

Suppliers, consumer groups and
other interested parties

Email: priceprotectionpolicy@ofgem.gov.uk

Date: 30 July 2025

Response deadline: 13 August 2025

Dear stakeholder,

Price cap – consultation on the Unidentified Gas allowance in the default tariff cap

1. The purpose of this letter is to consult stakeholders on how we propose to amend the Unidentified Gas (UIG) cost allowance in the default tariff cap ('cap') from cap period 15a (October 2025 to December 2025) onwards. This cost allowance is included in 'Annex 2 – wholesale cost allowance methodology'.¹
2. To set the UIG cost allowance, we currently use data on forecast UIG volumes and forecast consumption (for meter classes which approximate domestic consumers), as estimated by the Allocation of Unidentified Gas Expert (AUGE) in its Annual Statement.² We recognise that AUGE's estimation is primarily intended to determine UIG weighting factors (rather than final UIG volumes), and that it captures only a portion of UIG, which has trended downwards over time. We consider that the current UIG input may no longer reflect suppliers' efficient costs.
3. We propose to use a new input which reflects final UIG volumes, ie Xoserve's estimate of post-reconciliation UIG as a percentage of throughput. This would provide a clearer representation of the financial impacts on suppliers. The proposed amendment is intended to be a temporary measure, while we continue to evaluate a

¹ Ofgem (2025), Wholesale cost allowance methodology (Annex 2), tab '3a Allowances', row 31 and 38.
<https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

² Engage Consulting (2025), Final AUG Statement 2025-2026 (republished 11 April 2025).
<https://www.gasgovernance.co.uk/AUGStatement2526>

robust and enduring approach to setting the UIG allowance as part of our 2025-26 price cap programme of work.³

4. We consider it is important to promptly address the issue with the current input of UIG, to ensure the allowance better reflects the UIG costs that suppliers incur. This is in line with our principle of setting the cap at a level which enables efficient suppliers to recover their costs – something we consider to be in consumers’ interest as an important enabler of a stable and investable market.
5. At the time we set the methodology for including UIG costs in the cap, we had not anticipated the level of under-recovery we have now identified. We consider this issue is having a significant impact on suppliers as the current approach now accounts for a lower percentage of benchmark UIG, than when the methodology was first set.
6. Due to seasonality in gas consumption, we consider that it is more beneficial to make this change prior to the winter cap period. However, with our next cap update taking place in late August, and the consultation period ending shortly beforehand, we will consider whether it is reasonably feasible to proceed to a decision within this timeframe, taking into account any issues raised in responses.
7. We welcome views on the considerations and proposals set out in this letter. We ask that stakeholders send any comments to priceprotectionpolicy@ofgem.gov.uk by close of business on **13 August 2025**. This consultation follows two rounds of previous engagement; we previously held bilateral meetings and sent a UIG scoping letter to suppliers.
8. We are mindful that this is a short consultation period. We consider that this is sufficient for stakeholders to comment given that this consultation does not propose a methodology change, but instead substitutes one data source with another, more accurate, source. We also consider that the consultation length is proportionate in the circumstances given the interest in promptly addressing this significant and unexpected issue.
9. We do not ask any specific questions in this document, but rather welcome views on the matters discussed in this consultation. We will publish the non-confidential responses on our website. Please see Appendices 1 and 2 for further detail on confidentiality and privacy.

Context

10. Most gas consumed in Great Britain is attributed to individual customers, however, some will not be registered due to several reasons, including theft, leakage or

³ Ofgem (2025), Energy price cap: programme of work for 2025-26.
<https://www.ofgem.gov.uk/transparency-document/energy-price-cap-programme-work-2025-and-2026>

consumption by unregistered supply points. The industry refers to gas which is not attributed to an individual supply meter point as Unidentified Gas (UIG).

11. The price cap includes an allowance for UIG, which we calculate in 'Annex 2 – wholesale cost allowance methodology'.⁴ We set the allowance annually using the AUG forecast of UIG for the Gas Year and the forecast consumption for the Gas Year for End User Category (EUC) 1ND and 1PD and Profile Classes 3 and 4 (which approximate domestic consumers). Further details on how we set the allowance can be found in our 2018, 2022 and 2023 decisions, and in the Annex 2 model.^{5, 6, 7, 8}
12. We divide the forecast UIG by the forecast consumption, to set a single percentage UIG allowance for PPM and non-PPM customers. The figure is applied as an uplift to the combined total of the wholesale index and other additional wholesale allowances. Currently the allowance is set at 1.86% (for price cap period 14b, July 2025 to September 2025). Under the latest AUG Annual Statement, the allowance for the next price cap period 15a (October 2025 to December 2025) is calculated to be 1.88%.⁹

Proposal

13. We are proposing to amend the credit and PPM wholesale cost methodology to set the UIG allowance at a level which is more consistent with the final allocation of UIG. We propose to update the UIG percentage input in Annex 2 to be 2.90%. This figure is based on the average post-reconciliation UIG as a percentage of total throughput over the last two Gas Years (currently October 2022 to September 2024).¹⁰ We reallocate this figure to domestic consumers using the forecast weighting factors and forecast consumption from AUG's 2025-26 Annual Statement (where domestic consumers are approximated by the EUC 1ND and 1PD and Profile Classes 3 and 4).

