EXPLANATORY MEMORANDUM TO

THE WARM HOME DISCOUNT (RECONCILIATION) (AMENDMENT) REGULATIONS 2026

2026 No. 991

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Polly Billington, Minister for Energy Consumers, at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Lara Phillips, Deputy Director for Warm Home Discount and Fuel Poverty, at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Paddy O'Hara at the Department for Energy Security and Net Zero, email: paddy.ohara@energysecurity.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Warm Home Discount (Reconciliation) Regulations 2022 to update the methodology used to determine suppliers' shares of Warm Home Discount scheme costs for reconciliation purposes. The amendments are required following the Government's decision that Warm Home Discount costs should be recovered through energy unit rates rather than standing charges. Consequential amendments are also made to reflect the Warm Home Discount (England and Wales) Regulations 2026 and the Warm Home Discount (Scotland) Regulations 2026.

4.2 The primary amendment made by the instrument is to replace the existing customer-number-based market share methodology with a cost-weighted volumetric market share methodology. The revised approach aligns the reconciliation calculation with the recovery of Warm Home Discount costs through energy unit rates. The instrument also revises supplier reporting requirements and the interim and final reconciliation calculations to support the new methodology.

4.3 The instrument does not change the overall level of Warm Home Discount support delivered or the total cost of the scheme. Its purpose is to ensure that scheme costs continue to be distributed fairly between suppliers under the new cost recovery approach.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, and Scotland.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England, Wales, and Scotland.

5. Policy Context

What is being done and why?

5.1 The Warm Home Discount scheme provides energy bill support to eligible low-income households. Under the scheme, energy suppliers incur costs associated with delivering the prescribed rebates (£150) and meeting non-core spending obligations. The reconciliation mechanism exists to redistribute those costs between suppliers so that, so far as reasonably practicable, suppliers bear a share of costs that reflects their participation in the domestic energy market.

5.2 The current reconciliation arrangements were introduced by the Warm Home Discount (Reconciliation) Regulations 2022. Under those Regulations, a supplier's share of Warm Home Discount costs is determined by reference to its share of GB domestic customer numbers. This reflected the policy position at the time, under which Warm Home Discount costs were recovered from consumers through energy standing charges, charging the same amount to each consumer.

5.3 Following consultation, the Government decided that Warm Home Discount costs should instead be recovered through energy unit rates. This Government concluded that unit rate recovery is a fairer and more progressive approach because it links contributions more closely to consumption and responds to concerns raised about standing charges. The Government response published on 12 February 2026 confirmed that decision.[1] Under a unit-rate recovery model, suppliers recover Warm Home Discount costs by reference to the energy supplied to consumers rather than the number of customer accounts held. As a result, customer numbers are no longer a viable basis upon which to determine suppliers' relative shares of the recovery of scheme costs. This instrument therefore updates the reconciliation framework so that suppliers' positions are determined using a volumetric market share methodology. The methodology uses gas and electricity supply volumes weighted by the corresponding WHD unit-rate recovery values, ensuring supplier market shares reflect the extent to which WHD costs are recovered through energy charges. This aligns the reconciliation framework with the revised cost recovery model while continuing to ensure that the cost of suppliers' meeting their obligations reflects, so far as reasonably practicable, their participation in the domestic energy market.

5.4 The instrument preserves the overall function of the reconciliation mechanism. It does not alter the aggregate level of Warm Home Discount support provided to consumers, nor the overall cost of the scheme. Its purpose remains the redistribution of costs between suppliers so that those costs are apportioned fairly across the market.

What was the previous policy, how is this different?

5.5 Under the Warm Home Discount (Reconciliation) Regulations 2022 (the 2022 Regulations), supplier obligations were calculated using customer-number market share. Customer numbers were used as a proxy for participation in the domestic energy market because Warm Home Discount costs were recovered through standing charges i.e. levied on a per-customer basis.

5.6 Under the Warm Home Discount (Reconciliation) (Amendment) Regulations 2026, suppliers' positions are instead determined using a volumetric market share

[1] Government response available at: Warm Home Discount (WHD): cost recovery - GOV.UK

methodology based on estimated recovery through Warm Home Discount gas and electricity unit rates. This approach reflects the volume of energy supplied by each supplier and aligns the reconciliation calculation with the recovery of Warm Home Discount costs through energy unit rates.

5.7 The regulations retain the existing structure of the reconciliation framework wherever possible, including concepts such as interim reconciliation, final reconciliation and mutualisation. Changes have been limited to those necessary to replace customer-number-based concepts and ensure that the framework operates effectively under the revised cost recovery model.

