Modification proposal:	**Uniform Network Code (UNC) 840 (Urgent): Equalisation of prepayment and non-prepayment AUG factors (UNC840)**		
Decision:	The Authority[1] directs this modification be made[2]		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	21 04 2023	Implementation date:	To be confirmed by the code administrator

Background

Unidentified Gas (UIG)[3] refers to gas lost from the system for a number of reasons including theft and unregistered supply points. In order to apportion UIG between classes and End User Categories (EUC)[4], an independent Allocation of UIG Expert (AUGE) develops a methodology and table of weighting factors, the AUG Table[5], that is used to assign UIG to different classes of meter points on an annual basis.

The AUGE was introduced in 2010 following the approval of UNC229.[6] However, the role of the AUGE was amended following the implementation of Project Nexus in June 2017 which changed the way in which gas allocation, settlement and reconciliation is conducted. UNC473[7] ensured an enduring role for the AUGE who is required to consider the evidence of the scale and sources of UIG and calculate UIG weighting factors to share out UIG each day and to inform UIG reconciliation.

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[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] 'Unidentified Gas' is defined in Uniform Network Code TPF H2.6.1.
[4] 'End User Category' is defined in Uniform Network Code TPD H1.2.1.
[5] 'AUG Table' is defined in Uniform Network Code TPD E9.1.1(e).
[6] UNC 229 'The identification and apportionment of costs of Unidentified Gas'. Available: https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC229D.pdf
[7] UNC 473/473A 'Project Nexus – Allocation of Unidentified Gas'. Available: https://www.ofgem.gov.uk/publications/uniform-network-code-unc-473-and-473a-project-nexus-allocation-unidentified-gas

Table 1: KEY UIG milestones

Modification	Title/Description	Implementation
229	Mechanism for correct apportionment of UIG • Prior to Project Nexus, UIG arrangements were determined annually by the AUGE.	June 2010
432[8]	Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform • Introduced Project Nexus settlement arrangements which included UIG being smeared equally within an LDZ on the basis of daily throughput.	June 2017
473	Project Nexus – Allocation of Unidentified Gas • Amended 0432 business rules to reintroduce the concept of an AUGE with the role of calculating UIG Weighting Factors to share out UIG reconciliation.	June 2017
XRN 4665[9]	Creation of new EUCs • Introduction of separate EUCs including prepayment and non-prepayment. Intended to make daily gas allocation more specific. UIG allocation was not amended as part of this change.	October 2019
711[10]	Update of AUG Table to reflect new EUCs • Aligned UIG Weighting Factor Table with expanded list of EUCs created by XRN 4665.	June 2020

The existing process for deriving the Allocation of UIG (AUG) weighting factors permits different factors to be assigned to prepayment (PPM) and non-PPM EUCs following the

[8] UNC 432 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform'. Available: https://www.gasgovernance.co.uk/0432
[9] XRN 4665 'Creation of new End User Categories'. Available: https://www.xoserve.com/change/customer-change-register/xrn-4665-creation-of-new-end-user-categories
[10] UNC711 'Update of AUG Table to reflect new End User Categories'. Available: https://www.gasgovernance.co.uk/0711

introduction of UNC711. This apportioning of UIG by the AUGE is completed through the annual publication of the AUG Table.

The modification proposal

On 06 March 2023, Centrica (the "Proposer") raised modification UNC840 'Equalisation of prepayment and non-prepayment AUG factors'[11] requesting that it should be granted urgent status. On 07 March, we granted urgent status to UNC840.[12] In our reasons for approving this request, we stated that the need to take prudent steps to address the weighting factor differentials between PPM and non-PPM consumers is a *"current issue that if not urgently addressed may cause a significant impact on parties, consumers and other stakeholder(s)".* UNC840 intends to remove the differentiation in AUG weighting factors for PPM and non-PPM in the same sector and product class – EUCs 1 and 2 which would equalise the amount of UIG that is apportioned between these two categories, reducing costs for PPM consumers.

