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for energy consumers

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

Date: 6th January 2020

Dear Stakeholder,

Decision on revised Typical Domestic Consumption Values for gas and electricity and Economy 7 consumption split

On 18 October 2019, we published an open letter on our proposals to revise the Typical Domestic Consumption Values (**TDCV**s) and Economy 7 consumption split.[1] As explained below, we have now decided to proceed with updating the TDCVs to reflect continued falls in consumption for electricity and to keep the TDCVs for gas unchanged. We have also decided not to proceed with the proposed update of the peak / off-peak consumption split for Economy 7. This letter explains the main reasons for our decisions, how we have taken into account responses to our October 2019 open letter and sets out what will happen next.

Approach and revised values

Following the 2013 TDCV review, we said we would look to revise the TDCVs every two years, 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 calculating the lower quartile, median and upper quartile[3] of household consumption using the two most recent years of available data, and then taking the average. In 2017, we included additional information on the average GB peak / off-peak split using settlement data for Economy 7 (including meters with an 8 or 8.5-hour off-peak period).[4]

We have applied the same approach to the present review.

[1] https://www.ofgem.gov.uk/publications-and-updates/review-typical-domestic-consumption-values-2019
[2] Material in this context means changes to the TDCVs of at least 100 kWh for electricity and 500 kWh for gas when rounded.
[3] Most consumers consume relatively small amounts of energy, while few consume large amounts. The median or second quartile is a more representative of the typical "medium" usage. We use the first and third quartiles to represent the typical "low" and typical "high" usage respectively. In real terms, if consumers were ranked in order of energy consumption, the lower quartile reflects the annual consumption that only 25% of all consumers use less than. The higher quartile reflects the annual consumption that only 25% of all consumers use more than.
[4] https://www.ofgem.gov.uk/publications-and-updates/typical-domestic-consumption-values-gas-and-electricity-0

Decision

A summary of responses to our October 2019 open letter is included below. After full consideration of the responses received, we have decided to proceed with updating the TDCVs (see "Revised TDCVs" in the table below) and to keep the peak / off-peak consumption split unchanged.

This update will keep published figures in line with the most recent and best available data. Our methodology ensures that values are updated only if there is a material change, which in the present review is the case for the electricity TDCVs and not for the gas TDCVs. In deciding not to proceed with updating the peak/off-peak consumption split, we consider that, overall, the evidence we have received suggests that the change in the peak/off-peak consumption split would not be material and of sufficient value for consumers.

The revised TDCVs are shown in the table below.

	kWh	**Current TDCVs**	**Revised TDCVs**
Gas	Low	8,000	8,000
	Medium	12,000	12,000
	High	17,000	17,000
Electricity: Profile Class 1	Low	1,900	1,800
	Medium	3,100	2,900
	High	4,600	4,300
Electricity: Profile Class 2*	Low	2,500	2,400
	Medium	4,200	4,200
	High	7,100	7,100

*Note: Around 90% of Profile Class 2 meters are Economy 7 meters, which have two rates, peak and off-peak. The remaining 10% consists of other restricted meters with more complex rates and heating arrangements. In some cases, these involve multiple meters at the same property, with separate consumption values which could not be aggregated for the TDCV calculation. As a result, the estimated Electricity Profile Class 2 TDCVs are bound to be slightly below their actual value.

	Consumption Split (GB)
Peak (day time usage)	58%
Off-peak (night time usage)	42%

Summary of responses and our views

We received six responses to our October 2019 open letter. These were from suppliers, a consumer body and a Distribution Network Operator (**DNO**).[5] Those responses which were not provided on a confidential basis are available on our website.[6]

Change in the TDCVs and peak / off-peak consumption split

Feedback from respondents indicated that our updated TDCVs are broadly in line with their views of trends in typical consumption. Three respondents supported our proposal to update the TDCVs, while only one respondent was opposed; the other respondents did not

[5] https://www.ofgem.gov.uk/electricity/distribution-networks/gb-electricity-distribution-network
[6] https://www.ofgem.gov.uk/publications-and-updates/review-typical-domestic-consumption-values-2019

comment on this point. One of the respondents mentioned that they supported our proposal to ensure that consumers relying upon this information are well informed. The respondent who opposed our proposal raised concerns around making very small amendments to the values as the cost of amending is considerable and takes time to deliver in a robust way.

