

Citizens Advice response to Energy price cap: Proposed changes to the Contracts for Difference cost allowance consultation

Q1. Volume reconciliation (Chapter 2). Do you support the introduction of a volume reconciliation in the CfD cap allowance, covering both volume and capture price risk?

We do not support the proposal to introduce a reconciliation in the CfD allowance. The latest available evidence set out in the August 2025 call for input¹ presented analysis which showed no evidence of systematic under-recovery by suppliers. The case for change in this consultation is not made on the basis of any new empirical evidence indicating that there is now evidence of systematic under-recovery, but on a hypothetical increase in future risk due to the expected expansion of the scheme. It is our view that a reconciliation mechanism should only be considered if and when empirical evidence demonstrates material under-recovery in practice, that exceeds what can reasonably be absorbed through the headroom allowance.

The consultation states that the 'proposal of a volume reconciliation aims at reducing risk that is not currently compensated in the cap allowance', and considers that the headroom allowance was not designed to specifically address deviations between forecast and outturn CfD payments. However, the headroom allowance is designed to capture 'residual net uncertainty'² and was arrived at by including 'scope for any remaining unidentified errors and uncertainties'³. It is therefore not reasonable to suggest that potential discrepancies between LCCC forecasts and outturn CfD generation were not considered when determining the headroom allowance. Instead, these should be viewed as part of the remaining unidentified errors and uncertainties that were considered when determining the headroom allowance. Consumers are

¹ Ofgem, [Contracts for difference allowance in the default tariff cap](#), August 2025, pp.11-12.

² Ofgem, [Appendix 2 – Cap level analysis and headroom](#), November 2018, p.9

³ Ofgem, [Appendix 2 – Cap level analysis and headroom](#), November 2018, p.9

therefore already paying a premium to protect suppliers against under-recovery from CfDs, were this to materialise.

Allowing suppliers to retain allowances intended for risk management while systematically shifting that risk to consumers via reconciliation would represent a double recovery for suppliers. If Ofgem were to proceed with a volume reconciliation mechanism that eliminates volume and capture price risk for suppliers at this time, it must simultaneously adjust and reduce the baseline headroom allowance, due to the points raised above.

Were systematic under-recovery to materialise in the future, and were this to exceed what could be reasonably managed through the headroom allowance, then a reconciliation mechanism could be considered in the future. We would support the exclusion of pure price risk from the reconciliation, as including it would disincentivise suppliers from hedging and pass on all risk to consumers. However, it should be noted that volume reconciliation still carries a risk of disincentivising suppliers from mitigating volume risk at source, for instance through investing in volume forecasting capacity and developing demand-side flexibility offerings, which pushes up costs for consumers. Ofgem should ensure that it has considered the impact on consumers from these risks, were it to consider a reconciliation mechanism in the future.

Q2. Volume reconciliation (Chapter 2). Do you support a six-month recovery period on the volume reconciliation? If you consider an alternative recovery period to be more appropriate, please explain how this would balance cashflow risk and bill impacts.

No response

Q3. Volume reconciliation (Chapter 2). Do you have any comments on the proposed calculation of the volume reconciliation (including the proposed LCCC methodology in Appendix 3)?

No response

Q4. Volume reconciliation (Chapter 2). Do you support the proposal to introduce this change from cap period April to June 2027?

No response

Q5. Simplification of CfD allowance (Chapter 3). Should we pursue simplification of the CfD allowance with a 12-month recovery period?

No response

Q6. Simplification of CfD allowance (Chapter 3). Do you have other suggestions for how the cost recovery of the simplified CfD allowance could be set? Please provide an Excel example of how your proposal would work.

No response