

# Warm Home Discount (WHD): Cost recovery

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## About Regen

Regen provides independent, evidence-led insight and advice in support of our mission to transform the UK's energy system for a net zero future. We focus on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition.

Regen is a membership organisation with over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups and research organisations across the energy sector. We manage the Electricity Storage Network (ESN) – the industry group and voice of the grid-scale electricity storage industry in GB.

The transition to a cleaner, smarter energy system offers real opportunities to tackle social injustices head-on, protecting consumers from future price shocks, reducing bills and improving overall health and comfort. We have recently conducted an evidence review of the retail energy transition in Great Britain with Consumer Scotland to understand the potential impacts of retail energy innovations on net zero for different groups and individuals, as well as emerging solutions to ensure the transition works in the direct interests of consumers. We will draw on the findings of this work in this consultation response, alongside the insights we have on fuel poverty and the cost of energy from our position on the Scottish Government's Fuel Poverty Advisory Panel and our previous consultation responses.

## Summary of response

Regen aims to inform and support the decarbonisation of the energy system, while ensuring a just transition that benefits all members of society, gives communities a stake and delivers affordable energy for all. Effective reform of energy bills is, therefore, a central concern in our work. The energy crisis exposed deep inequalities within the energy market. The current system leads to high energy costs that are unfairly distributed, disproportionately affecting people on

low incomes and those experiencing wider vulnerabilities, as well as disincentivising electrification.

We support the aim of the Warm Home Discount (WHD) to support low-income households; however, the recovery of the WHD through energy bills is regressive and creates distortions in the energy market. We welcome the government's consideration of how charges are applied to energy bills and support the aims set out in the consultation to deliver a fairer charging model and achieve greater equity. However, it is our view that the proposal falls short of adequately addressing these aims.

The proposal outlined in the consultation to shift the cost of the WHD to the unit rate is based on the flawed assumption that income is correlated to energy usage. While, on average, low-income households tend to have lower energy consumption, many low-income, high-energy consumers buck this trend.<sup>1</sup> More crucially, the relationship between energy use and household income is intrinsically linked to the affordability of energy, as many low-income households have lower energy demand in part because they are forced to, often having to ration their energy use to unhealthy levels due to the cost of energy bills. A recent cost-of-living survey by the Joseph Rowntree Foundation found that 23% of low-income households reported being unable to keep their homes warm.<sup>2</sup> The same research also identifies that around 40% of households that could not keep their homes warm were not in receipt of means-tested benefits.<sup>2</sup> These households would be unfairly impacted by shifting the WHD levies to a unit-based model, meaning the funding of the WHD wouldn't be any more progressive than it is now. The government should consider a funding approach where at least part of the cost is borne by taxpayers, as recommended by Public First.<sup>3</sup>

The proposal also risks undermining the government's decarbonisation aims by increasing the ratio between gas and electricity unit costs – known as the 'spark gap' – and reducing the savings of disconnecting from the gas network. Moving cost recovery to the unit rate as an equal split between the two fuels would see the spark gap grow, as the cost would be spread across fewer units of energy for electricity. Any changes to energy bills need to incentivise the uptake of low-carbon technologies and make it affordable for all households. While we do not support the consultation's proposal to move the cost of the WHD to the per-unit rate, if the proposals were to be implemented, the costs must be levied principally on gas unit rates, as this would provide the strongest financial incentive to switch to cleaner heating. However, those with the lowest incomes would be unfairly affected if they cannot, or are not supported to, switch to low-carbon heating and, therefore, mitigations or exemptions would be needed for

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<sup>1</sup> [Tackling the energy cost crisis](#). Energy Security and Net Zero Committee, 2025.

<sup>2</sup> [Energy affordability: how to reduce bills for majority of households](#). Joseph Rowntree Foundation, 2025.

<sup>3</sup> [Closing the fuel poverty gap – A plan for targeted energy support](#). Public First, 2024.

those in fuel poverty.<sup>4</sup> The question of whether the costs and benefits of the energy system are fairly reflected in consumer bills will only increase in importance as we decarbonise to ensure that we avoid exacerbating or creating new social, health and economic inequalities.

Regen recommends that the government recovers at least part of the cost of the WHD through general taxation, as has been done with the Renewables Obligation scheme. This would enable a more progressive recovery of costs based on income, rather than energy usage. We also urge the government to expand and evolve the WHD into a full social tariff within the lifetime of the scheme. We believe a social tariff is likely to be the most effective means of supporting those in fuel poverty going forward, offering a sustainable strategic approach, rather than the current fragmented support.<sup>5</sup>

Finally, we would comment that it is hard to understand and provide feedback on the implications of this measure in isolation, without details of other measures that the government is considering. For greater transparency, the government should take a holistic approach to these costs and consult on a package of changes, rather than piecemeal amendments that are hard to assess in isolation.

## Regen's recommendations

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- **Recommendation 1:** The costs of the WHD should not be moved to unit costs and should instead be removed from energy bills entirely
- **Recommendation 2:** The cost of the WHD should be met through taxation and additional work should be undertaken to design and implement a social tariff within the lifetime of the WHD scheme to more comprehensively and sustainably support households in fuel poverty
- **Recommendation 3:** Any changes to energy bills should reduce the unit cost of electricity, compared to gas, to incentivise the transition to clean heat
- **Recommendation 4:** Full details of all proposed changes to energy bills should be published together, allowing a comprehensive understanding of the overall impacts.

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<sup>4</sup> [The UK's Clean Power Mission: Delivering the prize](#). E3G, 2025.

<sup>5</sup> [Review of the Fuel Poverty Strategy: Consultation response](#). Regen, 2025.

