



## **Citizens Advice Scotland's response to Ofgem's Open Letter Consultation on its proposed updates to the Typical Domestic Consumption Values for Gas and Electricity (November 2019)**

### **Citizens Advice Network in Scotland**

Citizens Advice Scotland (CAS), our 59 member Citizen Advice Bureaux (CAB) and the Extra Help Unit, form Scotland's largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone. Our self-help website Advice for Scotland provides information on rights and helps people solve their problems.

In 2017-18 the Citizens Advice Service network helped over 295,100 clients and dealt with almost 800,000 advice issues for clients living in Scotland. With support from the network clients had financial gains of almost £142.2 million and our self-help website Advice in Scotland received approximately 3.2 million page views. On energy consumers issues in particular, we advised on over 41,000 energy-related issues in 2017-18, generating over £1.8m in client financial gain<sup>1</sup>.

Our extensive footprint is important in helping us understand how issues impact locally and nationally across the country and the different impacts that policies can have in different areas.

### **Who we are**

The policy teams at Citizens Advice Scotland (CAS) use research and evidence to put people at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations. We aim to represent the views of different consumer groups using evidence of consumer views and supporting research wherever possible.

CAS advocates on behalf of domestic and micro-business consumers on energy-related matters in Scotland, and although we are separately funded organisations, we work closely with our colleagues at Citizens Advice in this area. We therefore welcome the opportunity to

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<sup>1</sup>[https://www.cas.org.uk/system/files/publications/cas\\_energy\\_advice\\_detail\\_2017\\_18\\_published.pdf](https://www.cas.org.uk/system/files/publications/cas_energy_advice_detail_2017_18_published.pdf)

respond to Ofgem's Open Letter consultation on its proposed updates to the Typical Domestic Consumption Values (TDCVs) for gas and electricity in GB. Our thoughts on this are not confidential, but our response contains a limited amount of data which may be commercially sensitive. We have therefore redacted these data from the version of this response which we are happy to be published by Ofgem.

## **Executive Summary**

- The prepayment and default tariff price caps were designed with the policy intention of creating an upper limit on pricing for the supply of gas and / or electricity to a typical consumer with typical consumption. Though account is taken in the calculations to variations in gas and electricity distribution network costs for consumers who live in different areas of GB, no account is taken of variations in typical consumption between regions or of variations in peak:off peak consumption.
- CAS believes that value of the TDCVs to both consumers and suppliers is eroded by the use of GB averages. By the Authority's own admission, these hide very significant variations in typical annual domestic gas and electricity consumption between the different regions of GB. We therefore believe that the TDCVs could be given much greater value were they to be reported as a series of averages by DNO region.
- With the potential for the revised TDCVs to be integrated into the prepayment and default tariff price caps at a later date, CAS is concerned by the ongoing aggregation of all Profile Class 2 electricity meters, particularly with regard to the impact this has on properties with wet electric heating systems and properties supplied via related MPANs, where the proposed TDCVs significantly misrepresent the true consumption and peak:off-peak consumption split of such households. CAS therefore believes that there is a need for a discreet set of TDCVs and peak:off-peak consumption splits to be produced for a small number of related Profile Class 2 sub-profiles.
- CAS does not envisage that the above changes would result in a price cap that allows consumers in areas of the country where typical consumption is higher than the GB average to use more energy than they do at present for the same capped price. Rather, we believe that, were the TDCVs to continue to be treated as the benchmark annual consumption value for the purposes of the prepayment and default tariff price caps, our proposed changes would aid with the transparency of the respective price caps by making them more relevant to typical consumers at sub-GB level. Though in financial terms this would result in a broader range of price caps across GB than is currently

provided for, we believe this would provide a price cap that is better aligned to its policy objectives by defining a typical consumer in local terms rather than as a GB average.

- In addition to providing a more balanced and more locally transparent price cap, we believe our proposed changes to the TDCVs would also allow suppliers to provide consumers with better quality information on how their energy use compares with similar consumers, and better quality, more relevant advice on energy efficiency.

## **Our Response in Detail**

TDCVs play a role in assisting both consumers and suppliers to estimate a household's annual energy consumption in cases where actual consumption data is not known. They also assist suppliers in the delivery of their obligations to offer energy efficiency advice to their customers. Since they were last reviewed in 2017, the TDCVs have also been used as the benchmark annual consumption level against which Ofgem assesses suppliers' compliance with the prepayment and default tariff price caps.

