

Andy Milligan
Retail Market Intelligence and Stability
Ofgem
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27 March 2023

Dear Andy,

CALL FOR INPUT: REVIEW OF TYPICAL DOMESTIC CONSUMPTION VALUES 2023

We welcome the opportunity to respond to Ofgem's review of Typical Domestic Consumption Values (TDCVs) for gas and electricity.

Overall, we agree with Ofgem's proposal to update the TDCVs for gas and electricity based on the measured changes to median consumption. In light of the extraordinary circumstances of 2020, reflected by an atypical increase in domestic energy consumption as a result of the COVID pandemic, we do not believe that 2020 data should be used for this TDCV update. However, we also note that 2019 is now far removed from the present day, where increased energy costs and the wider cost of living crisis have resulted in significant levels of demand destruction. Ofgem should consider the case for using 2021 data alone, which would be more reflective of the consumption patterns seen today. We note that the downward consumption trends seen in the data are likely to persist since energy prices are predicted to remain high.

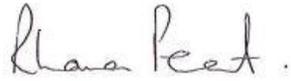
Revisions to the TDCVs have so far not been reflected in the Licence's benchmark annual consumption values used in SLC 28.A and SLC28.AD. We consider that Ofgem should amend the TDCVs in the Licence condition to account for the significant changes to consumption since 2017, which have impacted both the median and the mean levels of energy use. If Ofgem does not amend the Licence values, the growing difference between benchmark values and actual consumption will continue to cause confusion and there is a risk that suppliers will not be able to recover their costs through the price cap.

We do not agree with the proposal to revise the Economy 7 consumption split to a 60% peak, 40% off-peak ratio. ScottishPower data shows that the consumption split of our Economy 7 customers is [x%] peak to [x%] off peak. We consider that Ofgem should follow the approach used to calculate TDCVs and use the median average for Economy 7 consumption splits to guide future changes.

Amending consumers' TDCVs has implications for communicating the price amount of a 'typical' bill. We welcome Ofgem's assurances that it will clearly communicate to

customers where a change in bills is due to the change in TDCVs rather than a change in energy costs. Communications to customers regarding typical bills are under much scrutiny given the increased media attention on energy costs, so we encourage Ofgem to be proactive on this point.

Yours sincerely,

A handwritten signature in black ink that reads "Rhona Peat". The signature is written in a cursive style with a period at the end.

Rhona Peat
Head of Retail Regulation

Review of Typical Domestic Consumption Values – ScottishPower Response

Question 1: We welcome stakeholder views on whether the exceptional circumstances affecting energy consumption in 2020 would justify using the 2019 and 2021 data for the TDCVs calculation, instead of the 2020 and 2021 data.

Overall, we agree with Ofgem’s proposal to update the TDCVs for gas and electricity and agree with the methodology used to determine those values. We do not believe that data from 2020 should be used in the calculation because of the exceptional circumstances relating to the COVID pandemic, including three national lockdowns, which led to atypically high energy consumption.

However, we also note that 2019 is some time ago, meaning the data reflects significantly different circumstances unaffected by the energy crisis and spiking costs. We have seen significant levels of demand destruction between then and now, with reduced levels of demand likely to persist as prices are forecast to remain high. Ofgem should consider the case for using the 2021 data alone, which is not as influenced by the impact of national lockdowns as the 2020/2021 data and does not include the 2019 year which reflected benign conditions and low energy prices.

If this is not possible, then we would prefer using the 2019 data rather than the 2020 set to calculate the TDCVs.

Question 2: We welcome stakeholder views on whether the change is significant enough to revise the consumption split and adopt the proposed 60/40 consumption split.

We disagree with the proposal to revise the Economy 7 consumption split to a 60% peak, 40% off-peak ratio. The data in the Call for Input’s Annex shows high degrees of consumption variance within the Economy 7 customer base – in particular, the data is heavily skewed towards peak consumption by three regions (East England, East Midlands and South East) while other regional splits remain closer to, or below, the Licence’s current 58:42 split.

ScottishPower data currently shows a [X]:[X] consumption split, which is more aligned to the status quo than it is with Ofgem’s proposed change. We note that Ofgem uses a median average for TDCVs, with data included on consumption at multiple percentile intervals. We consider that this is the correct approach and that it should be replicated for Economy 7. Until Ofgem is able to confirm the split using median averages, we do not believe that any changes to the Economy 7 consumption split should be made.

As regards future updates to the values, we consider that Ofgem should amend the split in the Licence itself which would align price cap requirements with customer consumption.

Question 3: We would welcome stakeholder views on whether this benchmark should be updated considering the proposed revised TDCVs.

Revisions to the TDCVs have so far not been reflected in the Licence condition itself. We consider that Ofgem should amend the TDCVs in the Licence condition to account for the significant changes to consumption since 2017, which have impacted both the median and the mean levels of energy use. Considering persistently elevated energy costs, the wider cost of living crisis and energy efficiency measures, it is reasonable to infer that TDCVs will continue falling. We consider that Ofgem should update the benchmark used in the Licence

before average consumer demand falls below the 2017 values, which would lead to an under-recovery of supplier costs.

Amending consumers' TDCVs has implications for communicating the price amount of a 'typical' bill. By updating the benchmark figures in the Licence concurrently with the TDCVs, Ofgem has the opportunity to avoid any unnecessary confusion caused by having two separate consumption values, one used for communicating bills and the other for calculating them.

ScottishPower

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