UK Government

Warm Home Discount Cost Recovery

Summary of responses and Government Response to Consultation

Department for Energy Security and Net Zero (2026)

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Executive Summary

Government consulted between 8 December 2025 and 6 January 2026 on the proposal to move Warm Home Discount cost recovery from the fixed standing charge to the unit rate, to align contributions to a household's actual energy consumption.

This change aims to address the regressive nature of standing charges, which currently place a disproportionately high burden on low-use, often low-income households, and to create a fairer, more progressive approach to cost recovery by linking payments to usage. Modelling suggests that more households, including low-income households, would benefit from this change than would be worse off from it, with further savings when combined with wider government measures announced in the Budget to reduce energy bills. The shift also aligns with the government's manifesto commitment to reduce standing charges, as well as broader efforts to improve transparency, consumer choice, and fairness in energy pricing.

This document summarises the responses and key themes that emerged from each consultation question and sets out the Government's response to the issues raised. Alongside the consultation, we also held stakeholder meetings and webinars for consumer groups and energy suppliers on the proposals. The Government appreciates the effort and time put into the views expressed by the range of contributors, including those who engaged in the stakeholder meetings, and have carefully considered all views expressed.

Government Response

Having considered all evidence provided by stakeholders, the Government's position is that energy suppliers should recover Warm Home Discount costs from the unit rate for electricity and gas from 1 April 2026. Recovering costs through unit rates is a more progressive approach to funding the scheme and responds to the fairness concerns raised about standing charges in response to the consultation.

We acknowledge the concerns raised about the impacts on some vulnerable groups, including those with unavoidably high energy needs and those with electric storage heaters. However, taken alongside the wider measures to reduce energy bills recently announced in the Budget, we expect the net impact of the combined changes on typical consumers to be a significant reduction in costs. The measures to reduce energy bills taken at the Budget disproportionately benefit households with high usage, more than offsetting these changes which particularly benefit households with lower usage. For example, when both measures are taken together, a high usage electric heated household is expected to see approximately £395 of costs removed from their energy bills.

In parallel, the recently published Warm Homes Plan and the Fuel Poverty Strategy provide the strategic long-term framework to reduce energy costs for low-income households and lift up to 1 million households out of fuel poverty by 2030. Alongside this, the Budget increases capital funding for home insulation and clean technologies, bringing total investment to almost £15 billion. This is the biggest public investment ever to upgrade homes with insulation and clean technology like solar panels and heat pumps. This policy change, taken in balance with wider Government reforms, will support efforts to lower energy bills, including for those with high energy use.

Energy suppliers highlighted a range of operational and financial impacts from the shift in cost recovery including seasonal cash-flow pressures and the risks of under recovery, particularly for those with portfolios with lower than average consumption. Suppliers also emphasised dependencies on Ofgem's price cap methodology and the design and frequency of the reconciliation process. A number of mitigations were requested, such as delayed implementation, establishing a reserve fund or more frequent reconciliation.

The Government will update how the supplier reconciliation process is conducted so that supplier obligations are settled against actual energy volumes supplied. This means that any over- or under- recovery due to a supplier having higher or lower consuming customers will be managed fairly across all suppliers. An industry wide feedback loop will be introduced so that any aggregate under or over recovery, owing to differences between forecast and actual demand in one scheme year, is corrected in the following year. This improves accuracy and ensures that over the long term the uncertainties associated with volumetric recovery are accounted for.

Whilst acknowledging the operational and financial concerns raised by suppliers, the Government believes that delaying the implementation of the change or establishing a reserve fund would introduce additional costs or complexity for consumers and it therefore intends to progress with the current timetable.

Overview of responses received

The total number of responses received was 778. Respondents came from varied backgrounds, including individuals, energy suppliers, charities and consumer groups. All responses to this public consultation have been recorded and analysed.