Though we note that the Authority states in its Open Letter that any revisions to the TDCVs will not automatically amend the benchmark annual consumption values referred to in the gas and electricity supply licence codes, the potential for any such revision of the TDCVs to impact upon the respective price caps is nonetheless apparent. CAS is therefore concerned that the way in which the TDCVs are calculated and reported on for Profile Class 2 electricity consumers could lead to a range of adverse consumer outcomes, and we believe that a better balance could be struck between the interests of consumers and suppliers if the TDCVs were reported at sub-GB level. For Profile Class 2 electricity consumers, we also believe that the vast range of consumption profiles seen within the consumption data at sub-GB level necessitates the provision of a discreet set of TDCVs and peak:off-peak consumption splits for a small number of related Profile Class 2 sub-profiles.

CAS recognises that Ofgem's work on the TDCVs relies heavily on the national gas and electricity consumption data that is published annually by BEIS. Over the past 2 years, this shows the continuance of a downward trend in typical annual domestic electricity consumption that began more than a decade ago<sup>2,3</sup>, and which can be attributed to a variety of factors including improvements to the energy efficiency of appliances, extensions to the

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<sup>2</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/678653/Sub-national\\_electricity\\_and\\_gas\\_consumption\\_summary\\_report\\_2016.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678653/Sub-national_electricity_and_gas_consumption_summary_report_2016.pdf)

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767027/Sub-national-electricity-and-gas-consumption-summary-report-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767027/Sub-national-electricity-and-gas-consumption-summary-report-2017.pdf)

gas grid which have allowed conversion from electric heating solutions to mains gas, and the increasing prevalence of embedded domestic electricity generation and storage technologies located 'behind the meter'. Conversely, BEIS' statistics show that the past 2 years has seen a 1.5% uplift in mean domestic gas consumption per meter at GB level after adjusting for weather-related factors such as the extended period of cold weather in February and March 2018<sup>1,2</sup>. However, with the energy efficiency of buildings and gas-burning appliances continuing to improve, and a longer term downward trend in mean domestic gas consumption, it is possible that the consumption spike seen in 2017/18 is a statistical anomaly.

BEIS' data is useful for tracking trends in gas and electricity consumption at GB level over time. It is less useful, however, as a guide as to a household's likely energy consumption in different areas of GB as although the data provided in its annual reports is sub-divided into 12 discreet geographical regions, these regions bear no relation to the 13 different gas distribution network regions nor the 14 electricity distribution network operator (DNO) regions in GB, the latter of which are also used by gas and electricity suppliers as discreet pricing regions. At its lowest level, however, BEIS' underlying dataset allows the analysis of gas and electricity consumption at postcode level<sup>4,5,6,7</sup>, and it should therefore be possible for BEIS and / or Ofgem to report the average domestic consumption of both fuels at DNO level.

By its own admission, Ofgem's use of BEIS' data to produce a set of TDCVs at GB level hides some very significant regional variations in typical household energy consumption. This erodes the value of the TDCVs to both consumers and suppliers. It also compromises the effectiveness of the prepayment and default tariff price caps, which allow for regional differences in gas and electricity network costs but cannot accommodate regional differences in gas and electricity consumption, despite the impact of such variations on the cost of supplying a typical consumer in each region. CAS therefore believes there would be significant benefit to be derived from the publication and use of a series of TDCVs for both gas and electricity at DNO level in place of the GB level approach currently adopted by the Authority.

The use BEIS' dataset to produce a single set of TDCVs also presents additional issues for Profile Class 2 electricity consumers, where the data is contaminated by an unknown number of time of use meters that are a legacy of an electric heating system that has since been

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<sup>4</sup><https://www.gov.uk/government/statistics/postcode-level-gas-statistics-2016-experimental>

<sup>5</sup><https://www.gov.uk/government/statistics/postcode-level-gas-statistics-2017-experimental>

<sup>6</sup><https://www.gov.uk/government/statistics/postcode-level-electricity-statistics-2016-experimental>

<sup>7</sup><https://www.gov.uk/government/statistics/postcode-level-electricity-statistics-2017-experimental>

replaced by an alternatively fuelled source of space and hot water heating. In the majority of cases, this would result in a peak:off-peak consumption split that is heavily biased towards peak, and at sufficient scale this could influence the peak:off-peak consumption split when presented at either DNO or GB level.

An analysis of electricity consumption data at individual dwelling level, however, could allow a large number of such legacy meters to be identified and excluded from the relevant Profile Class 2 data analysis. CAS believes this would allow greater confidence that any peak:off-peak consumption split proposed by the Authority is adequately representative of the typical consumption split of a consumer that is still reliant on the functionality of a Profile Class 2 electricity meter to provide cost effective electrically powered space and hot water heating via a time of use tariff. As Ofgem has not sought to address the inherent weaknesses within BEIS' data, however, and notwithstanding our reservations as to the continued publication of GB level data aggregated across all Profile Class 2 meter types, CAS cannot currently take a view on the appropriateness of the revision to the peak:off-peak consumption split proposed in the Open Letter.