Since the implementation of UNC711[13], where the AUG Table was updated to disaggregate the EUC1 and EUC2 categories into PPM and non-PPM, the weighting factors for PPM consumers have been considerably higher than non-PPM consumers. In gas year 2021/22, the weighting factor was three times higher, in the current year 2022/23 it is four times higher, and in the latest proposed draft AUG Table for gas year 2023/24 it will be approximately six times higher. The Proposer considers that this weighting factor differential between these consumers creates an increasing penalty on PPM consumers. The modification will mandate that there should be no differentiation in AUG Table weighting factors for PPM and non-PPM EUCs in the same sector and product class, and that the weightings are equalised and implemented for gas year 2023/24.

The Proposer asserts that it is not fair or equitable to allocate six times more UIG to PPM consumers through the application of the 'Polluter Pays' approach by meter type level. They note that in the case of gas theft it is contradictory as by definition, the polluter is not paying. The Proposer believes that the current approach places the cost of theft increasingly on those

[11] UNC840 'Equalisation of prepayment and non-prepayment AUG factors'. Available: https://www.gasgovernance.co.uk/index.php/0840
[12] UNC840 Decision on Urgency. Available: https://www.ofgem.gov.uk/publications/unc840-decision-urgency
[13] UNC 0711 'Update of AUG Table to reflect new EUC bands'. Available: https://www.gasgovernance.co.uk/0711

who may not be involved in the theft of gas but due to theft detection rates being higher for consumers with similar meter types are allocated its cost.

The Proposer explains that by removing the differentiation in AUG weighting factors it will reduce existing and future detriment for PPM consumers. It is further noted that having different weighting factors for PPM and non-PPM EUCs in the same sector and product class creates an unnecessary level of risk and unpredictability. This, in their view, also has a significant impact on effective competition within the market and leads to higher costs for PPM consumers.

In order to equalise the differentiation between PPM and non-PPM consumers, the proposal would implement:

- A single weighting factor for EUC1 Domestic (EUC1ND & EUC1PD) for each product class
- A single weighting factor for EUC2 Domestic (EUC2ND & EUC2PD) for each product class
- A single weighting factor for EUC1 Non-Domestic (EUC1NI & EUC1PI) for each product class
- A single weighting factor for EUC2 Non-Domestic (EUC2NI & EUC2PI) for each product class

The solution outlined in the modification proposal states that UNC Transportation Principal Document (TPD) Section E Paragraph 9.4[14] will be updated to mandate that the AUG allocation factors for PPM and non-PPM EUCs in the same sector and product class are equal. An additional process, determined by the AUGE, will be implemented to equalise allocation factors for the listed pairs of Categories of System Exit Points[15] after the existing process has been completed:

- EUC1ND & EUC1PD

[14] UNC Transportation Principal Document (TPD) Section E. Available: https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2023-04/7%20TPD%20Section%20E%20-%20Daily%20Quantities%20Imbalances%20and%20Reconciliation.pdf
[15] 'System Exit Point' is defined in Uniform Network Code TPD A3.2.1.

- EUC2ND & EUC2PD
- EUC1NI & EUC1PI
- EUC2NI & EUC2PI

The implementation of the modification will not result in any redistribution of UIG across sectors within the AUG statement. However, it may lead to a minimal increase/decrease in actual UIG allocation to Shippers which would be dependent on relative EUC sizes at a Local Distribution Zone (LDZ) level and observed levels of UIG.

The full legal text can be found in the supporting papers of the FMR.[16]

UNC Panel[17] recommendation

At the UNC Panel meeting on 16 March 2023, a majority of the UNC Panel considered that UNC840 would not better facilitate the UNC Objectives and the Panel therefore did not recommend its approval. The Non-Domestic Consumer representative was aligned with the majority of the Panel, however the Consumer representative voted in favour of implementation.[18]

Post Meeting Note

Ofgem received a late representation to the UNC840 consultation on 16 March 2023, from a UNC Party who previously opposed the modification on technical grounds, to confirm that they are now in support of the proposal. They believe that the cost differential impacting PPM consumers is disproportionate and should be mitigated where possible and wished to withdraw their original opposition and support implementation of the modification. This changes the outcome of the UNC840 consultation, with four representations now in support of implementation and three representations not in support of implementation.

