

Representation - Draft Modification Report UNC 0840 (Urgent) Equalisation of prepayment and non-prepayment AUG factors

Responses invited by: **5pm on 13 March 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|--|--------------------|
| Representative: | James Knight |
| Organisation: | Centrica |
| Date of Representation: | 13/03/2023 |
| Support or oppose implementation? | Support |
| Relevant Objective: | d) Positive |

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We support this modification as we believe:

The Consumer impacts of a differential allocation of UIG between prepayment and non-prepayment meters have not been adequately assessed previously

We previously expressed concern in our response to UNC 0711, which updated the AUG table to allow separate allocations to prepayment and non-prepayment customers:

“It is expected that the change will shift UIG costs further towards residential and particularly pre-payment customers. The consideration of this impact has been explicitly removed from the remit of the AUG Expert, however it is relevant to the consideration of the UNC Panel and Ofgem.”

Since the AUG table was updated, the weighting factors for domestic prepayment customers have been considerably higher than domestic non-prepayment customers, from 3 times higher in 2021/22 to 4 times higher in the current factors and now more than 7 times higher in the final draft factors. The suitability of this differential has as yet not been considered by the UNC Panel and Ofgem and the large jump in differential in the proposed factors provides the need for this to be urgently addressed.

There is a potential bias in the theft data towards prepayment meters

In their “Theft Estimation Methodology” (TEM) report on behalf of RECCo from Jan 2023, Capgemini Invent states: *“there is a bias in investigations towards pre-payment meters and that the conversion rate to confirmed thefts is higher than with other meter types”*. We also believe that one of the reasons historical theft detection rates are higher for customers with a prepayment meter is because the extra layer of data (customers not vending) makes theft easier to detect. We feel that this recently confirmed potential skew in the data underpinning the latest AUG weighting factors has not been sufficiently explored and this information should be taken into consideration as part of the wider dataset.

Suppliers/Shippers will have difficulty in socialising the differential treatment of prepayment Consumers due to the UIG allowances being set within the price cap methodology

UIG uplifts based on the AUG Statement are built into the price cap allowances. Domestic Suppliers are unable to charge Consumers more than the price cap allows. To be clear, the costs of UIG allocations from one set of domestic Consumers cannot be met with increases to bills of another set of domestic Consumers when the majority of domestic Consumers are under a price cap.

This change has the potential to lower overall domestic customer bills

Removing the differential between prepayment and non-prepayment significantly reduces the uncertainty around UIG allocations each year. This will facilitate more effective competition between suppliers and could lead to lower overall bills.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We would like this Modification to be implemented in time for the revised equalised factors proposed by this Modification to be captured in the publication of the final AUG Statement – currently scheduled for 31st March 2023.

The AUG Table will then follow its usual "approval" process at the April UNCC meeting, concluding the AUG process within its usual annual cycle.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

None

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation

The AUG waiting factors for EUC1PD have increased in the Final Draft AUG Statement when compared to the Draft AUG Statement that the analysis in UNC 0840 is based on. The differential allocation between domestic and prepayment and non-prepayment will now be more than 7 times higher rather than almost 6 times as the Modification document states.