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13 October 2025

Dear Rishi

CALL FOR INPUT ENERGY PRICE CAP: ENDURING UNIDENTIFIED GAS ALLOWANCE

We welcome the opportunity to respond to Ofgem's call for input in connection with its work to develop an enduring allowance for Unidentified gas (UIG) within the energy price cap. We welcome Ofgem's recognition of the importance of enabling efficient suppliers to recover their costs, and its acknowledgement that UIG costs are largely beyond a supplier's control. Failure to address this issue could create risks to supplier investability and market stability.

We would like to raise two key concerns for your consideration:

Geographical variation in UIG

In our response to the Energy Price Cap additional wholesale allowance consultation, we highlighted the significant role that geographical Local Distribution Zones (LDZs) play in UIG allocation. Our analysis (see chart in Annex 1) shows a significant variation in UIG percentage values across LDZ regions for ScottishPower for the period June to August 2025. At present we are observing UIG percentages ranging from [✂]% to [✂]%, though these percentages may change as further reconciliations are received. This suggests that applying a flat UIG allowance may result in competitive distortions where suppliers' customer bases are biased towards regions with high or low UIG values. We strongly recommend that Ofgem calculates LDZ-specific UIG allowances and maps these onto price cap regions in the same way that gas transportation allowances are mapped.

Frequency of updates to the Cap

Ofgem considers an annual review would be most appropriate in finding the balance between keeping the allowance regularly updated without increasing the frequency of bill changes. However, as outlined in our response to the Energy Price Cap Methodology Group Correction Factors, we strongly recommend aligning the update frequency with

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the price cap review cycle. Using the most recent settlement data will improve accuracy and ensure the methodology remains responsive to market dynamics.

We support Ofgem's commitment to exploring alternative approaches to ensure that the UIG allowance within the price cap is fair, evidence based and reflective of prevailing market conditions. This commitment has already led to the implementation of an interim solution on the 1 October 2025 for Period 15a (October-December) and is now underpinning the development of a longer term enduring allowance, an initiative we are keen to engage with.

Our responses to the qualitative questions are detailed in Annex 1.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

Annex 1

ENERY PRICE CAP: ENDURING UNIDENTIFED GAS ALLOWANCE – SCOTTISHPOWER'S RESPONSE

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

We expressed clear support in our August response to the energy price cap additional wholesale allowance consultation for Ofgem's proposed shift to using final reconciled UIG volumes. In our view, replacing the current AUGE-based forecast with Xoserve's reconciliation estimates of throughput represented a more accurate and transparent interim solution. This aligns with the implementation of UNC modification 0862, "Amendments to the UIG Reconciliation Period".

The domestic share of UIG depends on:

a) the final industry UIG position post-reconciliation;
b) domestic energy consumption (post-reconciliation) as a share of total GB consumption; and
c) the relative size of the UIG Weighting Factors across all sectors.

We strongly advocate the use of bespoke analysis from Xoserve. Given its role as the central data service provider and its access to final UIG values, Xoserve would have the absolute numbers. Enhanced forecasting, coupled with a robust true-up process, would significantly improve accuracy and bolster stakeholder confidence. While this data is not currently published in the required format, Xoserve has the capability to produce it and make it publicly available, which would significantly enhance transparency.

Combining Xoserve's final UIG data with the AUGE's consumption forecasts and UIG Weighting Factors would enable a more representative calculation of the UIG allowance, one that better reflects the actual costs borne by suppliers. It is important to note that, following recent code modifications, updates to UIG forecasts will occur less frequently, being every three years as opposed to annually.

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 supportive of retaining the fixed weighting factors based on the 2025/26 AUGE report, which came into effect on 1 October 2025. These factors reflect the split between domestic and non-domestic consumption and are used by Xoserve to determine the allocation of UIG on shipper's invoices. Therefore, maintaining these weighting factors ensures consistency in how UIG charges are applied to shippers.

