Decision

Energy price cap - Interim Unidentified Gas allowance

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In this document, we outline our decision to carry out an interim update of the Unidentified Gas allowance methodology in the default tariff cap. We have decided to proceed with our proposals set out in the July 2025 consultation to set the allowance based on average post-reconciliation Unidentified Gas as a percentage of total throughput.

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Executive summary

The default tariff cap ('the cap') includes an allowance for Unidentified Gas (UIG). UIG is the level of gas that is unattributable to an individual supply point (i.e. any losses between gas entering the system and reaching customers). We currently calculate the UIG allowance using the Allocation of Unidentified Gas Expert (AUGE) annual forecast of UIG and gas demand for the Gas Year.

We set the cap to protect existing and future customers who pay standard variable or default tariff rates (collectively referred to as default tariff customers). In doing so, we must have regard to, amongst other matters, the ability for efficient licence holders to finance their activities. Recently stakeholders have said that the data we use to set the allowance is not appropriate for estimating UIG as its intended purpose is to allocate UIG between different groups rather than to estimate the total losses.

For this reason, the allowance no longer reflects the cost of UIG so in July 2025, we consulted on an interim adjustment to the UIG allowance methodology. We proposed to set the UIG allowance using monthly post-reconciled UIG as a percentage of total throughput averaged over two Gas Years.

Stakeholders broadly agreed with this approach in response to our consultation. We are confident it is a more accurate method to apply to the cap going forwards and have decided to proceed with our proposal to implement an updated allowance from October 2025. We have made one calculation change since our consultation, to weight the monthly UIG data by gas demand in the relevant quarter. This is to capture seasonal differences in UIG when calculating the annual average. We consider this better reflects the costs an efficient supplier would incur and improves the accuracy of the allowance.

We intend to publish a call for input in the coming weeks to gather evidence for setting an enduring allowance for UIG in the cap. While the approach adopted through this decision is a methodological improvement, it may not be viable for the long-term given changes in data availability.

1. Introduction

In this chapter, we set out the purpose of this decision and overview of the decision-making stages.

Context and related publications

1.1 The default tariff cap ('the cap') was introduced on 1 January 2019 and protects 22 million default tariff and standard variable tariff customers (referred to collectively as default tariff customers).[1] The cap ensures that default tariff customers pay a fair price for their energy that reflects the efficient underlying costs to supply that energy.

1.2 The cap legislation sets out the objective to setting the cap with a view to protecting existing and future customers who pay standard variable and default rates. We must also have regard to five matters, including the need to ensure that a notional supplier who operate efficiently is able to finance its activities.

1.3 Having considered our duties under the Act, this publication sets out our decision on the interim adjustment to the UIG allowance methodology. The adjustment aims to ensure the allowance more accurately reflects the UIG costs that efficient suppliers incur.

1.4 This decision follows our July 2025 consultation, where we proposed a temporary adjustment to the UIG allowance. Specifically, we proposed to use a new input to set the (interim) allowance at a level more consistent with the final allocation of UIG.

1.5 The key documents relating to this publication are:

- Energy price cap additional wholesale allowance consultation: unidentified gas
- Decision on technical changes to the price cap methodology
- Price Cap - Decision on reflecting prepayment End User Categories in the default tariff cap

Decision-making stages

Stage 1 Consultation open: 30 July 2025

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 13 August 2025

[1] Domestic Gas and Electricity (Tariff Cap) Act 2018. https://www.legislation.gov.uk/ukpga/2018/21/enacted

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Stage 3 Responses reviewed and published: 25 August 2025

Stage 4 Consultation outcome (decision): 25 August 2025

2. Interim UIG update

In this chapter we provide an overview of our decision to implement our July 2025 consultation proposal on the interim UIG allowance. We also summarise stakeholder responses and provide our considerations to points raised in relation to our proposals.

Context

2.1 Most gas consumed in Great Britain is attributed to individual customers. However, some will not be attributable due to several reasons, including theft, leakage or consumption by unregistered supply points. The industry refers to gas which is not attributed to an individual supply meter point as Unidentified Gas (UIG).

2.2 The cap includes an allowance for UIG, which we calculate in 'Annex 2 – wholesale cost allowance methodology'. We set the allowance annually using the AUGE forecast of UIG for the Gas Year and the forecast consumption for the Gas Year for End User Category (EUC) 1ND and 1PD and 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.

2.3 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 AUGE Annual Statement, the allowance for the next price cap period 15a (October 2025 to December 2025) would be 1.88% under the existing methodology.

2.4 Following stakeholder feedback suggesting our current approach to setting the UIG allowance is no longer reflective of the cost faced by suppliers, we consulted on an interim update to the methodology. In our July 2025 consultation, we proposed to use the post-reconciliation UIG as a percentage of total throughput (rather than the AUGE forecast) to update the allowance on a temporary basis, while we gather information on setting an enduring approach.

Decision

2.5 We have decided to implement our proposal to update the UIG percentage input using the average post-reconciliation UIG as a percentage of total throughput over the last two Gas Years (currently October 2022 to September 2024). In doing so, we:

- reallocate this figure to domestic consumers using the forecast weighting factors and forecast consumption from AUGE's 2025-26 Annual Statement (where domestic consumers are approximated by the EUC 1ND and 1PD and Classes 3 and 4); and

- weight the monthly figures by the demand for the relevant quarter to work out an annualised average.

