Consultation

Energy price cap: Additional proposed changes to the Contracts for Difference cost allowance

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In this consultation, we set out proposals for two technical changes to the Contracts for Difference (CfD) price cap allowance.

Building on our July 2026 consultation on the CfD price cap allowance, we propose to simplify the calculation of the CfD allowance by moving from an approach based on four quarters of forecast CfD payments to one based solely on the forecast payments for the upcoming quarter.

In response to the government's new British Industrial Competitiveness Scheme (BICS), we also set out our proposed approach for incorporating the BICS offset to the CfD levy into the CfD price cap allowance.

We welcome stakeholder views on these proposals to help inform our decisions.

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1. Introduction

This chapter explains how this consultation builds on our existing review of the Contracts for Difference price cap allowance by proposing a simplification of the allowance, informed by feedback received in response to our July 2026 consultation. It also sets out a proposal to incorporate an offset to the Contracts for Difference levy, reflecting the government's new British Industrial Competitiveness Scheme (BICS).

Context

1.1 The default tariff cap ('cap') protects customers on standard variable and default tariffs (referred to collectively as default tariff customers). The cap ensures that default tariff customers pay a fair price for their energy that reflects the efficient underlying costs of supplying that energy. The cap includes an allowance for costs of the Contracts for Difference (CfD) scheme, which is the government's main mechanism for supporting the generation of low carbon electricity in the UK.

1.2 In this consultation, we focus on two separate technical changes to the calculation of the CfD cap allowance. We have combined these proposals into a single consultation to provide stakeholders with a more streamlined process.

1.3 The first area of change builds on our existing review of the CfD allowance and follows from our July 2026 consultation on the CfD cap allowance ('our July 2026 consultation'). In that consultation, we sought stakeholder views on a simplification of the current methodology to calculate the cap allowance for CfD costs and the period over which those costs should be recovered, alongside our main proposal to introduce a volume reconciliation mechanism for the CfD allowance. The proposals set out in this document build on the feedback received.

1.4 The second change reflects an amendment to the CfD allowance to account for an offset to the CfD levy resulting from the government's British Industrial Competitiveness Scheme (BICS). The scheme exempts eligible energy-intensive manufacturers from certain electricity scheme costs to reduce their energy bills. To ensure that these exemptions do not increase electricity costs for non-exempt consumers, the Government intends to introduce an offset to the CfD levy. This consultation therefore considers the consequential changes required to the CfD cap allowance to reflect the introduction of this offset and support the implementation of the scheme.

Purpose of this consultation

1.5 The purpose of this consultation is to seek views on our proposals to simplify the CfD allowance and implement the BICS offset in the CfD cap allowance.

1.6 In Chapter 2, we set out proposals to:

- simplify the calculation of the CfD allowance, moving away from using a weighted average of four quarters of forecast CfD payments to set the allowance, to using forecast payments for the upcoming quarter only;
- recover the simplified CfD allowance over a three-month period; and
- introduce these changes when conditions allow (ie subject to our consideration of consultation feedback on the interaction between the simplified CfD allowance and the Low Carbon Contracts Company (LCCC) observation window for CfD cap payments, as discussed in Chapter 2).

1.7 In Chapter 3, we set out our proposed approach to reflect the government's BICS offset in the CfD allowance calculation using a forecast of the offset for the upcoming quarter. We propose to introduce this change from the April to June 2027 cap period.

1.8 Alongside this consultation, we have published a draft version of the 'Wholesale cost allowance methodology (Annex 2)' model, which incorporates our minded-to proposals for the simplified CfD allowance and BICS adjustment.

1.9 The model also includes the proposed calculation of the CfD volume reconciliation under the simplified CfD allowance, which we consulted on in July 2026. At this stage, we have retained the calculation we proposed in the July 2026 consultation model, including the proposed April 2027 reconciliation start date. We will consider stakeholder feedback on the proposed volume reconciliation when reaching our decision.

