

Call for input

Energy price cap: Updating the time-of-use methodology

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Market Wide Half Hourly Settlement is a key enabler to achieving greater consumer-led flexibility. It will result in greater incentives to innovate time-of-use tariffs which reward customers for changing how they use their energy. Given these changes, it is an appropriate time to consider how the price cap methodology may need to adapt for setting a suitable approach for time-of-use customers.

In this paper, we set out the challenges of retaining the current approach and broad options that demonstrate the key trade-offs in determining a new approach. We are seeking feedback on option design and assessment to inform further development of our approach.

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Executive summary

The default tariff cap ('cap') was introduced in 2019 and forms a fundamental part of the regulatory framework for the domestic retail market. It was introduced to reduce the loyalty penalty and with the aim of protecting existing and future customers on standard variable and default tariffs. With over 60% of domestic customers protected by the cap, it has a bearing on the investability of the sector, incentives for innovation and the move towards greater flexibility in how customers use their energy.

In November 2025, we published our [Markets Regulatory Vision and Strategy](#) for all retail markets. It set out the outcomes we want to achieve in energy retail markets by 2030 and how we plan to get there. We seek energy markets that deliver for all customers through regulation that provides confidence and protections to consumers, whilst enabling innovation and investability, supporting Clean Power 2030 goals and economic growth.

The retail market is undergoing significant reform. A key change is the migration of electricity meters to Market Wide Half Hourly Settlement (MHHS). Settlement accounts for the differences in demand and supply in the energy system. MHHS exposes suppliers to the true cost of their customers' usage by running the settlement process based on customers' actual half-hourly usage rather than the profiled demand previously used (profile classes). The changes in settlement play a key part in delivering Clean Power 2030 by incentivising suppliers to offer tariffs that pass on more price signals to consumers and reward them for shifting demand.

The cap was set at a time when there were few time-of-use (ToU) offerings apart from Economy 7 (E7), no half-hourly settlement, and when wholesale prices were less influenced by short-term drivers like weather. This has now changed, meaning it is an appropriate time to consider how the cap needs to adapt with a greater emergence of ToU offers. As more customers take up different low-carbon technologies (LCTs) and ToU offerings, we expect there will be greater diversity in costs between different types of customers and different suppliers.

We already have a cap specifically for customers with ToU tariffs (multiple unit rates that vary by when a customer uses their energy). We refer to this cap level as the 'multi-register' cap.

Our approach is to set a single cap level for all multi-register tariffs (though it does vary by payment type). Essentially this cap level results in a maximum price that suppliers can set their tariffs at *on average* across the time bands. Suppliers are then able to set their rates over different time bands, provided the average of those rates (weighted by demand in each time band) is equal to or below the multi-register cap level.

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In setting the cap level there are several cost allowances that are sensitive to when a customer uses their energy: (1) the shaping allowance for commodity costs, which determines how a supplier refines their energy purchasing from forward-looking contracts to more granular contracts nearer delivery; (2) several non-commodity allowances which are partially allocated on the basis of energy usage during peak times, these include distribution, transmission and capacity market charges.

As cost diversity and ToU tariff offerings increase, the current approach of using a single demand profile may not be suitable. Simply maintaining a demand profile that is reflective of single-rate customers undervalues the benefits that multi-rate customers would see from the savings they add to the system due to using more of their energy outside of peak periods. However, determining an alternative approach is not simple.

Continuing to use one demand profile to set the multi-register cap, even if that profile is reflective of ToU customers, means we assume for a given level of demand, the underlying cost to serve is the same across all ToU customers. There may be differences between ToU customers (eg Electric Vehicle (EV) and heat pump customers) that mean some types of customers may pay above their cost and others may pay below.

Our aims in setting an updated ToU approach are to provide more consistent outcomes for default tariff customers and set a cap that is not a blocker to consumer-led flexibility, by enabling incentives for innovation and tariff diversity.

Tariff innovation and consumer flexibility are likely to develop fastest and furthest in the competitive market. However, reform of the multi-rate cap could help support our aims of a flexible and innovative retail market in several ways. Firstly, ensuring that consumers on default tariffs can access consistent price protection should support confidence and trust in the ToU market. Secondly, ensuring default arrangements are cost reflective can help suppliers innovate for a broad set of customer types without concern they will lose out if they later default. Third, by enabling a wide variety of defaults, we may enable suppliers to send better and more tailored price signals to default customers. Finally, customers with LCTs that are on an appropriate tariff with suitable price signals will likely reduce the cost to other consumers of inefficient usage.

We set out three options that demonstrate the trade-offs in setting an approach for ToU tariffs and to consider whether there is an alternative approach that better reflects the growing cost diversity.

Option 1 is a simple two- or three-band tariff under which we set prescriptive unit rates for each time band based on the average cost within those bands. This is an alternative to the current approach in that it does not address all the challenges regarding cost diversity. However, it provides an alternative approach to setting the cap where we set a cap level across each time band rather than an average across the day. It also provides

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more consistency in tariff structure across similar types of customers by removing some of the discretion in how the default tariff is set.

Option 2 is to set type of use caps (cap variants). This option would start to address the challenges in how the current approach handles growing cost diversity. It would require us to set separate demand profiles for different types of ToU customers. For example, on top of a central ToU cap, we may also set an EV variant and a heat pump variant, reflecting the differences in how those two groups use their electricity.

The key challenge with option 2 is accurately identifying relevant customers in a particular customer group and estimating their demand profile. Furthermore, we would need to carefully consider how many variants we set dependent on the complexity they would bring to the cap and the accuracy at which we can estimate the demand profile. For example, if a customer has multiple LCTs, there may be greater challenge in determining a suitable cost reflective cap variant for them.

The final option is to enable suppliers to set their own ToU cap variants by assessing specific ToU tariffs rather than directly setting one. To do this, we would provide suppliers with the unit costs for each half-hour based on the shaping allowance and relevant non-commodity allowances. Suppliers would then construct their own demand profile that is representative of the group of ToU customers they were setting the default tariff for. We would assess: (1) whether the supplier used an appropriate and representative demand profile; (2) whether the supplier applied the profile correctly to determine the cap level; and (3) that the supplier has an appropriate set of customers on the tariff.

Option 3 is the most cost reflective option and deals best with growing cost diversity, better enabling incentives to innovate. However, it is the most complex option to design and implement, requiring much greater checks on outcomes to ensure customers continue to be treated appropriately.

Overall, this paper is intended to highlight the challenges in the current approach and the option space that may seek to address them. We will use feedback to this paper as an opportunity to understand stakeholders' positioning on the role they see the cap playing in facilitating more ToU offerings and consumer-led flexibility. We intend to further develop the options and assess feasibility following feedback to this paper.

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1. Introduction

In this chapter, we set out how the changes in settlement interact with how we set the cap, setting the context for why it is an appropriate time to consider the time-of-use approach in the cap.

