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Response to consultation on Unidentified Gas allowance in the price cap

By email: priceprotectionpolicy@ofgem.gov.uk

Dear Rishi

Thank you for the opportunity to respond. We welcome Ofgem's update to the UIG allowance to make it more cost-reflective, though we regret the impact this will have on bills, which we consider are already too high due to waste in the energy system

As set out in our response to your UIG questions earlier this year, we agree that unfortunately the current approach relying on AUGÉ forecasts is no longer accurate. As Ofgem notes, UIG costs are, to a large extent, outside suppliers' control and are a systemic cost. We therefore support a price cap methodology for this input which prioritises cost reflectivity and simplicity.

We also support Ofgem making this change prior to the winter cap period": the winter quarter will be 40-45% of total annual figures and that historically, there is a higher proportion of UIG during the highest consuming period.

Our internal analysis suggests that the UIG allowance percentage could still be higher than the 2.9% suggested by Ofgem's revised methodology. This is primarily because:

- More recent settlement periods (Oct 25 to date) suggest even higher levels of UIG to date than the reference period.
- The reference period itself has not concluded reconciliation to line in the sand and is likely subject to further increases.
- The AUGÉ weighting factors for Domestic have trended upwards since the lower EUC classification was introduced in 2021/22 e.g. Class 4 from 1% to 1.9% of Total.

We would like to see Ofgem take these factors into account either in this update or in the enduring update to the allowance, expected next year.

We also support Ofgem's intention to update the UIG methodology on an enduring basis soon. When it does that work:

- We suggest Ofgem seeks to use a number of different sources to calculate the UIG allowance, rather than just one number, as this will increase accuracy. We suggested

a number of sources in our response to your July questions including Xoserve's outturn data, regional data, and supplier-reported observations.

- We would support having a mechanism for updating the level to allow it to adapt to market changes or new data without requiring continuous full re-scoping reviews.
- We encourage working with Xoserve to assess whether a more appropriate data input could be used to set an enduring allowance in the price cap. We think discussions with Xoserve could cover data they already produce, namely:
 - Market Reconciliation Reporting by EUC / LDZ
 - UIG values at allocation (D+5) from the Throughput report
 - UGR (Unidentified Gas Reconciliation) values from the Monthly Reconciliation and Offline Adjustment reports
 - UIG reconciliation costs per LDZ / Class / EUC in the Reconciliation By Month Reporting
 - Observed Supplier Reported Levels calculated from Reconciliation Invoicing Backing Data
 - Data that underpins the AMS / AML / ASP Invoices - K88/89 GRE; K91 UGR etc.

Yours faithfully

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