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[16] UNC 0840 'Equalisation of prepayment and non-prepayment AUG factors' Full Legal Text. Available: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-03/Legal%20Text%20UNC%200840.pdf
[17] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[18] Determinations Record 305 16 March 2023_0.pdf (gasgovernance.co.uk)

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 March 2023. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.[19] We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;[20] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[21]

Reasons for our decision

UNC Panel discussion

We note that the majority of Panel members who opposed the approval of UNC840 did so primarily on process or administrative grounds. For example, some Panel members noted that the modification would only adjust one element of the difference between PPM and non-PPM, and there are a number of areas that remain differentiated. A Panel member suggested that a review of the whole issue of whether PPM and non-PPM customers should be treated as one group or separately would be a more appropriate solution rather than addressing this issue via *"piecemeal modifications".* However, we note that the issue at hand is UNC840 itself and proposals for a wholesale review of the PPM differentials sits outside the scope of this proposal.

Some Panel members expressed the opinion that the modification did not provide an explanation as to why the AUGE's allocation is incorrect and if it is, they argued it should be addressed through the AUG Sub-Committee. The modification explains that the effect of the

[19] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website. Available: www.gasgovernance.co.uk
[20] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence. Available: https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf
[21] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

current AUG methodology creates an unfair weighting toward a particular market sector, and that is not fully representative as the theft data is biased toward that market sector. We consider that the modification is not trying to state that the AUGE's work is incorrect, but that the disaggregated application of the 'Polluter Pays' principle in the affected EUCs has created an imbalance that should not continue as it is a direct cause of consumer detriment to PPM consumers.

A Panel member also stated their belief that the modification does not impact the *"bottom line net amount of UIG"* and that the reallocation of UIG between PPM and non-PPM means that UNC840 would overwrite the role and purpose of the AUGE. We disagree with the premise of this argument as the role of the AUGE will not change as a result of the modification, only two sub-categories within EUC1 and EUC2 will be equalised. The AUGE's work in deriving the weighting factors and table is not being amended or called into question.

Additionally, a Panel member questioned the urgent status of the modification and cited that additional analysis is required and that there is a lack of clarity on the impact of the modification on non-PPM consumers. We note that any modification raised with a request for Urgent status is assessed according to our published guidelines.[22] We outlined in our decision on urgency, cited earlier in this decision letter, our reasons for granting urgent status to UNC840 and consider that the short timeline set out in our decision is necessary to ensure that implementation (if approved) would allow for new weighting factors to be captured in the publication of the final AUG Statement which takes effect for the 2023/24 gas year.

A Panel member also argued that the modification would introduce a cross-subsidy for the PPM and non-PPM sectors. The Proposer refuted this by noting that inherent data bias counters the assertion that this modification would result in any prospect of cross-subsidy. They referred to a recent report[23] which states that there is *"bias in investigations towards prepayment meters and that the conversion rate to confirmed thefts is higher than with other meter types"*.

[22] Ofgem Guidance on Code Modification Urgency Criteria. Available: https://www.ofgem.gov.uk/publications/ofgem-guidance-code-modification-urgency-criteria-0
[23] Theft Estimation Methodology Report for RECCo. January 2023. Available: https://www.retailenergycode.co.uk/fs/wp-content/uploads/2023/01/TEM-report.pdf

In reference to the 'Polluter Pays' principle, a Panel member considered that consumers are able to move easily between PPM and non-PPM than between EUCs (particularly consumers with smart meters) therefore there cannot be certainty that the polluter is paying. As such, the Panel member believes that there should not be a differentiation between PPM and non-PPM when deploying this principle.

Panel members who supported UNC840 cited the challenging financial position that domestic PPM consumers are currently experiencing. They highlighted that this consumer base is disproportionately vulnerable, on a lower income bracket and often experiencing fuel poverty; however, they are paying a higher cost for their energy. They also noted that the Government intends to *"end the premium"* that PPM consumers pay, and that UNC840 helps to deliver the intent of that policy announcement as it will directly feed through inputs into the energy price cap.

UNC Objective (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:
(i) between relevant shippers;
(ii) between relevant suppliers; and/or
(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

We consider that the proposal will have a positive impact on Relevant Objective (d).

The Proposer considers that the modification will have a positive impact on Relevant Objective (d) because in an efficient market, the costs faced by consumers should reflect the costs they impose on the system. Shippers and Suppliers will pass through the costs of UIG based on expected AUG weighting factors. However, having different factors for PPM and non-PPM EUCs in the same sector and product class creates an unnecessary level of risk and unpredictability. The Proposer believes that this damages effective competition and will ultimately lead to higher costs for consumers. Some Panel members agreed with this view.