Background

Strategic context

- 1.1 In November 2025, we published our [Markets Regulatory Vision and Strategy](#) for the retail market. It sets out the outcomes we want to achieve in energy retail markets by 2030 and how we plan to get there. We seek energy markets that deliver for all customers through regulation that provides confidence and protections to consumers, whilst enabling innovation and investability, supporting [Clean Power 2030](#) goals and economic growth.
- 1.2 Consumer-led flexibility will play an increasingly important role in delivering a secure, affordable and decarbonised energy system. Retail markets need to transform in the next few years to support the required 10-12 GW of consumer-led flexibility capacity by 2030, across domestic and non-domestic customers, estimated by the [Clean Flexibility Roadmap](#).
- 1.3 As the electricity system becomes more reliant on intermittent renewable generation and demand increases through electrification of heat, transport and industry, the ability for consumers to shift consumption away from peak periods will become a critical source of system flexibility. A key element of this is the degree to which customers face price signals to encourage and reward them to move their energy demand from more expensive periods to cheaper periods where they put less strain on the system.
- 1.4 Overall, we want to see investment in new products and services that improve customer outcomes and make it simple for consumers to engage with flexibility such as time-of-use (ToU) tariffs, where electricity prices vary at different times of the day and night, and customers are rewarded for shifting their usage to cheaper periods. However, within this vision, it is important that we have the right protections in place to ensure customers continue to be treated fairly.

The cap and settlement changes

- 1.5 The default tariff cap (the ‘cap’) was introduced in 2019 and currently protects 20m households across the GB energy market. It was introduced under the Domestic Gas and Electricity (Tariff Cap) Act 2018, the objective of which is to

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protect existing and future customers on standard variable and default tariffs. The legislation also sets out five matters to which we must have regard to when setting the cap. These include incentivising supplier efficiency, enabling an efficient supplier to recover its cost, enabling effective competition between suppliers, maintaining incentives for customer switching and public spending.

- 1.6 The legislation requires that when setting the cap, we can only set one cap level across the market, meaning the cap cannot vary by supplier. Therefore, we set the cap to reflect an efficient notional supplier. This creates a challenge where costs are less homogenous across suppliers, and where certain business models cause a supplier's costs to diverge from the market. However, we can set different cap levels to account for differences in characteristics across customers. For example, we set a different cap level for each payment method reflecting the difference in underlying cost to serve between them. Where cost diversity between suppliers is driven by differences in customers, this can mitigate some of the risks.
- 1.7 Market Wide Half-Hourly Settlement (MHHS) is a key change in the electricity market that is required for unlocking the potential of consumer-led flexibility. Amongst other things, it changes the market clearing aspect of settlement by exposing suppliers to the actual demand shape of their customers rather than estimated demand profiles previously calculated by Elexon. In practice, this means suppliers will face higher costs for customers who use more energy during peak cost periods (peakier customers) and lower costs for those that can move energy usage out of peak periods. We expect MHHS will incentivise greater usage of ToU tariffs as customers seek to lower their bills and suppliers seek to lower costs. It will also incentivise suppliers to offer tariffs and innovations which would help them make the most of MHHS.
- 1.8 MHHS migration is well underway, with around 24m electricity supply points (MPANs) migrated as of September 2026 and the rest due to be completed by May 2027. Suppliers' costs will have already started to change as they seek to adapt their wholesale purchasing strategy to follow actual forecasted demand. However, we expect the immediate impacts to be limited by the levels of customer consent on sharing half-hourly data and the current limited availability/uptake of ToU tariffs. Together we consider this may limit the immediate extent of changes in customer behaviour in aggregate.
- 1.9 In future, the greater cost diversity that is likely to result from MHHS may create challenges for setting a one-size-fits-all cap. We discuss these challenges in relation to the current approach for setting a ToU variant in the cap as part of our case for change in the following chapter.

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This review

1.10 As we set out in our [March 2026 call for input](#), we expect changes to the cap to be incremental, with the first phase focused on allowing the cap to keep pace with the change in costs. We set out three themes of work: (1) setting a wholesale allowance that allows the cap to track and reflect the costs of serving default tariff customers over time; (2) considering whether and how we account for greater diversity across suppliers' cost bases; and (3) developing the cap for customers who are or want to change their usage patterns.

1.11 To achieve these three areas, we have split our review across three areas:

- **Set the wholesale allowances:** Our approach to setting the structure of the wholesale allowance. For example, reviewing the shaping allowance calculation and determining how frequently we update the allowance. As well as reviewing assumptions such as the peak/baseload split.
- **Update the single-rate demand profile:** Setting a demand profile for the single-rate cap to replace the current one, which is based on profiled demand. In doing so, we will consider whether we set separate demand profiles across cap parameters (such as payment method) and how frequently we update the demand profile. This would flow through multiple cap components (eg several non-commodity costs), ensuring default customers' cost to serve under MHHS are reflected in the cap.
- **Redesign the approach to ToU:** Setting an updated approach to the multi-register cap, which enables better cost recovery when setting default tariffs with multiple unit rates and reflects the benefits of using energy outside of high-cost peak periods for customers.

1.12 We are aiming to implement the single-rate demand profile and allowance change in Spring 2027. To support this, we intend to issue a consultation later this year which will set out our key proposals across these two areas. However, we are mindful of the current volatility in energy prices and wider market conditions. The timing of any changes will remain subject to competing priorities.

1.13 The update of the ToU approach is more complex and has greater linkages to other policy areas so we expect this will take longer to develop. Our initial plan is to aim for incremental change by H2 2027.

Purpose of this call for input

1.14 The purpose of this working paper is to set out our broad options for setting the ToU cap to identify and highlight the trade-offs in outcomes when deciding the best approach for the cap.

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- 1.15 Our bilateral engagement with suppliers over Summer 2026 highlighted that suppliers were at different stages in their own thinking on the ToU approach in the cap. Furthermore, suppliers are at different stages of their own thinking in understanding the impacts of MHHS on their business and their commercial view on ToU products.
- 1.16 We intend this working paper to help formally gather consistent views from both suppliers and other interested stakeholders to progress both our options design as well as the industry's thinking. Following publication of this working paper, we intend to undertake further industry engagement to inform the detailed design of options ahead of publishing a follow-up consultation next year.
- 1.17 In this paper, we cover an overview of the current approach to setting the ToU cap (currently referred to as the multi-register cap) and where this may create challenges in future, requiring us to review our approach. In Chapter 3, we then discuss the high-level option space for reforming the ToU cap level, identifying the key trade-offs between options.
- 1.18 Alongside this work, we are mindful of ongoing developments in the Cost Allocation and Recovery Review and our continued work on consumer-led flexibility. While we intend for changes to the cap to align, where appropriate, with these related reforms, the differing timescales for regulatory change mean it is difficult to fully account for all future changes at this stage. While an incremental approach allows improvements to be made sooner and provides flexibility to respond to emerging developments, it also means that changes may need to be revisited as related reforms progress and further information becomes available. On balance, we consider that proceeding with an incremental approach is preferable to delaying changes until all related reforms have concluded.

