Decision

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

Publication date:	25th May 2023
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On 27th February, we published a Call for Input with our proposal to revise the Typical Domestic Consumption Values (TDCVs) and Economy 7 consumption split, as part of our routine consumption review process.[1]

We have decided to proceed with updating the TDCVs to reflect the falling trend in the consumption of electricity and gas. We have opted for the alternative TDCV calculation using 2019 and 2021 data, instead of 2020 and 2021, because of the exceptional circumstance of the COVID-19 pandemic. As part of the review, we have decided not to proceed with the proposed update of the peak and off-peak consumption split for Economy 7.

This document explains the rationale for the decisions made, our consideration of responses to the February 2023 Call for Input and the next steps.

[1] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

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1. Introduction

Section summary

This section summarises our decision-making process and related publications.

Context and related publications

1.1 The TDCVs are industry standard values for the annual gas and electricity usage of a typical domestic consumer. The TDCVs are used to derive the typical bills quoted in the publication of price cap and Energy Price Guarantee (EPG) updates. The TDCVs are also used by suppliers and price comparison websites in the absence of individual consumers' data.

1.2 The established methodology derives the typical low, medium and high TDCVs for gas and electricity by calculating the lower quartile, median and upper quartile of household consumption for the two most recent years of available data, and then takes the average.[2] Since 2017, we have included the average peak and off-peak split using settlement data for Economy 7 (including meters with an 8 or 8.5-hour off-peak period).

1.3 In 2021 we decided to postpone the update of TDCVs to allow more time to assess the impact of the COVID-19 pandemic on domestic consumption.[3]

1.4 In February 2023, we issued a Call for Input providing stakeholders with the opportunity to comment on our proposed revised TDCVs for gas and electricity and the Economy 7 peak and off-peak consumption split. We have received nine responses from the stakeholders. The responses which are non-confidential are available on our website.[4]

[2] Most consumers use relatively small amounts of energy, while few consume large amounts. The median or second quartile is more representative of the typical "medium" usage. We use the first and third quartiles to represent typical "low" and typical "high" usage respectively. 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.

[3] Ofgem (2021) Decision for Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/decision-typical-domestic-consumption-values-2021

[4] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

Related Publications

1.5 February 2023 Call for Input: https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

1.6 Decision for Typical Domestic Consumption Values 2021: https://www.ofgem.gov.uk/publications/decision-typical-domestic-consumption-values-2021

Decision-making stages

Date	Stage description
27/02/2023	Stage 1: Call for Input open
27/03/2023	Stage 2: Call for Input closes (awaiting decision), Deadline for responses
28/03/2023 - 24/05/2023	Stage 3: Responses reviewed and decision process
25/05/2023	Stage 4: Call for Input closes (with decision) and responses published

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to MarketMonitoring@ofgem.gov.uk

2. Decision on revised Typical Domestic Consumption Values for gas and electricity and Economy 7 peak and off-peak split

Section summary

This section sets out our decision to revise the Typical Domestic Consumption Values (TDCVs). We discuss our rationale for decisions made and our consideration of stakeholder responses to our Call for Input.

February 2023 Call for Input

2.1 In our Call for Input, we proposed to revise the TDCVs following the established methodology, which takes the previous two year's data, 2020 and 2021. We also ran a sensitivity analysis and provided an alternative set of TDCVs using 2019 and 2021 data, which resulted in a further reduction of gas and electricity consumption when compared to using 2020 and 2021 data. The data for 2020 captures all three national lockdowns when customers were spending more time at home and therefore using more energy. We requested stakeholder views on whether the exceptional circumstances of 2020 would justify an alternative timeframe using 2019 and 2021 data for the TDCVs calculation instead of the established methodology using 2020 and 2021 data.

2.2 We calculated an updated average peak and off-peak consumption split for Economy 7 meters, based on November 2022 data, which suggested a GB average of 60:40. We requested stakeholder views on whether this change is significant enough to revise the consumption split from the current estimate of 58:42.

2.3 Finally, we sought stakeholder views on our proposal not to update the consumption values within the price cap benchmark considering the proposed revised TDCVs.

Decision summary

2.4 Following our consideration of stakeholder feedback, we have decided to update the TDCVs using the alternative timeframe of 2019 and 2021 data (see "Revised TDCVs" in the table below). We have also decided to keep the peak and off-peak consumption split unchanged.

2.5 Our methodology ensures that values are updated only if there is a material change, which is the case in the present review for both the gas and electricity

TDCVs.[5] In light of the feedback received, we have opted for the removal of 2020 data to better reflect domestic consumption values that are in-line with the longer-term trend of usage decline.