Additional challenges within Profile Class 2 arise from the wide variety of meter types that are included within the data, with the requirements of more than 500 different settlement codes combined to create a single set of TDCVs. CAS recognises that it would be both unrealistic and unnecessary for Ofgem to provide a unique set of TDCVs for each of the Profile Class 2 settlement codes. However, we believe the authority's work on Economy 10 meters, which at GB level reveal a mean domestic consumption that is 32% higher than that found in a typical Economy 7-metered property, demonstrates that there is a need for discreet TDCVs and peak:off-peak consumption splits to be produced for a small number of Profile Class 2 sub-profiles by grouping together, for example:

- Economy 7 and related White Meters such as ScottishPower's White Meter No.1
- Economy 10, Economy 2000 and other multi-rate meter types that are designed to operate with 'wet electric' heating systems
- Dynamically teleswitched (DTS) meters

Unlike in England and Wales, the majority of homes in Scotland that are not connected to the gas grid rely on electricity as the primary source of space and hot water heating<sup>8</sup>. A significant proportion of these properties are supplied by a DTS meter or meters via multiple meter points. However, while an analysis of Meter Time-Switch Codes (MTCs) would allow

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<sup>8</sup>[https://www.cas.org.uk/system/files/publications/2018-08-15\\_off-gas\\_report\\_final\\_0.pdf](https://www.cas.org.uk/system/files/publications/2018-08-15_off-gas_report_final_0.pdf)

these related meter points to be treated as relating to a single property in any analysis of typical DNO- or GB-level electricity consumption, the Authority's analysis of BEIS' data does not compensate for the presence of related meter points. As a result, the electricity demand of properties supplied with electricity via related meter points is materially under-reported, and this compromises the Profile Class 2 data that the Authority seeks to revise as part of its work to update the TDCVs, both in terms of median or mean electricity consumption in each quartile of the population, and in terms of the peak:off peak consumption split.

Data shared by the Authority with our bureau network, for example, reveals that for price cap purposes, ScottishPower has been using a typical profile for its ComfortPlus White Meter customers where █% of the total consumption is used on the day rate, █% of total consumption is used on the night rate, and █% of total consumption is used on the control rate; the third of these registers is exclusively reserved for the energy consumed by a property's traditional electric storage heaters, and is supplied via its own Meter Point Administration Number (MPAN). This yields an overall █ peak:off-peak split.

This figure is in stark contrast to the revised 59:41 peak:off-peak consumption split proposed in the Authority's Open Letter and is significantly more biased in favour of off-peak than any of the data presented for all Profile Class 2 electricity meters at DNO level within the consultation. However, because a household's consumption via ComfortPlus White Meter is allocated across 2 related MPANs, Ofgem's current methodology will show one Profile Class 2 meter registering █% of its total load during the peak and █% during the off-peak, and a second Profile Class 2 meter showing █% off-peak use.

Similar issues also occur at scale in the North of Scotland, where SSE's Total Heat Total Control meters are commonplace. This system utilises 2 related meters, with each allocated to different MPANs. Without an analysis of the MTCs, however, the electricity demand of any property that is supplied via Total Heat Total Control will be under-reported, resulting in the publication of typical domestic electricity demand in the North of Scotland that is significantly misaligned with reality.

As referred to above, these errors create potential issues with regard to the prepayment and default tariff price caps in the event that the TDCVs continue to be considered as the annual consumption value to which the price caps are benchmarked. However, they also present issues where consumers are provided with energy efficiency advice by a supplier whose agents are unfamiliar with the peculiarities of a particular Profile Class 2 metering set-up. Taking the data presented in the Open Letter for Economy 10 as an example, this could result in situations where a consumer who uses an electric boiler to provide hot water to a



traditional central heating system, and whose annual consumption is such that they would fit the GB mean consumption archetype for an Economy 10 customer, could be advised that they are a High user of electricity despite their average consumption for their meter type. This could result in the consumer adopting negative behaviours in an attempt to bring their consumption down to that of a Medium Profile Class 2 user, and for vulnerable households in particular, this could present a particularly high risk of adverse consumer outcomes. However, CAS believes that by implementing the changes to the TDCVs proposed in this response, the risk of such incidents occurring can be minimised.