Context and related publications

- Ofgem: [Energy price cap: technical approach to MHHS](#)
- Ofgem: [Markets Regulatory Vision and Strategy](#)
- DESNZ: [Clean Power 2030 Action Plan](#)
- DESNZ, Ofgem and NESO: [Clean Flexibility Roadmap](#)

Call for input stages

Stage 1 Call for input open: 12 October 2026

Stage 2 Call for input closes. Deadline for responses: 20 November 2026

Stage 3 Responses reviewed and published: Spring 2027

Call for input Energy price cap: Updating the time-of-use methodology**Stage 4** Further consultation and stakeholder engagement: H1 2027**How to respond**

We want to hear from anyone interested in this call for input. Please send your response to the person or team named on the front page of this document before the response deadline.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

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How to track the progress of a call for input

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A call for input has two stages: 'Open' and 'Closed'.

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2. Case for change

In this chapter, we describe the current approach to setting the cap for ToU customers. We also highlight the challenges in retaining the status quo as customer behaviour changes and cost diversity increases.

Impact of MHHS on suppliers

- 2.1 As discussed in the previous chapter, MHHS continues to change suppliers' cost exposure to their customers' actual usage patterns. The extent to which a supplier is exposed to this change will depend on the proportion of customers who have consented to share half-hourly data and the average usage pattern of the supplier's underlying customer base. Customers who have not consented to share half-hourly data will be settled against Elexon's Load Shaping Service (LSS), which mirrors the average usage profile for all half-hourly settled customers.
- 2.2 MHHS impacts both commodity costs and non-commodity costs for suppliers. On the commodity side, the biggest impact is on a supplier's shaping costs. As suppliers buy forward contracts for energy (typically a quarterly product), they must buy and sell more granular contracts to refine their position to match the profile of usage for their customers across the half-hours of a day. We refer to this buying and selling of contracts as shaping. Wholesale prices are generally higher for periods where demand is greater. As Figure 1 shows, we typically observe the highest prices during the evening peak and lowest prices during the night.
- 2.3 In the context of MHHS, non-commodity costs are charges that are unrelated to wholesale costs and are either partly or fully allocated based on when a customer uses their energy. These include elements of Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) charges, and capacity market costs, which are charged based on the volume used during peak time. Therefore, if a customer uses more energy during the evening peak period, they will incur a higher non-commodity cost to the supplier.
- 2.4 We collected half-hourly data to assess the impact of MHHS on suppliers and then undertook bilateral engagement with suppliers to technically review and validate our modelling approach. Our analysis of the impact on single-rate customers suggests that the immediate effects from MHHS will be modest. We estimate the average impact across the market is £2.60 per SVT customer who shares half-hourly data. While this may be perceived as a small increase in volumetric electricity commodity and non-commodity costs affected by MHHS

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(0.7%), it could grow in future. The impact on multi-rate customers is more complex given the diversity of the group. We expect the average impact and cost diversity across the market will grow as more customers take up ToU tariffs and change their usage behaviours. Our future analysis will extend to cover the impacts on multi-rate customers, including how this group could evolve over time.

- 2.5 The single-rate customer impacts have changed since our March 2026 call for input as we have developed our modelling approach (eg accounting for electricity line losses), updated the reference window for the price and cost data, and refined our assumptions.
- 2.6 Overall, MHHS is a key enabler of greater consumer-led flexibility as it helps to deliver incentives for customers to shift their usage to lower-cost periods (eg load shifting out of the evening peak or charging an Electric Vehicle (EV) overnight). There are several ways a customer can benefit from changes in their usage. They can face a lower cost by directly changing their consumption habits. This can be applied through a smart ToU tariff with lower unit rates during cheaper periods or they can have a bolt-on which sits on top of their regular tariff that applies a discount for greater consumption during cheaper periods. Alternatively, they can give permission for a third party to take consumption actions as a benefit (eg signing up to an aggregator or smart charger for an EV).
- 2.7 While the take-up of some technologies may be steady, there are currently more than 2 million EVs registered on UK roads, with a target of 80% of new cars sold to be zero-emission by 2030. This could already lead to meaningful changes in usage and costs.
- 2.8 Generally, as more customers take up fixed ToU tariffs, it will become increasingly important that customers are on an appropriate tariff, including the default tariff. Having a suitable default tariff level for a customer with a low-carbon technology (LCT) is important to enable us to consider what outcomes we want to achieve as we set our policy on consumer-led flexibility and encourage greater uptake of ToU tariffs.

Current approach to ToU in the cap

- 2.9 The cap currently enables suppliers to have static default ToU tariffs through the multi-register cap level. The multi-register cap level is set using specific demand weights to calculate allowances and has its own electricity consumption level (3,400 kWh as opposed to 2,500 kWh used for the single-rate cap). However, some assumptions are held the same as the single-rate cap – for example, we assume the same profile of demand (profile class 1) across the two cap levels when setting the shaping allowance.

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- 2.10 The multi-register level is used predominantly for Economy 7 (E7) customers but can also be used for other multi-rate metering arrangements such as Economy 10 (E10) and Total Heating Total Control (THTC) products. It is increasingly used for a wider set of ToU customers as tariff offerings increase and diversify.
- 2.11 We set a single cap level for the multi-register cap, which we use to check compliance for suppliers setting multi-rate tariffs. For example, the direct debit multi-register electricity cap level in October 2026 is £1,046 at 3,400 kWh typical usage. To calculate the multi-register cap, we use some profile class 2 specific demand inputs (eg quarterly demand shares). We also assume a higher level of typical consumption, which historically has reflected the difference in profile classes.
- 2.12 For the single-rate cap, we can calculate an implied unit rate which sets the maximum unit rate a supplier can charge. For the multi-register cap, suppliers have some freedom to determine how they price the different unit rates that make up their static ToU tariff. For example, a supplier could price the off-peak and peak charges differently depending on the proportion of energy their customers use off-peak on average.
- 2.13 For a tariff to be compliant, the average of the unit rates weighted by the proportion of consumption in each time period to which the unit rate applies (assumed consumption split) must be at or below the multi-register cap.
- 2.14 For E7 tariffs, we specify the assumed consumption split we check compliance against. This is set out in the supply licence conditions as 52% off-peak and 48% peak. For non-E7 ToU tariffs, suppliers provide the average consumption split based on historical data where available for the group of customers the tariff applies to so we can check the tariff is compliant.
- 2.15 We check for compliance on an ex-ante basis, meaning at the time the tariff is set, it should be compliant across the cap period based on the assumed consumption split. We do not carry out an ex-post check on whether outturn demand splits departed from assumed demand splits (bar in limited circumstances). Consumption patterns may vary from year to year which may cause deviations from the assumed consumption splits. In some cases these changes cannot be predicted in advance (eg if driven by out of season weather patterns).

