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Review of typical domestic consumption values

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy fully supports the revision of typical domestic consumption values (TDCVs), and believes that this will be helpful for presenting up to date and accurate retail pricing information to customers. This will facilitate the aims of the Retail Market Review to bring greater transparency, simplicity and clarity for consumers to compare tariffs and engage with confidence. These consumption figures should provide a consistent and trusted average figure for consumption, which is used across all retail pricing comparisons.

We welcome that Ofgem's review will inform the consumption value assumptions used in the Supply Market Indicator (SMI), which aims to provide a weekly snapshot of supply margins for an average standard tariff customer. Currently, the SMI does not accurately reflect average or typical consumption, which means that the reports overstate profitability, undermining trust in the industry. If the new typical consumptions are more closely representative of average consumption and updated on a regular basis, then it would make sense for the SMI to be based on these consumptions rather than introducing a different consumption figure, as is the case with the current SMI. Using a consistent reference will increase transparency and consistency of comparison for consumers between the multiple sources of information on energy prices. Therefore, EDF Energy is ready to work with Ofgem and industry to improve the way that these indicators are calculated and communicated to consumers. The review of the typical domestic consumption values is therefore a good start to this process.

In terms of Ofgem's proposed approach to revising the average consumption values and factors impacting their accuracy, we would like to see increased transparency in how the data has been calculated, including how weather correction has been applied. We would also recommend that a longer term view should be taken in order to reduce the risk of anomalies, for example arising from a series of unusually cold winters, which could skew the data and present an inaccurate picture for consumers. The options presented in the consultation do not cover a large enough period of time to guarantee anomalies in the data have been smoothed out. We feel that the options presented for 1, 2 or 3 years do not offer any significant variation. We would like to see options that cover a longer period i.e. 1, 3 or 5 years to more accurately depict variations. Therefore, EDF Energy's view is that consumption should be viewed over at least a 3 year time frame.

Furthermore, with regard to weather correction, we believe that all energy consumption is affected by weather, and so Ofgem should apply weather correction to profile class 2

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figures. In addition, for profile class 2, we feel that the consumption figures are of little value for comparison, unless they are accompanied by a method to split the consumption over each register. We understand that a review of percentage splits will be conducted in the near future, but in the interim we would suggest that whenever profile class 2 figures are shown, a percentage split is also stated, even if it is not reviewed. By stating the percentage used in the calculation, this will add further transparency to the process and will be more reflective of typical domestic consumption.

For future revisions of the consumption values Ofgem should ensure that comparisons as far as possible reflect the real cost to a median consumer, with a typical consumer reviewed on an ongoing basis to reflect potential changes in consumption behaviours fairly. Therefore, EDF Energy recommends that the TDCV be reviewed annually with reduced trigger amounts than those suggested by Ofgem. We believe that Ofgem's proposal to round revisions in consumption data to the nearest 100 kWh for electricity and 500 kWh for gas, represents too large a range. This could result in a 3-4% change for consumers, which is potentially misleading. We would therefore recommend reducing the triggers to 50 kWh for electricity and 250 kWh for gas to reduce this potential and to increase the accuracy of the figures for consumers.

We also feel that the process of calculating and delivering future TDCV's should be subject to defined service level agreements for Ofgem and DECC, as this will build confidence in the process and enable all parties to plan for change. We believe that it would be beneficial if DECC were to provide figures for previous years consumption sooner than they do at present. Currently, values are not provided until the end of the following year (i.e. 2012 data will be provided in January 2014), which reduces the relevancy of the data. It would also be beneficial if the data compiled by Ofgem covered at least 3 years, and was fully weather corrected for the reasons outlined above. A short term view can be representative, but if the most recent data is 12-24 months old by the time it is used then it starts to lose its efficacy and meaning for consumers making pricing comparisons.

We hope that the above information is helpful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Ann Neate on 01273 428464, or myself.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation