

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

Date: 3 August 2017

Dear Stakeholder

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

On 22 June 2017, we published an open letter on our proposals to revise the Typical Domestic Consumption Values (TDCVs).<sup>1</sup> We have now decided to proceed with updating the TDCVs to reflect the recent decline in the consumption of gas and electricity by households. This letter explains the main reasons for our decision, how we have taken into account responses to our open letter and sets out what happens next.

	kWh	Current TDCVs	Revised TDCVs
Gas	Low	8,000	8,000
	Medium	12,500	12,000
	High	18,000	17,000
Electricity: Profile Class 1	Low	2,000	1,900
	Medium	3,100	3,100
	High	4,600	4,600
Electricity: Profile Class 2	Low	2,500	2,500
	Medium	4,300	4,200
	High	7,200	7,100

### **Policy overview**

The TDCVs are commonly, but not exclusively, used to derive the typical bills quoted by suppliers and price comparison websites when the actual annual consumption may not be known. They are also used by Ofgem, government, media and industry to provide a common basis for comparing energy prices across suppliers, regions and over time.

The TDCVs, which no longer underpin any licence requirements, were a key component for the calculation of the Tariff Comparison Rate. In our decision letter published on 27 April 2017,<sup>2</sup> we set out our modification to remove the requirements for suppliers to include on bills and other communications the Tariff Comparison Rate (TCR). The Tariff Information Labels (TIL) have been amended in line with changes to the tariff rules and the removal of the TCR and Ofgem annual consumption figures from the licence conditions<sup>3</sup>. Nevertheless, the TDCVs remain the industry standard annual consumption values.

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/typical-domestic-consumption-values-gas-and-electricity-0>

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/04/slcs\\_25\\_decision\\_document\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/04/slcs_25_decision_document_0.pdf)

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/final-decision-enabling-consumers-make-informed-choices>

## *Approach and revised values*

In 2013, we put a framework in place for future updates to the TDCVs.<sup>4</sup> Following that review we decided to revise the TDCVs every two years, if the latest consumption data results in materially<sup>5</sup> different values. We calculate the typical low, medium and high TDCVs for gas and electricity by calculating the lower quartile, median and upper quartile<sup>6</sup> of household consumption using the two most recent years of available data, and then taking the average. In this update, we have included additional information on the distribution across households in addition to the lower and upper quartile and median consumption values.

Profile class 2 predominantly consists of Economy 7 meters, which have two rates, peak and off-peak. We last updated our estimate of the split between peak and off-peak consumption by Economy 7 customers in 2010<sup>7</sup>. We have calculated an updated average split using settlement data from September 2016 for Economy 7 meter points, including meters with an 8 or 8.5 hour off-peak period, known as white meters<sup>8</sup>.

## **Summary of responses and our views**

We received 15 responses to our June open letter. 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 respondents requested: more regional detail in the Economy 7 consumption splits, more time to implement the changes and consideration of the impact on customers receiving Fuel Poor Vouchers when revising the gas TDCVs. The consultation responses are summarised below, along with our views.

### *Approach and revised values*

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

The meter point data that our update is based on is from 2014 and 2015. One respondent highlighted that it had observed mean gas consumption among small supply points to have increased in four regions between 2015 and 2017. Our own review of information on trends in Annualised Quantities for small supply points confirms that some regions appear to have seen average consumption flatten out or increase between January 2016 and January 2017 (although the overall GB average continued to fall slightly).

The availability of the meter point level information required to calculate the TDCVs means that our estimates are necessarily based on lagged data – trends in 2016 and 2017 will not be captured until our next update to the TDCVs in 2019. We recognise that levels of consumption vary materially across regions, as do trends over time – although we are also conscious that incorporating this regional variation in the consumption values would increase the complexity of these outputs. We will consider in future updates whether to incorporate additional regional TDCV breakdowns.

<sup>4</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/decisions/tdcv\\_decision\\_letter\\_final\\_2.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/decisions/tdcv_decision_letter_final_2.pdf)

<sup>5</sup> Material in this context means changes to the TDCVs of at least 100 kWh for electricity and 500 kWh for gas when rounded.

<sup>6</sup> 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.