Challenges with the current approach

- 2.16 As the market evolves with the changes in settlement, we expect greater diversity in ToU offerings driven by adoption of LCTs. There are a few challenges that may arise in setting the multi-register cap that warrant consideration of

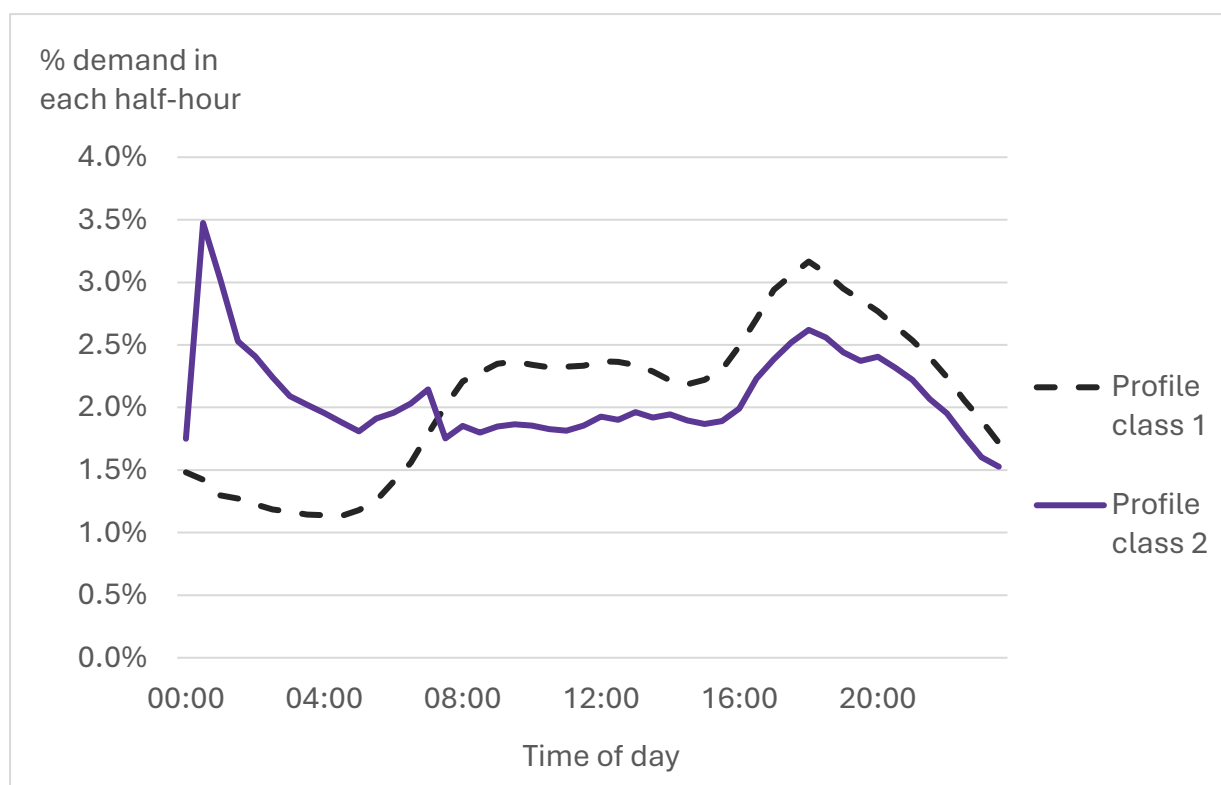
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whether the current approach will remain viable and if alternative arrangements may be preferable.

- 2.17 As part of the MHHS migration, profile classes will no longer exist. For customers who are not settled on a half-hourly basis because they do not have a smart meter or have not elected to share their information, settlement will be determined by the LSS. The LSS will not differentiate between single-rate and multi-rate customers in the same way that profile class 1 and profile class 2 did previously. Therefore, the first issue is the availability of data sources we currently use to set the cap. At a minimum, we need to update the demand profile we use to calculate the cap allowances for multi-register customers to acknowledge the changes in the data used for settlement.
- 2.18 Under the current approach, we use a single demand profile to calculate the underlying cost of multi-register customers. When setting the shaping allowance, the demand profile we use is reflective of a single-rate customer (profile class 1). Rather than simply updating this profile in the shaping allowance, we consider it appropriate to assess whether alternative approaches may be preferable, as a simple update creates two key challenges.
- 2.19 Firstly, a profile reflective of single-rate customers undervalues the savings multi-rate customers provide to the system by not reflecting the lower cost in their prices. We expect customers who have a ToU tariff to have a demand profile where they consume less energy during relatively high-cost peak periods and more energy during low-cost off-peak periods. This is generally the case when comparing the historic profile classes for a multi-rate and single-rate customer as shown in Figure 1.

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Figure 1: Normalised demand for profile class 1 and profile class 2



- 2.20 Secondly, using one demand profile to underpin cost assumptions, even if that demand profile was reflective of ToU customers on average, would limit the ability to accurately reflect the cost of different types of ToU customers. Despite the flexibility suppliers have to determine how they structure their unit rates across different time bands, the default tariffs are still assessed for compliance against a single cost benchmark. However, customers on a particular tariff may cost more to serve than is reflected by the average cost benchmark.
- 2.21 Continuing the approach of using a single demand profile assumes that for a given level of annual demand the cap level is the same for all customers to whom it applies. The assumption is appropriate where there is little diversity in costs between different customers such that setting the cap based on the average does not create a material risk. However, this is less likely to be the case for ToU customers.
- 2.22 A key feature of ToU tariffs is that they enable customers to reduce their costs by using energy during lower cost periods. Therefore, the cost to serve a ToU customer will in part depend on the shape of their demand profile and their usage patterns. Using a single demand profile to set the ToU level of the cap as we currently do risks setting the cap too high for some types of customers and too low for others. The risk is greater where there is more diversity in usage between different types of customers (eg customers with different LCTs).

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- 2.23 A lack of cost reflectivity risks blending costs across customers and hiding the true cost of serving certain customer types. If an efficient supplier is unable to recover its costs due to serving a particular customer type, it may be unwilling to introduce new, innovative products in that space. Therefore, the market may focus on standard products and avoid bespoke offerings which benefit certain groups of customers where they do not align with the default tariff.
- 2.24 To demonstrate these risks, we can imagine a market with just two different types of customers: (1) an EV customer with a cheap night charging profile and (2) a heat pump customer with a more expensive day use profile.
- 2.25 If we set a cap based on the average demand profile of these ToU customers, the EV customer would not realise the full benefit of their usage pattern (ie greater night-time usage) and could result in them facing a higher price relative to the cost to serve them. For the heat pump owner they would benefit from a cap that was lower than their costs.
- 2.26 From a supplier's perspective, they would over-recover their costs across EV customers and under-recover their costs for heat pump customers, as the cost level reflected in the cap through the average will be below the specific cost of heat pump customers.
- 2.27 Importantly this would impact supplier incentives to serve specific groups. In this example suppliers may look to maximise their exposure to profitable EV owners while choosing not to innovate for heat pump owners (ie not offer fixed tariffs due to the risk they ended up on defaults that under-recover costs).
- 2.28 Depending on how the cap was calculated, blending the cap for these customers might also dampen the price signals to the customers to use their LCTs efficiently – potentially raising costs for all.
- 2.29 Overall, the purpose of the cap is not to perfectly reflect the cost of each individual customer type or supplier, as we are limited in how we set it (eg we can only set one cap that applies to all suppliers). However, we do have some discretion in how we set the cap by different parameters (eg payment method).
- 2.30 Therefore, the key consideration for this review is whether there is an alternative methodology for setting the ToU approach in the cap, that better reflects the growing cost diversity between different types of ToU customers and enables a supplier to offer a fair price to different types of customers.

3. Options assessment

In this chapter, we set out three broad options for updating the ToU methodology in the cap and assess them against a simple update to the current approach.