In respect of our proposal to update the consumption split, one respondent was supportive while two were opposed; the other respondents did not comment on this point. One respondent expressed support for the proposed consumption split to ensure that consumers are well informed. The opposing respondents suggested that the changes in the consumption split are insufficiently material to justify immediate change, raising concerns around the cost effectiveness.

While we recognise that there is a cost associated with updating the TDCVs, we consider that their accuracy is key in helping consumers (who are unsure of their consumption) to estimate their annual bill. The TDCVs also shape consumers' perceptions of energy prices as they are used as a common basis for comparing prices across suppliers and regions over time. Additionally, TDCVs are a key input for analysis that sets out costs and benefits to consumers and they therefore help inform forward-looking policy developments. Overall, we consider the benefits of updating the TDCVs to outweigh any associated costs in this instance.

Implications for our energy price caps

Two respondents raised concerns at our decision not to amend the upper benchmark annual consumption value[7] used in the calculation of the prepayment and default tariff price caps. Their main concern was that by not updating the price cap calculation with the lower 2019 TDCVs, it could exacerbate a perceived under-recovery of efficiently incurred costs. Additionally, they argued that the difference between consumption and the caps could widen, up to the next TDCV review in 2021.

As we noted in our price cap decision,[8] when we implemented the price cap, the average (mean) consumption of suppliers' consumers was higher than their median consumption (as measured by the TDCV). This benefitted suppliers since the cap design allowed them to recover revenues above costs from consumers who have consumption above the median (as measured by the TDCV).[9] The updated estimate of mean consumption is still above the upper benchmark annual consumption value in the price cap (i.e. the 2017 TDCV), and so suppliers will still receive a benefit in future, albeit to a lesser extent. The change in TDCV therefore will not result in suppliers under-recovering efficiently incurred costs when they price at the level of the price cap. For this reason, we do not consider it appropriate to change the upper benchmark annual consumption value in the price cap.

We recognise that we may see continued reductions in the TDCVs over time. We will continue to monitor this and assess the difference in the mean consumption and price cap upper benchmark annual consumption value and the benefit to suppliers in the next TDCV review.

[7] The maximum charge under the price cap is defined by reference to the charges at two benchmark annual consumption levels, where the lower level is nil, and the upper level is the amount defined in the licence.
[8] Default Tariff Cap: Decision, Appendix 1 – Benchmark methodology https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix_1_-_benchmark_methodology.pdf
[9] Appendix 2, paragraph 2.19 https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview

Our amendments to the TDCVs will not affect the benchmark annual consumption values in the licence conditions SLC28.A and SLC28.AD. With respect to price cap compliance, suppliers should continue to comply with their obligations as set out in SLC28.A and SLC28.AD, and the values used in those licence conditions.

Regional TDCVs

One respondent requested that the TDCVs should be reported as a series of averages by DNO area. We have considered whether or not to incorporate additional regional TDCV breakdowns. We recognise that levels of consumption vary materially across regions, as do trends over time – although incorporating this regional variation in the TDCVs would increase the complexity of these outputs.

In December 2018, we sent an informal survey to suppliers and price comparison websites to gather information on the benefits and difficulties of implementing and using regional TDCVs. Based on the feedback obtained, we decided not to implement the TDCVs at a regional level during the 2019 review. Respondents were primarily concerned about the complexity regional consumption values would add. Among their concerns was a risk that regional consumption values would confuse customers when getting quotes, comparing energy tariffs and calculating savings. There was also some concern around whether customers would be able to easily identify the region they are in. In addition, this change would involve significant costs in updating IT systems and processes.

Nevertheless, we recognise that it may be helpful to publish more regional consumption information. In our 2019 open letter, we published regional Economy 7 consumption splits. As a supplement to that information, we now provide below the average consumption by DNO area.