Related publications

1.10 The main documents relating to the simplification of the CfD allowance are:

- Proposed changes to the Contracts for Difference cost allowance: consultation (July 2026). In this document, we set out our proposals and considerations regarding the introduction of a volume reconciliation in the CfD price cap allowance. We also sought views on a potential simplification of the CfD allowance methodology.
- Contracts for difference allowance in the default tariff cap: call for input (August 2025). In this document, we sought stakeholders' views on any issues

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with the current approach to setting the default tariff cap allowance for Contracts for Difference scheme costs, and on potential remedies.

1.11 The main document relating to BICS is:

- Proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme (August 2026). This document sought views on proposed legislative amendments to the CfD supplier obligation to support implementation of the BICS.

Consultation stages

Stage 1 Consultation open: 2 November 2026

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 20 November 2026

Stage 3 Responses reviewed and published: TBC

Stage 4 Consultation outcome (decision or policy statement): TBC

How to respond

1.12 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

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

1.14 We will publish non-confidential responses on our website.

Your response, data, and confidentiality

1.15 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.

1.16 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.

1.17 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 2.

1.18 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.

How to track the progress of a consultation

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 consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

2. Simplification of the CfD cap allowance

In this chapter, we set out our proposal to simplify the calculation of the CfD cap allowance by moving from an approach based on a weighted average of four quarters of forecast CfD payments to one based solely on forecast payments for the upcoming quarter.

Background

Annualised and simplified structure of the CfD cap allowance

2.1 We base our estimates of the CfD scheme costs on an annualised view of costs (Table 1). This approach is intended to mitigate against the risk of seasonality in CfD payments resulting from seasonal trends in wholesale prices and CfD generation volumes, as well as volatility within any individual quarter of payments. By smoothing out seasonal fluctuations and short-term spikes, the allowance provides customers with a more stable and manageable recovery of CfD costs.

Table 1: Annualised CfD price cap allowance update process for a CfD year (April to March)

CfD quarter	Apr-Jun cap	Jul-Sep cap	Oct-Dec cap	Jan-Mar cap
Apr-Jun	Forecast	Forecast	Outturn	Outturn
Jul-Sep	Forecast	Forecast	Forecast	Outturn
Oct-Dec	Forecast	Forecast	Forecast	Forecast
Jan-Mar	Forecast	Forecast	Forecast	Forecast

2.2 In our July 2026 consultation, we set out an alternative approach to calculating the CfD allowance, under which the allowance would be based solely on forecast CfD payments for the upcoming quarter, rather than an average of four CfD quarters (Table 2).

2.3 We noted that this simplification could bring some advantages, including a simpler hedging approach for suppliers with default tariff customers and lower operational hedging costs. Suppliers said the current structure of the CfD allowance leads to higher operational costs and risks, as they effectively have to 'reverse engineer' their exposure. Depending on their hedging strategy, suppliers

may also need to put in place multiple separate hedges for a single cap period. We also noted that simplifying the CfD allowance could support a more straightforward implementation of the proposed volume reconciliation mechanism.

2.4 We also set out concerns that the simplification may introduce seasonality and volatility in the allowance, and that one way to mitigate this risk would be to recover costs over a 12-month period. However, we noted that a 12-month recovery period would result in the allowance being fully recovered in arrears and, with a growing scheme, the delayed recovery could create ongoing working capital pressures for suppliers.

2.5 We did not propose to simplify the CfD cap allowance at that stage. Instead, we sought views from stakeholders on the potential merits and disadvantages of the approach and noted that, following consideration of responses, we may decide to adopt this option, or a variation of it.

Table 2: Simplified CfD price cap allowance update process for a CfD year (April to March)

CfD quarter	Apr-Jun cap	Jul-Sep cap	Oct-Dec cap	Jan-Mar cap
Apr-Jun	Forecast			
Jul-Sep		Forecast		
Oct-Dec			Forecast	
Jan-Mar				Forecast

Proposals

2.6 We propose to:

- simplify the calculation of the CfD cap allowance by moving from a weighted average of four quarters of forecast CfD payments to using forecast payments for the upcoming quarter only;
- recover the allowance over a three-month period (ie within the same quarter); and
- introduce the allowance simplification when conditions allow (ie subject to our consideration of consultation feedback on the interaction between the

simplified CfD allowance and the LCCC observation window for CfD cap payments. This is discussed in detail below, and we seek further stakeholder views through the questions at the end of this Chapter).

Rationale

2.7 We consider that simplifying the CfD allowance in this way could be beneficial from both a supplier and process perspective. For example, it could simplify suppliers' hedging approach for CfD costs for price cap customers and reduce the associated price risk. Depending on a supplier's hedging strategy, it could also reduce the operational cost associated with putting in place multiple separate hedges for a single cap period. In addition, it could simplify implementation of the volume reconciliation for both Ofgem and the LCCC. The design of the allowance and reconciliation within Annex 2 would be simpler, and the LCCC would need to calculate only four reconciled payment values per CfD year, rather than 13.

2.8 Additionally, new analysis undertaken since our previous consultation has identified potential benefits from a consumer perspective. While the current annualised approach was designed, in part, to smooth volatility in CfD costs, our analysis suggests that the simplified allowance could reduce volatility in the overall wholesale cost allowance. This is because movements in wholesale prices are partially offset by corresponding changes in CfD costs, and the simplified allowance (which is calculated using only the upcoming quarter of forecast payments) can better reflect this offsetting effect.

Stakeholder response summary

2.9 Five suppliers and one industry group supported simplification of the CfD allowance, while one supplier said they supported further investigation on this matter and one said they did not support the simplification due to the 12-month recovery period (discussed further below).

2.10 Respondents cited simplicity, together with reduced hedging risks and costs, as key benefits of the approach. Respondents noted that any additional bill variation the approach may introduce would likely be small, and that seasonality should not be a material concern, given that higher winter CfD payments are typically offset by higher wholesale prices. One supplier said that the simplified CfD allowance would historically have resulted in lower CfD costs, particularly during the winter quarters (Q4), thereby reducing consumer bills and helping to mitigate any seasonality effects.

2.11 One supplier also noted that the application of the BICS adjustment would be more straightforward under a simplified allowance.

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2.12 There were mixed views on the length of the recovery period of the simplified CfD allowance. Two suppliers supported a 12-month recovery period (with one also supporting a 6-month period), while three suppliers said a 12-month recovery period would result in the allowance being fully recovered in arrears and create working capital pressures, particularly given the expected increase in the size of the scheme. Responses also noted that a longer recovery period could lead to greater exposure to basis risk due to changes in customer churn and demand, as well as increasing volatility and complexity, while a shorter 3-month period could reduce volatility due to the offsetting effect of wholesale prices.

2.13 For these reasons, one supplier supported a shorter 3-month recovery period, while another supplier said Ofgem should provide clear evidence for a 6- or 12-month recovery period.

2.14 Two suppliers highlighted the interaction between the proposed simplified CfD allowance and the LCCC observation window for forecast CfD cap payments (which is the period of price data that the LCCC uses to produce its forecast of CfD payments, which we then use as an input to the cap). They said that the simplified allowance would concentrate hedging activity within a single quarter and could therefore exacerbate existing market liquidity challenges associated with a single-day observation window. These respondents indicated support for the simplified CfD allowance, provided it was implemented alongside a 3-month LCCC observation window. They said a longer window would reduce price volatility and better align commodity purchases to generators' sales. Separately, another supplier indicated that simplification could exacerbate existing liquidity constraints, although it did not comment on the LCCC observation window.

2.15 One supplier noted the simplified allowance should be introduced from April 2027, to avoid conflict with existing hedging arrangements.

2.16 Two suppliers also indicated that Ofgem would need to provide clarity on any decision to simplify the allowance before the start of the observation window for the new CfD year. This is to allow suppliers sufficient time to adapt their forecasting, hedging and pricing processes.

Considerations

Simplification of the CfD allowance

2.17 Further analysis and feedback in response to our July 2026 consultation point to potential consumer benefits of simplifying the CfD allowance.

2.18 We have replicated the supplier analysis comparing the annualised and simplified CfD allowance during winter quarters (Table 3). The analysis indicates that the

simplified allowance would have returned lower costs in 4 out 5 recent winter quarters (Q4 and Q1).

Table 3: Comparison of annualised and simplified CfD allowance (£/customer/year)

CfD year	Price cap Quarter	Annualised CfD allowance	Simplified CfD allowance	Difference
2024/25	Q2	29.76	39.80	10.04
2024/25	Q3	41.93	40.80	-1.13
2024/25	Q4	33.21	30.36	-2.86
2024/25	Q1	30.80	26.45	-4.35
2025/26	Q2	31.06	32.32	1.26
2025/26	Q3	33.27	30.79	-2.48
2025/26	Q4	35.31	37.05	1.73
2025/26	Q1	32.94	30.76	-2.18
2026/27	Q2	39.17	36.66	-2.51
2026/27	Q3	26.35	25.26	-1.09
2026/27	Q4	17.14	14.60	-2.55

Notes: The CfD allowance is calculated as the average for single-rate metering arrangement customers.

2.19 We do not consider there to be a systematic reason why the simplified allowance is typically lower than the annualised allowance. The annualised allowance is inherently more uncertain as it is based on a 12-month forecast of CfD costs, and volatility in wholesale prices and volume generation can increase uncertainty in early forecasts. As it relies on a shorter forecast horizon, a simplified allowance based on the upcoming quarter's forecast payments may provide a more accurate reflection of expected CfD costs.

2.20 For example, the annualised allowance for the early quarters of 2026/27 was skewed by a high forecast of CfD payments for winter 2026/27, reflecting assumptions about wholesale prices at the time, while a simplified allowance

would have reflected lower forecast costs for early 2026/27. However, wholesale prices rose significantly during the year, which reduced forecast CfD payments because generators required less top-up support under the CfD scheme. As a result, the annualised allowance for Q4 2026/27 remains influenced by the higher forecast payments for early 2026/27, while a simplified allowance would have reflected the lower costs for Q4 2026/27.

2.21 Outside of gas crisis periods, the cumulative impact of the simplified and annualised approaches has been broadly similar, with the key difference being the timing of cost recovery rather than the total amount recovered. More material differences between the two approaches are more likely to arise during periods of sustained market disruption, such as a gas crisis, when high wholesale prices would result in lower forecast CfD costs being reflected under a simplified allowance.

2.22 Further analysis also shows that, although the simplified CfD allowance appears more volatile than the annualised allowance when assessed in isolation, it reduces the overall cap volatility when assessed as part of the total wholesale allowance (Table 4). This effect holds true outside of gas crisis periods, but becomes more pronounced when the 2022-23 gas crisis and the recent gas crisis are included in the analysis. This is because movements in wholesale prices affect the CfD allowance and the cost of wholesale energy in opposite directions, creating a natural offset that dampens overall volatility. This natural offset is particularly pronounced during periods of high wholesale prices. We largely reflect the cost of wholesale energy in the cap in the quarter they are incurred, although we partly smooth the recovery of backwardation and contango effects.

Table 4: Comparison of volatility with annualised and simplified CfD allowance (£/customer/year)

Period	Metric	Annualised	Simplified	Difference
Excluding gas crises	CfD allowance volatility	6.65	9.93	3.28
Excluding gas crises	Wholesale allowance volatility	50.25	49.40	-0.85
Including gas crises	CfD allowance volatility	19.42	30.60	11.19
Including gas crises	Wholesale allowance volatility	271.89	258.29	-13.60

Notes: The CfD and wholesale allowance are calculated as the average for single-rate metering arrangement customers. Volatility is defined as the standard deviation of quarter-on-quarter differences. 'Excluding gas crises' period covers 2024 Q2 to 2026 Q1. 'Including gas crises' period covers 2022 Q4 to 2026 Q4.