2.6 In deciding not to proceed with updating the peak and off-peak consumption split, we have considered that, overall, from the feedback received, the current split remains appropriate.

	kWh	**Current TDCVs**	**Revised TDCVs**
Gas	Low	8,000	7,500
	Medium	12,000	11,500
	High	17,000	17,000
Electricity: Profile Class 1	Low	1,800	1,800
	Medium	2,900	2,700
	High	4,300	4,100
Electricity: Profile Class 2 *	Low	2,400	2,200
	Medium	4,200	3,900
	High	7,100	6,700

* 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, this includes 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 below their actual value.

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

[5] Material in this context means changes to the TDCVs of at least 100 kWh for electricity and 500 kWh for gas when rounded.

Summary of responses and our views

2.7 We received nine responses to our February 2023 Call for Input, four from suppliers, one from a consumer body and four from other stakeholders. The responses which are non-confidential are available on our website.[6]

Updating TDCVs and adopting alternative TDCVs

Stakeholder Feedback

2.8 Three out of nine respondents agreed to update the TDCVs to reflect the declining trend in domestic consumption, and all three considered the exceptional circumstances of the pandemic to justify using an alternative timeframe to remove 2020 data from the calculation. One respondent indicated they did not have any strong views on whether to review the TDCVs downwards and stressed the importance of clearly communicating when bill reductions are due to lower consumption values, and not falling energy prices. The remaining five respondents did not provide any explicit feedback on this point.

2.9 Two of the three respondents who favoured the use of an alternative timeframe noted a marked decrease in consumption in more recent years and suggested a different timeframe. One noted that 2019 is now far removed from the present-day of increased energy costs, cost-of-living crisis, and energy efficiency measures which they considered are likely to persist. They suggested a case for using 2021 data alone as they believed it to be more reflective of the further reduction in consumption observed today. The second stakeholder made a case for using 2022 data alone, which could be sourced from suppliers, even if only partial data was available at the time.

Our Response

2.10 Having reviewed stakeholder feedback, we have decided to opt for the alternative approach and remove 2020 data from the TDCV calculation timeframe. The year 2020 was exceptional because lockdowns led to customers spending more time at home and therefore using more energy. Using 2019 and 2021 data generally results in a further reduction in the TDCVs, as shown in the annex of the Call for Input [6], which is more in-line with the longer-term trend of

[6] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

declining energy consumption. We recognise this is likely to be a persisting trend for consideration in future reviews, especially as increased energy costs and the wider cost of living crisis have recently led to customers restricting their consumption.

2.11 On the other hand, we are not currently considering reliance on a single year or a change in our data source, as suggested by some comments. At present, this would create significant consistency and comparability issues with the established methodology and historic TDCV data. Overall, we would not have sufficient confidence in using data from a different source and covering a shorter period. When we established the TDCV methodology in 2013 we chose the two-year solution among various options, as striking the right balance between not relying too much on a single year's observation and not depending excessively on past year's data.[7]

TDCV methodology for Profile Class 2 usage

Stakeholder Feedback

2.12 Five respondents expressed concern about limitations in the methodology for calculating TDCVs for Profile Class 2. Several noted that the Profile Class 2 group includes both households with and without electric heating, who may use gas or other fuels for heating, as well as households with electric storage heating. Stakeholders also noted that using meter-level data implicitly assumes these households are on multi-rate tariffs. However, a customer can switch to a single rate tariff but remain settled under Profile Class 2 because of the type of meter they have. The subsets within this category will have differing electricity demand and usage patterns and so grouping under the same TDCV may underestimate annual consumption for electric heated and storage heated households.

2.13 Two respondents made specific mention of DTS or teleswitched meters which typically have a primary and secondary meter, where one operates only during off-peak hours to turn on the heating load. The respondent stated that by not shaping consumption through both the primary and secondary meters and combining these households with other Profile Class 2 meter types leads to inaccurate TDCVs and consumption split. It was noted by both stakeholders that

[7] Ofgem (2023) Review of typical domestic consumption values (see paragraph 2.29) https://www.ofgem.gov.uk/sites/default/files/docs/2013/09/tdcv-review-consultation_0.pdf

because of the higher prevalence of teleswitched meters in Scotland, this simplification disadvantages consumers in the region.

2.14 One respondent noted that electricity data has not been weather corrected, despite the effect on consumption for Profile Class 2 customers with electric heating.

