNZ which has published specific estimates of such costs as part of its Impact Assessment.

2.14 Having considered stakeholder feedback and available evidence, we have decided to include supplier administration costs, as set out in DESNZ impact assessment, within the BDS allowance. In reaching this decision, we have given weight to the fact DESNZ has provided scheme-specific estimates of administration costs and that these legitimate costs are expected to arise as a direct result of the new policy obligation associated with implementation of the BDS. In the circumstances of this scheme, we consider there is sufficient evidence to identify and quantify these costs separately from suppliers' broader operating costs.

2.15 This decision should not be interpreted as establishing a general expectation that all supplier administration costs associated with future policy changes will be separately reflected within price cap allowances. Supplier's operating costs are generally covered by the core operating cost allowance which is benchmarked across the business and influenced by a broad range of factors, both upwards and downwards. We will therefore continue to consider and assess the materiality of costs, the evidence available and the appropriate treatment of incremental administrative costs arising from government policy on a case-by-case basis.

2.16 Supplier administration costs are expected to amount to less than 1p per year for a typical electricity customer, from April 2027 onwards.

Stakeholder views on mutualisation costs

2.17 One supplier raised concerns that supplier default-related mutualisation costs are not explicitly reflected within the proposed methodology. The respondent argued that efficient suppliers should not be adversely affected by the failure of other market participants.

2.18 We recognise this concern, however, there are currently no robust estimates available for potential mutualisation costs, and such costs are not generally included within existing policy cost allowances. Consistent with the treatment in other comparable policy costs allowances, we do not consider it appropriate to include an allowance for mutualisation costs at this stage. In particular, we do not consider it appropriate to include an allowance for costs that are currently neither evidenced nor reasonably quantifiable. Should material mutualisation costs arise in future, and sufficient evidence become available regarding their scale and impact, we would consider whether any changes to the price cap methodology are necessary.

Stakeholder views on recovery methodology

2.19 Most respondents supported our proposal to recover BDS costs on a volumetric (£/MWh) basis, noting that this is consistent with the treatment of existing electricity policy costs and provides a practical and transparent mechanism for cost recovery.

2.20 A small number of stakeholders favoured alternative approaches. These respondents argued that the underlying costs are more closely related to customer numbers than electricity consumption and therefore suggested recovery through either a standing charge or an alternative meter-point based approach.

2.21 Having considered stakeholder responses, we continue to consider volumetric recovery to be the most appropriate approach aligned with how the scheme itself is designed. This reflects the basis on which suppliers incur scheme costs, as their cost exposure is linked to the volume of electricity they supply. Recovering costs on a volumetric basis provides a more cost-reflective approach and remains consistent with the treatment of other electricity policy costs within the cap.

Other stakeholder views

2.22 Some respondents raised broader concerns regarding the cumulative impact of policy costs on consumer bills and questioned whether government policy costs should continue to be funded through energy bills rather than through general taxation. Respondents also suggested that greater consideration should be given to the overall affordability impact of levy-funded schemes. While we acknowledge these views, these issues relate to broader policy considerations that fall outside the scope of this consultation and are a matter for government to consider. This decision is focused specifically on the treatment of BDS costs within the Default Tariff Cap framework.

2.23 Two Transmission Owners responded to the consultation, highlighting potential costs associated with supporting delivery of the scheme, including data provision, reporting requirements and engagement with scheme administration processes. These respondents sought greater clarity regarding how any associated costs would be treated under existing regulatory frameworks.

2.24 The purpose of this consultation was to consider the treatment of BDS costs within the retail price cap. Transmission Owners recover efficiently incurred costs through network price controls under the RIIO framework rather than through the Default Tariff Cap. Accordingly, any consideration of Transmission Owner cost recovery would need to be considered as part of the relevant RIIO assessment processes and is outside the scope of this consultation.

Our consideration and decision

2.25 At consultation, our minded-to position was to introduce the BDS allowance from October 2026 using cost estimates expected to be published by government alongside the revised DESNZ Impact Assessment.

2.26 Since publication of the consultation, government has informed us that the updated DESNZ Impact Assessment, including revised annual cost estimates (including for the current financial year 2026 to 2027), will not be available until later on in 2026. As a result, the evidence base we previously expected to rely upon when calculating the allowance will not be publicly available in sufficient time to support implementation of the allowance from 1 October 2026.

2.27 Having considered the available options, we have decided to introduce the allowance from April 2027 and allow recovery of 2026/27 government administration costs over a 12-month period. We consider this approach strikes an appropriate balance between ensuring suppliers are able to recover efficiently incurred scheme costs, while minimising volatility in the BDS allowance.

Implementation and next steps

2.28 We thank stakeholders for their feedback to our consultation, which has helped inform and support the decisions we have reached.

2.29 We will implement the methodological decisions set out in this document from charge restriction period 18a, commencing 1 April 2027. The allowance will be included in 'Annex 4 – Policy cost allowance methodology' and updated on a six-monthly basis. The corresponding model has been published alongside this decision.

3. Appendix

Detailed model modifications: Annex 4

3.1 In this appendix we summarise the modifications to 'Annex 4 – Policy cost allowance methodology' of SLC 28AD of the electricity standard supply licence conditions based on our proposals in Chapters 1 and 2.

3.2 We have published alongside this consultation a revised Annex 4 that will come into effect from April 2027. A summary of the modifications can be found below.

3.3 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.

1. 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'	AR13: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 'Supplier admin costs'	AR14:BF14 added to input the administration costs incurred by suppliers, which will be published by DESNZ.
3m BDS	New inputs added to worksheet for 'Government admin costs'	AR15:BF15 added to input the administration costs incurred by the government and the scheme administrator, which will be published by DESNZ.
3m BDS	New inputs added to worksheet for 'Government admin costs for year 2026-2027'	AR16:BF16 added to input the recovery of government admin costs already incurred in 2026-2027 over the first scheme year
3m BDS	New calculation added to worksheet for 'BDS Cost Allowance'	AR18:BF18 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 electricity single-rate and multi-rate	In the calculation tab the following changes have been made: 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	In the Outputs tab the following changes have been made: 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). 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).
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.