

Diego Villalobos
Energy Market Monitoring and Analysis
Ofgem
9 Millbank
London
SW1P 3GE

Sent via e-mail: diego.villalobos@ofgem.gov.uk

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Dear Mr Villalobos

Review of typical domestic consumption values

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and supplies and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10billion in the British economy.

Energy UK warmly welcomes Ofgem's decision to review typical domestic consumption values (TDCVs), and is pleased to respond to the consultation. TDCVs are widely used in the energy retail market for the presentation of generic pricing information, particularly by price comparison websites and suppliers. They are also used to illustrate the size of the average energy bill in pounds, a figure which is often quoted by the media. As Ofgem rightly notes, TDCVs influence the public's perception of the cost of energy and can affect customers' switching decisions, both of which contribute to levels of trust and engagement in the market. We also welcome the fact that the conclusions of Ofgem's review will be used to inform the consumption assumptions used in its Supply Market Indicator (SMI). Energy UK believes that the consumption figures used in the SMI should be as accurate as possible, to help ensure a fair representation of margin.

Given the influence and role that TDCVs have, they should provide a realistic representation of average energy consumption. Whilst we recognise the complications involved, doing so will help ensure that customers make tariff comparisons based on more accurate information, including via the Tariff Comparison Rate. It would also demonstrate the contribution that energy efficiency makes in offsetting price rises. Since Ofgem last revised the TDCVs, energy suppliers have been working

Energy UK

Charles House
5-11 Regent Street
London SW1Y 4LR

T 020 7930 9390
www.energy-uk.org.uk
t @EnergyUKcomms

intensely to install millions of insulation measures in customers' homes, which should have had the impact of reducing average consumption.

Energy UK agrees with Ofgem that a balance needs to be struck between the accuracy of TDCVs and how often they are refreshed. However, we believe that accuracy should be the priority and can see few reasons not to assess domestic consumption every year. Whilst we welcome Ofgem's intention to minimise the costs imposed on stakeholders, we believe that revising TDCVs is not likely to be as burdensome as Ofgem fears. We understand that TDCVs are likely to be a variable in the systems of market participants that can be updated at relatively little cost, rather than requiring a re-write of systems, bills or websites. Ofgem has also set out plans to provide sufficient lead-in time to allow suppliers and others to make necessary changes, as well as specifying a "go live date" for market-wide adoption. Energy UK warmly welcomes these commitments and believes that they mitigate concerns about administrative burden and potential consumer confusion¹.

Energy UK agrees with Ofgem that the TDCVs should ideally be robust, representative of current consumption and calculated in a way which minimises the impact of any anomalous years. As Ofgem notes, there are trade-offs attached to their different options of how many years' data should be used in calculating the TDCVs. Energy UK sympathises with Ofgem's view that using two years strikes the right balance, and two of our retail members agree. However, most favour Option 3 since it is more robust. Using three years' worth of data will, for example, help avoid TDCVs being reviewed upwards, even with weather correction, after two consecutive winters that are unusually cold². Such an upward revision would misrepresent the downward trend in gas consumption. In this regard, Energy UK certainly supports weather correction.

Energy UK supports Ofgem's aim to provide a transparent framework for revising TDCVs. Within that framework, we agree that there should be a materiality threshold both to enhance transparency and to ensure that any change to TDCVs is worthwhile. Overall, we believe that Ofgem should consider revising TDCVs if the latest consumption data results in different figures rounding to the nearest 50 kWh for electricity and 250 kWh for gas, rather than 100 kWh for electricity and 500 kWh for gas as currently proposed.

As part of the transparent framework for revising TDCVs, Energy UK believes that the process should be clearly mapped out to ensure efficient delivery, including an agreed timetable for when each of the following milestones will be completed/occur:

1. DECC provides the sub-national energy consumption statistics to Ofgem.
2. Ofgem completes the analysis and states whether there will be a revision to the TDCVs, and what the values will be.
3. Lead-in time and "go-live" date specified.

In order for this process to be mapped out, some kind of memorandum of understanding between Ofgem and DECC is likely to be required. We believe that this would be in the best interest of consumers since it will help to ensure that the data is as up-to-date as possible.

Provided that the same methodology for calculating TDCVs and materiality threshold for revising TDCVs is used every year, at this stage we would see no need for Ofgem to consult on these aspects.

¹ With respect to the objective of ensuring that TDCVs are consistent across the industry, Energy UK notes that Ofgem has not prescribed what the day/night split for PC2 Economy 7 users should be in percentage terms. We hope that Ofgem will resolve this issue through the Retail Market Review.

² It is also worth noting that, by using three years' data, TDCVs may not need to be revised as frequently as they would by using fewer years' data, further alleviating Ofgem's worries about imposing disproportionate burdens on stakeholders.

However, there may be value in checking with the industry on appropriate lead-in times, whilst recognising that there would be limited flexibility on all milestones from year to year to ensure timely delivery of any TDCV revision, and corresponding benefits to consumers.

I hope that these observations are useful. To reiterate, Energy UK wholeheartedly supports Ofgem's review of TDCVs and believes it entails a positive development for industry and consumers alike.

If you have any questions, please do not hesitate to contact me on 020 7747 2962 or alun.rees@energy-uk.org.uk

Yours sincerely

Alun Rees
Policy and External Relations Manager