2.23 We consider that recovering the simplified allowance over a 3-month recovery period can better reflect this offsetting interaction with the wholesale allowance, compared to the longer 12-month recovery period considered in our July 2026 consultation.

2.24 We acknowledge that a simplified allowance would more closely reflect the impact of any outlier quarter. However, to the extent the outlier quarter was driven by movement in wholesale prices, this effect would be partially mitigated by an opposite movement in other wholesale costs.

2.25 The CfD scheme is expected to grow materially over the coming years, which could increase weather-related volatility in the scheme as the share of intermittent generation rises. Should we decide to implement a simplified CfD allowance following consultation, it will be important to ensure that the methodology remains appropriate and effective as the scheme evolves.

Interaction with the LCCC observation window

2.26 We acknowledge the concerns raised in consultation responses that the simplification of the CfD allowance could lead to a greater concentration of hedging activity within a quarter. However, we note that suppliers may adopt different hedging approaches and the impact will depend on the approach taken.

2.27 On balance, however, we consider that simplifying the CfD allowance could exacerbate existing liquidity issues under the current market date used by the LCCC to forecast CfD cap payments. This is because there may be limits to the volume that suppliers are able to trade on a single day to hedge their exposure to the forecast CfD allowance.

2.28 We have set out some questions below to better understand the interaction between the simplified CfD allowance and the LCCC observation window. We recognise that decisions on the design and operation of the observation window are a matter for the LCCC, and these questions should not be interpreted as indicating any expected change. Instead, they are intended to inform our understanding of the options available for implementing the simplified CfD allowance under different observation window scenarios.

Implementation date

2.29 We would seek to implement simplification of the CfD allowance when conditions allowed, taking into account, among other factors, the interaction with the LCCC observation window.

2.30 We consider the earliest implementation date for the simplified CfD allowance to be the April to June 2027 cap period, to avoid interactions with suppliers' existing hedges for the current CfD year.

2.31 We have set out some questions below to understand how a later implementation date during 2027/28 (eg the July to September 2027 cap period) would interact with supplier hedging, if an extended observation were not in place for the April to June 2027 CfD quarter.

2.32 We would seek to communicate any change to suppliers with sufficient notice ahead of the start of the relevant observation window, to allow them time to adapt their processes.

Interaction with the CfD volume reconciliation

2.33 For the avoidance of doubt, we are not consulting again on the merits of, or methodology for, the CfD volume reconciliation proposed in our July 2026 consultation. We will consider the feedback we received in response to that consultation when reaching our decision.

2.34 If, subject to consideration of consultation responses, we were to introduce a simplified CfD allowance alongside a CfD volume reconciliation, there would be a six-month delay between the introduction of the simplified allowance and the point at which the relevant volume reconciliation would be calculated.

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2.35 We would expect to implement a transitional arrangement under which the volume reconciliation would initially be calculated using the existing annualised CfD allowance, before transitioning to the simplified CfD allowance.

2.36 The transitional arrangement would remain in place for six months if the volume reconciliation and simplified allowance were introduced at the same time (for example in April 2027), or for longer if the simplified allowance was implemented at a later stage.

2.37 The version of Annex 2 we have published alongside this consultation illustrates how the transitional arrangement would operate if the simplified allowance and volume reconciliation were both introduced in the April to June 2027 cap.

Questions

Q1. Do you support our proposal to simplify the CfD allowance and recover costs over a 3-month period?

Q2. Do you consider that the implementation of the simplified CfD allowance should be contingent on the length of the observation period used to set the relevant CfD levy rate? If so, what is the minimum observation period you consider necessary to enable effective hedging of price risk under a simplified allowance?

Q3. If the observation period were not extended, do you consider that the simplification of the CfD allowance should not be pursued?

Q4. If a longer price observation window were in place for the April to June 2027 CfD quarter, would you support implementation of the simplified allowance from the April to June 2027 cap period?

Q5. If an extended observation window were only introduced from a later 2027 quarter, would you still support implementation of the simplified allowance from the April to June 2027 cap period?

Q6. If it was necessary to delay implementation of the simplified CfD allowance to a later 2027 cap period (for example, July to September 2027) to align with changes to the observation window, would this present any challenges for suppliers' hedging arrangements, assuming the simplification change was confirmed before the start of the observation window for the first quarter of the 2027/28 CfD year?

3. Incorporating the BICS offset into the CfD allowance

In this chapter, we set out our proposal to amend the calculation of the CfD allowance to reflect efficiently incurred BICS-related costs. We propose to incorporate the forecast BICS offset, which will be published by the LCCC, into the CfD allowance calculation, ensuring that the customer benefit of the government funding provided through the CfD mechanism is appropriately reflected in the default tariff cap.

Background

3.1 The Department for Business, Innovation, Science and Trade (BIST)'s proposed legislative changes to support implementation of the British Industrial Competitiveness Scheme exempt eligible manufacturing businesses from certain electricity policy costs.

3.2 BICS is intended to support the competitiveness of businesses in certain manufacturing sectors by reducing their exposure to Renewable Obligation (RO), Feed-in-Tariff (FiT) and Capacity Market (CM) policy costs.

3.3 In the absence of government intervention to mitigate impact on other consumer groups, increasing the level of exempt costs would result in a greater proportion of those costs being recovered from a smaller group of non-exempt electricity consumers, including domestic consumers.

3.4 To mitigate bill impacts on domestic consumers, the government has proposed a combination of Exchequer funding and wider energy system savings (such as the changes to inflation indexation of the RO and FiT schemes announced in January 2026). Energy system savings will flow through the existing cap methodology without the need for any changes to the cap. The second mitigation measure is the Exchequer funding facilitated by the LCCC and will be associated with CfD costs (the 'BICS offset').

3.5 As the BICS offset reflects a new input that is not currently accounted for in the cap methodology, we are consulting on proposals to incorporate this input in the CfD allowance methodology. This is to ensure that domestic consumers on default tariffs receive the intended benefit associated with the BICS offset funding.

3.6 Our proposals therefore reflect only the technical changes required to the cap methodology to give effect to the government's BICS policy. The overall design and operation of BICS are a matter for BIST, and any representations on the merits or design of the scheme should be directed to BIST.

Current treatment within the cap

3.7 The current cap methodology does not contain a specific adjustment to address the government funding expected to be provided through the BICS offset. In the absence of a methodology change, the BICS offset would not be directly incorporated into the cap calculation, and default tariff consumers may therefore not receive the intended benefit of the government funding. Therefore, we consider it appropriate to introduce a targeted amendment to the methodology to ensure the cap can pass on these BICS-related benefits to domestic consumers on default tariffs.

Relationship with the CfD simplification proposal

3.8 Alongside this proposal, we are consulting on changes to simplify the methodology used to calculate the CfD allowance.

3.9 The BICS adjustment methodology set out in this Chapter is intended to operate alongside either the existing annualised or proposed simplified CfD methodology. The quarterly BICS adjustment would be divided by the total eligible demand for the relevant quarter, before being deducted from the CfD allowance.

3.10 We do not propose that implementation of the BICS offset should be contingent on the broader CfD methodology decision outlined in Chapter 2 of this consultation. We consider the BICS offset changes set out on this Chapter to be appropriate regardless of whether the proposed volume reconciliation or simplification of the CfD allowance are taken forward.

3.11 We therefore consider that stakeholders can assess this proposal separately from their views on the wider CfD simplification proposal.

