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Sent by email to: priceprotectionpolicy@ofgem.gov.uk

Dear Danny,

RE: Call for input on the enduring approach to the Unidentified Gas (UIG) allowance

Thank you for the opportunity to respond to Ofgem's call for input on the enduring approach to the Unidentified Gas (UIG) allowance in the default tariff cap.

Centrica supported prompt action to address the issues identified with the current methodology and we were pleased to see these implemented in the October 2025 price cap. We also welcome this enduring review which should address the underlying issues that led to Ofgem making a temporary adjustment. The price cap intentionally did not include an overarching mechanism to correct for forecast error but was designed to deal with 'unforeseen trends in efficient costs' in the following ways:

I. updates to the cap level;
II. the headroom allowance;
III. adjustments to the cap models; and
IV. licence modifications to change the methodology.[1]

Ofgem's proposed update to the UIG allowance is a change to the input value for UIG in Annex 2. We understand that this would be considered an adjustment to the cap models (III above). In updating the cap models, Ofgem may make changes to cap models when there are 'significant and unanticipated change of circumstances' which mean that the model no longer reflects an efficient level of the allowance.[2]

For Ofgem to determine whether a 'change of circumstances' has arisen it would need to periodically review the price cap models. We do not believe that Ofgem has effectively monitored Annex 2 including the UIG allowance or, where it has instigated a review, carried it out in a timely manner.

[1] Default Tariff Cap: Decision Appendix 3 – Updating the cap methodology.
[2] 28AD.16

Under-recovery of UIG was raised with Ofgem:

- in relation to its February 2022 decision to reflect prepayment EUCs in the price cap;[3]
- in response to Ofgem's early 2023 Call for Input on Additional Wholesale Allowances, when Ofgem also received broad support for a short-term review of the allowances including specific concerns about the UIG allowance;[4] and
- in relation to technical changes to the cap methodology in August 2023.[5]

By the time of Ofgem's August 2023 decision, the AUGE benchmarking data had already revealed a systematic proportion of UIG that was not included in the AUGE forecast leading to an under-recovery of UIG.[6] Ofgem's failure to monitor costs has led to a material under-recovery for suppliers which Ofgem is not proposing to correct. This historic under-recovery combined with Ofgem's proposal to review the allowance annually necessitates a systematic monitoring process to ensure that future material under-recoveries are avoided.

As we discussed when we met with your team earlier in October, Ofgem has also identified material under recoveries in relation to GCF and benchmark consumption which must be corrected. These under-recoveries exacerbate the impacts that have been identified in relation to UIG and we believe they should have been corrected earlier in line with Ofgem's intention to make changes to adjust both cap models and the methodology when required.

It is also important to note that these under-recoveries are not addressed by other methods for addressing unforeseen trends e.g. mechanistic updates to the cap level and the headroom allowance. The headroom allowance was designed to address 'residual uncertainty' across all cap components with a further wholesale uncertainty allowance addressing specific wholesale risks. Whist we agreed that Ofgem was right to acknowledge residual uncertainty[7] we have demonstrated to Ofgem that the headroom allowance has been persistently set at a level that does not allow an efficient supplier to recover its costs.
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We believe it is not feasible that the headroom allowance has been sufficient to cover residual uncertainty. In price cap period 14b the headroom allowance was £18 per direct debit customer at typical consumption. In comparison, Ofgem identified required increases (in the same period) of:

- £4 in relation to the UIG allowance (gas accounts only);
- £8-17 in relation to benchmark consumption (dual fuel accounts)[8]; and
- A 1.5% shortfall in electricity loss factors (£4.50 if applied to a £300 wholesale allowance (electricity accounts only)).

Even accounting for the 1% additional wholesale risk allowance, these required increases are clearly significant when compared to existing uncertainty allowances. Ofgem must therefore consider the impact of this historic under-recovery on suppliers' ability to recover their costs. It should also acknowledge the crystallisation of these risks in any future review

[3] Decision on reflecting prepayment End User Categories in the default tariff cap
[4] Price cap: Call for Input on Additional Wholesale Allowances Review
[5] Decision on technical changes to the price cap methodology
[6] Final AUG Statement 2023-2024 1.5.pdf
[7] We also noted that Ofgem should allow further allowances to accommodate legitimate variation in efficient costs and to satisfy the requirement in the Act to maintain customers' incentives to switch.
[8] Excluding option 3 which Ofgem note would not be consistent with existing headroom.

of the headroom allowance. Such a review should specifically consider the impact of procedural delays to adjustments to cap models cost recovery. Whilst these delays can and should be mitigated through the design of the allowance, we consider that they also necessitate specific quantification within any future headroom allowance.