## Responses to questions

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

**No**, we do not support moving WHD costs to the unit rate. This proposal would impact certain groups unfairly and does not go far enough to achieve the consultation's aims of delivering a fairer charging model and achieving greater distributional equity.

The government is right to identify that recovering the costs of the WHD through standing charges is regressive. However, moving these costs to the unit rate will not deliver fair outcomes as there is little meaningful connection between household income and energy usage, with many low-income, high-energy consumers who buck this trend.<sup>1</sup> Table 1 of the consultation document shows that moving the costs of the WHD to the unit rate would result in 12 million households impacted negatively by the proposal, including 1.9 million low-income households, on average by £22.

Analysis of the Family Resources Survey 2023/24 by the Joseph Rowntree Foundation found that around 40% of households that could not keep their homes warm were not in receipt of means-tested benefits – these households are most exposed to changes in the recovery of WHD costs.<sup>2</sup> Low-income, high-energy use households will be particularly affected by this change, including people who rely on electricity for their heating, those who are housebound or those who require energy-intensive medical equipment. Table 2 in the consultation highlights this inequality, with a gas-heated house with high energy demand due to medical needs seeing their bills increase by £29 as a result of moving WHD costs to unit rates. The additional cost for these households from shifting the WHD to the unit rate could result in increased energy rationing, leading to adverse impacts on health and well-being.

**Recommendation 1:** The costs of the WHD should not be moved to unit costs and should instead be removed from energy bills entirely.

## Question 2: Are there alternative approaches you think should be considered specifically to mitigate potential negative impacts on consumers?

**Yes**, moving WHD costs to general taxation is fairer and more appropriate. This should be accompanied by reforms to the energy billing system, such as introducing a social tariff or rising block tariff, to more effectively support those in fuel poverty.

The allocation of costs for a welfare measure through bills is intrinsically regressive when compared to recovering through the tax system. The analysis within the consultation indicates that shifting the costs to the unit rate would, on average, result in a slight improvement in the regressive nature of this measure, as it would provide larger savings to low-income households on average. However, the consultation also acknowledges that households with low energy efficiency and/or high energy use will be ‘more likely to lose out as a result of this change’ – household characteristics familiar to many low-income households already in fuel poverty. Collecting the cost through taxation, where the tax burden is linked directly to income, is a fairer approach that better meets the consultation’s aims of delivering a fairer charging model and achieving greater distributional equity.

More broadly, there is a need to lower standing charges more generally, particularly for fuel-poor households and those in energy debt. Wider provision of energy debt forgiveness, zero standing charge rates and a mandatory social tariff across all suppliers should be considered to address this problem and the broader problem of high energy costs. Parliament’s Energy Security and Net Zero Committee’s Cost of Energy inquiry recommends creating a tiered Warm Home Discount Scheme, offering higher-value payments to those on the lowest incomes and with the greatest energy needs.<sup>6</sup> A tiered WHD paves the way for a social tariff, demonstrating many of the elements required. If designed well, a social tariff could be key to ensuring that those in low-income or vulnerable situations can fairly transition to low-carbon heat, helping to shield consumers from higher electricity costs and avoiding penalising those who cannot participate in smarter services.<sup>7</sup>

**Recommendation 2:** The cost of the WHD should be met through taxation and additional work should be undertaken to design and implement a social tariff within the lifetime of the WHD scheme to more comprehensively and sustainably support households in fuel poverty.

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<sup>6</sup> [Tackling the Energy Cost Crisis](#), Energy Security and Net Zero Committee, 2025

<sup>7</sup> [Ensuring a just transition for consumers in the GB retail market](#). Regen, 2025.

### **Question 3: To support the rebalancing of costs between gas and electricity, do you think the government should consider placing greater cost recovery of the WHD onto gas?**

**Yes**, this should be an essential part of this proposal, if implemented. If the WHD were to be moved to unit costs and split equally between fuels, it would exacerbate the spark gap, undermining the transition to clean heat.

The consultation makes clear that high electricity users would suffer the largest increase in bills if the proposal were delivered. This acts to discourage the electrification of heat and undermines the UK's ability to meet its climate targets. The measures in the budget go a small way to improving this, but not far enough to incentivise electrification. The consultation argues that high energy users have benefited the most from changes announced in the autumn budget and that this buffers the negative impact of moving the WHD costs to the unit rate for this consumer group. This argument is flawed.

High energy users have suffered excessively high energy costs and policy charges for decades. Users of direct electric heating pay nearly eight times as much in levies and taxes for their energy needs as gas users do and are twice as likely to be in fuel poverty.<sup>8</sup> Measures in the autumn budget provided some benefit, but these consumers are still significantly disadvantaged. What's more, the envelope of lower bills that has been made available to DESNZ through the budget should be focused very strongly on reducing electricity costs. This is a rare opportunity to address the spark gap while ensuring that all consumers see bills fall. The politics of implementing these changes are made much easier by the overall reduction in cost recovery through bills. The opportunity must be seized, as acting later will be more difficult.

**Recommendation 3:** Any changes to energy bills should reduce the unit cost of electricity, as compared to gas, to incentivise the transition to clean heat.

The consultation notes that the Warm Homes Plan will set out more details on changes to energy prices. We would comment that it is hard to understand and provide feedback on the implications of this measure in isolation, without the wider context. For greater transparency, the government should take a holistic approach to these costs and consult on a package of changes, rather than piecemeal amendments that are difficult to assess in isolation.

**Recommendation 4:** Full details of all proposed changes to energy bills should be published together, allowing a comprehensive understanding of the overall impacts.

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<sup>8</sup> [The UK needs more affordable electric heating tariffs](#), E3G, 2025.