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Dear Diego,

Re: Review of typical domestic consumption values Consultation

National Grid Gas plc welcomes the opportunity to respond to this consultation. This response is made on behalf of National Grid Gas Distribution (NGGD). Please find below our general observations on the consultation itself and answers to the individual consultation questions.

General Observations

We note that in addition to the proposed use of typical domestic consumption values (TDCVs) for the comparison of supply tariffs that average domestic consumption values are currently used by Ofgem for both the Supply Market Indicator and for factsheets explaining household energy bills, and that different values (16.9 MWh, 16.5 MWh) are used for these latter two purposes. Using different typical consumption values for differing purposes can create confusion and makes the consolidated usage of such information more difficult. In addition, where such average consumption values do not reflect the up-to-date typical usage their use may create a misleading impression, for example of the level of network charges for a typical domestic consumer.

In addition to this, NGGD uses a typical domestic consumption level within the "Fuel Poor Test" which is used by us to determine the level of payment a "Fuel Poor" domestic customer would pay for a new gas connection. The typical gas consumption level (19.0 MWh) that must be used was determined by Ofgem and is out of line with current typical domestic consumption assumed for other purposes, never mind the significantly lower TDCV of 13.5 MWh now proposed

NGGD supports the review of the TDCVs. Further, we consider that there would be merit in Ofgem reviewing the various usages of typical domestic consumption values and using the latest TDCV in all cases unless there is good reason otherwise. Given the significant variations in the current domestic usage assumptions from the latest proposed gas TDCV, particularly in the case of the Fuel Poor Test, we believe that such a review should be undertaken as soon as practical.

Consultation Questions

Question One: Do you agree with the options presented for calculating TDCVs? If not, which additional options would you consider?

NGGD agree with the methodology that Ofgem have proposed to calculate new TDCVs and the three options presented to calculate them:

- Option 1: latest year of available consumption data (i.e. 2011)
- Option 2: average of latest two years of available consumption data (i.e. 2010-2011)
- Option 3: average of latest three years of available consumption data (i.e. 2009-2011)

The gas consumption data that NGGD has access to via Xoserve, and which has been utilised when setting gas distribution transportation charge levels, has demonstrated significant declines in usage per customer over the past few years. We consider that any methodology for calculating TDCVs should be capable of reflecting these changes. We consider therefore that the options presented, which focus on data from the most recent years, are appropriate.

We support the use of TDCVs based on historical data rather than projected values so long as regular updates to the historical-based estimate are planned so as to reflect any ongoing changes in consumption levels.

Question Two: Do you agree with our recommended framework for future revisions of the TDCVs?

Since overall consumption values have been historically reducing, and this trend is likely to continue, we agree with the proposed framework for future revisions of the TDCVs, and support Option B (Revised Approach) whereby changes in consumption values would be assessed every two years. We consider that revision every two years keeps TDCVs representative and contemporaneous but takes account of the costs of updating the values. We also agree with the rounding values of gas consumption to the nearest 500kwh.

Question Three: Do you agree that our proposals strike an appropriate balance between having TDCVs that are representative of current consumption and providing stability over time?

We support Option 2 in that it provides typical consumption values based on averaging the two most recent years of consumption, rather than the last three or four years, which would not be as appropriate given the ongoing decline in consumption levels and likely future trends in both gas and electricity consumption. We consider that a value derived from just the most recent year may be more reflective of current consumption; however such a methodology creates the risk of an unstable estimate over time. We believe that Option 2 strikes the appropriate balance between these factors.

We agree that having a planned review every two years is the most appropriate process for future review of the TDCVs.

Should you wish to discuss any matter within this letter, please contact myself; or Ruth Thomas on 07768 173469, ruth.thomas2@nationalgrid.com.

Yours sincerely,
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