Following the implementation of UNC Modification 0868, *Change to the current Allocation of Unidentified Gas Statement frequency & scope,* the weighting factors will remain unchanged until 1 October 2028. This provides the AUGE with sufficient time to:

1. **Broaden Market Engagement**: including outreach to parties outside the gas industry, such as electricity and water markets, to explore parallels with other utilities.

2. **Support UIG Reduction Initiatives**: establishing a defined role for the AUGE not only in determining the optimal allocation of UIG but also in identifying opportunities to reduce its overall volume.

3. **Enable Discovery Services**: allowing the AUGE to propose areas for further analysis and investigation.

We will continue to engage with the AUGE on these matters.

c) Do you have any views on the methodology we should use to set an enduring allowance on UIG? This could include:

As set out below, we have carried out some analysis to explore whether LDZ-specific factors are contributing to the variations in UIG levels we observe.

The UNC Modification 0862 "Amendments to the Unidentified Gas Reconciliation Period Arrangements"[1] came into effect in July 2025 and was reflected in invoices from June. Our analysis therefore focused on a three month period, June to August 2025.

The chart below illustrates ScottishPower geographical impact from **June to August 2025**. We would expect the variation in UIG % values to show similar geographical trends for other suppliers.

[✂]

Source: For NDM Commodity and Amendment file from Xoserve. For UIG allocated volumes from Gemini system and UIG reconciliation from the Amendment file.

Five LDZs (LC, LO, LS, LT and LW) have been excluded from the chart due to our very small customer representation in those regions, accounting for just 0.1% of our total volume.

The invoiced UIG for the settlement months of June to August 2025 has been adjusted to exclude the assessed portion associated with non-domestic supply. Xoserve could retrospectively analyse historical data to confirm the geographical impacts.

We wish to reiterate our view that geographical LDZs play a significant role in UIG allocation. Each LDZ has distinct characteristics that influence both gas consumption patterns and data accuracy. In light of this and the chart above, it would seem appropriate to have a LDZ specific percentage associated to each region rather than a flat rate as there is a significant variation seen.

[1] Implemented 1 July 2025 https://www.gasgovernance.co.uk/086

The significant disparity in UIG values across different LDZ regions means that applying a single regional-average UIG value unfairly penalises suppliers whose customer base is concentrated in higher UIG areas. We strongly recommend that Ofgem calculates LDZ-specific UIG allowances and maps these onto price cap regions in the same way that gas transportation allowances are mapped.

i. number of years of data the calculation should be based on (eg last two gas years)

There are two relevant code modifications scheduled for implementation on 1 April 2026:

- UNC 0896 Reducing the current Code Cut-Off Date (Line in the Sand) from 3 to 4 years to 2 to 3 years[2]; and
- UNC 0886V - Amend the Code Cut-Off Date to a Rolling Period[3]

In light of this, we support the adoption of a two year rolling average dataset, covering the gas years from October 2022 to September 2024.

If the frequency of the UIG allowance updates is to a quarterly basis (ie every three months), we recommend that a rolling two year average calculation be applied as follows:

- April 2026 Price Cap: based on data from April 2023 to March 2025
- July 2026 Price Cap: based on data from July 2023 to June 2025

We consider this two year dataset to be an appropriate and proportionate basis for analysis.

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

We believe that any EUC and Product Class associated with “domestic usage” should be included in the UIG calculation in order to set an enduring allowance, subject to keeping under review whether the mix of customer product classes on SVT is reflective of customers as a whole. On that basis, domestic customers would include both Product Classes 3 and 4, as well as EUCs 1PD, 1ND, 2PD, and 2ND. These categories represent the vast majority of domestic consumption and therefore play a critical role in ensuring accurate UIG allocation across Shippers.

iii. frequency of updates

We strongly recommend aligning the update frequency with the price cap review cycle for the wholesale allowance, ie every three months. Using the most recent settlement data will improve accuracy and ensure the methodology remains responsive to market dynamics.

ScottishPower
October 2025

[2] Implementation 1 April 2026 http://www.gasgovernance.co.uk/0896
[3] Implementation 1 April 2026 https://www.gasgovernance.co.uk/0886