



Consultation on reflecting PPM End User Categories in the default tariff cap - E.ON Response

E.ON welcomes the opportunity to respond to this consultation on End User Categories to be included in the Default Tariff Cap by Ofgem.

We have two main points in response to the consultation, the first regarding the difference between prepayment and non-prepayment Unidentified Gas (UIG) costs. Whilst the split between these is broadly correct, we envisage that they are both too low given historic levels since Nexus replaced UK Link. We believe the allowances should be updated every year as the splits determined by the Allocation of Unidentified Gas Expert (AUGE) do change each year.

We have spent some time understanding what is available publicly, particularly from the AUGE, and how this compares to what we have been modelling internally. Within E.ON we are modelling slightly higher UIG levels due to a difference in periods used and the averaging methods. We would therefore urge Ofgem to use the figure produced by the AUGE for the sole reason this figure is the most independent.

UIG LEVELS

Within the last AUGE statement published in April 2021, an historical average 12-month national UIG run rate was stated to be 2.42%¹ and was shown to be quite steady at that level since March 2019. This is a higher level of UIG than Ofgem are assuming in the UIG allowance.

If the same 2.42% total national UIG is applied to the AUGE splits applicable in gas year 2021/22, EO1 non-prepayment is expected to receive 2.2% and prepayment will receive 6.4% UIG. As Ofgem are only allowing 2% for non-prepayment, this infers Ofgem are allowing for a lower level of UIG nationally than is being seen.

Whilst the proposed 2% and 5.39% split between non-prepayment and prepayment is broadly correct, we believe these figures are based on historic levels of UIG, both of which should now be higher. Therefore, we ask that Ofgem amends the UIG figures it is using in order to reflect current market conditions.

UPDATE FREQUENCY

Ofgem have indicated the UIG rate allowance will not be routinely updated. However even with the same level of national UIG assumed, the AUGE factors can materially change the amount of UIG the domestic settlement categories are assigned. This year there has been a step change in the AUGE factors and the proportion of national UIG being assigned to residential categories is the lowest proportion in years. If there is a future change in the AUGE factors which increases or decreases the proportions applied to domestic settlement categories, which changes the UIG cost we incur, it is reasonable to assume that the allowance should change.

For example:

If the same 2.42% national UIG run rate is applied using the AUGE splits applicable in gas year 2019/2021, EO1B would have received 4.1% UIG.

If the same 2.42% total national UIG is applied to the AUGE splits applicable in gas year 2020/21, EO1B would have received a lesser amount of 3.6% UIG.

Therefore, we ask that Ofgem reconsiders its position on routinely updating the UIG allowance in light of our analysis of the market as it is today.

¹ [Final AUG Statement 2021-2022 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk), page 121