

Lynda Carroll
Ofgem
9 Millbank
London
SW1P 3GE

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Dear Lynda,

**OFGEM'S PROPOSAL TO REVISE THE TYPICAL DOMESTIC CONSUMPTION
VALUES FOR GAS AND ELECTRICITY**

Thank you for the opportunity to respond to Neil Barnes' open letter of 24 March setting out Ofgem's proposals to revise down the estimates of Typical Domestic Consumption Values (TDCVs) for gas and electricity to reflect continued falls in consumer consumption.

Review of the TDCVs

We agree with Ofgem's proposed approach and methodology, which is in line with that used previously in 2013 to revise the TDCVs. As with Ofgem's previous review, the approach reflects our own experience of the reduction in domestic customer consumption and we agree that it is appropriate to reflect these changes when calculating average annual bills.

Implementation date

We have commenced work to understand the level of change needed to implement the revised TDCVs across our business and so far believe that three months provides an appropriate implementation period given the change needed to all Tariff Comparison Rates (TCRs) and Tariff Information Labels (TILs). Ofgem's proposed 1 September 2015 implementation date therefore seems reasonable.

Going forward, we note that Ofgem intends to review the TDCVs again in early 2017. At this time, this timescale would seem to strike an appropriate balance between accurately reflecting any changes in consumption levels while avoiding over-frequent changes to industry systems. We therefore do not have concerns about this timescale for future review; however we believe that it would be worth re-assessing this review timescale as part of the next review, to ensure that this remains fit for purpose.

Comparison with SMI average consumption assumptions

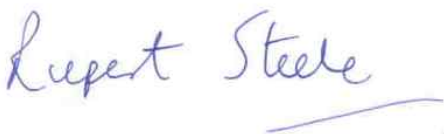
We note that Ofgem uses DECC's sub-national statistics¹ for the purpose of TDCV calculation and DECC's DUKES statistics² for the purpose of its Supply Market Indicators (SMI) model. Although both sources of data are weather corrected, they give materially different results, particularly for gas, as shown in the table below.³

	Mean domestic gas consumption (kWh)	Mean domestic electricity consumption (kWh)
2013 gas year (Oct-Sept) (DECC Subnational stats)	13,680	
2013 calendar year (DECC Subnational stats)		3,900
2013 calendar year (DECC DUKES)	14,829	4,170
2014 (SMI forecast)	14,700	
2015 (SMI forecast)	14,600	

Ofgem's SMI mean consumption for electricity, at 3,800 kWh, looks to be a reasonable forward-looking estimate when compared with 3,900 kWh for 2013. But the forward-looking SMI estimate for gas of 14,600 kWh looks to be significantly high compared with the sub-national figure of 13,680 kWh for 2013-14. It would be helpful if Ofgem were able to clarify its choice of data and ensure that the SMI is based on data that is consistent with the TDCVs. If the average annual consumption is over-estimated in the SMI, this is likely to lead to over-estimates of profit margins. Given the high level of media and political attention given to the SMI reports, it is important that the profit estimates are based on the best available data.

Please feel free to contact me if you wish to discuss any of our response.

Yours sincerely,



Rupert Steele
Director of Regulation

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388960/Subnational_electricity_and_gas_consumption_summary_report_2013.pdf

² Energy consumption in the UK, DECC (table 3.07) <https://www.gov.uk/government/statistics/energy-consumption-in-the-uk>

³ Comparison of DUKES and subnational stats values for gas taken from Table 9 of Sub-national stats report