2.6 This approach increases the UIG allowance from 1.88% under the existing methodology to 3.17%. To note, we consulted on an allowance of 2.90% in our consultation. We said that we would seek to reflect any updated reconciled data if it became available in sufficient time ahead of the August cap update. Based on the latest UIG data, the allowance has been adjusted from 2.90% to 2.95%. The application of a weighted average to account for seasonal variation explains the remaining difference (2.95% to 3.17%)

2.7 We estimate the impact of the increase to be circa £5.40 per year to gas customers' bills using cap period 14b (July 2025 – September 2025) as a baseline. Note the impact for the 15a (October 2025 – December 2025) level may differ slightly given the UIG allowance is calculated as a percentage of the gas direct fuel costs, which will be updated as part of the August 2025 cap update.

2.8 We consider that this change will improve the cost reflectivity of the cap, something we broadly consider protects customers' interests by ensuring that suppliers who operate efficiently are able to finance their licenced activities.

2.9 This change 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 have decided to maintain annual updates of the UIG percentage in August, based on the approach explained above. Though noting when we consider the enduring allowance, one option may be to adopt this interim approach if appropriate.

2.10 We intend to publish a call for input in the coming weeks, on the approach for setting an enduring allowance for UIG costs.

Overview of stakeholder responses

2.11 In response to our consultation, we received eight responses from suppliers. Suppliers were generally supportive of our proposals to carry out an interim update of the UIG allowance methodology. Three suppliers included detailed suggestions in their responses, which we have summarised below. Additionally, one supplier included some detailed suggestions to consider for setting the enduring allowance, we will consider them alongside any responses to our call for input on the enduring allowance. Additionally, we received an email from a customer who raised concerns about the impact increases in the cap can have on customers. We remain mindful of the impact on customers of any changes we make to the cap and consider this as part of our decision making and statutory duties.

2.12 In this decision document we have focused on substantive points that are relevant to this particular decision.

2.13 One supplier said that averaging monthly UIG percentages without weighting them in line with monthly variations in industry volumes will lead to an allowance that does not align to the overall UIG outturn. It suggested we should weight the monthly UIG percentages by demand and said that we would be able to obtain such data from Xoserve.

2.14 Two suppliers said that when allocating UIG, we should not include Class 3 in the calculation. One stated that nationally, only 16% of domestic customers are assigned to Class 3 and within that supplier's own portfolio, there were no default tariff customers assigned to this class. The other respondent said that a customer must accept a smart meter to be moved to Class 3, and there is a lag in default tariff customers taking up a smart meter.

Considerations

2.15 In line with our proposal, we consider that it is appropriate to update the source for UIG data. We consider that the most appropriate input to use for this interim allowance is UIG as a percentage of total throughput. This is publicly available from Xoserve's website. Xoserve publish a chart which shows monthly UIG as a percentage of throughput at both the initial allocation, and after reconciliations have been processed.

2.16 We will implement the change from cap period 15a (October 2025 to December 2025). Due to seasonality in gas consumption, we consider it beneficial to make this change prior to the winter cap period, to help enable suppliers to recover their efficient costs in a timely manner, which in turn should help ensure they are able to finance their licenced activities. This helps to set the cap at a level which enables a notionally efficient supplier to recover its costs – something we consider to be in consumers' interests.

Averaging monthly UIG

2.17 In our consultation, we proposed to average monthly UIG figures to calculate an annualised UIG percentage. This would mirror the current approach of setting a percentage once a year, updated in each August cap update. In our calculations, we used a simple average.

2.18 One supplier said that it would be more appropriate to use a weighted average to calculate an annual allowance, as a simple average may undervalue the level of outturn UIG.

2.19 Our analysis of UIG as a percentage of total throughput suggests that UIG tends to be higher during periods of greater gas demand (eg winter periods where gas demand is driven by weather). We acknowledge that using a simple average across months would overlook seasonal differences and could risk understating the allowance over the course of a year.

2.20 Therefore, we have decided to adopt a weighted average approach. Given we are setting an interim allowance to be implemented in October, we do not have access to monthly demand data nor the time to request in advance of this decision. As explained above, we consider that implementation ahead of winter is sensible and therefore would not delay implementation of the change solely to use a different data source for weighting. We have decided to use quarterly gas demand data from the 'Annex 2 – Wholesale allowance' model as a proxy to weight the demand across the months. We consider this approach to be adequate for capturing seasonal differences in UIG and provide a more accurate allowance (relative to our consultation position) that reflects the costs of an efficient notional supplier.

Domestic weighting factors

2.21 The figures for UIG as a percentage of throughput that Xoserve publish are combined for domestic and non-domestic. We calculate the allocation to domestic using the weighting factors from the 2025-26 AUGE report. Part of the AUGE methodology is to allocate UIG over End User Categories (EUCs) and Classes, where:

- EUCs categorise gas consumers by their different usage pattern, with classes 1 and 2 representing lower consumption bands (0 to 73.2 MWh per year and 73.201 to 293 MWh per year respectively). Both classes are split across domestic/non-domestic and pre-payment/non-prepayment meters.
- Classes relate to the type of meter arrangement in place, with Classes 3 and 4 representing supply points that are Non-Daily Metered (NDM). Class 3 meters are read daily, with reads sent in batches on a regular basis by shippers. Class 4 meters are read at agreed intervals: annually, every 6 months or monthly.

2.22 For this interim allowance, we have decided not to deviate from the weighting methodology used to determine the current allowance. At this stage, we have not seen evidence that excluding Class 3 from the calculation would better represent the aggregate costs of serving default tariff customers, compared to the current approach. Nor have we seen evidence which supports the position that suppliers are unable to use Class 3 for default tariff customers. While smart meters are a prerequisite for using Class 3, and smart meter rollout may differ between fixed and default tariff customers, there will nonetheless be default tariff customers with smart meters at this stage of the rollout. We do not consider that information on a single supplier's allocation of customers between Classes is determinative, as supplier behaviour may vary across the market. However, we may revisit this point when setting the enduring allowance for UIG.

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.