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31 July 2013

Dear Diego,

Review of typical domestic consumption values

SSE welcomes Ofgem's review of domestic consumption values. It is right that the pronounced downward trend in consumption over recent years should be reflected in industry standard figures. We have long argued that the figures used should be reviewed, particularly in the context of the Supply Market Indicators reports which tend to attract negative media attention with slightly inflated estimates of margin. SSE fully supports this review and the introduction of revised figures to coincide with the implementation of Tariff Comparison Rates.

SSE broadly supports the proposed methodology and framework for future reviews but would ask Ofgem to consider the following points:

- Electricity consumption data should be weather corrected
- A hybrid of calculation Options 1 and 2 could be beneficial – using one year's data unless weather has been sufficiently erratic that a two year average would be necessary to adequately smooth the effects of extreme weather
- SMI values should be updated on an annual basis (more frequently than the TDCVs)
- Rounding thresholds should be based on volumes which move the average bill by £10 or more; 100kWh for electricity and 250kWh for gas
- Defining a clear timetable for future reviews to adhere to would be beneficial

These points are discussed in more detail in the annex to this letter.

The review of typical domestic consumption values is timely and welcome. SSE agrees that the proposed figures of 3,200kWh for electricity and 13,500kWh for gas would provide a more representative view of domestic consumption.

Please do not hesitate to contact me if you wish to discuss any of the points raised in this consultation in more detail.

Yours sincerely,
(by email)

Roger Hutcheon

Regulation. Markets

Annex – Detailed answers to consultation questions

CHAPTER: Two

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

SSE supports the use of DECC sub-national data and the use of first, second and third quartiles to define low, medium and high consumption values.

SSE does not support the proposal that electricity data does not need to be weather corrected. Given the obvious impact of weather on consumption for Profile Class 2 customers it is important that the data is corrected to remove weather effects which otherwise may mask trends in the data. Weather correction increases the prospect of the industry average consumption figures more accurately reflecting the impact of energy efficiency measures on consumption.

In terms of the number of years' data to be incorporated in the calculations, SSE believes there are grounds for a hybrid proposal. In years where the weather would not be classed as exceptional, there is merit in using **Option 1** (using the latest year of data only) as this will provide the most up to date measure of consumption patterns.

In years where the weather has been more erratic – and stakeholders may therefore be less certain of the efficacy of the weather correction process to remove the impact of extreme conditions – it would be pragmatic to adopt **Option 2**. This would provide an element of smoothing to average out the impact of particularly extreme weather.

Whilst this would introduce a small degree of subjectivity in the process, it would seem reasonable that stakeholders would trust Ofgem to take a pragmatic view on which option is more suitable under the particular circumstances.

CHAPTER: Four

Question 2: Do you agree with our recommended framework for future revisions of the TDCVs? Review of typical domestic consumption values

SSE agrees that it is desirable to provide reasonable stability in the TDCVs, particularly as the RMR will broaden the range of systems and processes which incorporate the data (and hence increase the over. However, we also note that the SMI uses mean values, rather than the TDCVs and it would appear to be less onerous for the figure in the SMI to be updated on a more regular basis than the TDCV's used more widely.

SSE would therefore be in favour of an approach similar to **Option B** whereby the TDCVs are revised every two years but that a similar process is actually run every year, such that the SMI can always be based on the most up to date figures. This is likely to be of more use in terms of any assessment being made of the benefits of energy efficiency programmes and other Government initiatives.

SSE believes that the rounding thresholds should be amended slightly – whilst 100kWh may be appropriate for electricity, the figure for gas should be reduced to 250kWh on the grounds that a volume change which moves the average bill by £10 is significant.

SSE supports the proposal that revisions of the TDCVs follow a defined schedule with the following milestones: publication of data by DECC; analysis and review of data by Ofgem; publication of decision by Ofgem; and the switchover date by which suppliers must adopt the revised figures. A defined schedule ensures that required system updates can be made in a timely fashion and adoption is coordinated across the industry.



CHAPTER Five

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?

SSE agrees that the figures Ofgem has proposed are representative of domestic consumption up to the end of 2011. Adoption of these figures will have a positive impact as customers will receive more representative information, and the profit margins implied by the SMI reports will be less misleading than at present.

SSE believes that with the slight modifications discussed above, the proposed framework for future reviews will strike a sensible balance between representativeness and stability.