

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

Date: 28 May 2015

Dear Colleague

Decision on revised Typical Domestic Consumption Values for gas and electricity

On 24 March 2015, we published a consultation on our proposals to revise the Typical Domestic Consumption Values (TDCVs).¹ We have now decided to proceed with updating the TDCVs to reflect the recent decline in domestic consumption of gas and electricity. This letter explains the main reasons for our decision², how we have taken into account responses to consultation and sets out what happens next.

Policy overview

The TDCVs are the industry standard consumption values, and underpin Tariff Information Labels (TILs) and Tariff Comparison Rates (TCRs). They are also used in other publications and analyses. The TDCVs promote transparency by ensuring that consumers have a common point of comparison when engaging with suppliers and price comparison websites. The TDCVs represent typical household consumption; however, we recommend that consumers use their own consumption figures where possible. We regularly review the TDCVs for gas and electricity to keep them up-to-date.

Approach and revised values

In 2013 we put a framework in place for future updates to the TDCVs.³ We calculate the TDCVs for low, medium and high gas and electricity consumers by averaging the two most recent years' consumption data for the lower quartile, median and upper quartiles respectively. Updated values are issued when a review finds evidence of a material⁴ change in consumption.

Implementation

Suppliers and their representatives (which may include price comparison websites)⁵ will be required to use the new medium consumption values from 1 September 2015 for the

¹ <https://www.ofgem.gov.uk/ofgem-publications/94687/tdcv2015openletter-finaldraft-pdf>

² Including the decision to issue directions pursuant to standard licence condition 1 to all licenced domestic suppliers to specify a new medium TDCV for the purposes of relevant licence conditions.

³ https://www.ofgem.gov.uk/sites/default/files/docs/decisions/tdcv_decision_letter_final_2.pdf

⁴ Material in this context means changes to the TDCVs of at least 100 kWh for electricity and 500 kWh for gas when rounded.

⁵ Defined in SLC 1 as "...any person directly or indirectly authorised to represent the licensee in its dealings with Customers". Ofgem has provided guidance on the scope of the concept of "Representative" in an open letter dated

purposes of compliance with applicable licence conditions.⁶ In addition, Confidence Code accredited price comparison service providers will also have to use the medium consumption values from 1 September 2015 for the purposes of the requirement to provide TILs⁷. For future reviews of the TDCVs, we intend to allow a similar three month lead time between issuing our decision and implementation to allow suppliers and other stakeholders time to update their systems and processes.

We would like other stakeholders who use the TDCVs to also move to updated values from 1 September.

Summary of responses and our views

We received ten responses to our March consultation. Those which were not provided on a confidential basis are available on our website. Most respondents supported the intent and detail of the proposals. Some suppliers commented on the peak/off peak split for profile class 2 and the potential to use TDCVs in the Supply Market Indicator (SMI). Respondents also commented on the timing and scope of the next review of TDCVs. The consultation responses are briefly summarised below along with our views.

Approach and revised values

Almost all respondents were supportive of our methodology and proposals to revise the TDCVs to reflect continued falls in domestic energy consumption per household. Feedback from suppliers indicated that our updated consumption values are broadly in line with their views of typical consumption.

One respondent argued that our revised TDCVs are not reflective of the market as they differ from consumption data based on recent switches. We consider that data based on those who switch does not provide a representative sample of gas and electricity customers. Our view is that the approach that we have taken has produced values that better represent typical domestic consumption.

Implementation period

Most respondents accepted that three months is an appropriate implementation period. This will allow sufficient time to update all TCRs and all TILs. Responses from suppliers and from Citizens Advice highlighted the value of bringing TDCVs up to date in enabling consumers to have access to the latest information regarding typical consumption. However, one supplier indicated that they may have difficulty making the necessary changes before 1 September and requested that the implementation date be set for 1 October, or at least four months from the date of our final decision. Feedback from another supplier was that the September implementation would be less confusing for customers and simpler for suppliers and they would support moving the effective date for future revisions to June/July.

Having considered all representations, we still consider a three-month implementation period to be appropriate. We would like to note that our March consultation included an element of advance notification.

Profile class 2 concerns

Although the percentage split between day and night consumption for electricity customers that fall under profile class 2⁸ was not within the scope of this review, two respondents

8 October 2012: <https://www.ofgem.gov.uk/ofgem-publications/38441/20121009marketing-energy-supply-domestic-customers-third-party-intermediaries.pdf>.

⁶ For example, SLC 31B and SLC 31C.

⁷ Requirement two(C) of the Confidence Code.

⁸ Meters with switched storage heating and immersion loads eg Economy 7, Economy 10 and Dynamic Teleswitched meters

expressed concerns that the current split does not accurately represent usage for most customers. We appreciate this feedback and are currently considering how our Retail Market Review reforms can be applied appropriately to time-of-use tariffs.⁹ Assumptions on consumption patterns for time-of-use tariff customers are necessarily complex, particularly given potential changes in consumer behaviour. We expect to be able to update stakeholders within this financial year.

TDCVs and the SMI

Some respondents asked us to reconsider using TDCVs (ie 'median' consumption) in our SMI, rather than 'mean' average consumption. We are currently reviewing the information that we collect and publish so we can provide greater transparency about the market.¹⁰ As part of this, we will consider different sources of consumption data, including use of the TDCVs.

Next review

Respondents had different views on the balance between, on the one hand, accurately reflecting changes in consumption and, on the other hand, avoiding consumer confusion and over-frequent changes to industry systems. Two suppliers argued that we should move to annual reviews. Another suggested that we base our calculations on projections of consumption. One supplier argued for a longer and more comprehensive consultation to take account of consumer behaviour, smart tariff development and the sources, accuracy and availability of consumption data.

Our view is that a review every two years strikes the right balance between stability and keeping the TDCVs representative of trends. Nevertheless, we will continue to evaluate changes in domestic consumption as part of our market monitoring activities. That work will inform the scope of our next review of the TDCVs. We expect to complete this before summer 2017. As part of our next assessment, we will reconsider the frequency of review and potential to use projections.

The Authority's decision

Having considered the responses to the March consultation, the Authority has decided to proceed with updating the TDCVs to the values shown in the table below.

	<i>kWh</i>	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

We will issue revised directions specifying the new medium TDCV for gas and electricity (Profile Class 1) to all licensed domestic suppliers alongside this letter, to take effect on 1 September 2015. The current medium TDCVs specified in directions will remain in effect until then.

⁹ <https://www.ofgem.gov.uk/ofgem-publications/90348/consumerempowermentandprotectionupdatedworkprogramme.finalpdf.pdf>

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-announces-review-markets-data>

If you have any queries about this letter please contact Lynda Carroll at marketmonitoring@ofgem.gov.uk or on 0141 331 6038.

Yours faithfully,

A handwritten signature in black ink that reads "NBarnes". The signature is written in a cursive style with a large initial 'N'.

Neil Barnes
Associate Partner
Retail Markets