Average Consumption (kWh)	Gas	Electricity: Profile Class 1	Electricity: Profile Class 2
East England	13,302	3,198	4,250
East Midlands	12,859	2,998	3,762
Northern Scotland	13,607	3,157	6,293
London	11,481	2,826	4,833
North Wales	11,937	3,059	5,433
Midlands	12,871	3,145	4,747
North East	13,130	2,853	4,665
North West	12,767	3,063	5,003
South East	13,124	3,230	4,224
Southern	12,675	3,249	5,714
Southern Scotland	12,892	2,919	4,248
South Wales	12,016	2,931	5,117
South West	10,623	3,104	5,722
Yorkshire	13,110	2,914	4,532

Note: this table is for information only - these values are **not** to be used as TDCVs.

Consistent with the methodology outlined in our October 2019 open letter, the calculation of the values shown in the table above uses the latest two years of postcode level data that underlies the Department for Business, Energy and Industrial Strategy (**BEIS**)'s sub-

national energy consumption statistics (2016 and 2017).[10] An average of the median consumption at each individual postcode was used to calculate the average consumption in each DNO area.

The distribution of consumption levels across domestic customers for both electricity and gas is positively skewed – the mean is greater than the median. Since the median consumption values at individual postcodes were averaged to DNO level, the consumption values in the table above will be greater than the median values in each DNO area.

Detail on additional restricted meter TDCVs and consumption splits

One respondent told us that they believe there is a need for a discrete set of TDCVs and consumption splits for a small number of customers with Profile Class 2 sub-profiles who are on non-Economy 7 restricted meters.

We have considered this issue, and we recognise that there are many different types of restricted meters and heating arrangements and that consumption patterns are likely to vary significantly.

Unfortunately, the information currently available to us does not allow for more granular estimates of consumption patterns for the different types. BEIS's sub-national consumption statistics do not provide a further breakdown of different meter and heating arrangement types. Moreover, the information we use to calculate the consumption split is at meter point rather than customer level. This prevents linking together multiple meters at the same property when analysing the non-Economy 7 subsets of the Profile Class 2 groups at this time.

A respondent raised a similar concern with our analysis of Elexon's data for the Economy 7 consumption split calculation. However, we assign the metering arrangement to categories based on supplier information, so that our analysis only uses settlement data for Economy 7 (including meters with an 8 or 8.5-hour off-peak period). Consumers on an Economy 7 tariff will only have one meter that measures both peak and off-peak rates of consumption.

Where possible, we recommend that consumers use their own consumption figures for the purposes of comparing suppliers or estimating their bills. We will consider whether it will be possible to provide further information in this area as part of future TDCV reviews.

Typical annual distribution charges

One respondent suggested that we set out how to split the TDCV into three unit rates to enable DNOs to calculate typical annual distribution charges. This suggestion follows the introduction of DCP268[11] (DUoS Charging Using HH settlement data) into the Distribution, Connection and Use of System Agreement (DCUSA).[12] In December 2019, DNOs will be setting charges for April 2021 and all network charges will be based on a three-unit rate tariff.

To maintain a consistent approach when setting comparative annual charge values, we have provided half-hourly consumption profiles in the annex so that DNOs can apportion

[10] https://www.gov.uk/government/collections/sub-national-electricity-consumption-data
[11] https://www.ofgem.gov.uk/publications-and-updates/dcp268-duos-charging-using-hh-settlement-data
[12] https://www.ofgem.gov.uk/licences-industry-codes-and-standards/industry-codes/electricity-codes/distribution-connection-and-use-system-agreement

the TDCVs into three-unit rate bands. The half-hourly consumption profiles are calculated using the Default Period Profile Class Coefficients available in Market Domain Data.[13] For both Profile Class 1 and Profile Class 2, the dates covered 1st April 2019 to 31st March 2020. The half-hourly consumption profiles are split between Monday – Friday (including bank holidays) and Saturday – Sunday.

Implementation

To provide time for implementation and to ensure a coordinated approach, we request that industry, price comparison websites and other stakeholders use the new TDCVs from **1 April 2020**. Ofgem will use the new values in all relevant publications from this date.

As noted above, our amendments to the TDCVs will not affect the benchmark annual consumption values in the licence conditions SLC28.A and SLC28.AD. With respect to price cap compliance, suppliers should continue to comply with their obligations as set out in SLC28.A and SLC28.AD, and the values used in those licence conditions.

If you have any queries about this letter please contact Lewis Edgar at marketmonitoring@ofgem.gov.uk.

Yours faithfully,

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[13] https://www.elexon.co.uk/operations-settlement/market-domain-data/