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"Energy Price Cap: Enduring Unidentified Gas Allowance" – So Energy Response

Dear Rishi,

So Energy is a leading energy supplier providing great value renewable electricity to homes across Great Britain. We supply over 300,000 customers and as one of the last challenger suppliers left in the market and one that is backed by ESB Group's resources and expertise, So Energy is able to provide a unique view of price protection in today's energy market.

We welcome Ofgem's call for evidence on an enduring approach to setting the UIG allowance in the price cap. The temporary allowance was much needed but it does not account for the totality of the UIG cost we face as a supplier. The temporary allowance is much too low, therefore, the cap continues to under-recover suppliers' costs.

While we agree with the overall principle that the price cap should incentivise efficient cost recovery, a UIG allowance is not the best placed mechanism to do so:

- System losses are outside the suppliers' control.
- Unregistered meter points belong to no supplier. As we understand current detection rates of unregistered meter points, any work undertaken by any individual supplier to identify and register their meter points will not have any material impact on their particular UIG.
- Energy theft has its own existing targeted incentive regime. UIG related to energy theft is best tackled at through this mechanism as there is a direct reward for detecting theft. On the other hand, the relationship between an individual supplier detecting a case of energy theft and the follow-through impact on that suppliers UIG costs and UIG cost recovery is less clear.
- There is scope for misdirected incentives. Suppliers can reduce their UIG costs by moving customers from Product Class 4 to Product Class 3 but we are unsure whether this activity truly lowers overall UIG costs or simply represents a reallocation of costs among domestic customers. These reallocations of costs have led to unusual outcomes in the past – for example, Triad avoidance measures eventually leading to the Targeted Charging Review when policy makers realised that the 'incentive' would deliver unsustainable outcomes, if left unaddressed.

Therefore, Ofgem's priority should be ensuring that UIG costs are reflected in the cap accurately. We have provided an analysis of our UIG costs to you bilaterally. This data was sourced from Xoserve invoices to it would seem entirely possible for Xoserve to provide a timely accounting of UIG costs to Ofgem through a bespoke report. At a high level, we would suggest the following approach:

1. Data from no further back than October 2022 due to change in UIG weightings – older data is unrepresentative.
2. Total reconciled demand (kWh) for each Month / LDZ / EUC / Product Class.
3. Total UIG Reconciliation Quantity (kWh) for each Month / LDZ / EUC / Product Class.
    a. Equivalent to summing the UIG Reconciliation Quantity (kWh) in the K91 section of the ASP invoice, but across all suppliers.
4. Ofgem then sum reconciled demand and reconciled UIG on all EUC and Product Classes

which represent domestic demand (for both prepay and non-prepay)
5. These two values then can be used to calculate a reconciled UIG % of demand. This is the value which should be used as the UIG allowance.
6. The value could be then updated each quarter using 12-24 months' worth of historical UIG costs.
7. Xoserve could publish an aggregated version of the UIG report it submits to Ofgem on its own website each month. By making this data publicly available, it would be possible for stakeholders to more accurately forecast future movements in the price cap.

We would suggest that Ofgem use this reporting as a starting off point to monitor the evolution of the breakdown in UIG costs between price-capped and non-price-capped customers and between Product Class 3 and 4. This will allow Ofgem to amend the price cap methodology if it becomes unrepresentative of the cost of supplying gas to price-capped customers. The greatest challenge to overcome in this respect is that while suppliers know which MPRNs are on which type of tariff, we do not get granular UIG data from Xoserve to allow us to cross-reference tariff type with UIG costs. Tripartate discussions between Ofgem, Xoserve and suppliers may be able to identify a route for allowing this to happen

We'd be more than happy to discuss this with you further if you have any questions. Please don't hesitate to get in touch.

Yours Sincerely,

Paul Fuller
Head of Regulation

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