

Energy suppliers and other interested parties

Promoting choice and value for all gas and electricity customers

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Date: 26 November 2012

Dear Sir/Madam,

Energy Companies Obligation (ECO): Consultation on the methodologies for calculating (1) number of domestic customers and (2) amount of electricity and gas supply

ECO is a new statutory scheme to be established by the Electricity and Gas (Energy Companies Obligation) Order 2012 ('the Order'). Under ECO, certain electricity and gas licence holders ('energy supplier', or 'supplier' in this letter) will be required to deliver energy efficiency measures to domestic households. Further information about ECO is available on the Ofgem and DECC websites¹.

The Order names the Gas and Electricity Markets Authority as the Administrator of ECO. Ofgem ('we', 'our', or 'us' in this letter) will administer ECO on behalf of the Authority.

This consultation letter seeks views on two issues relating to obligation setting under ECO:

1. the methodology to be used by a supplier to determine the number of domestic customers it supplies electricity and/or gas to; and
2. the methodologies to be used by a supplier to calculate the amount of electricity and gas supplied to domestic customers.

The number of domestic customers and the amount of electricity or gas supplied to domestic customers is information to be used by suppliers to determine whether they are subject to the requirements of ECO. Where a supplier determines themselves to be subject to ECO, it has a duty to notify this information to us for the purpose of setting obligations for Phase Two (1 April 2013 to 31 March 2014) and Phase Three (1 April 2014 to 31 March 2015) of ECO.

Where a licence-holder exceeds the threshold beyond which a licence-holder becomes subject to ECO but does not notify information for the purpose of obligation setting, we may draw on our wider information gathering powers to determine the licence-holder's customer numbers and amount of supply. A licence-holder that exceeds the threshold, but fails to notify us of its customer numbers and amount of supply, will breach its requirements under ECO.

On 23 November 2012, we published our draft ECO Guidance for consultation². That consultation will end on Friday 25 January 2013 and our final Guidance will be published by March 2013.

¹ <http://www.ofgem.gov.uk/Sustainability/Environment/ECO/Pages/index.aspx>; and http://www.decc.gov.uk/en/content/cms/tackling/green_deal/green_deal.aspx.

² *Energy Companies Obligation (ECO) 2012-2015: Guidance for Suppliers*, available at <http://www.ofgem.gov.uk/Sustainability/Environment/ECO/Pages/index.aspx>

We are (through this letter) consulting separately on issues relating to obligation setting. This is because suppliers will be required to determine whether they are obligated under the scheme and notify us of their domestic customer numbers and amount of domestic supply for Phase Two *before* the anticipated publication date of the final Guidance document.

As the issues contained in this consultation only affect larger energy suppliers, and because of the need to publish methodologies ahead of the commencement of Phase Two of ECO, we are consulting over a shorter period³.

The deadline for responses to this consultation is 21 December 2012. Please email responses to eco.consultation@ofgem.gov.uk.

Background

Only electricity or gas licence-holders who alone, or as a member of a group, supply more than 250,000 domestic customers and either more than 400 gigawatt hours of electricity or 2000 gigawatt hours of gas to domestic customers in any relevant year, are subject to ECO. Where a licence-holder determines that it is subject to ECO (a 'supplier' for these purposes), it has a duty to notify us of its domestic customer numbers and amount of electricity and gas supplied to domestic customers for the relevant year. This information will be used to determine the size of a supplier's obligations under ECO. Further information on the different obligation phases under ECO, when suppliers are required to notify customer numbers and amount of supply and arrangements for group companies, can be found in Appendix 1 to this letter.

The methodology to be used by suppliers to determine the number of domestic customers it supplies electricity and/or gas, and to calculate the amount of electricity and gas supplied to domestic customers for Phase One of the scheme, is set out in our Open Letter entitled "*Notice to obligated suppliers of duty to notify customer numbers and amount of supply*", which is available on our website⁴. This methodology can also be found in Appendix 2 to this letter.

Consultation on the methodologies for calculating (1) number of domestic customers and (2) amount of electricity and gas supply

We are seeking views on the methodologies outlined below.