Other Panel members argued that the modification will have a negative impact on Relevant Objective (d) as the current arrangements better facilitate competition by ensuring that, in line with the current arrangements applicable to all other consumer segments, costs are targeted based on the independent assessment by the AUGE.

Overall UIG

We understand that the majority of gas in Great Britain can be accounted for as it is metered and registered for and UIG only makes up a small percentage of gas. However, we expect to see industry take steps to reduce the amount of overall UIG through techniques such as proactive meter reads and taking all reasonable steps to rollout smart metering systems to consumers. Regardless of the methodology used by the AUGE, since its inception, the amount of overall UIG has not reduced in any substantive form which is disappointing.

In July 2022, we approved UNC0674V[24] which increased the authority of the UNC Performance Assurance Committee[25] (PAC) to allow it more decision-making power to address settlement performance issues and identify those areas of performance which impact the objectives of the UNC. We believe that this modification provides the PAC with more robust Performance Assurance Techniques[26] (PATs) which can be utilised to improve read and settlement performance, and in turn would help to reduce UIG and other related issues. However, we note that read performance remains poor among many UNC Parties.

We note this year's Performance Assurance Framework – Annual Review[27] which outlines the PAC's focus for 2023 and we are encouraged by the PAC's intention to identify areas of concern and implement mitigating actions as part of their review of the AUGE Issue Register. We believe that the PAC should continue to review the PATs at its disposal in order to further facilitate better performance, and also to directly address measures to reduce UIG. We intend to work more closely with the UNC PAC to understand which Parties are consistently non-compliant with their UNC obligations and whether this non-compliance may impact any relevant licence obligations.

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[24] UNC 0674V 'Performance Assurance Techniques and Controls'. Available: https://www.ofgem.gov.uk/sites/default/files/2022-07/UNC0674v%20-%20Authority%20decision.pdf
[25] 'Performance Assurance Committee' is defined in UNC TPD Section V 16.
[26] 'Performance Assurance Techniques' is defined in UNC TPD Section V 16.
[27] Performance Assurance Regime 2022 Annual Review. Available: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-03/Performance%20Assurance%20Annual%20Review%202022%20v1.0.pdf

Licence condition 12A[28] requires supplier UNC Parties to actively identify and reduce theft. We will be reviewing these internally to understand how we can better hold Parties to account for reducing overall theft in the industry, which we feel has remained stubbornly excessive.

Consumer choice

One of the objectives of the smart metering rollout is to facilitate the consumer's effective control over their energy usage through competitive rates and timely switching, either by suppliers or between PPM and non-PPM without experiencing any undue penalties. Consumers should have the ability to choose between the payment type they wish to utilise for their circumstances. We agree that currently, the application of the current weightings will penalise both existing and future PPM consumers. By equalising the weighting factors within the EUC1 and EUC2 bands, it would remove a price barrier for PPM and encourage more competition into this market sector by being able to forecast and apply a less volatile and more predictable weighting factor.

To ensure we conducted the necessary due diligence when making our decision on this modification proposal, Ofgem have estimated the impact equalising the weighting factors will have on consumer bills using our data, where we apply the same percentage uplift to both PPM and non-PPM consumers. We apply this to the announced price cap for cap period 10a (1 April 2023 to 30 June 2023) and find that it would result in an increase for the Standard Credit (SC) and Direct Debit (DD) price cap by around £4 (incl. VAT), and for the PPM price cap to decrease by approximately £68. This number is dependent on the cap methodology for period 10a, and future periods will change in line with wholesale prices. If we expect wholesale prices to decrease over the next few cap periods then preliminary analysis suggests the SC and DD price caps could instead increase by less, i.e. £2, and PPM could instead decrease by less, at around £40. However, the exact amount is dependent on the extent to which wholesale prices change and therefore the expected impact is less certain.

