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for energy consumers

To: Domestic electricity and gas suppliers, price comparison websites, consumer groups and other interested parties

Direct Dial: 0141 331 6038
Email: Lynda.Carroll@ofgem.gov.uk

Date: 24 March 2015

Dear Colleague

Ofgem's proposal to revise the Typical Domestic Consumption Values for gas and electricity

This letter sets out our proposal to revise down our estimates of Typical Domestic Consumption Values (TDCVs) for gas and electricity to reflect continued falls in consumption.

The TDCVs provide representative domestic consumption values to allow consumers access to information about typical consumption and to have a consistent basis for comparing the price of energy tariffs. They are the industry standard annual consumption values, and are used to derive the typical bills quoted by suppliers and price comparison sites. They underpin Tariff Information Labels (TIL), Tariff Comparison Rates (TCRs), and other publications and analyses.

In 2013 we reviewed the methodology used to update the TDCVs[1], and put a framework in place for future updates. Following that review we decided to revise the TDCVs on a two yearly basis, if the latest consumption data results in materially[2] different values.
We calculate the typical low, medium and high TDCVs for gas and electricity by averaging the two most recent values for the lower quartile, median and upper quartile of the consumption data.

Our Proposal

	kWh	**Current TDCVs**	**Revised TDCVs**
Gas	Low	9,000	8,000
	Medium	13,500	12,500
	High	19,000	18,000
Electricity: Profile Class 1	Low	2,000	2,000
	Medium	3,200	3,100
	High	4,900	4,600
Electricity: Profile Class 2	Low	2,700	2,500
	Medium	4,600	4,300
	High	7,800	7,200

[1] https://www.ofgem.gov.uk/sites/default/files/docs/decisions/tdcv_decision_letter_final_2.pdf
[2] Material in this context means changes to the TDCVs of at least 100 kWh for electricity and 500 kWh for gas when rounded.

The table presents the revised TDCVs. To provide time for implementation and to ensure a coordinated approach, we propose that these new values be used from 1 September 2015. This will be three months from when we announce our final decision.

We would intend to use this timescale for future reviews of the TDCVs. If three months would not allow you enough lead time to make necessary changes, or you have other feedback about the revised values, please let us know before 22 April 2015 and we will take your views into consideration prior to our final decision.

Next Steps

We will consider any feedback from stakeholders and aim to announce a final decision on our revised TDCVs in late May. If we proceed with updating the TDCVs, we will do so by way of directions in respect of Standard Condition 1 in both the gas and electricity supply licences.

The revised TDCVs and the implementation period set out in this letter is our minded-to position and may change. As such, please ensure that any further information which is relevant to our decision is reported to us before the 22 April 2015 by contacting Lynda Carroll at Lynda.Carroll@ofgem.gov.uk or on 0141 331 6038.

Yours faithfully,

Neil Barnes
Associate Partner
Retail Markets

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Annex

This annex briefly summarises the background to the TDCVs, the impact our proposed changes would have on typical bills, the data and analysis underlying the TDCVs and the future review process.

1: Background

The TDCVs are used by most participants in the energy market for comparison of typical energy bills. They are used by suppliers, government, consumer groups, the media and third party intermediaries. The TDCVs allow energy consumers who are unsure[3] of their own consumption to have an indication of what energy they can typically expect to use and be billed for. Since the end of March 2014, suppliers have been required to use TCRs in all their communications with consumers[4]. These are based on our medium TDCVs. The medium TDCVs are also displayed on the TILs which are featured on every bill. Following each update to our TDCV values, we issue directions to licensees requiring them to update the information they provide to customers.

Representative domestic consumption values are also important when assessing whether changes in how we regulate serve consumers interests. These indicative consumption figures are a key input for analyses setting out costs and benefits to consumers - particularly models or estimates of bill values or price calculations. Analysis using the TDCVs informs policy development and helps with monitoring and evaluation of the electricity and gas markets.

2. Impact of our proposed revisions on typical bills

Typical bill values, calculated using TDCVs, are frequently cited by consumer groups and the media, and influence consumers' perception of the cost of electricity and gas. As an indication, our proposed new TDCVs would result in an annual bill of around £1,100 for a medium usage customer on a dual fuel standard variable tariff paying by direct debit. This is around £55 lower than under current TDCVs. The table below shows the impact our proposed changes would have on typical bills.

Table 1. Change in typical bills due to update to TDCVs	*kWh*	**Current TDCVs**	**Revised TDCVs**	**Difference in the typical bill***
Gas	Low	9,000	8,000	-£41
	Medium	13,500	12,500	-£41
	High	19,000	18,000	-£41
Electricity: Profile Class 1	Low	2,000	2,000	£0
	Medium	3,200	3,100	-£14
	High	4,900	4,600	-£41
Electricity: Profile Class 2	Low	2,700	2,500	-£24
	Medium	4,600	4,300	-£35
	High	7,800	7,200	-£71

* Annual bill for a typical customer on a standard variable tariff as of March 2015 paying by direct debit. The standard tariff we use is the average of the six largest energy suppliers' standard tariffs.