1. The methodology a supplier will use for Phases Two and Three of ECO to determine the number of domestic customers to which it supplied electricity or gas in a given year

We are seeking views on whether the methodology used for Phase One should also be used for Phases Two and Three of ECO by suppliers to determine the number of domestic customers to which it supplies electricity or gas, to determine whether the supplier is subject to ECO and for the purpose of obligation setting.

2. The methodologies a supplier will use for Phases Two and Three of ECO to calculate the amount of electricity or gas supplied to domestic customers

We are conscious that the nature of the data available to suppliers to calculate the amount of electricity or gas supply means that any methodology used will result in an amount calculated that is not exact. As such, we are seeking views on whether we should change

³ Our approach to consultation can be found at <http://www.ofgem.gov.uk/About%20us/BetterReg/Documents1/guidance%20on%20ofgems%20approach%20to%20consultation.pdf>

⁴ Available at [http://www.ofgem.gov.uk/Sustainability/Environment/ECO/guidance/Documents1/Energy%20Companies%20Obligation%20\(ECO\)%20-%20Obligation%20setting.pdf](http://www.ofgem.gov.uk/Sustainability/Environment/ECO/guidance/Documents1/Energy%20Companies%20Obligation%20(ECO)%20-%20Obligation%20setting.pdf)

any aspect of the methodologies used under Phase One of ECO when setting obligations for Phases Two and Three of ECO. In particular, please consider:

- the source of data for providing the amount of electricity or gas supply (one suggestion we have already received is to use the DECC DM1/QG1 returns);
- how to ensure that domestic customers are included;
- how to ensure that non-domestic customers are excluded;
- unmetered supplies;
- half-hourly supplies;
- whether a methodology would require changes to supplier or other parties' systems; and
- how the accuracy of the methodology is likely to change over time with changes to the electricity and gas networks, e.g. the introduction of smart meters.

In deciding on methodologies, we will consider three factors:

- accuracy;
- equal and proportionate impact on suppliers; and
- availability of data / practicality of collecting data.

Responses to this consultation should be submitted by 21 December 2012. Any responses received after this date will only be considered under exceptional circumstances.

Please email responses to eco.consultation@ofgem.gov.uk. Alternatively you can post them to the following address:

Jessica Ladbury
ECO team
Ofgem
9 Millbank
London
SW1P 3GE

As soon as possible following the close of consultation, we will publish an Open Letter setting out the methodologies suppliers should use to determine their number of domestic customers and to calculate their amount of supply for Phase Two of ECO. We will publish this before suppliers need to notify us for Phase Two. These methodologies will also be incorporated into the final guidance document, once published.

If you have any queries in relation to this letter, please contact Jessica Ladbury at eco@ofgem.gov.uk.

Yours sincerely,

Matthew Harnack
Associate Director, Commercial

Appendix 1: Obligation setting, a supplier's duty to notify and arrangements for group companies

Setting obligations for phases of ECO

The Order establishes three phases for ECO:

- a. **Phase One:** 1 January 2013 to 31 March 2013;
- b. **Phase Two:** 1 April 2013 to 31 March 2014; and
- c. **Phase Three:** 1 April 2014 to 31 March 2015.

We are required to determine suppliers' obligations for the three phases of ECO.

When to notify

Obligations will be set before the commencement of each phase of ECO. The table below provides the key dates by which suppliers must notify us of domestic customer numbers and supply, the period of time that notification must relate to, and the dates by which we will notify suppliers of their obligations.

Table 1: Key dates relating to notification of customer numbers and supply

	Date by which suppliers must notify customer numbers and supply ('notification deadline')	Period of time notification relates to ('notification period')	Date by which we notify suppliers of their obligations
Phase One <i>1 January 2013 to 31 March 2013</i>	By the third working day after the day on which the Order is made	1 January 2011 to 31 December 2011	No later than the twelfth working day after supplier notification
Phase Two <i>1 April 2013 to 31 March 2014</i>	1 February 2013	1 January 2012 to 31 December 2012	Last day of February 2013
Phase Three <i>1 April 2014 to 31 March 2015</i>	1 February 2014	1 January 2013 to 31 December 2013	Last day of February 2014

What to notify

Suppliers must notify us, by the notification deadline, of the following:

- its number of domestic customers on 31 December of the notification period (see Table 1); and
- the amount of gas or electricity supplied to its domestic customers during the notification period.

