

Citizens Advice response to proposed methodology for Electricity Bill Discount Scheme cost allowance

Citizens Advice is pleased to respond to this consultation. Our general position is that efforts should be made to reduce the costs that are added to bills, not increase them. There is a viable alternative through energy bill levy reform to allow government schemes to be progressively funded via general taxation. If government and Ofgem are going to apply additional levies to electricity bills, adding costs onto unit rates specifically should be avoided. This creates a penalty for vulnerable high-usage consumers and runs counter to the government's attempts to encourage the electrification of demand.

Q1. Do you agree that it is appropriate to introduce a policy cost allowance in the energy price cap to reflect the Bill Discount Scheme, given that it represents an unavoidable systematic cost that electricity suppliers will be exposed to? Please explain your reasoning.

We believe these and future policy costs should be funded through general taxation to recover costs in a way that is progressive and reduces pressure on consumer's energy bills. This approach would mirror the precedent set by recent levy reforms for ECO and RO, which successfully reduced consumer bills. However, we recognise the need for suppliers to recover the costs of distributing the Electricity Bill Discount Scheme.

Q2. Do you agree with our minded-to position to include the Bill Discount Scheme cost allowance in Annex 4 – Policy Cost Allowance Methodology of the price cap? Please provide reasons for your answer.

No response

Q3. Do you agree with our proposed approach to reflecting Bill Discount Scheme costs in the energy price cap on an enduring basis, including the

use of DESNZ cost estimates as inputs and recovery on a volumetric (£/MWh) basis? Please provide reasons for your answer and set out any alternative approaches you think we should consider.

Based on the evidence provided by Ofgem, we do not support recovery on a volumetric basis. Ofgem has not provided a convincing explanation as to why these costs would be recovered on a volumetric basis as opposed to through the electricity standing charge. Our working assumption is that these costs are ultimately fixed costs for hosting new transmission infrastructure, paid over a 10-year period.

Recovering fixed scheme costs through unit rates leads to an unequal distribution of costs across consumers. It unfairly penalises vulnerable high-usage consumers, whilst some affluent consumers could use low carbon technologies such as solar panels and batteries to avoid paying their fair share. Further, adding costs onto electricity unit rates increases the running cost of electric transport and heating and reduces the economic benefits of expanding the electricity grid. If scheme costs are funded through the price cap, these should instead be recovered through the standing charge.

Q4. Do you agree with our proposed approach to calculating the Bill Discount Scheme allowance for price cap periods 17a and 17b (1 October 2026 to 31 March 2027)? Please provide reasons for your answer and set out any alternative approaches you think we should consider.

No response