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Sent by email to: [pricepolicyprotection@ofgem.gov.uk](mailto:pricepolicyprotection@ofgem.gov.uk)

Dear Price Protection Policy team,

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

Thank you for the opportunity to input to this consultation. We welcome Ofgem's intention to review the inputs used for setting the UIG allowance.

We strongly agree that it is important that Ofgem promptly addresses the issues it has identified with the current input used to calculate the UIG allowance. As Ofgem note the cap must be set at a level which enables efficient suppliers to recover their costs, and this is in consumers' interest 'as an important enabler of a stable and investable market'.

We have commented further below on the key areas of your consultation.

**Ofgem's proposal for a temporary measure**

Ofgem has proposed to update the UIG allowance based on a new input data source as a temporary measure. We agree that this is necessary to prevent further under-recovery of costs by suppliers and that it should be implemented as soon as possible in the October price cap.

Ofgem currently use the Allocation of Unidentified Gas Expert (AUGE) forecast of total UIG for the Gas Year and forecast consumption approximating domestic users to set the allowance ('the AUGE forecast').

Ofgem considered the impact of the use of the AUGE forecast in its 2022 decision on reflecting prepayment end user categories (EUC's) in the default tariff cap.<sup>1</sup> It found that regular updates to the UIG allowance would be required 'to ensure that they continue to reflect the costs associated with UIG.'<sup>2</sup> Since that decision was implemented (cap period 8), Ofgem has updated the UIG allowance on a 6 monthly basis and carried out a technical

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<sup>1</sup> [Decision on reflecting prepayment End User Categories in the default tariff cap](#)

<sup>2</sup> Ibid, Paragraph 3.42.

review (implemented in cap period 11). However, there has been no change to Ofgem's use of the AUGÉ forecast as input data.

The AUGÉ's view in its final 2024/25 statement, is that 'there is a proportion of UIG is yet to have its cause identified or, despite identification, cannot be quantified due to the limited availability of reliable data'.<sup>3</sup> The statement includes the results of a benchmarking analysis which compares the AUGÉ forecast with a 12-month rolling average best view of UIG. This analysis reveals the proportion of UIG that has not been identified by the AUGÉ forecast. The same analysis has been provided in the AUGÉ's 23/24 and 25/26 statements and is set out below.

**Table 1: Centrica summary of AUGÉ statements 23/24 – 25/26**

AUGÉ Estimate	Cap period	UIG Forecast	Benchmarked UIG	Forecast UIG as a proportion of benchmark UIG
		GWh	GWh	%
Auge statement 25/26	Oct 25-Sep 26 cap	7,648	11,798	64.8
Auge statement 24/25	Oct 24-Sep 25 cap	7,761	11,066	70.1
Auge statement 23/24	Oct 23-Sep 24 cap	8,497	11,713	72.5

Source: [AUG Statement 2024/25 | Joint Office of Gas Transporters - Gas Governance](#)

For 2024/25, AUGÉ's analysis estimates that its UIG forecast is 70.1% of the benchmark UIG. This figure is expected to be even lower in the next period and' as Ofgem note, it is trending down. These shortfalls represent a systematic and material error leading to an under-recovery against the current UIG allowance. We consider that Ofgem is right to avoid further under-recoveries by implementing a change to this data source as soon as possible. As Ofgem noted in their review of wholesale cost allowances in 2023-4:

*'where there are clear, material and unforeseen errors which necessitate changes to protect customers, then we have consistently stated that will consider the case for correction, including retrospective correction.'*<sup>4</sup>

Promptly addressing under-recovery means that the cap allows suppliers to recover revenue contemporaneously with costs incurred, so that costs are paid by current consumers.

### Ofgem's proposed data source

We agree with Ofgem's proposal to use Xoserve's estimate of post-reconciliation UIG as a percentage of throughput to set the UIG allowance. However, averaging the monthly UIG percentages without weighting them in line with monthly variations in industry volumes will lead to an allocation that does not align to the overall UIG outturn. We believe Xoserve would have the absolute numbers for adjusted UIG and overall demand in order to create the published percentages and these could be provided to Ofgem in order to create a more robust allowance.

<sup>3</sup> [Microsoft Word - Final AUG Statement 2024-2025 1.2 final.docx](#)

<sup>4</sup> [Energy price cap wholesale adjustment decision](#)

## An enduring review

Ofgem has not set out the scope of a potential enduring review so we cannot comment on this aspect of the consultation. However, we would suggest that any such review consider the historic under-recovery Ofgem have signalled in this consultation. We note that Ofgem did consider the drawbacks of the AUGE forecast data when it began using this source data in cap period 8 following comments from stakeholders.<sup>5</sup> However, Ofgem considered the data source to be appropriate at the time whilst acknowledging that 'suppliers may be exposed to higher UIG levels'. Ofgem's stated view was that:

*'We consider the 'Final allocation of Unidentified Gas statement AUG table' to reflect more accurately efficient UIG levels and more appropriate to use for holistic market analysis.'*<sup>6</sup>

Since that time AUGE benchmarking data has revealed a systematic proportion of UIG that is not included in the AUGE forecast. We welcome Ofgem's clarification that '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.'<sup>7</sup> This recognises the materiality of under-recovery, its systematic nature and the fact that it was unforeseen by Ofgem, at the point that Ofgem adopted the current approach.

Ofgem made technical changes to the current approach to UIG in cap period 11a. These changes included a number of adjustments but also raised Ofgem's use of the AUGE forecast. In particular, a stakeholder raised the under recovery resulting from the current data source. At that time, Ofgem did not consider a change to the data source.<sup>8</sup>

We believe that the issues with the use of the AUGE forecast were material and systematic at this stage and should have been addressed by Ofgem. As a result of the continued use of the AUGE forecast, the UIG allowance in price cap period 11 and 12 was 1.92% of wholesale costs against an allowance based on Ofgem's proposed data source<sup>9</sup> of 3.1%. This represents a material under-recovery of over 1% of wholesale energy costs, over each of the past eight price cap periods

We hope that these points are helpful and look forward to engaging with any forthcoming consultation on this matter.

Yours sincerely,

Essie Barnett  
Regulatory Manager

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<sup>5</sup> [Decision on reflecting prepayment End User Categories in the default tariff cap](#)

<sup>6</sup> Ibid

<sup>7</sup> [Energy price cap additional wholesale allowances consultation - unidentified gas](#)

<sup>8</sup> [Decision on technical changes to the price cap methodology | Ofgem](#)

<sup>9</sup> [UIG as % of total throughput - XOSERVE](#)