[3] According to Ipsos Mori 2011, 38% of energy consumers are unsure about their energy consumption.
[4] TCRs are not yet available for electricity profile 2 customers

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

3. *Data and analysis*

The TDCVs are calculated using the meter level data which underlies DECC's sub-national energy consumption statistics[5]. The domestic electricity consumption data is based on non-half hourly (NHH) meters with profiles 1 and 2[6]. Households with a profile 2 meter are more likely to use electricity to heat their homes. They typically have higher consumption as well as a greater range of consumption, so we present these households' typical annual consumption separately. In 2013, 77% of electricity consumption was attributed to profile 1 and 23% to profile 2. There is only one meter type for domestic gas consumption data.

Consistent methodology is used to gather and aggregate the data[7]. Sub-national energy consumption statistics are primarily used by local authorities for targeting and monitoring energy efficiency and carbon reduction policies. They are classed as National Statistics.

The distribution of consumption levels for the gas and electricity profiles is positively skewed – the mean is greater than the median. Since the small number of customers who use very high volumes of gas and electricity increase the mean, we use median consumption values to calculate the TDCVs. This provides a more representative measure of the consumption of a typical customer. As well as medium TDCVs we also provide low and high values based on the first and third quartiles.

An issue that may contribute to the skewed profiles is the lack of reliable markers to indicate whether the meter level data is domestic or non-domestic.

- For gas, DECC uses the industry standard "Annual Quantity" (AQ) cut-off point of 73,200 kWh and classifies all consumers using under that annual consumption as domestic consumers. They estimate that around 2 million small businesses are incorrectly classed as domestic using this cut-off threshold.

- For electricity, the automatic cut-off point for non-domestic consumption is 100,000 kWh per year. However, domestic consumers with annual consumption between 50,000 and 100,000 kWh are reallocated to the non-domestic sector if the address indicates a non-domestic location.

The data shows spikes at particular levels, especially for gas. This is because when actual readings are not available, the meter readings used are estimates. For example, there are regular instances where households of the same size in a particular area are given the same consumption estimate.

All three datasets contain spikes in the 0-10 kWh band; this is believed to be due to vacant properties and second homes. As we are interested in consumers rather than properties, these have been excluded from our analysis.

The meter-level data we use does not have any markers which tell us about the type of property or the occupants. However, the National Energy Efficiency Data-Framework (NEED) has been set up by DECC to provide a better understanding of energy use and energy efficiency in domestic and non-domestic buildings in Great Britain[8]. NEED is a data framework that matches this gas and electricity consumption data with information on energy efficiency measures installed in homes. It also includes data about property

[5] https://www.gov.uk/government/statistics/regional-energy-data-guidance-note
[6] Profile 1 is standard domestic. Profile 2 is mainly derived from domestic customers with Economy 7 metering. However, it is applied to any domestic customers with switched storage heating and immersion loads. So as well as customers with Economy 7, domestic customers on other switched load tariffs, such as Economy 10, 8.5 hour Weathercall and Budget Warmth are also assigned to Profile Class 2.
[7] https://www.gov.uk/government/collections/sub-national-electricity-consumption-data
[8] Datasets and further information about NEED can be accessed from: https://www.gov.uk/government/collections/national-energy-efficiency-data-need-framework

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attributes and household characteristics. The NEED dataset has suspected estimated readings removed.

Another alternative dataset which can be used for average consumption, for example as is used in our Supply Market Indicators, is from ECUK (Energy Consumption in the United Kingdom). As these statistics are produced using a top-down approach, measures of spread are not available. They are also only available on a UK-wide basis.

The TDCVs are calculated using an average of the latest two years of sub-national consumption data available (2012 and 2013 for this review). Gas and electricity data are gathered over different dates:

- For both electricity meter profile 1 and profile 2 data the dates covered are 27 January to 26 January. This means, for example, that 2013 data is based on data from 27 January 2013 to 26 January 2014. The data is collected by DECC from data aggregators (on behalf of electricity suppliers).

- For gas the data is based on the gas year from 1 October to 30 September. For example: 1 October 2012 to 30 September 2013 for the year 2013. The data is sourced from Xoserve and independent gas transporters.