We have responded to your consultation questions in relation to implementing an enduring UIG allowance in the Annex below.

Yours sincerely,

Essie Barnett

Regulatory Manager
Centrica Regulatory Affairs & Policy

Annex 1 - Consultation Questions

Data Sources for an Enduring UIG Allowance

a) Do you have any views on data sources we should use to set an enduring allowance on UIG?

Ofgem's core objective should be to align the UIG allowance to the charges that a notional supplier faces. Failure to do this can result in further material under-recoveries.

We agree that Ofgem should review the data source used for the interim adjustment given the lag in updates to the domestic weighting factors and uncertainty about future publications by the AUGE. We agree that Ofgem should consider all available data sources including bespoke analysis by Xoserve. Ofgem should also consider the need to have the capability to monitor the data which it uses to estimate UIG to identify any departures from the charges that a notional supplier faces.

We do, however, acknowledge that bespoke analysis will be costly and time consuming. We suggest that Ofgem carries out feasibility work to determine an appropriate data source and engages suppliers as part of this process.

As in the case of the temporary allowance, it will be essential that Ofgem weights any monthly data it uses to reflect seasonality of consumption.

b) If retaining the interim approach as the enduring approach, what are your views on keeping fixed the weighting factors to split between domestic and non-domestic based on the 2025/26 AUGE report? Are there alternative approaches we could use to retain the same data source but apply a split?

We are not aware of any alternative data that could be used to allocate UIG to domestic and non-domestic customers. Should Ofgem become aware of any alternatives we suggest it carries out feasibility work to determine an appropriate data source and engages suppliers as part of this process. In assessing alternatives Ofgem should consider the impact of fixing weighting factors on cost recovery, including identifying any trends in the weighting factors to date.

c) c) Do you have any views on the methodology we should use to set an enduring allowance on UIG? This could include:
   i. Number of years of data the calculation should be based on (e.g., last two gas years);

A weighted 24 month average balances the need to ensure the allowance is based on reconciled data and the need to use the most recent data. However, combined with annual updates, a 24-month average does create a significant lag in the data used to set the allowance and the costs that suppliers incur. Where UIG is trending upwards, this could lead to further under-recovery of this allowance.

An alternative option would be to use a 12-month weighted average which could reflect current levels of UIG better. However, we would suggest that in this case a 3-month lag is introduced to prevent recent settlement months, which are unreconciled, from affecting the average. Xoserve publish data which shows the percentage of allocated energy which has

been subject to meter point reconciliation. As of July 2025, this data illustrates that a 3 month lag would remove months where less than 80% of the original allocation is reconciled.[9]

Ofgem should actively monitor the index used and if material changes in UIG levels are observed review the approach taken.

ii. EUCs and Profile Classes to calculate UIG on, including any evidence on which EUCs and Profile Classes price cap customers sit within;

We are not aware of any evidence on which EUCs and profile classes price cap customers sit within. Ofgem should consider any further information it receives on the appropriate EUCs and profile classes for price cap customers including on relevant characterisitcs of SVT customers.

iii. Frequency of updates.

The UIG allowance should be reviewed and updated at least annually to ensure it remains reflective of actual costs. More frequent updates may be considered if material changes in UIG levels are observed and Ofgem should actively monitor and report on this.

We welcome Ofgem acknowledging that 'UIG costs are largely outside of supplier's control'. However, we note that Ofgem is also considering 'how setting an enduring allowance may affect any incentives to reduce UIG'. We do not believe that setting a UIG allowance below the costs a notional supplier is incurring will create such an incentive. Even efficient suppliers cannot control the activities of other suppliers and other parties which can affect the outcome of UIG costs and allocation, and neither can Ofgem guarantee the actions of these parties.

Ofgem has presented no evidence that historic under-recoveries against the UIG allowance, which it has acknowledged have occurred, have created stronger incentives for suppliers to reduce UIG.

Furthermore, we would note that other mechanisms exist to address the causes of UIG. Standard Licence Conditions 12.A. outlines supplier obligations to take all reasonable steps to detect, investigate and prevent theft. The Retail Energy Code further includes the Energy Theft Reduction arrangements specified in Schedule 7 which are in place to combat energy theft and support suppliers to deliver their SLC 12.A obligations. The Theft Detection Incentive Scheme (TDIS), as part of the REC's theft arrangements, sets specific theft identification targets for suppliers based on their market share.

[9] Chart - % of allocation reconciled - XOSERVE