Consumer research from the Department for Energy Security & Net Zero shows that there are differences in the level of fuel poverty and vulnerability between consumers on different

[28] Standard Conditions of Gas Supply Licence. Condition 12A. Matters relating to Theft of Gas. Available: https://www.ofgem.gov.uk/sites/default/files/2023-03/Gas%20Supply%20Standard%20Consolidated%20Licence%20Conditions%20-%20Current.pdf

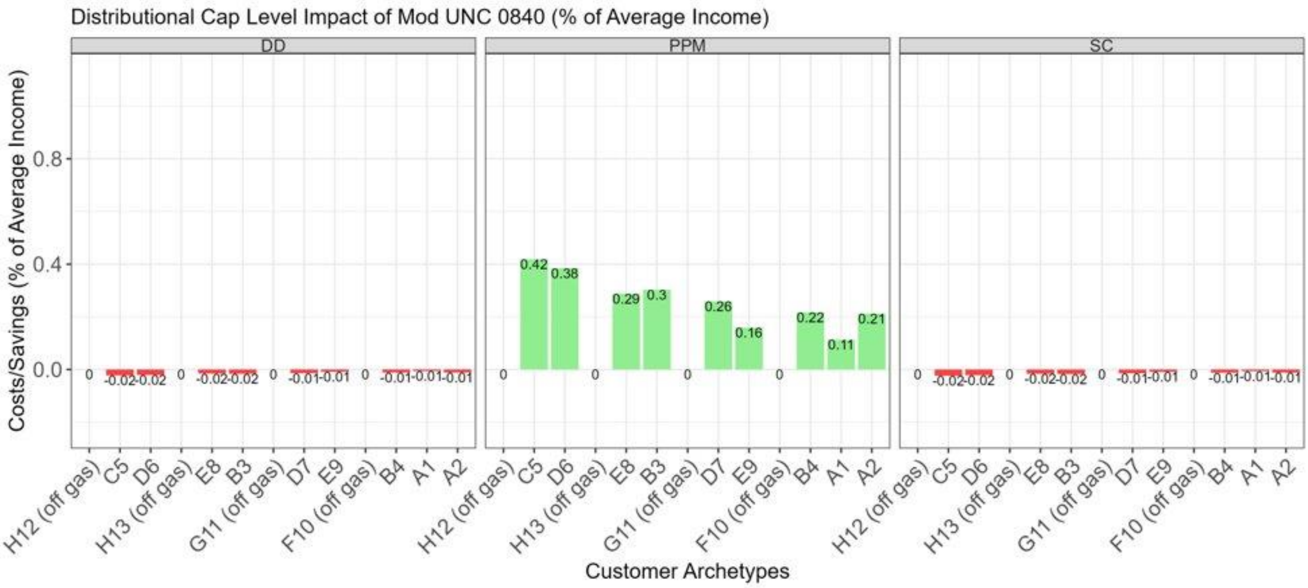
payment methods in England. Proportionally, the percentage of households that are classed as being within fuel poverty are higher for PPM (27.2%) and SC (17.7%), than those that pay via DD (9.7%) for consumption of gas. However, of households in fuel poverty, 50.1% pay by DD. This is much higher than those that pay by SC (11.4%) and PPM (21.4%). As a result, they estimate that there are 1.6 million DD, 0.37 million SC and 0.7 million PPM households in fuel poverty.[29] If we assume that consumers in fuel poverty consume gas at typical consumption levels, then the modification will result in a cost of £5.9 million across all DD consumers and a cost of £1.4 million across all SC consumers. However, this would be vastly outweighed by PPM savings of £47.2 million.

To assess the impact more accurately this will have on different types of vulnerable customers, we used survey data taken from Ofgem consumer research to estimate the distribution of payment methods within income bands.[30] We then overlaid Ofgem's consumer archetypes onto corresponding average income bands to estimate the proportion of payment methods within each archetype. These proportions were then used to calculate the distribution of costs and savings across each payment method within each archetype, that we have represented as a percentage of the average yearly income of each archetype. Note the archetypes relate to our Vulnerability Duty characteristics, which include categories on disability/sickness, pensionable age, low income, and rural characteristics. See Table 2 for a breakdown of the archetypes.

Figure 1 orders archetypes from lowest to highest average income, and shows that, as a proportion of income, low average income band consumers gain the most, while lower income DD and SC consumers lose the most. However, as the magnitude of costs is much lower for DD and SC, there is only a small variation across archetypes.

Figure 1

[29] Fuel poverty detailed tables 2023 (2022 data) Table 32. Available: https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2023-2022-data
[30] This data was taken from Wave 3 of Ofgem's Consumer Impacts of Market Conditions survey. Wave 3 was conducted with 3,457 GB domestic energy bill-payers in Nov/ Dec 2022. Details about the survey (including findings from Waves 1 (March 2022) and 2 (July 2022)) can be found here. Data from Wave 3 will be published in due course.