⁴ Ofgem (2025), Wholesale cost allowance methodology (Annex 2), tab '3a Allowances', row 31 and 38.

<https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy-energy-price-cap-default-tariff-levels>

⁵ Ofgem (2018), Default tariff cap: decision – overview. Appendix 4 – Wholesale.

<https://www.ofgem.gov.uk/decision/default-tariff-cap-decision-overview>

⁶ Ofgem (2022), Price Cap - Decision on reflecting prepayment End User Categories in the default tariff cap.

<https://www.ofgem.gov.uk/decision/price-cap-decision-reflecting-prepayment-end-user-categories-default-tariff-cap>

⁷ Ofgem (2023), Decision on technical changes to the price cap methodology.

<https://www.ofgem.gov.uk/decision/decision-technical-changes-price-cap-methodology>

⁸ Ofgem (2025), Energy price cap (default tariff) levels. Wholesale cost allowance methodology (Annex 2), tab '3a Allowances', row 31 and 38.

<https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy-energy-price-cap-default-tariff-levels>

⁹ Engage Consulting (2025), Final AUG Statement 2025-2026 (republished 11 April 2025).

<https://www.gasgovernance.co.uk/AUGStatement2526>

¹⁰ Xoserve (2025), UIG as % of total throughput.

<https://www.xoserve.com/help-centre/demand-attribution/unidentified-gas-uig/uig-as-of-total-throughput/>

14. This approach would add circa £4.30 per year to gas customers' bills at cap 14b,^{11, 12} reflecting real costs faced by suppliers in serving their household customers. We consider that this amendment would improve the cost reflectivity of the cap, and would protect customers' interests by ensuring that suppliers who operate efficiently are able to finance their licenced activities. Given the systematic nature of UIG, and our previous decision to include a specific allowance to account for it, we do not consider that it would be suitable for the headroom allowance to cover these increased costs.
15. The proposed amendment is intended to be a temporary measure, while we continue to consider an enduring approach to setting the UIG allowance as part of our 2025-26 price cap programme of work. Until that time, we propose to maintain annual updates of the UIG percentage in August, based on the approach explained above.

Overview of stakeholder responses

16. On 9 July 2025, we sent suppliers a letter detailing that we are exploring the types of options that we should consider when setting the UIG allowance. We asked suppliers for a) their views on AUGE's forecast of UIG to set the allowance, b) alternative data sources for UIG costs, and c) alternative approaches to set the allowance.
17. All suppliers who responded to the letter agreed that the current approach used to set the UIG allowance is consistently leading to suppliers under-recovering costs. This is because the AUGE's forecast of UIG that is currently used to set the allowance quantifies a limited portion of UIG. Suppliers told us that the purpose of the AUGE's estimation is to calculate the UIG weighting factors used in the allocation of UIG across different meter classes, and not to quantify final amounts of UIG.
18. Beyond suppliers, Xoserve have also indicated that the AUGE forecast we are currently using is not intended for the purpose of estimating total UIG. Suppliers pointed to commentary in the AUGE Annual Statement, where the AUGE says that there is a proportion of UIG that is yet to have its cause identified or, despite identification, cannot be quantified due to the limited availability of reliable data.¹³
19. We received three suggestions of alternative approaches to set the UIG allowance from suppliers. Two suppliers said we could use AUGE's forecast of total UIG based on observed levels of UIG, apportioned to domestic meter classes using the AUGE

¹¹ This figure is based on benchmark consumption equal to 12,000 kWh for gas.

¹² Note that this estimate is based on multiplying the proposed UIG input percentage by the current wholesale index for cap period 14b (July-September 2025). If we decide to proceed with this change, the impact will be based on the wholesale index for cap period 15a (October-December 2025).

¹³ Engage Consulting (2025), Final AUG Statement 2025-2026 (republished 11 April 2025), p. 113.
<https://www.gasgovernance.co.uk/AUGStatement2526>

weighting factors.¹⁴ One supplier said alternatively we could use Xoserve's settlement data to calculate historic outturn UIG for domestic sites.

