

Energy suppliers and interested parties

Promoting choice and value for all gas and electricity customers

Email: eco@ofgem.gov.uk

Date: 18 January 2013

Dear Sir/Madam

Response to Energy Companies Obligation - Consultation on the methodologies for calculating number of domestic customers and electricity and gas supply

This letter summarises the key issues raised in response to Ofgem's ('we', 'us', or 'our' in this letter) consultation on the methodologies for calculating (1) number of domestic customers and (2) the amount of electricity and gas supply under the Electricity and Gas (Energy Companies Obligation) Order 2012 ('the Order') for phases 2 and 3 of the scheme. It also explains how we have taken responses into account in determining the methodologies for phases 2 and 3.

We would like to thank all respondents for their feedback, which was considered and helpful.

Consultation process

On 26 November 2012, we published a consultation on the methodologies suppliers will be required to use to notify us of their number of domestic customers, and amount of gas and electricity supplied to domestic customers, for phases 2 and 3 of ECO. We requested feedback on any alternatives or amendments to these methodologies that would improve the accuracy of the notification.

Interested parties were invited to provide feedback by 21 December 2012. We received 11 responses to the consultation, from 10 energy companies and 1 industry association. A full list of consultation respondents can be found at Annex 1. Our approach has also been informed by a workshop we held during the consultation with a range of stakeholders and industry experts where these methodologies were discussed in more detail.

This letter summarises the responses we received to the consultation and explains where and why we have chosen to amend or retain elements of the different methodologies. We will write separately to suppliers of the requirement to notify us of these matters for phase 2 of the scheme. The post-consultation methodologies for phases 2 and 3 are contained in Annex 2.

Responses to the consultation

The majority of respondents made two over-arching comments with regard to the consultation. Firstly, they were broadly content with the methodologies proposed, on the basis of the information that was available. However, several respondents did note that the short timescale between phases 1 and 2 of the scheme and the short period afforded for consultation did not provide sufficient time for a full analysis of the different options.

The remainder of this letter relates to specific feedback received concerning the methodologies for calculating (1) number of domestic customers and (2) amounts of electricity and gas supply for phases 2 and 3 of the scheme.

Methodology for determining the number of domestic customer numbers

All respondents who submitted on this point supported the existing approach for calculating domestic customer numbers under ECO, which is that suppliers must, as accurately as possible, identify the customers who meet the definition in the Order. This allows suppliers a degree of flexibility in methodology. In particular, respondents supported this approach as it is the same as that used for determining obligations or eligibility under other Ofgem-administered schemes, and has been the subject of audit by Ofgem.

One respondent proposed using VAT rates to identify a supplier's number of domestic customers. We considered this alternative and decided not to adopt it as a sole method of identifying domestic customers. However, suppliers can use VAT rates as one way of identifying or checking their domestic customer figures under the existing proposal.

Methodology for calculating the amount of electricity supply

As mentioned above, respondents were broadly supportive of the proposed methodology for calculating the amount of electricity supply subject to the over-arching comments discussed above. Respondents noted that this approach was subject to higher inaccuracies in the amount of electricity supply notified to Ofgem for phases 2 and 3 than for phase 1. This is because the Elexon settlement data that will be available by 1 February 2013 for January to December 2012 will include a higher proportion of estimated reads than the data that was available under phase 1¹.

One respondent raised an additional concern that smaller, growing suppliers may be more affected than larger suppliers because a higher proportion of their customer base may be on deemed reads.

We are alert to the above concerns, but our current approach remains our preferred approach. This is because, of all the options communicated to us, it provides the best balance of accuracy, impact on suppliers and practicality of collecting data, and still enables obligated parties to notify us of this information by the legislative deadline of 1 February 2013.

Additionally, several respondents highlighted a risk in this approach in that the relevant Elexon settlement data is only available five working days before the notification deadline. There is limited time for suppliers to review and process the data in order to be able to notify us. We are conscious of this risk and will work with suppliers bilaterally as required.

One respondent suggested using January to June 2012 data to estimate the July to December 2012 volumes. Whilst this would reduce the reliance on estimated reads that are contained in the settlement data, the estimation of data in this way may be less accurate. Therefore, we have decided against adopting this proposal.

¹ For phase 1 suppliers had to notify data for Jan to Dec 2011, by mid-December 2012.

The Order requires suppliers to notify the amount of supply provided to domestic customers during the period 1 January to 31 December immediately preceding the deadline for notification. One respondent suggested that suppliers instead be required to notify the amount of supply provided to domestic customers during the period 1 April to 31 March immediately preceding the deadline for notification. This would allow suppliers to use final settlement data, from Elexon, when notifying amount of supply. As the Order requires supply to be notified for the period 1 January to 31 December, we are unable to adopt this proposal.

The respondent also proposed using Estimated Annual Consumption ('EAC') figures from 30 June 2012 to estimate electricity supply from 1 January to 31 December 2012. However, this would not have accounted for customers joining or leaving a supplier between 1 January and 31 December immediately preceding the deadline for notification, and it is likely to be less accurate than the proposal we have adopted. We have therefore not adopted this proposal.

Two respondents suggested that quarterly DECC Domestic Electricity returns ('DM1') should be used by suppliers to determine the amount of electricity supplied. This approach was discussed in the workshop we held, where it was established that the methodology for providing this information is not consistent between suppliers. Review and amendment of each supplier's reporting systems to provide consistency would be time-consuming and costly, with no guarantee that consistency could be achieved before the date on which suppliers are required to notify their domestic customer numbers and amount of supply. As such we have not adopted this proposal.