Note: *Average Income Band <£16,000 – C5, H12 (off gas), £16,000 - £24,999 – D6, E8, H13 (off gas), £25,000 - £44,999 – B3, B4, D7, E9, F10 (off gas), G11 (off gas), £45,000 - £59,999 – A1, A2*

Table 2: Consumer Archetypes

Archetype	Key Words
A1	High incomes, owner occupied, working age families, full time employment, low consumption, regular switchers.
A2	High incomes, owner-occupied, middle-aged adults, full time employment, big houses, very high consumption, solar PV installers, care for the environment.
B3	Average incomes, retired, owner occupied - no mortgage, lapsed switchers, late adopters.
B4	High incomes, owner occupied, part-time employed, high consumers, flexible lifestyles, environmental concerns.
C5	Very low incomes, single female adult pensioners, non-switchers, disconnected (no internet or smart phones).
D6	Low income, disability, fuel debt, disengaged, social housing, BME households, single parents.
D7	Middle aged to pensioners, full time work or retired, disability benefits, above average incomes, high consumers.

E8	Low income, younger households, part-time work or unemployed, private or social renters, disengaged non-switchers.
E9	High income, young renters, full time employments, private renters, early adopters, smart phones.
F10 (off gas)	Middle aged to pensioners, full time work or retired, owner occupied, higher incomes, oil heating, rural, RHI installers, late adopters.
G11 (off gas)	Younger couples or single adults, private renters, electric heating, employed, average incomes, early adopters, BME backgrounds, low levels of engagement.
H12 (off gas)	Elderly, single adults, very low income, medium electricity consumers, never switched, disconnected, fuel debt.
H13 (off gas)	Off gas, low income, high electricity consumption, disability benefits, over 45s, low energy market engagement, late adopters.

We conducted this due diligence, utilising our own datasets, because the FMR did not contain adequate technical analysis, due to its Urgent status and the subsequent time constraints faced by the Code Administrator in compiling the FMR, on the impact this modification would have on PPM and non-PPM consumers to allow us to sufficiently consider the concerns raised. This lack of analysis was noted by Panel members who attributed this outcome to the modification having progressed under an urgent timetable.

For these reasons we consider that the modification will encourage more competition in the market and therefore further Relevant Objective (d).

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

<u>We consider that the proposal will have a positive impact on Relevant Objective (f).</u>

Some Panel members consider that the modification will have a positive impact on Relevant Objective (f) because the proposal brings forward an extra step in the equalisation process when determining weighting factors for PPM and non-PPM consumers which makes it a more efficient process. Other Panel members consider that the modification will have a negative impact on Relevant Objective (f) because the AUGE's independent role in assessing and implementing weighting factors may be infringed.

Independence of the AUGE

Whilst we understand the concerns of some of UNC Panel members and the minority of respondents to the consultation that this modification may infringe upon the 'Polluter Pays' principle and the independence of the AUGE. We disagree with both of these concerns and believe that the independence of the AUGE is not diminished by the solution being proposed by UNC840. The modification only makes alterations to the instructions within particular EUC bands to not be disaggregated further between PPM and non-PPM consumers and to equalise the weightings that have already been derived. The way in which the calculation of the weightings was developed or will be developed going forward has not been changed, only that the two sub-categories are equalised. We are therefore of the view that the important work and independence of the AUGE has not been infringed upon and remains valid.

'Polluter Pays'

The move away from the 'Polluter Pays' principle has also been highlighted as an area of concern. We do not feel that this modification moves entirely away from it, although we acknowledge that it does slightly dilute the principle in those categories. However, we disagree that it is diminished completely as there is no redistribution of UIG among the different EUC bands, and the only equalisation is within the affected EUCs. The effect of this is that the same consumer base is still responsible for the same amount of UIG, this is just not disaggregated further by meter type and is represented within the EUC as a whole.