5.8 The instrument also amends the treatment of undelivered rebates for reconciliation purposes. Undelivered rebates were not included within final rebate calculations under the 2022 Regulations, on the basis that suppliers had not had to pay them out to customers. Under the amended approach, rebates provided by suppliers will continue to be included within the reconciliation calculation even where they are subsequently treated as undelivered under the scheme regulations. This means that where a rebate is issued during a scheme year but subsequently becomes undelivered under the scheme regulations, the costs associated with that rebate continue to be recognised through reconciliation. This avoids suppliers being advantaged or disadvantaged solely because the timing of rebate take-up falls outside the scheme year.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument is made under sections 11 and 31(5) and (6) of the Energy Act 2010. The instrument amends the Warm Home Discount (Reconciliation) Regulations 2022. The amendments are expected to be subject to the negative procedure under section 31(4) of the Energy Act 2010.

6.2 The principal amendment replaces customer-number-based market share with a volumetric market share methodology. References throughout the Regulations which determine market share by reference to customer numbers are amended or removed and replaced with a revised methodology that reflects the move to unit-rate recovery.

6.3 The provisions governing final reconciliation are amended so that suppliers' final positions are determined using the revised methodology and continue to take account of any payments made or received through interim reconciliation.

6.4 The instrument introduces revised data-reporting requirements. Suppliers may be required to provide information relating to domestic gas and electricity supplied to domestic customers.

6.5 The instrument also introduces a new provision enabling the Authority to require suppliers to provide such information or evidence as it reasonably requires for the purposes of carrying out its functions in relation to the reconciliation mechanism. Where a supplier does not comply, the Authority may make determinations using the information available to it.

6.6 The instrument also makes consequential amendments to provisions relating to matters including undelivered rebates, interest calculations and the operation of the reconciliation framework under the revised methodology.

6.7 Saving and transitional provisions preserve the operation of the 2022 Regulations for reconciliation of Scheme Year 15 (2025/26) while ensuring that the amended reconciliation framework applies from Scheme Year 16 (2026/27) onwards.

Why was this approach taken to change the law?

6.8 The Government considered that amendment of the Warm Home Discount (Reconciliation) Regulations 2022 is the most appropriate means of implementing the policy decision to align reconciliation with unit-rate cost recovery. The reconciliation mechanism is established through secondary legislation and therefore legislative amendment is required to give effect to the revised methodology.

6.9 An alternative approach which could have been taken would have been to repeal and replace the Warm Home Discount (Reconciliation) Regulations 2022. However, this approach was considered excessive given that the reconciliation framework, as a whole, was not being changed substantially.

6.10 The approach taken minimises regulatory change by retaining the existing structure and operation of the reconciliation framework wherever possible. Amendments are limited to those necessary to replace customer-number-based concepts and ensure the framework operates effectively under the revised cost recovery model.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Government consulted on changing Warm Home Discount cost recovery arrangements between 8 December 2025 and 6 January 2026. The consultation sought views from consumers, consumer groups, energy suppliers and other stakeholders on moving cost recovery from standing charges to unit rates.

7.2 The Government response was published on 12 February 2026 and confirmed that Warm Home Discount costs would in future be recovered through energy unit rates. The response also confirmed that changes to reconciliation arrangements would be required to support the revised cost recovery approach.

7.3 The instrument gives effect to that decision by amending the reconciliation regulations. The subject matter of the instrument is reserved. The existing territorial extent and application of the scheme are unchanged.

8. Applicable Guidance

8.1 The Department for Energy Security and Net Zero and the regulator Ofgem will communicate operational requirements to obligated suppliers as necessary.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared because the instrument does not introduce a new policy. Instead, it updates the existing reconciliation framework to reflect the Government's decision that Warm Home Discount costs should be recovered through energy unit rates rather than standing charges.

Impact on businesses, charities and voluntary bodies

9.2 The principal new impact falls on licensed energy suppliers that participate in the Warm Home Discount scheme. In contrast to the 2022 Regulations, suppliers may be required to provide domestic gas and electricity supply data for reconciliation purposes, and reconciliation calculations will be carried out using the revised methodology. As a result, the basis on which suppliers' shares of scheme costs are

determined will change. The effect on individual suppliers will depend on their customer base, energy supply volumes and Warm Home Discount activity.

9.3 There is no, or no significant, impact on charities or voluntary bodies.

9.4 In other regards, the impact of the Regulations will be as previously assessed in the context of the 2022 Regulations. To minimise the impact of the requirements on small and micro businesses, the approach taken in the 2022 Regulations (and maintained with this instrument) is to exempt the very smallest electricity suppliers. The Government has set a size threshold under which energy suppliers are not required to participate in the scheme. This threshold has been set at 1,000 GB domestic customer accounts. Smaller suppliers may volunteer to participate in a scheme in a scheme year, subject to approval by Ofgem.

9.5 The impact on the public sector is minimal; however, the change introduces new reporting requirements and guidance updates which may have some administrative and financial impact on Ofgem in undertaking its duties.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The instrument does not include a statutory review clause. The schemes made by the Scheme Regulations have effect until 31st March 2031. The Secretary of State is under a duty to conduct a review of a scheme or particular parts of a scheme under regulation 32 of the Warm Home Discount (England and Wales) Regulations 2026 and regulation 37 of the Warm Home Discount (Scotland) Regulations 2026 if the circumstances set out in those regulations are met.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).