Two further proposals were also raised:

1. Commission Elexon to run a report for all suppliers for Profile Classes 1 and 2 – Elexon confirmed that they would require a significant lead-in time to implement this report. Given the timescales for notification this has not been adopted as an option for phase 2. Additionally given our desire for simplicity and efficiency we have not adopted this option for phase 3.
2. Suppliers to use Elexon data but estimate unmetered supplies and non-domestic units to provide an adjusted volume supplied – this approach is open to significantly different approaches between suppliers and could lead to additional inaccuracies, as such has also not been adopted.

Methodology for calculating the amount of gas supply

Again, respondents were broadly content with the proposed methodology, subject to their over-arching comments discussed above. One respondent, however, did highlight that three sampling points would not produce a good statistical average for the year. Furthermore, it would be better to have more sampling points after 1 October 2012 as this is when the revised Annual Quantities ('AQ') comes into effect. In light of this feedback we have amended the methodology so that suppliers provide an aggregated AQ based on five points in time during 2012 instead of three. Following discussions with suppliers, it is our understanding that this additional information will be available to suppliers. The amended sampling points are as follows:

- 1 January 2012
- 1 April 2012
- 1 July 2012
- 1 October 2012
- 31 December 2012

Two respondents suggested that DECC Quarterly Gas returns ('QG1') should be used by suppliers to determine the amount of gas supplied. This approach was discussed in the workshop we held, and it was established that the methodology for providing this

information was not consistent between suppliers. Review and amendment of each supplier's reporting systems to provide consistency would be time-consuming and costly, with no guarantee that consistency could be achieved before the date on which suppliers are required to notify their customer numbers and supply. As such we have decided not to adopt this proposal.

Two further proposals were also raised:

1. Commission Xoserve to run a report on all small supply points – Xoserve has confirmed that this report would not be based on accurate information for the supply to domestic customers. As such this proposal has not been adopted.
2. Suppliers to use Xoserve data but estimate unmetered supplies and non-domestic units to provide an adjusted volume supplied – this approach is open to significantly different approaches between suppliers and as such has also not been adopted.

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

Yours faithfully

Matthew Harnack
Associate Director, Commercial

Annex 1 - List of consultation respondents

1. Centrica
2. Co-operative Energy
3. Confidential Respondent
4. Ecotricity
5. EDF
6. Elexon
7. Energy-UK
8. E.ON
9. RWE npower
10. Scottish Power
11. SSE and Scotia Gas Networks

Annex 2 - Methodologies for Phases 2 and 3 of ECO

Note that the methodologies for phases 2 and 3 are the same, except that the relevant dates are different. For the sake of simplicity, the dates contained in this annex relate to phase 2 of ECO. Each relevant date for phase 3 is exactly one year after the equivalent date for phase 2.

Methodology for calculating domestic customer numbers

As defined in the ECO Order, a domestic customer means 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.

We recognise that suppliers cannot all use the exact same methodology to calculate their number of domestic customers without significant system changes. We are therefore content for suppliers to continue using different methodologies in calculating the number of domestic customers under ECO. Suppliers must however, use a reasonable methodology for the purpose of accurately calculating domestic customer numbers.

Methodology for calculating the amount of electricity supply or gas supply to domestic customers from 1 January 2012 to 31 December 2012

Where a licence-holder or supplier ('A') is a member of a group with another licence-holder or supplier ('B') at 31 December 2012, 'A' must calculate the amount of electricity or, as applicable, gas supplied by the group in the year ending on 31 December 2012. In calculating this amount, 'A' takes into account the amount of electricity or, as applicable, gas supplied by 'B' between 1 January 2012 and 31 December 2012, whether or not 'B' entered the group during the year.

Suppliers must provide accurate information as per the methodologies set out below.

Part 1: Amount of electricity supply

In order to maintain a consistent basis of measurement amongst suppliers, ELEXON settlement data should be used, as it is considered the standard for settlements data across the industry. All notifications should be based on ELEXON data as detailed in this Annex.

Suppliers should provide the total kilowatt hours (kWh) delivered to customers on Profile Classes 1 and 2. Suppliers should remove any unmetered supply from this data (i.e. unmetered supply within Profile Classes 1 and 2). This total kWh should be based on the settlement data available from 22 January 2013, split by licence and that has been provided to suppliers by ELEXON.

In order to identify the total kilowatt hours (kWh) for each profile class, suppliers must use the D0030 'Non Half hourly Distribution Use of System Charges (DUoS) report' data provided to both suppliers and Licensed Distribution System Operators (LDSO). This D0030 flow contains both consumption and losses data, but only consumption data is required, as ECO only requires the volumes which have been delivered to customers. Therefore no adjustments to line losses need to be made in respect to reporting supply amounts for the ECO.

Part 2: Amount of gas supply

In order to maintain a consistent basis of measurement amongst suppliers, aggregated AQ² should be used as an approximation of gas delivered to domestic customers between 1 January 2012 and 31 December 2012.

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

- 1 January 2012
- 1 April 2012
- 1 July 2012
- 1 October 2012
- 31 December 2012

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

² 'AQ' is the estimated annual gas consumption of a customer over a year under seasonal normal conditions. AQs are set annually by Xoserve in consultation with Gas Shippers.