Table 1: Respondents by type

Type of respondents	Number of responses	Proportion of total
Individuals	713	92%
Consumer and advocacy groups	45	6%
Energy Suppliers	9	1%

Other	11	1%
Total	**778**	100%

Not all respondents answered every question, with some choosing to respond only to the specific questions of interest to them. As a result, the number of responses varied significantly across questions. For example, questions one to three received the most responses whereas, as expected, the energy supplier related questions received numerically fewer but more targeted responses.

Overall, the consultation revealed strong public support for moving Warm Home Discount cost recovery from the standing charge to the unit rate. This was primarily on fairness and progressivity grounds.

Most individual respondents expressed strong support for moving Warm Home Discount cost recovery to the unit rate. Many noted that aligning contributions with actual energy consumption would help low-use low-income households. However, some individuals did raise concerns about the potential impacts on vulnerable groups with unavoidably high energy needs, such as those relying on medical equipment or electric heating.

Several large consumer groups agreed that shifting costs away from fixed daily charges better aligns policy costs with consumption and improves fairness for low-use households. While support from these stakeholders for the change was generally strong, a substantial number of consumer groups did also highlight concerns regarding the potential impacts of this change in isolation on vulnerable households and those reliant on electric heating systems.

Energy supplier responses were mixed, with responses split evenly between those in favour and those who were not, however, the majority emphasised delivery considerations. There was also broad support for an industry-wide reconciliation feedback loop as an appropriate mitigation to align recovery with actual consumption over time. However, most energy suppliers argued for additional mitigations, including delayed implementation, a reserve fund, and increased reconciliation cadence.

While the vast majority of responses were from individuals, consumer groups and energy suppliers, we also received a small number of responses from ‘other stakeholders’, which included trade bodies, private organisations and advisory bodies. Most of these responses supported the proposal in principle, though in line with the broader respondent group, highlighted risks associated with vulnerable consumers and/or challenges with implementation.

Warm Home Discount Cost Recovery – Summary and Analysis of Responses

Q1 & Q2. Summary of Responses

1. Considering the impacts across all consumers, including impacts on protected groups, do you support moving WHD costs to the unit rate?

2. Are there alternative approaches that should be considered to mitigate potential negative impacts on consumers?

Q.1 Respondent type	Yes	No	Mixed	Sub-total
Individual	**611**	**80**	**22**	**713**
Consumer group	**37**	**7**	**1**	**45**
Energy Supplier	**4**	**4**	**1**	**9**
Other	**5**	**2**	**4**	**11**
Total	**657**	**93**	**28**	**778**

Benefits of Moving to the Unit Rate

Individuals and consumer groups widely agreed with our proposal to recover through the unit rate. They suggested that this is fairer and more progressive than a fixed daily standing charge, because contributions are more closely linked to consumption. Respondents cited analysis and lived experience showing that standing charges disproportionately affect low-income, low-usage households. Many consumer organisations welcomed the move, as a unit rate approach could give households more control over bills by strengthening the link between what they use and what they pay.

Some energy suppliers also accepted the principle that a move away from a fixed levy can be justified on distributional grounds, provided implementation is predictable and supported by clear, aligned rules in the price cap and in reconciliation mechanisms.

Risks of Moving to the Unit Rate

Alongside these benefits, respondents highlighted some risks associated with the change. Some consumer bodies and individuals cautioned that a unit rate uplift in isolation could negatively affect households with unavoidable high energy needs such as people who rely on medical equipment, households using electric heating or storage heating and households living in energy inefficient homes and asked that specific protections are considered for these groups. A sizeable number of respondents across all respondent types argued that the Warm Home Discount should be funded wholly or partly through general taxation rather than through energy bills.

Stakeholders also proposed a range of mitigations that could accompany a unit rate approach. These included targeted rebates or exemptions for medically vulnerable customers, the development of a social tariff in the medium term, expansion and better targeting of Warm Home Discount Industry Initiatives, and stronger communication and data sharing so that at risk groups can be identified and supported more effectively. Energy suppliers noted that a switch to unit rate recovery changes the profile of cost collection through the year. This could heighten cash flow and seasonality pressures, which in turn could affect the timely delivery of rebates in the absence of appropriate reconciliation design.