Options overview

- 3.1 We set out three broad options for establishing the ToU methodology in the cap that demonstrates the range of considerations that will inform our assessment of the most appropriate approach. This list of options is not intended to be exhaustive or extensive in covering the detailed design. Rather, we will use this working paper to engage in further conversations on methodology options and the associated key considerations, as well as building out any additional options following responses.
- 3.2 The three broad options are:
 - **Option 1 - Simple ToU:** We set a two- or three-band ToU tariff with prescribed unit rates for each time band. This would be the only option for a customer defaulting onto a ToU tariff. We present this option as an alternative approach to the status quo, as a more standardised methodology.
 - **Option 2 - Type of use caps:** We set multiple ToU variants based on differentiated demand profiles relating to different LCTs (eg a general ToU cap and a separate EV variant). To enable this option, we would need to identify a specific demand profile for each type of customer we set a variant for as a way to control for differences in costs driven by when customers use electricity.
 - **Option 3 – Tariff specific assessment:** We would set the pricing parameters – mainly the prices used to calculate the shaping allowance and the unit costs for non-commodity costs that vary by ToU. Suppliers could then apply their own demand profile that reflects the group of customers they are designing a tariff for to generate a cap level specific to that group. This option would work as a ‘build your own cap’ type approach and is most outcomes-based. It would allow each default ToU tariff a supplier sets to be reflective of the cost to serve that group of customers.
- 3.3 In the previous chapter, we set out the case for change covering the challenges with retaining the current approach with a simple update to the demand profile. In this chapter, we assess the three options set out above but provide an initial assessment of the status quo below for comparison.
- 3.4 Option 1 is intended to be an alternative to the status quo. While the status quo is set using an average cost across the day, option 1 splits that down across the

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different time bands, effectively setting a cap for each time band. This makes it a more suitable option where demand profiles for different groups of customers vary broadly across those time bands.

- 3.5 Option 2 seeks to provide greater cost reflectivity in response to growing cost diversity across ToU customers. However, it requires Ofgem to set ToU variants with a clear view of the demand profile for different customer types. If the cap is unable to keep pace with the diversity of customer demand, or the number of variants becomes too great, then a different approach may be needed.
- 3.6 Option 3 goes a step further by enabling suppliers to construct their own tariffs based on the demand profile of customer groups. While this approach is more complex, it addresses some of the challenges inherent with option 2.
- 3.7 To provide a consistent initial assessment of these options, we measure them against the following criteria:
 - **Cost reflectivity:** The extent to which suppliers are able to recover their efficient costs, taking account of the usage patterns of their customer base.
 - **Customer experience:** (i) The extent to which each option provides an appropriate reflection of costs. (ii) The extent to which each option supports a clear and appropriate customer experience when customers move from fixed tariffs to a given default tariff under the option.
 - **Flexibility and innovation incentives:** The extent to which each option supports a supplier's ability and willingness to innovate in the tariff space and provide clear price signals through its pricing.
 - **Complexity and feasibility:** The extent to which the option can be implemented and operated in practice, taking account of its operational complexity.
 - **Future proofness:** The extent to which the option remains effective and robust as market conditions, technologies, and consumer behaviours evolve.
- 3.8 Of these criteria, the flexibility and innovation incentives are complicated to disentangle. They can include the incentive for: suppliers to develop specialised products, suppliers to help customers flex their demand, customers to act by shifting their usage and passing on price signals that go beyond cost reflectivity to disincentivise certain usage behaviours. We provide a high-level assessment across some of these aspects at this stage but are conscious that they do not necessarily all move in the same direction (eg incentives for suppliers can differ from incentives for customers).
- 3.9 Table 1 gives a summary of our assessment of the options against the criteria we have set out.

Call for input Energy price cap: Updating the time-of-use methodology**Table 1 – Summary of red/amber/green ratings for the options**

Option / Criteria	Status quo with updated demand profile	Option 1: Simple ToU	Option 2: Type of use	Option 3: Tariff specific assessment
Cost reflectivity	Amber	Amber	Amber/Green	Green
Customer experience	Amber	Green	Green/Amber	Amber
Flexibility / innovation incentives	Amber/Red	Amber	Amber	Green
Complexity / feasibility	Green	Green	Amber	Amber/Red
Future proofness	Amber/Red	Red	Amber	Green

3.10 Option 1 provides an alternative and simpler approach to ToU in the cap, compared to the status quo. This option would retain a similar cost recovery as the status quo as it allows cost recovery on average but does not mitigate growing cost diversity. For the same reason, it scores similarly for future proofness and flexibility incentives. However, it would provide greater comparability in outcomes between similar customers and therefore, potentially a better customer experience. In the current approach, given the flexibility for suppliers to set their own ToU rates, similar customers could face different prices. However, option 1 would apply the same unit rates to all ToU customers meaning that the supplier a customer is with will not affect the price they pay. On the other hand, a customer may find less tariff choice as suppliers would no longer have the flexibility to offer different products suited to different technologies, even if not priced completely cost reflectively.

3.11 Relative to the status quo, option 2 would be similar in design, but we would set further variants for different types of customers. This option would improve cost recovery by reflecting a greater number of use cases rather than averaging the demand profile across all ToU customers. Hence, this option scores high for cost recovery, enabling innovation and future proofness given it better adapts to

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the changing ToU landscape. Customer experience may be similar to the current approach as suppliers would have similar flexibility to design different products for customers. However, a better reflection of the underlying benefits of ToU may make this option fairer than the current approach for certain cohorts of customers. Overall, this option would be more complex than the status quo as we would need to design variants based on observable demand profiles for each customer type.

- 3.12 Finally, option 3 – tariff specific assessment – may provide a better framework for a supplier to recover its costs across a more diverse customer base, therefore scoring highest on cost recovery. Suppliers' ability to tailor ToU default tariffs for any customer type makes this option the best enabler for innovation. For customer experience, this option could make it more difficult for a customer to engage in the default tariff space, creating a greater risk that a customer ends up on the wrong default tariff for their usage pattern. However, the option may lead to fairer outcomes across customers as suppliers would be able to tailor default tariffs to specific use cases (eg if customers had a combination of LCTs). Overall, this option may also be the most complex to implement, requiring a much greater degree of compliance checks and potentially a different approach to modelling prices in the shaping allowance.

- 3.13 We provide a more detailed discussion in the following subsections.

