Scottish and Southern Energy

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Revision of typical domestic consumption values

Thank you for giving SSE the opportunity to comment and respond to the consultation above. We have responded to each individual question contained in the consultation document in the attached appendix.

It is welcome to see Ofgem is undertaking a review of domestic consumption values. Our evidence is that domestic gas customers' consumption levels are on a downward trend and the outcome of the review should be that any comparisons made between suppliers, on items such as price, should more accurately reflect the consumption of a typical domestic customer.

We would, however, question whether this change goes far enough to reflect the current consumption levels being experienced. We consider the model that Ofgem has used to base its decision on is too reliant on historic data and should take account of more current consumption data including Ofgem's own projections. Ofgem should look to use more current consumption information in order to anticipate future demand levels.

SSE would encourage Ofgem to make more wide ranging use of the information available across the various payment methods and consumption levels rather than focusing solely on typical consumption customers. We can appreciate the difficulty in finding a "one-size" fits all approach in relation to the typical customer however, we feel that the wider coverage of the retail market places too much emphasis on a single figure whether it is the mean, median or any other point estimate. The Ofgem analysis is an opportunity to highlight the diversity that exists in usage patterns and the importance of customer understanding to help customers engage with the competitive market. This is an important principle to establish ahead of the mass market roll-out of smart meters and to encourage take-up of energy efficiency measures.

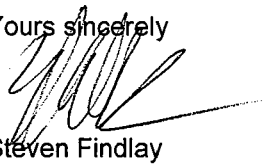
We do have some reservations with regard to the typical consumption being applied to customers on Economy 7 tariffs. This is due to the two distinct populations within this group i.e. those with storage heating and those without storage heating. For customers using Economy 7 to support their heating requirements the median measurement will be too low. For those without storage heating the median figure will be too high. As a result we would like Ofgem to quote two sets of numbers, one for those who use the electricity for storage heating and one for those who use it only for everyday usage.

Whilst we support Ofgem's proposals fully we would suggest that any change implemented should be introduced on all new paper-based material and then at re-print stage on any existing material. We have a current stock of paper-based literature that we will continue to use should the new consumption levels be introduced. This would prevent suppliers from scrapping and re-printing existing materials which is a costly

process that SSE would prefer to avoid if possible. Clearly any new material after the introduction of new consumption levels will contain the updated figures.

Overall, we are supportive of this review and the general direction in which Ofgem has decided to take however, we would question whether the analysis and conclusions reach far enough in order to give a true reflection of current typical consumption levels across Great Britain.

Yours sincerely



Steven Findlay
Regulation

Appendix

Chapter Two

Question 1: Do you agree that we have used the most appropriate data on which to base our review?

Ofgem has gathered a reasonable collection of data sources from which to base this assessment. However, the sub-national statistics from DECC have the short coming of relying on data that goes back several years. The fact that the data is derived from backward looking industry settlement entities, in the form of Annual Quantities in the case of gas, means that there is an additional lagging influence in these measures of consumption. On the other hand, it is probably the most direct and transparent way of attempting to measure the typical usage. It also allows the whole population to be scrutinised which is helpful. We acknowledge that a reasonable attempt to adjust for the vintage of the data has been made by projecting a figure for 2009 although this is not given sufficient weighting in any of the models.

We believe Ofgem has got the right direction of travel but in the case of gas, the calculation is lagging behind the true situation. The consequence is that a further downward adjustment will be required at some point in the future although we would we guard against this being any time in the near future as this could potentially cause confusion for customers and costs to suppliers. Should Ofgem decide to amend the typical consumption level we would ask Ofgem to consider that the change should take account of the likelihood of consumption continuing to decline thus removing the need to make any further adjustments in the near future, thus reducing the risk of customer confusion.

Question 2: Do you agree that the distribution analysis leads us to believe that the median value is more appropriate to use for typical consumption?

The median measure used by Ofgem is a perfectly acceptable measure of typical consumption in the context of the skewed distributions for gas and profile class one electricity customers illustrated in the consultation document.

With regard to customers that have Economy 7 meters, using a single assumption about the split in volume between day and night usage will be subject to similar criticism. Those with storage heating will typically have a night usage of around 75% in contrast to those without storage heating who will generally use less than 20% of their units during the night. As a result we would like Ofgem to quote 2 sets of numbers, one for those who use the electricity for storage heating and one for those who use it only for everyday usage.

Question 3: What do you think about the four models we have employed?

Our main concerns with the models are covered in our response to question one. We consider that there is too much weight given to the old data in these calculations and the weather correction standard used in the gas industry is also likely to cause the figure to be calculated too high.

Models 1 and 4 are to be preferred to the others as these models incorporate the more up to date estimate for 2009. However, in our view in the case of gas, where the trend in recent years is clearly downwards, the projected figure for 2009 or the actual figure for 2008 would provide better estimates than those given in any of the four Ofgem models. The medians from all four of the models have been distorted by out of date figures from earlier years. We can appreciate the difficulty trying in to predict how customers' typical consumption is going to look in the future however we feel confident that it is going to continue on the current downward trend.

Chapter Three

Question 4: Have we considered all the key impacts of changing typical consumption values?

As previously highlighted, average consumption figures are used widely in marketing materials and as a result significant amounts of material would be affected.
Another point we would like to bring to Ofgem's attention is where SSE have made retrospective claims with regard to saving money in comparison to other suppliers over previous years. These will be based on the current typical consumption levels and as we periodically review these claims if, for example, the claim was made over a period of five years, should we use the old consumption levels or the new typical

consumption levels. We would suggest that suppliers should base any retrospective claims on the new figures in order to prevent confusion for any customers. We would appreciate some guidance from Ofgem on this issue.

Chapter 4

Question 5: Do you agree with our recommendation that Model 2 best represents typical domestic consumption?

As set out in our response to question 3, we do not believe that Model 2 best represents typical consumption going forward. In fact, particularly for gas where there is a clear downward trend, it will provide the least accurate measure as it fails to include the 2009 projection and then compounds the distortion by going back to 2005 when average use was much higher.

Models 1 and 4 are preferred to the others as they incorporate the more up to date estimate for 2009. However, for the reasons set out above, the projected figure for 2009 or the actual figure for 2008 would both represent better estimates than those provided in any of the four models.