Government Response

Having considered the evidence and the views of stakeholders, the Government's position is that energy suppliers should recover the costs of the Warm Home Discount from the unit rate from April 2026. Recovering costs through unit rates better links contributions to actual consumption and responds to the strong fairness case made by individuals and consumer groups. The Government judges that these changes offer a clearer and more accurate basis for cost recovery while addressing widely raised concerns about standing charges.

In taking this decision, the Government has weighed the benefits and risks evidenced through the consultation. The benefits include closer alignment between what consumers use and what they pay and a fairer distribution of costs for lower usage households. The Government also recognises that some households have high and unavoidable energy needs. We acknowledge the concerns raised about these groups. As set out in the consultation, the policies announced at Budget 2025 will remove an average of £150 of costs from household energy bills from April 2026. This includes ending the Energy Company Obligation and funding 75% of the domestic cost of the legacy Renewables Obligation for 3 years. These changes will be worth considerably more to the high-usage households in question than the move to unit rates.

For example, a gas heated house with high demand due to medical needs could see its annual energy bill increase by around £29 under the move to the unit rate in isolation, however, when accounting for the wider measures announced in Budget 2025, these households are expected to see approximately £195 net costs removed from bills. In addition, when both measures are taken together, a high usage electric heated household is expected to see approximately £395 of costs removed from their energy bills.

In parallel to this work, the recently released Warm Homes Plan and the new Fuel Poverty Strategy for England provide the strategic framework for longer term support and improvements in targeting fuel poverty. When viewed collectively, this policy change in combination with wider bill reforms will help to lower energy bills and support a fairer approach to recovery of Warm Home Discount costs.

Decisions about how the Warm Home Discount is funded, such as whether costs should be met through general taxation, are beyond the scope of this consultation, and at the current time the Government has no plans to move Warm Home Discount costs to general taxation.

Q3. Summary of Responses

3. To support rebalancing between gas and electricity, should a greater share of Warm Home Discount recovery be placed onto gas?

Respondent type	Yes	No	Mixed	No. of respondents	% of respondents
Individual	54	90	578	722	95.3
Consumer Groups	0	0	18	18	2.4
Other*	0	0	7	11	1.5
Supplier	0	0	11	7	0.9
Total	54	90	614	758	100

Across these responses, views were mixed but many stakeholders cautioned against a greater share of Warm Home Discount cost recovery being placed onto gas because of the potential distributional impacts on low-income and gas reliant households, particularly those living in colder regions and in less energy efficient homes. A smaller number supported rebalancing towards gas if it formed part of a wider package to improve electricity's affordability relative to gas and to support electrification, provided that protections were put in place for vulnerable households.

Benefits of Rebalancing

Respondents who favoured some degree of rebalancing argued that greater recovery on gas could narrow the electricity-gas price gap and improve the economics of clean technologies. They suggested that this could send clearer price signals for longer term decarbonisation choices while keeping the unit rate for electricity lower than it would otherwise be. Several organisations framed this as a potential step within a broader strategy to reduce electricity costs, provided that transitional protections were available for at risk groups.

Risks of Rebalancing

The prevailing view among individuals and consumer groups was that moving additional recovery onto gas could raise heating costs for lower income households that rely on gas and have limited scope to reduce consumption, including tenants in poorly insulated properties and households in colder areas. Evidence submissions highlighted that a gas weighted approach could intensify inequities for these identified groups, and that any such change would require strong safeguards to avoid worsening fuel poverty. Respondents pointed to specific groups at risk, including disabled people with high essential energy needs and older households who already face affordability pressures. Stakeholders also cautioned that rebalancing could create regional and income-based disparities unless accompanied by targeted support and energy efficiency improvements.

