Suppliers, customer
representatives and other
interested parties

Promoting choice and value for all gas and electricity customers

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Dear Colleague

Decision letter: Revision of typical domestic consumption values

On 10 August 2010 Ofgem published a consultation document entitled "Revision of typical domestic consumption values"[1]. That document presented our review of figures used by Ofgem, and other organisations, to represent typical annual domestic energy consumption levels. These values were last reviewed in 2003 by energywatch, and due to developments in consumption patterns, domestic consumers' approach towards energy conservation and other factors we considered that these values needed to be reconsidered. In our consultation we presented a range of analyses based on differing methodologies. We asked stakeholders for their views on whether current figures should be updated, and if so, which model best represented typical[2] consumption levels.

Data and methodology

We reviewed a range of information detailing domestic energy consumption, of which the sub-national energy consumption statistics from the Department of Energy and Climate Change (DECC) were particularly suitable for our needs. These data allow for robust analysis of domestic consumption levels for gas and electricity. DECC also provided an analysis of the distribution of domestic energy consumption data. For both gas and electricity this showed the median rather than the (previously used) mean was a better reflection of a typical domestic energy customer's consumption.

We consulted on four models of energy consumption that calculate typical gas and electricity consumption values for low, medium and high consumers. We explored a number of methodologies, employing different combinations of historic and projected data. Two of our models, Model 2 and Model 3, incorporate only historic annual consumption data. Model 2 considers four years worth of historic data when deriving mean and median consumption figures. Model 3 incorporates real consumption data from the previous 3 years. Model 1 and Model 4, each include both historic data (four and three years, respectively) and a projection of gas and electricity consumption for 2009.

[1] This document may be found on the Ofgem website: http://www.ofgem.gov.uk/Markets/RetMkts/Compl/Consumption/Pages/ConsumptionReview.aspx

[2] We use the term typical throughout this document rather than "average" because a figure representative of typical domestic consumption levels, may not necessarily be the average (or mean) value.

Recommendation

In our consultation we favoured Model 2 because we felt it was appropriate to incorporate a greater number of historic data points into our analysis. In addition, this model negates the risk of error associated with using projected figures for annual consumption. We also believe evidence from DECC's distribution analysis shows the median is more reflective of typical domestic energy consumption than the mean. The table below shows current typical domestic consumption figures, the consumption figures we proposed to adopt using Model 2 median values, and the effect this change will have on reporting bill values.

	Level	Current consumption figures	Consumption figures from 17 January	Difference in reporting the average DD bill
Gas (kWh)	Low	10,000	11,000	+£29
	Medium	20,500	16,500	-£116
	High	28,000	23,000	-£145
Electricity: Profile Class 1 (kWh); credit meters	Low	1,650	2,100	£53
	Medium	3,300	3,300	£0
	High	4,600	5,100	£59
Electricity: Profile Class 2 (kWh); multi rate meters	Low	3,300	2,900	-£38
	Medium	6,600	5,000	-£152
	High	9,900	8,300	-£152

Responses

The consultation asked whether respondents agreed with:

- our recommendation that Model 2 best represents typical domestic consumption;
- that the median provides a better representation of typical domestic consumption than the mean; and
- that we have considered all of the potential impacts of changing the current figures.

We received 12 responses. Six accepted our recommendation of Model 2, three preferred Model 4, one preferred Model 1 and three did not comment specifically on their model choice. Respondents who preferred Model 2 did so largely because they felt a model that used only actual historic data and the greatest number of data points was more robust. The main reason cited for preferring Models 1 and 4 over Model 2 was that the inclusion of a projected year meant the data would more accurately reflect current consumption levels.

With respect to the inclusion of median over the mean values in the analysis, 9 respondents accepted that use of the median was more appropriate and 3 did not provide comment.

In relation to our question about managing the potential impact of this proposal, three suppliers said it was important for us to consider the lead time required to implement changes as they would need to amend systems, update relevant literature and brief staff. One other respondent felt it was important to have a pre-arranged "switchover date" when any new consumption figures would be adopted by relevant industry players, stating this coordinated effort would help facilitate consumer understanding of the change.

Two respondents also raised issues about E7 consumers. They felt that we should provide separate figures for E7 consumers who use electricity for heating and those who do not. The consumption data we used could not be segmented based on primary heat source and

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so we were not able to isolate these groups of consumers within Profile Class 2. The data we have provided on E7, coupled with the research done by BRE[3] stating that most E7 consumers use some form of heating other than electricity, would suggest that it may be best to use the medium profile Class 2 figure to represent the majority of E7 consumers. Where there is evidence that a consumer may use more or less energy than the stated medium value, the high and low consumption levels could be used as a general reference point.

Decision

After full consideration of the responses to the consultation we believe that Model 2 provides a robust basis for our figures and that the median is more representative of typical energy consumption levels. We agreed with respondents who felt the model that relied only on historic data and included the greatest number of years of data was more robust. As such, we plan to change our typical consumption figures to those outlined in the table above. We note the concerns raised by some that energy consumption levels are likely to continue to fall, and therefore a model incorporating more recent and projected data may be more representative. In future if there is evidence that consumption levels have changed significantly, or that our figures are no longer representative, we may review these figures again.

We agree that a coordinated approach should be taken to facilitate the implementation of these new figures by Ofgem and other interested parties, and that this will help promote consumer understanding of the adjustment. To ensure that suppliers and other stakeholders have adequate time to update their systems, and incorporate new figures into relevant literature and procedures, **we will adopt new figures from the 17th January 2011**.

We are keen to minimise any confusion this change may cause for consumers. Therefore, we intend to issue a press release and other material around the implementation date in order to explain this change in methodology, and the impact it will have on headline typical energy prices.

If you have any questions regarding this letter, please contact Katie Brennan (Katie.brennan@ofgem.gov.uk 020 7901 7195) or Melinda Anderson (Melinda.anderson@ofgem.gov.uk 202 7901 7305).

Regards,

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[3] BRE is the trading name of Building Research Establishment Limited

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