Proposals

Proposed methodology

3.12 We propose to introduce the BICS offset within the CfD allowance calculation in ‘Wholesale cost allowance methodology (Annex 2)’.

3.13 We propose to incorporate the BICS offset in the CfD allowance methodology in a manner which enables the quarterly BICS offset forecast published by the LCCC to be passed through to consumers in the relevant price cap period. Under this approach, the forecast of the BICS offset for the upcoming quarter would be deducted from the quarterly forecast CfD levy payment before the final CfD allowance is calculated (ie it would not be annualised).

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3.14 This would ensure that the benefit of government funding is reflected in the costs recovered through the cap.

3.15 We consider this approach consistent with the principle that the cap should reflect suppliers' efficient costs.

3.16 We propose the BICS-adjusted CfD expected levy payment for each price cap period would be calculated as follows:

$$CfD\ ELP = \frac{P}{D} - \frac{A}{D}$$

3.17 where:

- $CfD\ ELP$ is the CfD expected levy payment we calculate in the Annex 2 model;
- P is the forecast CfD payments for the quarter;
- D is the forecast total eligible demand for the quarter;
- A is the forecast BICS adjustment for the quarter.

3.18 The BICS offset would be incorporated directly into the calculation of the CfD allowance rather than through a separate standalone BICS allowance. We consider this approach to be simpler to implement. The proposed approach also ensures stakeholders can identify and distinguish between the underlying CfD allowance and BICS offset in the published model for transparency purposes.

3.19 We propose to use the latest BICS offset forecast information published by the LCCC, which we expect will be inclusive of any relevant reconciliation from BIST. For this reason, we do not propose to introduce a separate reconciliation mechanism to account for any differences between the BICS offset forecasts published by LCCC and the actual BICS payments. However, we will monitor the extent to which suppliers' costs align with the BICS offset reflected in the cap and, where there is evidence of a material difference, we will consider whether a reconciliation mechanism or change in methodology may be appropriate. However, we consider the expected materiality of any differences, together with the quarterly update of BICS forecasts and BIST reconciliation, should mitigate the need for any ex-post adjustment in most circumstances.

3.20 We also considered whether it would be appropriate to include the BICS offset within 'Policy cost allowance methodology (Annex 4)'. We do not propose this approach for two reasons. First, the BICS offset will be facilitated by the LCCC as part of the CfD payments framework and published alongside the existing CfD price cap inputs. Secondly, the BICS forecast will be published quarterly, meaning that the frequency of input publication aligns more closely with quarterly updates

to the CfD methodology than with the six-monthly updates to policy cost allowances.

3.21 Alongside this consultation, we have also published a draft version of Annex 2 with the proposed model changes. We welcome feedback on the specific model changes set out in the draft model, as well as feedback on the proposed methodology outlined in this consultation.

Proposed data source and start date

3.22 We expect the LCCC to publish a quarterly forecast BICS offset associated with CfD costs, alongside the forecast CfD payments currently published in the LCCC Price Cap Inputs Dashboard.

3.23 We propose to use this forecast adjustment as an input to the cap calculation from 1 April 2027 onwards, with the adjustment first reflected in the April to June 2027 cap rates published in February 2027. Introducing the change from April 2027 would align our methodology with BIST's proposed implementation date for the BICS offset.

Questions
Q8. Do you agree with our proposed approach for deducting the BICS adjustment from forecast CfD payments when calculating the CfD allowance?

Appendix 1. Guidance for changes to the proposed 'Wholesale cost allowance methodology (Annex 2)' for consultation

A1.1 Alongside this consultation, we have published an updated version of 'Wholesale cost allowance methodology (Annex 2)' for consultation, named 'Wholesale cost allowance methodology (Annex 2) v1.30.1'.

A1.2 Changes in the model reflect the proposed simplification of the CfD allowance with a 3-month recovery period, as well as the proposed calculation for deducting the BICS offset from the CfD allowance.