Government Response

In the consultation, we set out that we were not proposing to proceed with rebalancing Warm Home Discount costs at this stage but were seeking views on the issue. Responses show that, while there is some support for rebalancing in the context of wider affordability and decarbonisation reforms, many stakeholders are concerned about distributional impacts on gas reliant low-income households and on those in colder or less efficient homes. The Government recognises these concerns, including that placing additional recovery on gas would risk unfair outcomes for vulnerable consumers, and is clear that efforts to reduce the price of electricity must be fair to all households.

At the recent Budget, the Government took action to cut the cost of living, including taking an average £150 off people's energy bills from April 2026. This included removing some policy costs from electricity bills to help consumers, recognising that some energy system costs falling disproportionately on electricity bills has led to an unfair distortion compared with gas prices. This change makes costs distribution fairer, including for households with traditional electric heating, and supports the adoption of clean heating technologies, without disadvantaging households using gas. Ofgem is reviewing cost recovery more widely in their Cost Allocation and Recovery Review.

Supplier Implementation and Practical Delivery

Questions four to eight focused on the practicality of implementing the change to recover Warm Home Discount costs through the unit rate and how this affects energy suppliers' operations, tariffs, and cash flow. We have presented below a summary of responses for each individual question followed by the Government response for questions 4-8 together.

Q4. Summary of Responses

> 4. How might you take account of this change in the way you charge customers and design tariffs? Please explain your answer.

Tariff Treatment

A large majority of energy suppliers said they would reflect Warm Home Discount as a pence per kilowatt hour (p/kWh) uplift on default Standard Variable Tariffs aligned to Ofgem's allowance if recovery moved to the unit rate. Several energy suppliers also indicated that they would likely include the Warm Home Discount in new fixed-term tariffs on a unit-rate basis, often with a risk premium to manage weather and seasonality-driven volatility under volumetric recovery. A small number said that their commercial strategy might be to pace or limit new fixed-term launches until reconciliation and price-cap details are confirmed. Where multi-rate or time-of-use products were discussed, respondents said they were likely to apply a uniform p/kWh uplift across all rates to avoid distorting relative price signals across day and night rates.

Views on existing fixed-term contracts diverged. Some energy suppliers indicated they would not alter current fixed contracts, judging the impacts to be modest or manageable. Others favoured a time-limited dual treatment so that fixes signed before 1 April 2026 continue with standing-charge recovery, while new or renewed contracts adopt unit-rate recovery. Some respondents asked for a 9–12 month lead in time before the changes were introduced, with suggested go-live dates including October 2026 and April 2027 to align with price-cap cycles and reduce back-book exposure.

Several energy suppliers highlighted that Warm Home Discount obligations are set by government with no option to flex costs up or down to manage the variability in recovery that would be introduced with recovery via the unit rate. Respondents outlined that they would manage this as they do for other volumetric policy costs but would monitor weather-related under or over-recovery closely, particularly in mild years.

Dependencies on Price Cap and Reconciliation

Respondents stressed that tariff decisions depend on Ofgem's price cap methodology and on reconciliation design, with support for a feedback mechanism so any market-wide over/under-recovery is balanced in subsequent years. Several respondents advocated for more frequent reconciliations (e.g. quarterly) to manage cashflow and competitive neutrality.

Working-capital and Cashflow

Many energy suppliers anticipated seasonal cash-flow pressure if rebates are concentrated in autumn and winter while volumetric recovery is lower in spring and summer. Respondents pointed to the importance of realistic demand assumptions, the possible need for an initial buffer, and synchronising allowances with price-cap updates.

Multi-rate Tariffs and Prepayment

Several energy suppliers expected both single-rate and multi-rate products to carry a Warm Home Discount p/kWh uplift. Some warned that portfolios with below-average consumption, especially those with high proportions of prepayment customers, could face under-recovery if allowances are set using typical consumption rather than actual usage patterns, noting that consumption in some prepayment segments is materially lower than average.

Q5. Summary of Responses

> 5a. What impact would moving WHD costs to unit rates have on your ability to recover costs associated with WHD?