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/295244/Revisions\\_to\\_DECC Domestic\\_energy\\_bill\\_estimates.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295244/Revisions_to_DECC Domestic_energy_bill_estimates.pdf)

<sup>8</sup> Although note that our estimate of the overall GB-wide consumption split (58% peak, 42% off peak) is the same irrespective of whether white meters are included.

### *Implementation date*

Most respondents highlighted the value of the TDCV update, enabling customers to access more accurate information regarding typical consumption. Several respondents requested that we delay the implementation date from that originally proposed, to allow more time for them to update the relevant systems. Feedback from one respondent was that an April 2018 implementation would be preferable. One respondent suggested that the timetable of the Fuel Poor Network Extension Scheme would be impacted, involving additional updates if implemented in September.

Having considered all representations, we have decided to push back the proposed implementation date by a month, with industry requested to use the new values from 1 October 2017. Ofgem will use the new values in publications from this date.

### *Economy 7 consumption split and the prepayment price cap*

A number of respondents supported using the revised split in assessing compliance for Economy 7 tariffs with the prepayment price cap. Most argued that we should use the new values in the coming Charge Restriction Period starting 1 October 2017, while one respondent suggested waiting until 2018.

We have recently written to suppliers setting out our intention to use the revised split for the purposes of assessing the compliance of Economy 7 tariffs in the coming Charge Restriction Period starting 1 October 2017.

### *Detail on additional restricted meter breakdowns*

Some respondents told us that whilst the additional breakdown within the profile class 2 split into Economy 7, Economy 10 and teleswitched meters was a step in the right direction, that there were other consumer groups which needed to be considered. These included those with restricted meters with storage heaters, and consumers with teleswitched meters that have multiple MPANs.

While we recognise that there are a large range of restricted meter and heating arrangements – and that consumption patterns are likely to vary significantly between these groups. Unfortunately, the information currently available to us does not allow us to provide more granular estimates of consumption patterns for different groups. This is because the information we have used is not at a customer level – and so does not allow us to link together multiple meters at the same property. It also does not include any information on heating systems. We will consider whether it will be possible to provide further information in this area as part of future reviews.

### *Fuel Poor Network Extension Scheme*

Two respondents raised concerns about the revision downwards of the gas TDCVs given their role in the Fuel Poor Voucher scheme. A lowered medium TDCV value will reduce the value of the Fuel Poor Voucher. The use of TDCVs in the scheme was considered in the review of the Fuel Poor Network Extension Scheme<sup>9</sup> and the final decision document<sup>10</sup> in 2015. The reasons for linking the value of those vouchers to the medium TDCV is set out in those documents and we have not received any evidence to change this approach.

<sup>9</sup>

[https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/the\\_findings\\_of\\_our\\_review\\_of\\_fuel\\_poor\\_network\\_extension\\_scheme\\_26\\_march\\_2015\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/the_findings_of_our_review_of_fuel_poor_network_extension_scheme_26_march_2015_0.pdf)

<sup>10</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/fpnes\\_3009\\_published\\_2\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/fpnes_3009_published_2_0.pdf)

## *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. One respondent argued that we should move to annual reviews.

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 2019. As part of our next assessment, we will reconsider the frequency of review and data sources.

## *Implementation*

We request that suppliers and their representatives (which may include price comparison websites) use the new medium consumption values from 1 October 2017. For future reviews, we intend to allow a similar 2-3 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 using the updated values from 1 October 2017. Ofgem will use the new values in publications from this date.

## *Regional Economy 7 consumption splits*

Some respondents have requested publication of how the Economy 7 consumption split varies by region. This is shown in the table below. This is consistent with the methodology outlined in our June 2017 open letter.

	<b>Peak</b>	<b>Off peak</b>
East England	62%	38%
East Midlands	67%	33%
Northern Scotland	48%	52%
London	57%	43%
North Wales	47%	53%
Midlands	55%	45%
North East	49%	51%
North West	49%	51%
South East	62%	38%
Southern	49%	51%
Southern Scotland	53%	47%
South Wales	47%	53%
South West	46%	54%
Yorkshire	51%	49%
<b>GB average</b>	<b>58%</b>	<b>42%</b>

If you have any queries about this letter please contact Sophie Adams at [marketmonitoring@ofgem.gov.uk](mailto:marketmonitoring@ofgem.gov.uk).

Yours faithfully,

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**Consumers & Competition**