



To all retail energy market participants, consumer groups and other interested parties

*Promoting choice and value for all gas and electricity customers*

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Date: 17th May 2013

Dear Colleague,

### **Review of typical domestic consumption values**

Ofgem estimates the average annual electricity and gas consumption of typical domestic customers. These values are used for a variety of purposes, including estimating average annual bills, comparing tariffs and illustrating the impact of price changes.

The current values have been used since 2011. In the light of recent developments, we are launching a review of these values to make sure they remain representative of typical domestic customer consumption. We aim to consult next month on any proposed actions resulting from our review. We then intend to communicate a final decision in the summer.

### **Use of TDCVs**

The typical domestic consumption values (TDCVs) are a key input for any model or estimate that includes bill values in pounds per customer. They are widely used in the market and are sometimes viewed as the industry standard. The table below shows the current TDCVs<sup>1</sup>:

	<b>Level</b>	<b>kWh</b>
Gas	Low	11,000
	Medium	16,500
	High	23,000
Electricity: Profile Class 1 (credit meters)	Low	2,100
	Medium	3,300
	High	5,100
Electricity: Profile Class 2 (multi-rate meters)	Low	2,900
	Medium	5,000
	High	8,300

In Ofgem, the TDCVs underpin both policy and analysis. For example, as part of our Retail Market Review reforms, we propose to require suppliers to use these values to calculate the estimated annual cost of different tariffs for use in both Tariff Information Labels and Tariff Comparison Rates. We also use these values in some of our publications, like the "Household Bills Explained" factsheet, and for wider internal analysis.

<sup>1</sup><http://www.ofgem.gov.uk/Markets/RetMkts/Comp/Consumption/Documents1/Decsion%20letter%20Consumption%20review%20FINAL.pdf>

Outside Ofgem, a range of stakeholders use the TDCVs to present generic pricing information. Suppliers and switching sites use them to quote the cost of energy products, where a generic quotation is used and not a personal one. This information is a central element of the communication between suppliers and customers.

Our Supply Market Indicator (SMI) provides a weekly snapshot of margins on supplying a typical, standard tariff customer<sup>2</sup>. This does not currently use the TDCVs. Instead, it uses a slightly different methodology to calculate average consumption assumptions (4,000 kWh for electricity and 16,900 kWh for gas). The conclusions of the review will inform the SMI's consumption assumptions.

## **Review of TDCVs**

The TDCVs were last reviewed in 2010 and new values took effect from January 2011. We committed to revisiting them should consumption patterns show signs of significant change.

There is now some evidence of a reduction in domestic consumption since our last review, especially for gas. This could be as a result of the combined effect of price increases, improvements in energy efficiency and economic conditions constraining household budgets. Our review aims to determine whether this evidence is sufficiently well established to warrant a reduction in our consumption assumptions.

Given their widespread use, we are mindful of the need to strike a balance between accuracy and stability. We want the values to remain representative and in line with trends in consumption but in a way that does not serve to confuse consumers and other stakeholders or impose disproportionate burdens on industry. We will consider establishing a regular process for revising TDCVs in the future. This will aim to maximise accuracy, minimise burden and provide a transparent framework for revisions.

We want any new values to be in place in time for use in our Retail Market Review reforms, allowing for the necessary lead times required by suppliers and others to implement changes to their systems and outputs, and to brief staff.

## **Next steps**

Over the coming weeks, we will consider the available evidence and undertake the analysis to determine whether there is a case for updating the TDCVs.

We aim to publish a short consultation next month on our proposed actions. If an update is warranted, the scope will include options for calculating the new TDCVs and updating them in the future. We do not intend to reopen the main data and methodological questions as these were considered extensively during the 2010 review<sup>3</sup>.

If you have any questions on the contents of this letter, please contact Diego Villalobos, in the Energy Market Monitoring and Analysis team, at [diego.villalobos@ofgem.gov.uk](mailto:diego.villalobos@ofgem.gov.uk) or on 020 7901 1846.

Yours sincerely,



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<sup>2</sup><http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Pages/indicators.aspx>

<sup>3</sup><http://www.ofgem.gov.uk/Markets/RetMkts/Comp/Consumption/Documents1/Review%20of%20typical%20domestic%20consumption%20values.pdf>