Overview

Most suppliers expected a negative or somewhat negative impact on cost recovery due to the combination of weather-driven demand volatility, the mismatch between fixed obligations and volumetric recovery, and the risk of in-year under-recovery if demand falls. Concerns were especially heightened for mild winters.

Under/Over-recovery Risks

Respondents highlighted greater exposure to under-recovery in warmer periods or where consumption falls, with some expecting market-wide shortfalls to be more common than surpluses; one large supplier provided an indicative cashflow swing in the low tens of millions in an extreme year. Some noted that accurate recovery depends on timely, robust demand assumptions and suggested more frequent allowance updates to limit shortfalls.

A minority view suggested that the impact could be somewhat positive if the new design ensures suppliers recover in proportion to energy supplied across the year (rather than historic customer numbers), though even those respondents noted cashflow risks and the need for additional reconciliation.

Energy suppliers with below-average consumption portfolios highlighted heightened under-recovery risk if allowances are not sensitive to actual usage. One small supplier reported current-fix exposure in the hundreds of thousands of pounds, and around low single-digit millions when combined with existing costs associated with expansion of the Warm Home Discount and interest were included.

> 5b. What impact would moving WHD costs to unit rates have on your ability to ensure timely WHD payments to customers?

Overview

Most energy suppliers expected a neutral or manageable impact on the timing of Warm Home Discount payments provided reconciliation and cap allowances are well specified. Several suppliers noted potential liquidity challenges where rebates are concentrated in the autumn/winter but volumetric recovery is lower in the summer; some warned this could necessitate later payment profiles or interim funding if mitigations are not in place. One respondent described reconciliation timing (including early-year reconciliation windows) as critical to making payments when customers need them most.

Q6. Summary of Responses

> 6. Are there any other risks to suppliers if WHD costs are recovered via unit rates?

Overview

Respondents identified risks including working-capital and liquidity strain, competitive distortions linked to portfolio mix, regulatory/operational complexity in tariff design and reconciliation, and broader system effects (e.g. interactions with electrification incentives and flexibility markets).

Market and Competition

Some warned that differing portfolio consumption profiles could lead to uneven recovery and cashflow impacts between suppliers, potentially affecting competition unless reconciliations are frequent and predictable. Others anticipated the need to add risk premia to fixed-term prices or to limit/delay fixed-term offers during transition to manage reconciliation exposure.

Policy Interactions

Some respondents linked unit-rate recovery to a broader discussion of final-consumption levies, flagging potential disincentives to electrification and demand turn-up if unit-rate stacks increase. Several emphasised the need for wider levy reform so that the shift to unit-rate recovery does not place demand flexibility at a competitive disadvantage.

Other Positions

One respondent stated there were no additional risks beyond those already identified in the consultation, while others emphasised that any systemic shortfall should not fall to energy suppliers to fund.

Q7. Summary of Responses

> 7. Do you agree with the proposed changes to reconciliation to mitigate the risks posed by unit-rate recovery?

Overview

Among the nine energy supplier submissions, four supported the direction of reconciliation reform in principle (typically conditional on clear price cap alignment and effective design), three did not support the proposal as drafted, and two were unsure pending more detail. Across positions, there was broad support for an industry feedback mechanism that carries market-wide under or over-recovery into the following year to align costs and revenues over time.

Support and Conditions

Supportive respondents asked for a clear “true-up” that rolls forward any market-wide shortfall, with some expecting persistent under-recovery given weather trends and therefore advocating a robust mechanism to carry balances between years. Others proposed quarterly, cross-supplier reconciliations to manage cashflow and competitive neutrality, alongside alignment with the price cap. Some energy suppliers explicitly favoured six-monthly or quarterly reconciliation to shorten the period that under-recovery sits on balance sheets, while others preferred annual reconciliation with strong governance, clear cap alignment and settlement within 12 months.