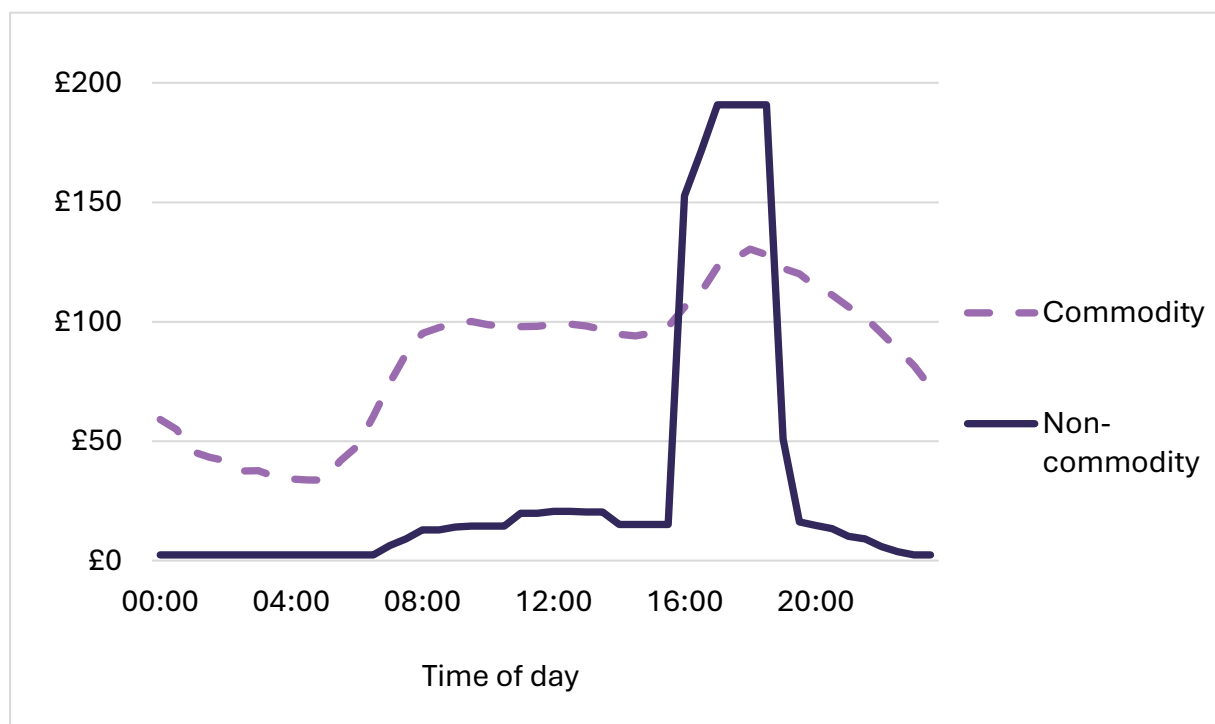
Option 1: Simple ToU approach**Design**

- 3.1 A simple approach would be to set one central prescriptive ToU cap level that has two- or three-time bands. Under this approach, we would specify both the unit rate and the time bands they apply to, removing the discretion for suppliers to design their own ToU default offerings around a central cap level.
- 3.2 We would set the tariff by calculating the £/MWh cost of serving customers in each half-hour block, then averaging the blocks within the time band, weighted by the proportion of consumption in each block.
- 3.3 To set the time bands we could use an existing approach such as the seven hours off-peak commonly used under E7 arrangements (usually between 12am and 7am). Alternatively, we could set our own time bands based on the shape of the commodity and non-commodity cost curve over the day. For example, for a three-band default tariff, we could set separate rates for the evening peak (4-7pm), night period (12am-7am) and shoulder periods either side of the peak (7am-4pm and 7pm-12am). This would give a good reflection of the key periods of different costs a supplier would face when serving its customers.

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- 3.4 Figure 2 shows the average cost profile across the day. Matching the three example time bands above, there are three distinct periods of costs. Depending on how the customer used their energy, they would face a different average cost across the day. For example, an EV customer who charges overnight would be exposed to a much lower average cost than a customer charging during the evening peak or a heat pump customer who has more uniform usage throughout the day.

Figure 2: Average cost profile across the day (£/MWh)



Commodity prices averaged over October 2024 to September 2025. Non-commodity charges taken as of April 2027 and averaged over all GB regions.

Considerations

Cost reflectivity

- 3.5 Using an updated demand curve would improve the cost reflectivity relative to the status quo. Where suppliers have different proportions of demand between the different time blocks set by the tariff, this approach would allow a supplier to recover its costs. For example, if a supplier had a higher proportion of customer demand during the evening peak period and lower during the overnight period, it would recover its cost on average as the tariff would reflect the cost differences between peak and overnight usage.

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- 3.6 However, a supplier may over- or under-recover its costs where the usage profile of its customers within a time band (across the half-hour blocks) differs to the average used to set the tariff. For example, if a supplier has a greater proportion of EV customers that can charge their vehicle during the cheaper periods in the overnight band, it will over-recover from the allowance relative to the costs it incurs. Additionally, there are rough shoulder periods to periods of stronger price signals (ie commodity prices do not suddenly jump from one half-hour period to the next as shown in Figure 2). This means introducing step changes in bands can create risks where the change in price from one band to the next does not capture the smoother transition in prices.
- 3.7 There are two approaches to mitigate these risks. Firstly, we could set more time bands for the ToU tariff, but this would increase the complexity of the tariff. Alternatively, we could use this option in combination with option 2. If we combined both options, our central two- or three-band tariff would retain some of the benefits of this option, whilst allowing suppliers to better differentiate for different groups of customers that may have varied usage within the time bands.

Customer experience

- 3.8 We consider this option would have the most consistent customer experience. Under the status quo, we observed different approaches to pricing ToU tariffs given the flexibility suppliers have to set their own rates (provided they comply with the multi-register cap level). For example, an E7 customer could face a different day and night rate split on their default tariff with one supplier compared to another. When setting a ToU level under option 1, we would set the unit rates for each time band, and in the process remove the discretion for suppliers to determine their own split of rates. This greater level of prescription on pricing would give a more consistent outcome for similar types of customers where there are unlikely to be differences in demand profiles.
- 3.9 Additionally, a simpler default tariff structure could improve understanding for customers and make tariff comparisons easier. Customers would have the same base tariff on which they would be comparing other offers to. This could make it easier for price comparison websites to provide comparison advice and for consumer groups and charities to help customers. However, given the nature of ToU tariffs, customers would still need to understand their usage patterns to assess the benefit of alternative non-default offerings and greater diversity in default tariff offerings may benefit different types of ToU customers.
- 3.10 Like the status quo, option 1 would continue to set a one-size-fits-all approach across ToU customers. This could mean some customers would be placed on a less tailored tariff relative to default offerings provided under the other two options.

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Flexibility and innovation

- 3.11 This option would pass on basic price signals exposing customers to the cost of when they use their energy, such as a greater cost for using energy during the evening peak period. The exposure to price signals would likely provide an incentive for customers to move usage outside of peak periods. This could incentivise better use of LCTs (eg night charging for EVs) and allow for customers to see the benefits of LCTs that allowed for load shifting (eg battery storage solutions).
- 3.12 The downside would be the bluntness of the price signals. Suppliers would not have the ability to pass through complex price signals to different types of customers. For example, the best price signals to incentivise the most efficient charging of EVs may differ to the price signals provided under option 1.
- 3.13 While suppliers may have a greater incentive to move customers off the cap and onto more innovative fixed tariff products, the use of a broad default option may limit the level of innovation suppliers are willing to undertake due to the challenge in cost recovery where the default tariff may not reflect the fixed tariff. This dynamic may depend on how suitable the default tariff is for any given fixed tariff product.
- 3.14 This option does however retain an incentive for suppliers to encourage default tariff ToU customers to move demand into cheaper periods within the time band, of which the supplier can absorb some of the benefit through lower costs. For example, this option would set a single unit rate overnight reflective of the average across the half-hours that make up the time band. However, within the overnight time band electricity will be cheaper at certain times. If a supplier can encourage customers to shift usage to cheaper periods, customers will benefit through the price they pay designed to incentivise changing their usage patterns and the supplier can absorb some of the benefit through lower costs.

