SCOTTISHPOWER

Rupert Steele OBE
Director of Regulation

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Dear Diego,

REVIEW OF TYPICAL DOMESTIC CONSUMPTION VALUES

Thank you for the opportunity to provide comments on your consultation regarding the review of typical domestic consumption values.

We warmly welcome Ofgem's review and believe that it is timely and appropriate. As you note in your consultation document, these typical domestic consumption values (TDCVs) are widely used by a range of stakeholders, including Ofgem, industry, media and others, as the basis for average annual bills. It is therefore important that these accurately reflect a typical domestic customer's consumption as far as possible.

Our own experience is that typical (and average) domestic consumption is reducing steadily, which we largely attribute to the impact of the introduction of industry energy efficiency schemes. However, in the current discussion about energy prices, while the TDCVs remain unchanged, the benefits of energy efficiency schemes are not reflected in average annual bills, even though the costs of these schemes continue to have a significant influence on prices.

To that end, we support Ofgem's analysis and proposal to reduce the current TDCVs. We are broadly comfortable with the methodology for calculating these revised TDCVs as proposed in the document and support the proposed Option 2. We fully agree that an established review process will be valuable going forward, and therefore support Ofgem's proposed Option B. We estimate that electricity demand per household is falling at around 1-2% per year and gas demand at around 3-4% per year and as this trend continues, there should be a clear process in place to reflect these in future TDCVs.

We understand that there will be a range of views on the best and most accurate way to calculate and, in the longer term, review these proposed new TDCVs. There is a balance to be found between accurately tracking trends, the reliability of supporting data and timely review (along with any corresponding changes that need to be made to systems and communications). For example, while we believe a process for future review is important, this should not be so frequent as to mean that the TDCVs would

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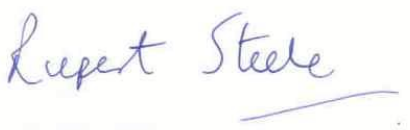
have to be revised in a potentially short timescale. We think that Ofgem's proposals strike a sensible balance here, by requiring the industry-standard TDCVs to be reviewed every 2 years with a view to updating them. We do agree that it would again be worth re-assessing these issues as part of the next review.

However, we think that there are some areas, such as Ofgem's Supply Market Indicators (SMI), where further consideration needs to be given as to how best to represent the downward trend in consumption in presenting trends in bill values. In particular, while a comparison over time at constant volume (as currently presented in the SMI) indicates how price movements would be translated into bills if nothing else changed, this approach is misleading as respects movements in typical bills as it can show the costs of energy efficiency programmes without their benefits.

We suggest that a supplementary chart is produced for SMI which shows the bill movements based on a linearly declining consumption level which reflects the trend established over the past few years. That will show that when the benefits of energy efficiency programmes are considered as well as their costs, the increase in the cost of energy is much less severe than is commonly supposed. We are not suggesting this as a replacement for the constant volume chart which in practice tracks prices not bills, but as additional – and vital – information to allow for a proper understanding of what is happening. In describing the application of a linearly declining volume, reference should be made to the TDCV trends that this reflects.

I have included answers to your specific questions in the Annex to this letter. Please feel free to contact me if you wish to discuss any of our response.

Yours sincerely,



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ANNEX

REVIEW OF TYPICAL DOMESTIC CONSUMPTION VALUES

CONSULTATION QUESTIONS – SCOTTISHPOWER COMMENTS

Question 1: Do you agree with the options presented for calculating revised TDCVs? If not, which additional options would you consider?

Yes, we agree with the options presented. We consider that the best available data has been used to inform this review and that using real historical data (rather than projected figures) is most appropriate.

We note that electricity data is not weather corrected, which could mean that there are slight year on year movements in the consumption levels for Profile Class 2 meters particularly, which could mean that trends are not directly comparable. However, we understand that this is likely to be an issue for the current TDCV levels and we don't consider that this issue outweighs the benefits to be gained from using real historical data from a single source.

We consider that Option 2 (average of latest 2 years of available consumption data) is the most suitable option. There is a risk in using a single year's consumption data (Option 1) that any peculiar trends or incidents in that year (such as unusually bad, or good, weather) could artificially skew the figures. This would also mean that more frequent review would be required, to 'keep up' with the most up to date figures.

Taking an average of 3 years' consumption would commonly appear to be the most sensible in that it is likely to strike a better balance between underlying demand and any weather correction concerns. However, there is a lag in the data available, which means that it is already the latest trends in consumption are unlikely to be reflected. In addition, more years mean that the reducing trend is likely to be less representative of current consumption. We accept that there is not much distinction between the median levels for Options 2 and 3 for low and medium consumers, but this does create a more distinct variation from a high consumer perspective and therefore does have an impact on the trends.

We think that Ofgem has accurately captured the key options. Separately, our own analysis of the consumption of our own customer base suggests that Ofgem's revised proposed figures, based on Option 2 are reflective of the current typical customer consumption. We therefore support Option 2 as proposed.

Question 2: Do you agree with our recommended framework for future revisions of the TDCVs?

Yes. The latest review clearly highlights that there is a decreasing trend in domestic customer consumption and this reflects our own experience. Given the value of the TDCVs across industry, it is important that they are a true representation of typical domestic customer consumption. We therefore agree that it is important to have a clear framework for review of future TDCVs that can assist stakeholders in providing a more reflective view of consumption over time. We think that this is especially important given the impact of energy efficiency schemes and the corresponding impacts on customer bills.

There could be an argument made for a more frequent review, particularly if the decreasing trend continues, as this is likely to create more accurate TDCVs. However, this does need to be balanced against the impacts on stakeholders of more frequent revisions, including on the need for more frequent updating of customer and industry facing material. We think that Ofgem has broadly captured the right balance here and would therefore support Option B as proposed. However, we also think that this would be a point worth re-visiting once the outcome of the next future review is known, as this will help inform whether a one year rolling update will provide greater accuracy that would rationalise more frequent changes.

However, we think that there are some areas, such as Ofgem's Supply Market Indicators (SMI), where further consideration needs to be given as to how best to represent the downward trend in consumption in presenting trends in bill values. In particular, while a comparison over time at constant volume (as currently presented in the SMI) indicates how price movements would be translated into bills if nothing else changed, this approach is misleading as respects movements in typical bills as it can show the costs of energy efficiency programmes without their benefits.

We suggest that a supplementary chart is produced for SMI which shows the bill movements based on a linearly declining consumption level which reflects the trend established over the past few years. That will show that when the benefits of energy efficiency programmes are considered as well as their costs, the increase in the cost of energy is much less severe than is commonly supposed. We are not suggesting this as a replacement for the constant volume chart which in practice tracks prices not bills, but as additional – and vital – information to allow for a proper understanding of what is happening. In describing the application of a linearly declining volume, reference should be made to the TDCV trends that this reflects.

Question 3: Do you agree that our proposals strike an appropriate balance between having TDCVs that are representative of current consumption and providing stability over time?

Yes, we think that Ofgem has taken a sensible, balanced approach here and that the proposed outcome is appropriate, again provided that appropriate supplementary information is provided in the SMI to give a more realistic view of bill developments over time than a constant volume calculation.

ScottishPower
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