Alternative Proposals and Concerns

One energy supplier proposed a centrally administered reserve fund seeded by a modest initial over-recovery, while another preferred an Exchequer backstop for any exceptional market-wide shortfall. Others cautioned potential issues with feedback loop adjustments (e.g. price instability) and asked that design risks be fully assessed before implementation.

Q8. Summary of Responses

> 8. What practical challenges do you foresee in implementing these proposals and how might these be addressed?

Overview

Respondents pointed to implementation timing, system and data changes, customer communications, and joining-up with Ofgem’s processes as the principal challenges associated with implementing these proposals, with most requesting sufficient lead time and clear draft regulations to avoid unintended consequences.

Timing and Transition

Some energy suppliers asked for a 9–12 month lead-in time before any changes come into force (some proposing April 2027 or October 2026) to enable tariff repricing, systems updates and customer communications, and to reduce under-recovery on existing fixed-term products. Several outlined transitional options for existing fixes (e.g. continuing standing-charge recovery for pre-implementation contracts while applying unit-rate recovery to new products). One respondent stated that while system updates and price changes would be required, these activities are routine alongside price-cap cycles and therefore not a blocker if processes are aligned.

Data and Methodology

Respondents asked for up-to-date demand data to set any Warm Home Discount allowance and for the possibility of in-year refreshes where material deviations arise. Refinements proposed included a formal annual data pack to support any industry feedback adjustment reflected in the cap; the use of supplier-level volumes already used for the Renewables Obligation for electricity (subject to clarification of the treatment of exempt or uncounted volumes) with development of an equivalent gas process

Customer Communications and Coordination

Energy suppliers asked that any Warm Home Discount changes be coordinated with other reforms to avoid operational clashes and consumer confusion, and that public messaging remain consistent across DESNZ, Ofgem and industry.

Government Response (questions 4-8)

The Government will make changes to the supplier reconciliation process so that obligations are settled on the basis of actual energy volumes supplied. This will ensure that any over- or under-recovery resulting from suppliers having customers with higher or lower usage is handled fairly across all suppliers. An industry-wide feedback mechanism will also be introduced so that any overall under- or over-recovery, arising from differences between forecast and actual demand in one scheme year, is adjusted in the following year. This will improve accuracy and help ensure that, over time, the uncertainties associated with volumetric recovery are properly accounted for.

The Government recognises the seasonal profile of Warm Home Discount payments and the cash flow considerations described by respondents. On balance, the Government judges that implementing a single industry feedback loop with volume-based settlement provides the right balance between accuracy, simplicity and deliverability.

However, we acknowledge that the consultation also sought views from energy suppliers on additional mitigations which could enhance supplier stability. There were three proposals which were frequently raised by suppliers, which are addressed below:

Delay Implementation of Changes to Warm Home Discount Cost Recovery

We carefully considered requests from some energy suppliers to delay implementation to allow existing fixed term products to roll off and to reprice new fixes. We recognise that moving recovery to the unit rate changes the balance of risk between standing charge and volumetric elements and that a small number of suppliers highlighted exposure on legacy fixed tariffs. However, other energy suppliers indicated limited or no exposure to existing fixed products and several respondents stressed that any exposure would be manageable.

On balance, the Government considers that implementing the change to recover costs on unit rates in readiness for April 2026 will deliver important improvements in fairness for consumers, as described above, which outweigh the limited benefits that a delay could provide to a small number of suppliers.

Establish a Reserve Fund

We acknowledge the case made for a centrally administered buffer to smooth seasonal volatility and reduce the risk of under-recovery in unusually mild winters, and we note that suggestions ranged from an industry-funded reserve, funded by a modest initial over-recovery, to an Exchequer backstop. Having considered these options, the Government is not persuaded that they are proportionate.

A reserve fund would require consumers to pay more upfront, because it would need to be capitalised through a deliberate over-recovery in year one, raising bills in the short to medium term. Seasonal demand can never be fully predicted, so forecast risk would be shifted onto all consumers, which is not justified by the likely scale or frequency of volatility. In addition, establishing and administering a central pot would create material administrative complexity and cost.