Feasibility, complexity and future proofness

- 3.15 Of the three options, this option would be the easiest to design and implement given it would broadly apply to all ToU customers without the need to differentiate between use cases and the rates would be set using pre-defined time bandings. However, this option is the least future proof given its limited ability to address the growing diversity of demand that is likely to come with greater uptake of ToU tariffs and innovations in LCTs. The cap is also likely to require more frequent changes to ensure it remains appropriately set under this option.

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Option 2: Type of use cap

Design

- 3.16 Under this option, we would set multiple ToU cap variants. We would need to determine which groups of customers have materially different demand shapes to use as a basis for each variant. To make this manageable and limit the number of variants we set, we would likely need a central ToU variant that captures most customers in aggregate but excludes those that have a separate ToU cap level.
- 3.17 The central variant could either be an aggregate of customers not covered by additional variants or we could assume a technology/tariff type that covers most ToU customers. For example, most current static ToU customers have an E7 tariff. This could serve as the basis for the central variant.
- 3.18 The approach to compliance and tariff setting could be consistent with the current approach to setting the multi-register cap. We could set one cap level for each variant that is based on the underlying cost of the relevant demand profile. Suppliers would be able to design their own tariff for the group of customers provided that the average of the rates weighted by the proportion of consumption in each time band was at or below the cap level.
- 3.19 To set the cap level, we would need to rely on granular half-hourly data collected from suppliers with relevant indicators of what type of LCT a customer has, or a view of the indicative load shape for customers with different types of LCTs. At current, our data does not give us a clear view of whether a customer has an LCT, but we can make some basic inferences from their energy products (eg tariff or add-on). However, this approach relies on the customer being on a tariff that is suited to their LCT.
- 3.20 In the absence of clear data indicators, we would need to rely on clustering analysis to identify and estimate the usage profile for different groups of customers. Clustering analysis would allow us to match customers based on their demand profile or other usage characteristics to pre-determined demand expectations for different types of LCTs. For example, if a customer was using a high volume of electricity overnight, uniformly across the year, they could be an EV customer.

Considerations

Cost reflectivity

- 3.21 By setting multiple ToU variants, we would seek to control the key causes of cost diversity between customers and suppliers. This provides some protection

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against the risk that costs substantially diverge between suppliers, which makes it difficult to set one cap across the market. For example, a supplier with an above average proportion of EV customers would see greater cost reflectivity if we set an EV variant to the cap rather than including them in the central ToU level.

- 3.22 The extent to which this option addresses cost recovery risks from diversifying costs, depends on the number of use cases we set variants for. Currently there may be a case to set a variant for EVs given the greater adoption. We may also consider other growing technologies such as heat pumps and solar. As other technologies develop, further variants may be required to mitigate cost recovery risks.
- 3.23 While we could design more variants for different use cases, there will always be a challenge in ensuring perfect cost recovery as technologies could be used in combination with each other. For example, a customer could have an EV, heat pump and battery storage. Their demand profile is likely to look quite different to a standalone heat pump or EV customer. It would not be practical to set variants for combinations of technologies. This is where option 3 could facilitate better cost recovery – suppliers would be better placed to create their own individual tariffs that better reflect customers’ use cases.

Customer experience

- 3.24 Some customers will have a greater ability to flex their demand than others driven by whether they have LCTs and the type of LCT they have. We may determine that the extent to which different types of customers face price signals should vary by their ability to respond to them. For example, it may be appropriate to place stronger price signals on EV customers relative to other ToU customers that have limited ability to shift their demand.
- 3.25 A key benefit of option 2 is that we can carve out specific cap variants where we think the price signal should differ from the general ToU population. This would help incentivise behaviour that reduces costs for the system and customers.
- 3.26 Setting out clear default tariff arrangements and expectations on how customers are protected would be important, to ensure they have a positive customer experience. In the absence of this, there is a greater risk of customers being on the wrong tariff for their usage pattern when customer circumstances change – particularly given some LCTs may be more transient than others. For example, a customer could buy or sell an EV, which would change their usage profile. An EV tariff may/may not be appropriate for that customer at a given point in time. Clear expectation setting will inform how we see suppliers treating customers to ensure they receive an acceptable outcome.

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- 3.27 While we expect tariff comparability may improve for customers on the cap variants, it is unlikely to substantially change in isolation to other rule changes for customers on the central tariff. There still may be a challenge where the diversity of tariffs in the market poses a greater challenge for a customer navigating finding a suitable tariff for them. However, we expect this to improve as we work through our views on the informed choices consumer outcome as part of our move to outcomes-based regulation.

Flexibility incentives and innovation

- 3.28 This option has the potential to better reflect price signals and encourage innovation by passing through the average cost of the group of customers for which we are setting a tariff variant. This gives suppliers the space to design a tariff that reflects the underlying cost of the LCT.
- 3.29 The extent to which suppliers provide price signals will depend on a combination of cap design, commercial strategy and direction on outcome. For example, there could be alternative ways to price an EV tariff. One could seek to strongly disincentivise peak time charging by charging a large differential between peak and off-peak rates. Effectively this would make the relative cost of charging during the evening peak higher. Alternatively, a supplier could apply a bolt-on where a customer receives a discount for charging their EV during off-peak periods. The different approaches to design will create different strengths of incentives.
- 3.30 Like option 1, this approach retains an incentive for suppliers to encourage customers to consume more energy during low-cost periods relative to the average profile used to set the cap level. If a supplier can do this, the customer will see lower prices through the incentive and the supplier can absorb some of the benefit through lower costs.

Feasibility, complexity and future proofness

- 3.31 The complexity of this option comes from the onus being on Ofgem to accurately design and set the variants for the ToU cap. There are three potential risks we foresee here.
- 3.32 Firstly, many LCTs are relatively new technologies with a limited population of users and data based on early adopters may not be reflective of future users. Setting an accurate variant requires us to have a good view of the average usage profile for each variant we are setting. With a limited pool of data to rely on, there is an increased risk of incorrectly estimating the usage profile, which could grow over time as uptake of LCTs increases. Additionally, we may seek to set the cap variant to specifically reflect customers on default tariffs. Doing so would even

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further limit the pool of data we could rely on, potentially reducing the robustness of the demand profile.

- 3.33 Secondly, we would need to account for the transitivity of LCT users. This is important in two cases: 1) a customer is able to move in and out of having a particular LCT; 2) the supplier's view of which LCTs a customer has as they move between tariffs. The former of these two cases may be less relevant for LCTs linked to infrastructure of houses such as heat pumps or battery users. However, a customer could buy or sell an EV, changing their usage pattern and the appropriateness for them to be on an EV cap variant. An asset register would help to lessen these risks for deliverability but may be challenging given sensitivities around customer information.
- 3.34 This option is more robust to future changes in energy usage than option 1. However, it requires us to make active changes to the methodology to keep it up to date. For example, as the use of technologies evolved, we may need to continue reviewing whether an additional variant is required or whether the existing variants were still appropriate.