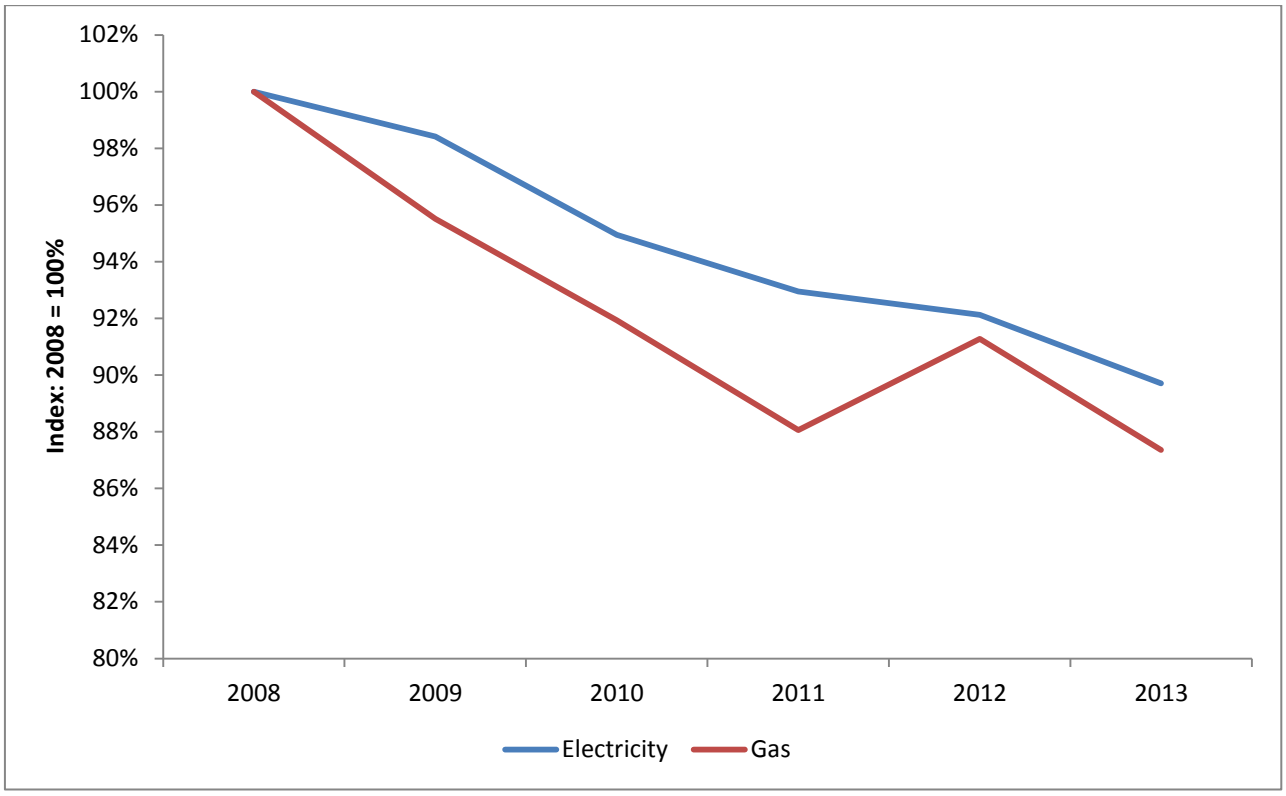
The gas data is weather corrected at source[9]. The electricity meter profile 1 data is not temperature corrected. This is because the temperature has less of an effect on standard domestic electricity consumption. For profile 2 customers, we adjust DECC's profile 2 consumption data using temperature correction factors sourced from Elexon. We do not have sufficient data to generate temperature correction factors based on the quartiles which are the basis for the TDCV, but apply temperature correction factors sourced from Elexon, which are based on mean data. This is an issue that we are considering and will look at again in our next review of the TDCVs. In the meantime, if there are any views on this, please let us know.

4. Future review process

Domestic energy consumption has shown a declining trend in recent years which may be partly explained by energy efficiency initiatives (see chart below).

[9] Estimates are adjusted by Xoserve using a weather correction factor based on a Met Office model which uses historic data and also forecasts ten years into the future. More information is available here: http://www.nationalgrid.com/NR/rdonlyres/71CFD0F6-3607-474B-9F37-0952404976FB/52071/GasDemandForecastingMethodologyFeb12.pdf

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**



Source: DECC, ECUK table 3.07
Note: this data is mean UK temperature corrected consumption

Consideration of the drivers for this trend is beyond the scope of the current review of TDCVs. However, to ensure that the TDCVs remain representative at a time of declining consumption, we set out a framework for regular updates every two years in our 2013 review of the TDCVs[10]. We intend to complete the next assessment of the TDCVs in the first half of 2017. This will use 2014 and 2015 consumption data, which we expect DECC to make available in December 2016.

[10] See decision letter following the 2013 review of the TDCVs

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