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Sent by email to: [MarketMonitoring@ofgem.gov.uk](mailto:MarketMonitoring@ofgem.gov.uk)

Dear Andy,

## **Typical Domestic Consumption Values (TDCVs): Call for Input on proposed updates to TDCVs as part of Ofgem's routine consumption review process**

We welcome Ofgem's call for input on proposed reductions to the TDCV values and agree that TDCV values should reflect the downward trend we have seen in customer demand.

Ofgem should also:

1. Adjust the price cap calculation to include the new TDCV values Ofgem will introduce in October 2023.
2. Reflect the marked decline in customer consumption in 2022 within the proposed TDCV values.

The rationale for these proposals is set out in our response.

## **Implications for price cap and energy price guarantee values**

Ofgem should ensure any change in TDCV values is then reflected in the price cap calculation. This will ensure suppliers can recover costs appropriately through the price capped tariffs offered to customers.

Using 2017 TDCV values in the price cap calculations impacts the proportion of costs suppliers may recover from the unit rate versus the standing charge. This can lead to suppliers under-recovering their operational costs allowance under the price cap, costs that they would be able to recover if up to date TDCV values were used in the price cap calculation.

We agree with Ofgem that not adjusting the TDCV values in the price cap calculations will not affect the customer bill, but it will affect how suppliers are able to recover efficiently incurred operational costs under the price cap.

Ofgem's call for input states that there is no need to adjust the price cap "as the methodology of the price cap was designed with specific regard to the longer-term trend of declining demand<sup>1</sup>". However, we have not been able to find any evidence in Ofgem's original price cap decision to suggest that the latest TDCV decreases were foreseen and accounted for<sup>2</sup>.

The price cap was originally designed to last until 2023<sup>3</sup> and therefore the TDCV values used in its initial creation will become defunct by the end of 2023 at the very latest. Given Ofgem is proposing to introduce new TDCV values for October 2023, it would be the right time to reflect these changes within the price cap calculations.

### **Proposed TDCV values**

We have seen a marked decrease in consumption – particularly in gas – in 2022 and this reduction should be reflected in the proposed TDCV values. We have seen an 8% year on year decline in annual quantities (AQs) for the period of May 2022 to February 2023, and we forecast that this demand will continue to fall by 1-2% monthly until Summer 2023. This decrease observed in 2022 is highly likely to be a long-term effect.

Reflecting this decrease in consumption in Ofgem's proposals would ensure TDCV values are more reflective of how much consumers are likely to use energy in the coming year.

A further reduction of TDCV, as we have proposed, will ensure that when TDCV is used in Ofgem press releases and the wider press to reflect the 'average household bill', it will be a lower bill and more accurately reflect what an average GB household is likely to pay.

We recognise that Ofgem does not have a full data set for 2022 yet, but even partial data from 2022 would lead to a reduction in the proposed TDCV values. We are willing to share this data with Ofgem to ensure a more accurate set of TDCV values is implemented and Ofgem can request similar data from other suppliers as well.

We agree with Ofgem that 2020 values should be excluded from the TDCV calculations as it was an exceptional year due to the pandemic, and therefore not reflective of likely post-pandemic consumption.

### **Proposed Economy 7 split**

We support changing the consumption split between peak and off peak from 58%/42% to 60%/40% respectively. It is a minor administrative change for us, and it should lead to a more accurate reflection of customer usage split between peak and off-peak periods.

If you have any questions or would like to discuss our response, please contact me on [Tabish.khan@centrica.com](mailto:Tabish.khan@centrica.com) or 07789 575 665.

Yours sincerely

*Tabish Khan*

Tabish Khan  
**Regulatory Affairs and Policy**

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<sup>1</sup> Ofgem's Call for Input: Review of Typical Domestic Consumption Values 2023:

<https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023>

<sup>2</sup> Default tariff cap: decision: <https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview>

<sup>3</sup> ibid