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By email to: MarketMonitoring@ofgem.gov.uk

Dear Lewis

Proposed updates to Typical Domestic Consumption Values (TDCVs)

Ofgem's open letter of 18 October sets out its proposals to revise TDCVs from 1 April to reflect continued falls in electricity consumption, and to revise the average peak/off peak split used to calculate Economy 7 (E7) TDCVs. It also discusses implications for energy price caps and communications, inviting comments on Ofgem's 'minded to' position.

Centrica welcomes the opportunity to comment on Ofgem's proposals. We welcome Ofgem's recognition of the need for a consistent benchmark reflecting declining electricity consumption. Our principal concern relates to Ofgem's stated intention not to amend the benchmark annual consumption levels used to calculate price caps at this time. As set out further below, we think there are compelling reasons to apply the revised TDCVs to price cap calculations as soon as they come into effect.

Failure to reflect lower electricity consumption in price cap calculations will exacerbate under-recovery of efficiently incurred costs

Ofgem's DTC cap methodology (which now applies in adjusted form to PPM following the CMA's mid-term review) effectively assumes that average consumption is equal to TDCV. Therefore, TDCV is the level of consumption at which elements of fixed cost recovered through unit rates (rather than standing charges) allow full cost recovery. If typical electricity consumption is, in fact, lower than implied by 2017 TDCV, suppliers will not be able to recover efficient fixed costs under the price caps.

In fact, TDCVs are a lag indicator. The fall in electricity consumption reflected in the proposed 2019 TDCV revision is based on data from 2016-2017, so the 2014-2015 data underpinning the 2017 TDCV values used in current price cap methodologies already overstates typical consumption. Sticking with 2017 TDCV values despite clear evidence of further decline in electricity consumption will exacerbate this overstatement and consequent under-recovery of efficiently incurred costs. We therefore consider that Ofgem *should* revise the benchmark annual consumption values used to calculate price caps at the same time as it introduces updated TDCVs generally.

E7 changes are insufficiently material to justify immediate change

As regards the peak/off-peak split for E7, we note that the proposed change is marginal and that Ofgem has not previously identified a specific materiality threshold. We also note that the current split is, like the benchmark annual consumption values, hard-coded into the relevant licence conditions. Further consultation may therefore be required before any change affecting price cap calculations could take effect.

Consistent application of revised TDCVs will support consistent communication

As Ofgem notes, TDCV figures are widely used, and reducing 'typical' electricity consumption will reduce stated 'typical' bills without any change in underlying price (by around £36 for a typical dual fuel SVT customer paying by direct debit). Ofgem proposes to mitigate the risk of any potential confusion by clearly communicating in all of its material where a change in TDCV values has taken place.

This seems sensible, so far as it goes. However, we assume that if Ofgem does not simultaneously update the consumption values used to calculate price caps it would continue using current 2017 values for the purpose of formally notifying updated cap values. Use of 2019 values to communicate 'typical' bills to customers while continuing to use 2017 values to calculate price cap levels risks creating additional unnecessary confusion. We think such confusion is best avoided by updating TDCVs used to calculate price caps at the same time as they are used for wider communication. If this cannot be accomplished by 1 April 2020, we propose that Ofgem implements a combined change in time for the winter cap period commencing 1 October 2020.

Yours sincerely

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