A1.3 The model also showcases the proposed calculation of the CfD volume reconciliation under the simplified CfD allowance, which we consulted on in our July 2026 consultation. At this stage, we have retained the calculation we proposed in the July 2026 consultation model, including the proposed April 2027 reconciliation start date. We will reflect the feedback we received on the volume reconciliation for our decision. For a detailed description of the volume reconciliation calculation, please refer to our July 2026 consultation.

A1.4 The proposed simplification of the CfD allowance and deduction of the BICS offset are shown in the draft Annex 2 from cap period April to June 2027 (cap period 18a). The inputs in the tables have been left blank, but formulas have been included to test the functionality of the model.

A1.5 Table A1 below summarises changes to the second version of Annex 2.

Table A1: Summary of changes to "Wholesale cost allowance methodology (Annex 2)" for calculation of simplified CfD allowance and BICS offset

Worksheet	Change	Description
Notes	Updated list of tabs.	Included description of new tabs in row 56, 57 and 58.
1a Wholesale allowance	Amended formulas of CfD table.	Re-linked rows 85-112 to new Table 3 in tab '7a CFD allowance', to import the total CfD allowance including volume reconciliation.
7a CFD allowance	New Tables 2 and 3 for the calculation of CfD	Two new tables have been added, ie Table 2 and 3. Table 2 links to the

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Worksheet	Change	Description
	allowance including volume reconciliation.	final volume reconciliation allowance from tab '7e CFD volume rec -transitional' and '7f CFD volume reconciliation'. Table 3 sums the CfD allowance in Table 1 to the volume reconciliation allowance in Table 2, to calculate a total CfD allowance. For the avoidance of doubt, we have removed the table included in the July 2026 consultation model v1.29.2 to calculate the recovery of the simplified CfD allowance over 12 months, given our proposal of a 3-month recovery.
7b CFD calculation	Amended formula in line 14.	Amended formula in row 14 to remove BICS offset from calculation of CfD expected levy payment for single-rate metering arrangement.
7c CFD inputs	New rows and formulas for calculation of simplified CfD allowance and BICS offset from April 2027.	Added new rows 21 and 37 with simplified inputs for the calculation of simplified CfD allowance from April 2027. Added new rows 22, 38 and 42 for the calculation of the BICS offset. Blanked rows with inputs for annualised CfD allowance calculation (ie quarterly CfD payments and demand weights). We have also blanked rows for the calculation of the Green Excluded Energy (GEE) uplift to simplify calculation of CfD allowance, given the GEE uplift is no longer in use.

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Worksheet	Change	Description
		Amended formulas in rows 43 and 44 to reflect simplified CfD inputs, BICS offset and removal of GEE uplift.
CFD volume rec overview	Tab showing step-by-step calculation of the volume reconciliation.	This tab has been included to support the review of the volume reconciliation. It should be read in conjunction with the guidance for the volume reconciliation set out in Appendix 4 of our July 2026 consultation.
7e CFD volume rec – transitional	New worksheet for the calculation of the CfD volume reconciliation on the annualised CfD allowance (temporary approach for April to June 2027 and July to September 2027 cap periods).	This tab calculates the volume reconciliation, using inputs from tab '7c CFD input', '7d losses' and '3b Demand'. A step-by-step description of the calculation is provided in Appendix 4 of our July 2026 consultation and in tab 'CFD volume rec overview'.
7f CFD volume reconciliation	New worksheet for the calculation of the CfD volume reconciliation on the simplified CfD allowance, from the October to December 2027 cap period onwards.	This tab calculates the volume reconciliation, using inputs from tab '7c CFD input', '7d losses' and '3b Demand'. A step-by-step description of the calculation is provided in Appendix 4 of our July 2026 consultation and in tab 'CFD volume rec overview'.

Appendix 2. Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name, address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We may share your responses, including any personal data within them, with the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

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- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
    - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, view our Ofgem privacy policy.

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 consultation. 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.