Considerations

20. UIG is a cost which applies across suppliers. Many causes of UIG are beyond suppliers' control, and while there will be instances where individual suppliers can take actions which may reduce the level of UIG at industry level (eg ensuring that sites are registered, or investigating theft), an individual supplier's allocation of UIG depends on industry trends.
21. The forecasted UIG which we currently use to set the UIG allowance is based on 11 contributors to quantify the forecast, out of the 25 contributors of UIG the AUGE identified.¹⁵ For 2025-26 the AUGE concluded that its bottom-up quantification of UIG only accounted for 64.8% of benchmark UIG. This input has become less appropriate over time, as the proportion of benchmark UIG explained by AUGE's bottom-up estimate has trended downwards over the past few years. For example, in the 2022-23 AUGE statement, the bottom-up estimate accounted for 84.1% of benchmark UIG.¹⁶
22. This means that there is a limited portion of UIG that has been identified or could be quantified due to limited availability of data. As such, the UIG allowance is based on limited availability of data. Continuing with the current UIG allowance for future cap periods may not allow suppliers to recover their efficient costs. So instead, we propose to use a temporary data source to better reflect costs than the current approach.
23. In setting the cap, we must have regard to several matters including the need to ensure that holders of supply licences who operate efficiently are able to finance their activities authorised by the licence. Given that we consider the current UIG allowance may no longer reflect suppliers' efficient costs, we consider that a temporary solution is required to balance our duties under the Act. Furthermore, it will take time to consider and deliver an enduring approach, so we consider that an interim solution will mitigate the impact of this input and allow us to design an allowance that is suitable for the long term.
24. Following supplier feedback, we consider that the most appropriate input to use would be UIG as a percentage of total throughput which is publicly available from Xoserve's website.¹⁷ Xoserve publish a chart which shows monthly UIG as a

¹⁴ Engage Consulting (2025), Final AUG Statement 2025-2026 (republished 11 April 2025), pp. 112-113. <https://www.gasgovernance.co.uk/AUGStatement2526>

¹⁵ Engage Consulting (2025), Final AUG Statement 2025-2026 (republished 11 April 2025), p. 113. <https://www.gasgovernance.co.uk/AUGStatement2526>

¹⁶ Engage Consulting (2022), Final AUG Statement 2022-23 v1.3, p. 111. <https://www.gasgovernance.co.uk/AUGStatement2223>

¹⁷ Xoserve (2025), UIG as % of total throughput.

percentage of throughput at both the initial allocation, and after reconciliations have been processed.

25. We propose to calculate the temporary UIG uplift based on the average of the last two Gas Years' post-reconciliation UIG percentage figure (2.80%). From this figure, we then calculate the domestic UIG percentage using AUGE's forecast weighting factors and forecast consumption from the latest AUGE Annual Statement (where domestic consumers are approximated by the EUC 1ND and 1PD and Profile Classes 3 and 4). Using the 2025-26 Annual Statement, the resulting UIG figure is 2.90% for both credit and PPM, however should Xoserve provide updated reconciled UIG data on their website in sufficient time ahead of the August cap update, then we would seek to reflect it in our analysis. We have not published a spreadsheet with the calculations behind this consultation, but we will make it available to stakeholders on request.
26. We note that this figure has some drawbacks. The post-reconciliation UIG data we propose to use does not include full meter point reconciliation (data between October 2022 and September 2024 is currently reconciled between circa 90-98%). This means that the average post-reconciliation percentage UIG figure will not show a complete picture of domestic UIG. However, we consider that it is more robust than the current approach which does not quantify a significant portion of UIG, and it is therefore suitable as an interim update. We also note that reconciliation of UIG can occur up to four years at "line in the sand",¹⁸ and therefore a longer average (eg four-year window) may have been appropriate. However, a four-year average would include the energy crisis and COVID-19 periods, which saw anomalous gas consumption patterns.
27. The first alternative approach suppliers suggested led to similar estimates of UIG, around 2.9%.¹⁹ This approach uses a forecast of total UIG from AUGE's Annual Statement which is based on historical reconciled data and apportions it to domestic consumers using AUGE weights, akin to our proposed approach. The second alternative requires settlement data from Xoserve which is not readily available, so we could not consider it for the August cap update.
28. Xoserve previously produced analysis for Ofgem which assessed historic UIG levels at allocation and post reconciliation for the domestic energy market. On a longer-term basis, we will consider working with Xoserve to assess whether a more appropriate data input could be used to set an enduring allowance in the price cap.

<https://www.xoserve.com/help-centre/demand-attribution/unidentified-gas-uig/uig-as-of-total-throughput/>

¹⁸ By "line in the sand", we mean the Cut Off Date for the period at which retrospective changes can be made.

¹⁹ The estimate from one supplier was originally 2.97% if based on the 2024-25 AUGE Annual Statement. We have updated it for the 2025-26 AUGE Annual Statement, which gives a revised figure of 2.91%.

Appendix 1: Your response, data and confidentiality

How to respond

1. We want to hear from anyone interested in this consultation. Please send your response to priceprotectionpolicy@ofgem.gov.uk
2. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
3. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

4. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
5. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
6. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.
7. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

8. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.
[ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

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Would you like to be kept up to date with *Consultation*
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendix 2: Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We may share consultation responses with officials from the Department of Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can

contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)"