Energy price cap: unidentified gas allowance review

Utilita welcomes this review and supports the case for an enduring change of approach in setting UIG allowances under the price cap.

The previously agreed adjustment to make use of Xoserve's estimate of post-UIG reconciliation as a percentage of throughput provided a more accurate reflection of the total level of UIG which suppliers are required to pay for.

We support the continued use of outturn UIG billing to suppliers – as per the actual values of UIG calculated by Xoserve. These best reflect the actual amounts charged to Suppliers – which Ofgem have a duty to ensure is recoverable via the price cap.

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

Utilita support the review of data sources to set an enduring allowance.

Xoserve will have records of the total amount of UIG billed to Suppliers. These actual values will be split by EUC and PC band. Ofgem should make use of the previous year's outcome as their data source and update it on an annual basis. This is the best reflection of actual UIG costs to Suppliers.

Ofgem's responsibility is to allow Suppliers to recover efficient costs. Given this, the best source of UIG information is the total annual chargeable amounts.

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 nondomestic based on the 2025/26 AUGE report? Are there alternative approaches we could use to retain the same data source but apply a split?

Ofgem should ensure that the price cap allowances are reflective of what is billed to Suppliers.

As the AUGE process (and subsequent Xoserve charging) already provides a split between domestic/non-domestic, the price cap should ensure it captures the domestic UIG element – as per Xoserve UIG charges issued to Suppliers.

Any changes to domestic/non-domestic split should first be made and agreed at the initial AUGE process, rather than being introduced at the price cap level.

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 (eg last two gas years);

A single year of data is the best source. Using a single year and updating on an annual basis is the most accurate reflection of UIG costs.

Unless Ofgem/AUGE have reason to believe that a subsequent year will vary significantly, this approach should be taken.

Whilst other data sources exist to provide an estimation – there is no evidence to suggest that these are more accurate than post-reconciliation UIG volumes charged to Suppliers.

Use of the previous year's actual charged UIG effectively represents accurate year+1 costs are covered. Use of multiple years of data prevents this from being the case. Whilst year+1 recovery is not usually the intended design of the price cap, it is the best option in the case of UIG.

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

As recognised in the consultation document, the majority of domestic SVT customers will be in Profile Class 4.

With only 16% of domestic customers in Class 3, it is undeniable that Class 4 costs better represent the average costs which suppliers are subject to.

An even more precise approach could be for Ofgem to calculate a national weighted average between Class 3 and 4 and assign this to all customers.

This approach may benefit customers with higher smart meter penetration (given these customers are more likely to be in Class 3.) This is in keeping with the objectives of the smart meter rollout and the purpose of the SMNCC adjustment as it provides an incentive to convert these customers to smart meters.

iii. Frequency of updates.

An annual update would be required to support the approach we describe above.