Option 3: Tariff specific assessment**Design**

- 3.35 For this option, rather than setting a £/MWh total allowance, which requires us to assume a specific demand profile when setting the shaping allowance, we would set a profile of half-hourly blocks using market data on wholesale prices and non-commodity charges.
- 3.36 This approach would then allow suppliers to construct their own default ToU tariffs by applying the average demand profile for the cohort of default tariff customers they are designing the tariff for. The approach would be similar to the status quo but allowing suppliers to apply their own demand curves would ensure the cap reflects the average cost of the group of customers the tariff is applied to.
- 3.37 There is optionality around how we could construct the wholesale price index for the shaping allowance for this option, both in terms of the timeframe used to observe forward prices but also the structure of the allowance. For example, we could retain a percentage allowance approach when setting the shaping allowance as we currently have or we could set the allowance as a £/MWh allowance.
- 3.38 The compliance approach would need to check three things: (1) whether the supplier has used an appropriate and representative demand profile for the

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customer group; (2) whether the supplier has applied the profile correctly to determine the cap level; and (3) that the supplier has an appropriate set of customers on the tariff to manage the degree of winners and losers as customers face the average cost.

- 3.39 In implementing this option, we would need to consider the default tariff arrangements carefully to ensure suppliers have sufficient flexibility to place customers onto the appropriate tariff for their circumstances, while maintaining appropriate consumer protections. For example, the cheapest available tariff may not always be the most appropriate for a customer if it has been designed for a different customer type or is intended to incentivise specific consumption behaviours. Any approach would need to align to the consumer outcomes we are seeking the market to achieve and be supported by a regulatory framework that enables suppliers to deliver those outcomes.

Considerations

Cost reflectivity

- 3.40 This option has the best cost recovery outlook. The supplier has the option to set each cap variant based on the average cost of the group, which minimises the risk of under-recovery as costs diversify across customer groups. Furthermore, as we can only set one cap across the market, this option helps to mitigate the risk that suppliers with a non-standard mix of customers either over- or under-recover their costs. We consider this likely to become increasingly important as future market design evolves, potentially facilitating more suppliers with niche business models and changing the traditional role of a supplier.
- 3.41 To reduce any risks of gaming and arbitrage within the tariff setting process, we would need to put in place appropriate controls and compliance measures to ensure suppliers place customers on the appropriate default tariff.

Customer fairness and journey

- 3.42 We expect this approach could increase tariff diversity between suppliers. This could make tariff transparency and the ability to compare the default tariff a customer is on to fixed deals in the market more challenging for customers. While we do not expect the complexity of engaging to be fundamentally different to the status quo approach we currently use, there are much less differentiated tariffs in the market and there is limited uptake of LCTs currently.
- 3.43 A customer would need to understand their energy usage patterns to compare between ToU tariff options. This is true regardless of how we set the cap.

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However, with more tariff diversity in the default space, it may be more complex for a customer to undertake such comparisons.

- 3.44 Additionally, there could be some customer fairness challenges. The design and number of ToU default tariffs to cover different groups of customers would be determined by each supplier based on their commercial strategy. This means a customer with one supplier could face a different default tariff arrangement compared to a similar customer with a different supplier. For example, as a hypothetical edge case, one supplier may offer a specific EV arrangement, whereas another supplier may offer a more generalised ToU tariff. The customer on the EV specific tariff may face a lower cost as the tariff is more suitable for their usage pattern than the customer on the more general tariff. Therefore, we would need to carefully consider whether, and to what extent, different outcomes for customers in similar circumstances would be acceptable.
- 3.45 There may be protections that could be incorporated into our compliance approach to mitigate these risks. For example, as discussed in the design section, controls could be put in place to ensure a tariff is applied to an appropriate group of customers rather than being defined too broadly. This may provide some alignment in the types of default tariffs suppliers provide.

Flexibility incentives and innovation

- 3.46 We consider this option provides the best conditions for incentivising innovative tariffs. A supplier could better align their default tariff arrangement to the fixed tariff the customer was offered to keep them on a more suitable arrangement while the customer re-engages with the market. However, there is a risk that better default tariff arrangements reduce the incentive for customers to re-fix, potentially increasing the level of disengagement amongst these customers. Nevertheless, customers may be able to find a cheaper fixed deal relative to the cap which ultimately retains incentives to switch.
- 3.47 The flexibility to design more suitable price signals for groups of ToU customers may also result in better consumer-led flexibility outcomes. For example, a well-designed EV tariff may better allow an EV customer to see the benefit of charging overnight and provide a disincentive for daytime charging relative to a broader ToU tariff.
- 3.48 Unlike option 1 and 2, option 3 may lose some incentive for suppliers to encourage customers to change their usage behaviour depending on how we design the compliance checks. If we design an approach where we compare the outturn demand profile to the demand profile assumed when setting the tariff to check whether it was appropriately set for the group of customers, we may cannibalise the benefit a supplier would achieve from incentivising customers to

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shift their usage. However, not carrying out these checks would risk suppliers setting a tariff based on a demand profile that is not reflective of the group of customers it is applied to. Overall, it may be difficult to disentangle the cause for deviations between ex-ante and ex-post demand profiles, highlighting one of the key challenges in setting this option.

Feasibility, complexity and future proofness

- 3.49 Option 3 is the most complex option, and further work is required to assess its feasibility in practice. As discussed in the design subsection, this option may change the approach we take in setting the wholesale cost allowance and how we set the index of prices within the shaping allowance. Furthermore, to mitigate against the risk of customer detriment, this option would need to be accompanied by an enhanced compliance approach.
- 3.50 A key advantage of this option is it is much more future proofed than the other options. The flexibility afforded to suppliers to set their own cost reflective tariffs means the cap can keep up with changes in the market as new technologies and products are developed and adopted. Additionally, it takes away the onus on Ofgem to keep amending the cap methodology (as may be the case with option 2), thereby reducing the risk that we either cannot move quickly enough or are unable to accurately set a cap variant, which is likely to constrain innovation.

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4. Next steps

- 4.1 As mentioned earlier, we are aware that stakeholders are at different stages of their thinking on the ToU default tariff approach. The topic is complex, with many nuances, so we will need to work collaboratively with stakeholders to ensure we are able to consider and implement any appropriate changes in a timely manner over the course of the next year. Our aim is to start refining the options and build some early consensus on the direction of travel.
- 4.2 This paper is intended to set out a high-level option space to centre the discussion on what an appropriate ToU approach in the cap would be and facilitate further conversation on the detailed design. While we do not ask specific questions in this paper, we encourage stakeholders to consider option design and assessment against the different criteria set out. Additionally, we are keen to understand views on preferred options, supporting rationale and the practical implications of implementation. We would welcome supporting evidence to justify positions taken.
- 4.3 Please send responses to priceprotectionpolicy@ofgem.gov.uk by 20 November 2026. Using feedback from this working paper and further stakeholder engagement, we intend to issue a further consultation next year with a stronger direction of travel and more developed methodology.

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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 call for input. 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.