Octopus Energy
UK House,
164-182 Oxford Street,
London W1D 1NN

w: octopus.energy
e: hello@octopus.energy
p: 0808 164 1088

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Response to consultation on Unidentified Gas (UIG) Wholesale Allowance in the price cap

By email: priceprotectionpolicy@ofgem.gov.uk

Dear Rishi,

Thank you for the opportunity to respond to this consultation on amending the Unidentified Gas (UIG) calculation in the price cap to a more cost-reflective enduring methodology.

We welcome Ofgem's decision to temporarily amend the UIG allowance methodology, though we regret the impact that has on bills which we consider are already too high due to waste and inefficiency in the energy system.

Our internal analysis suggests the temporary methodology is still likely to fall short of both present and future outturn rates.

Overall, we support a price cap methodology which prioritises cost-reflectivity and simplicity. Predictability in the cap helps efficient suppliers to price Standard Variable Tariffs competitively, creating savings for consumers.

Benchmarking the allowance

Our internal analysis suggests that the UIG allowance percentage could still be higher than the 3.17% suggested by Ofgem's revised methodology:

- From 2023 to 2024, Octopus Energy's UIG rates have consistently outturned above the historical allowance
- This year, up to July 2025, UIG rates have trended upwards at a much faster rate than previously experienced.
    - As UIG rates trend higher in winter months, this value is likely to rise further by the end of the year.

This is in part due to the AUGE weighting factors for domestic demand, which have trended upwards since the lower EUC classification was introduced in 2021/22. i.e., Class 4 weighting has risen from 1% to 2.1% of total.

This consistent upwards trend over the past ~3 years suggests that back-dating the UIG allowance will continue to deliver material under-recovery of supplier costs. However, given the uncertainties in estimating future UIG accurately, a general principle could be to use the most recent data that reaches a minimum standard of reliability. This will be discussed in Question (c)(i).

Considering systemic versus non-systemic costs

As Ofgem notes, UIG costs are to a large extent outside suppliers' control and are systemic. We encourage Ofgem to firmly consider the distribution of such factors in any enduring update to the UIG allowance.

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

Yes, as set out in our response to Ofgem's UIG consultation in August:

- 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.

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?**

While MOD 0873 may limit the ongoing availability of weighting factor data, it could feasibly be replicated by Xoserve on an interim basis, or used as an input given the consistency of the historic trend.

We recommend one of these two options, but believe that retaining the existing weighting factors would be acceptable should the cost and complexity of this process outweigh the relative benefits.

c) **Do you have any views on the methodology we should use to set an enduring allowance on UIG?**
   i) **number of years of data the calculation should be based on (eg last two gas years);**
   ii) **EUCs and Profile Classes to calculate UIG on, including any evidence on which EUCs and Profile Classes price cap customers sit within;**
   iii) **frequency of updates.**

Based on recent upwards trends, calculating the UIG allowance based on two prior gas years of data is a reasonable yet limited approximation of current UIG rates, which could still lead suppliers to materially under-recover on UIG costs. The use of a single gas year would provide more accurate and timely cost-recovery, but would lead to more volatility in the cap rate year-on-year.

To partially address the issue of backdating and the timeliness of cost-recovery, however, it may be appropriate to include volumes in an earlier stage of reconciliation. For instance, Ofgem could set rates based on the most recent 12 or 24 months for which 'reliable' data is available.

This could involve the inclusion of any consumption months in the reference period where the reconciliation rate is >80%, interpolating this UIG value up to 100% consumption. As of today, this would enable Ofgem to use data dating back from April 2025, rather than September 2024. We note however the importance of using a consistent reference point for the start of each rolling average, meaning the same starting month would need to be used for each update to avoid undermining the cost-reflectivity of the allowance.

We recommend cap updates for UIG no less than once-annually in October, and no more than twice-annually, as is the case for loss factors applied to electricity bills. The potential for more frequent updates should ultimately be considered in line with the need to balance simplicity with the need for cost-reflective recovery.

Yours sincerely,

Sam Whitworth
Energy Market Regulation Adviser