Data bias

It is acknowledged by the AUGE and industry that the data which underpins the weighting factors of the AUG Table is biased towards PPMs. One of the factors which contribute towards this bias and was highlighted by a consultation respondent is that historical theft detection rates are higher for PPM consumers due to the additional layer of data, such as top-up histories, which makes theft easier to detect in consumers not vending. This does not validate that more theft occurs within the PPM market segment, only that more theft is detected, creating the identified bias.

We agree and believe that this bias is reflected in the AUG weighting factors and inflicts detriment on PPM customers. Whilst we are aware that datasets are never completely unbiased, as the gas wholesale market conditions have changed, this bias has put an unfair weighting on these EUCs that not only is unsustainable but is unjustifiable. Furthermore, the AUGE was unable to consider the Retail Energy Code Company's (RECCo) Theft Estimation Methodology in relation to the 2023/24 weighting factors. This modification takes into consideration this methodology, its findings, and any potential dataset bias. We encourage all industry parties to engage with RECCo's Energy Theft Reduction Strategy in order to reduce the amount of energy theft in Great Britain.[31]

One of our obligations is to protect consumers and given that the proposed weighting factors for gas year 2023/24 is based on theft data which is biased toward PPM, we cannot allow this consumer category to disproportionately bear additional costs of UIG when they may in fact not be liable for it. If the data provided to the AUGE was more robust, as acknowledged by industry, the outcome could be different.

We expect to see industry work to continually improve the collection of data in order to ensure that what feeds into AUGE's methodological considerations is robust and of a high quality in order to minimise any potential adverse effects arising from a biased dataset. We expect industry, in line with their licence obligations, to take all reasonable steps to ensure that accurate and robust data is collected across all consumer categories. Our view is that by equalising these EUC bands and removing the volatility associated with the AUG Table weighting factors, it will better facilitate this objective.

Our principal objective

The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or

[31] RECCo. Energy Theft Reduction Strategy. Available: https://www.retailenergycode.co.uk/our-programmes/

transmission systems. In performing our duty, we are expected to have regard to the interests of individuals who are disabled or chronically sick; individuals of pensionable age; individuals with low incomes; and individuals residing in rural areas.[32] We agree that the current weighting factor applied to PPM will disproportionally allocate additional costs to these consumers amongst others, based upon data which is biased toward that meter type.

UNC840 will go some way in addressing this imbalance and have an impact on these consumer categories and therefore it aligns with our principal objective. We consider that approving UNC840 is consistent with our statutory duties given that the analysis and arguments in support of the implementation of this modification has shown, and we agree, that there is a potential for consumer detriment if it is not approved.

It is more representative and fairer to have UIG equalised across both PPM and non-PPM within EUC1 and 2. The Draft AUG Statement for gas year 2023/24 estimates that UIG allocated to PPM consumers will be 2.9% and 9.5% for product class three and four. For non-PPM consumers, these values are 1.0% and 1.7%. Under this Proposal, it is estimated that all domestic consumers (PPM and non-PPM) will receive UIG allocations of 1.1% for product class three and 2.1% for product class four. Our analysis has identified that the substantial drop of 1.8% and 7.4% for PPM consumers, and the modest increase of 0.1% and 0.4% for non-PPM consumers is more representative for these category types. Furthermore, this change will also protect consumers who would move from non-PPM to PPM from paying UIG under the polluter pays principle when they have not contributed to it.

By exercising our right to approve this modification and in light of current market conditions, we are acting in the interest of our principal objective by addressing the data bias which has led to the inequitable apportionment of UIG amongst PPM and non-PPM consumers. This modification, supported by our analysis, helps to protect existing and future consumers.

The Authority's principal objective, as outlined above, is to protect the interests of existing and future consumers which includes promoting effective competition. The proposed solution will subsequently ensure fair and equal treatment of both PPM and non-PPM consumers as well as facilitating a level-playing field between the Shippers and their users, which will promote

[32] Gas Act 1986. Available: https://www.legislation.gov.uk/ukpga/1986/44/contents

competition in this sector. For these reasons, we consider that approving UNC840 is consistent with our principal objective to protect the interests of consumers in Great Britain by promoting effective competition and efficient administration of the code and that the modification should be implemented and reflected within the AUG Table (Statement) in line with the gas year 2023/24.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC 840 '*Equalisation of prepayment and non-prepayment AUG factors*' be made.

Melissa Giordano
Deputy Director
Retail Systems and Processes
Signed on behalf of the Authority and authorised for that purpose