The extent of a supplier's obligation under the scheme will depend on that supplier's share of the gas and electricity market.

Group of companies

In addition to notifying its own customer numbers and amount of supply, where a supplier was a group company⁵ on 31 December of the notification period, the supplier ('Supplier A') must also notify us of the following information relating to each of the other suppliers in the group of companies (on 31 December) that made the same type of supply (i.e. electricity or gas) as Supplier A:

- the name of each of the other suppliers;
- the company registration number for each of the other suppliers; and
- the amount of electricity or gas (as the case may be⁶) supplied by the group from 1 January to 31 December of the notification period.

Where a supplier fails to provide the notification required under the Order, or where we are satisfied that a notification is inaccurate, we may determine the matters to which the notification related⁷. We may also take enforcement action if appropriate.

⁵ A group of companies comprises the holding company and the wholly-owned subsidiaries of that holding company. 'Holding company' and 'wholly-owned' subsidiary have the same meaning as in section 1159 of the Companies Act 2006.

⁶ A supplier who is an electricity licence-holder notifies the amount of electricity supplied by the group. A supplier who is a gas licence-holder notifies the amount of gas supplied by the group.

⁷ Article 7 (2) and (6) of the Order.

Appendix 2: Methodology for determining the number of domestic customers and calculating the amount of electricity and gas supply

Methodology for determining the number of domestic customers

Domestic customer numbers should be determined in accordance with the definition set out in the Order: 'a person living in domestic premises in Great Britain who is supplied with electricity or gas at those premises wholly or mainly for domestic purposes.'

Methodology for Calculating Amount of Electricity Supply

When calculating the amount of electricity supply, suppliers should use ELEXON settlement data. ELEXON data is considered the standard for settlement data across the industry and provides a consistent basis on which all suppliers can report.

The amount of electricity supplied should be notified in total kilowatt hours (kWh). Suppliers should provide the total kilowatt hours (kWh) delivered to customers on Profile Classes 1 and 2, removing any unmetered supply from this data. This total kWh should be based on the latest settlement data available as of 31 July of the relevant year, split by licence and provided to suppliers by ELEXON.

To obtain the relevant profile data for Profile Classes 1 and 2, suppliers should use the D0030 Non Half-Hourly Distribution Use of System Charges (DUoS) report data, as provided to both suppliers and Licensed Distribution System Operators (LDSO). This data is provided in an aggregated form per Settlement Day for DUoS billing. No adjustments to line losses need to be made in respect of notifying supply amounts for ECO.

Methodology for Calculating Amount of Gas Supply

When calculating the amount of gas supply, suppliers should use aggregated Annual Quantities (AQ⁸). This will provide an approximation of gas delivered to domestic customers between 1 January and 31 December of the relevant year and provides a consistent basis on which all suppliers can report.

In selecting aggregated AQs for calculating amount of gas supply, we also considered Uniform Network Code (UNC) gas settlement and reconciliation processes operated by Xoserve. However, as Xoserve will not generate settled supply data for all domestic sector suppliers for the period in question ahead of the supplier notification deadline for each phase of ECO, aggregated AQ is preferred.

AQs are set annually by National Grid in consultation with gas shippers ahead of the start of each Gas Year and are adjusted to be expressed in seasonal normal terms.

A supplier should report the aggregated AQ of its domestic customers at three points in time:

- 1 January;
- 1 July; and
- 31 December.

These three figures should be aggregated and then divided by three in order to calculate the mean of the AQ at these three dates.

⁸ AQ is the estimated annual gas consumption of a customer over a 365 day year under average weather conditions based on 71 years of weather. It is provided by the National Grid.