We further note that Ofgem (the suggested administrator) does not ordinarily hold scheme monies without a fixed timescale to redistribute it to scheme participants, so a reserve would require new processes or a new body to manage funds, which would be a significant operational departure from current scheme design. An Exchequer-funded backstop is not an appropriate use of public money for this purpose, given that an industry feedback loop provides a proportionate means of ensuring that actual scheme costs are recovered over time.

Increase Reconciliation Cadence

We recognise the argument raised in responses that quarterly or twice-yearly reconciliation could reduce the period that energy suppliers carry under-recovered positions and could help manage cash-flow strain in some portfolios. However, there are practical issues with increasing cadence. Ahead of the scheme opening in October each year, too few rebate notices have been issued to produce a meaningful indication of supplier scheme costs. We do however consider that the earlier interim reconciliation that has taken place in 2025-26 has been helpful in reducing risk to suppliers with large proportions of eligible customers, and we therefore intend to continue with earlier interim reconciliation for the next scheme period.

Increasing cadence would also require more data collections, more frequent requests to suppliers, and additional resourcing across government, Ofgem, and industry, increasing the cost of the scheme to consumers. If extra reconciliations are run too close to the end-of-year compliance period, they risk colliding with established busy windows for final determinations, typically in September and October, adding complexity at the point of maximum operational load. In practice, we anticipate that several periods would likely yield minimal changes to positions, meaning the administrative cost of running extra cycles would not be justified by the marginal benefit. On balance, the Government will implement the annual volume-based reconciliation with an industry feedback loop as consulted on, also continuing with the earlier interim reconciliation implemented in 2025-26.

We will keep this under review and if evidence shows that energy supplier stability or the timeliness of rebates is being adversely affected, we will work with Ofgem to consider targeted in-year adjustments, including additional interim reconciliations.

Conclusion

The Government will update how the supplier reconciliation process is conducted so that supplier obligations are settled against actual energy volumes supplied. This means that any over- or under- recovery due to a supplier having higher or lower consuming customers will be managed fairly across all suppliers. An industry wide feedback loop will be introduced so that any aggregate under- or over- recovery, owing to differences between forecast and actual demand in one scheme year, is corrected in the following year.

This decision responds directly to the themes raised in responses to Questions 4-8. The use of volumes in the reconciliation arrangements gives energy suppliers and Ofgem a clear signal that Warm Home Discount costs should be considered in the unit rate, provides a reconciliation method that matches recovery to actual consumption, and offers a transparent mechanism to correct any market-wide under- or over- recovery in later years, thereby supporting accurate cost recovery and ensuring timely delivery of Warm Home Discount rebates to customers.

DESNZ and Ofgem will work together to develop the timelines and format for this process, and more detail will be communicated to energy suppliers as this is developed. The reconciliation mechanism will be kept under review, and we will consider changes if necessary to ensure that the reconciliation mechanism works effectively for suppliers.

The Government considers that this approach preserves the core benefits of the reform, that being accurate alignment of recovery to actual consumption and predictable recovery via the price cap, while avoiding new costs and complexity for consumers at the outset.

Next Steps

Subject to changes to the price cap methodology that Ofgem has consulted on separately, our intention is that the change to recover Warm Home Discount costs through the unit rate will take effect from 1 April 2026. To deliver this, and subject to parliamentary approval, DESNZ will also, later this year, carry out the necessary re-enactment and associated amendments to the Warm Home Discount (Reconciliation) Regulations 2022, by issue of the Warm Home Discount (Reconciliation) Regulations 2026.

Ahead of the changes coming into force, DESNZ will work closely with Ofgem and energy suppliers to support a smooth transition to the new Warm Home Discount cost recovery arrangements. The Government will continue to monitor consumer and supplier impacts, both within the scheme year and through the year end reconciliation.

This publication is available from: https://www.gov.uk/government/consultations/warm-home-discount-whd-cost-recovery