Our Response

2.15 We are aware that, due to many different types of restricted meters and heating arrangements, consumption patterns vary significantly across consumers within the Profile Class 2 group. However, the current methodology relies on the Department for Energy Security and Net Zero (DESNZ) sub-national consumption statistics, which do not allow for a further breakdown of Profile Class 2 subtypes, and we cannot derive more granular estimates of consumption and usage patterns.[8] We understand the concern about regional values being potentially biased, especially where teleswitched meters are more prevalent, which is another reason why we refrain from publishing regional TDCVs.

2.16 As noted in the annex of the Call for Input, we do not have sufficient information on the heating aspect of DTS meters and cannot accurately estimate consumption for this subset at present.[9] Where possible, we recommend consumers use their own consumption figures for the purposes of comparing suppliers or estimating their bills.

2.17 Gas consumption data is weather corrected at source, but this is not the case for electricity. We recognise this could impact annual consumption values for Profile Class 2 customers who tend to use electricity for heating. However, we would only be able to apply a basic adjustment which may not be sufficient or robust. Despite this, the TDCVs remain a good indicator of domestic consumption.

[8] DESNZ (previously BEIS) Subnational electricity and gas consumption summary report 2021
https://www.gov.uk/government/statistics/subnational-electricity-and-gas-consumption-summary-report-2021

[9] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values
https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

Revision of peak and off-peak consumption split for Economy 7

Stakeholder Feedback

2.18 Four out of nine respondents provided views on whether the E7 consumption split should be revised from 58:42 to 60:40, one respondent agreed, three respondents were opposed, four raised their concerns and made suggestions. The remaining respondent did not comment.

2.19 The respondent in support of revising the consumption split stated it required minimal administrative change and should lead to a more accurate reflection of the customer usage split.

2.20 Four respondents expressed concern regarding limitations in the methodology and data source. As we use aggregated meter point data for E7 and E8 meters, including E7 teleswitched meters, this implicitly assumes all households with these meter types are on E7 or another multi-rate tariff and use electric heating. Stakeholders noted there is a significant proportion of households who use gas and other fuels for heating, and their inclusion artificially inflates the on-peak consumption split (their load profile will be more like a Profile Class 1 household). They asserted that by representing the consumption split as a simple average across these meter types, instead of looking at electric heated homes separately, leads to an underestimation of off-peak usage.

2.21 A couple of stakeholders proposed a separate consumption split to be calculated for households with electric storage heating, to reflect the fact that around half of E7 tariff users fall into this group and their electricity consumption and off-peak usage is significantly higher than those without storage heating.

2.22 Several respondents advocated for a regional consumption split, considering the higher prevalence of electric heated and electric storage heated homes in particular regions. One respondent added that the prevalence of storage heated homes is likely the reason for the regional difference in the peak and off-peak split published in the Call for Input. A stakeholder noted the increased on-peak consumption split is driven by three regions (East England, East Midlands and South East), while other regions peak consumption remains closer to or below the current 58:42 split.

2.23 A respondent opposed updating the split due to concerns that increasing peak consumption could lead to suppliers setting higher off-peak rates which would discourage customers from shifting their demand to off-peak periods. Another stakeholder noted the expected future uptake of Time of Use tariffs means we

should take the opportunity to access further profile data for a more granular analysis of demand patterns.

Our Response

2.24 Given the feedback received, we have decided not to proceed with updating the peak and off-peak consumption split as part of this TDCV review. As a result, the 58:42 assumed consumption split will remain the assumed consumption split communicated as part of our TDCV related publications. We therefore will not consult on changing the assumed consumption split used to determine compliance with the price cap for Economy 7 tariffs (under SLC 28.AD). We recognise the inclusion of households with various heating arrangements could be causing an on-peak bias. Based on feedback, this would not reflect the E7 customer usage patterns observed by stakeholders.

2.25 Our data analysis assigns the metering arrangement to standard settlement codes based on supplier information so that we use settlement data for meters with off-peak usage patterns of E7 and E8 consumers. The methodology is explained further within the annex of the Call for Input.[10] We acknowledge this may not necessarily imply that consumers are on multi-rate tariffs and/or have electric heating. We will check whether we can provide further information in this area as part of future TDCV reviews.

2.26 We considered regional TDCVs as part of the 2019 TDCV review and, based on the feedback obtained, we decided not to implement the TDCVs at a regional level.[11] Stakeholder concerns were mainly based on the complexity regional consumption values would add. Although they may help towards more reliable estimates, it is important that consumers are able to compare tariffs and calculate savings with ease. For these reasons, we have maintained our decision not to publish TDCVs at the regional level.

[10] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

[11] Ofgem (2020) Decision for Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/decision-typical-domestic-consumption-values-2020

Implications for price cap and energy price guarantee (EPG) values

Stakeholder Feedback

2.27 We did not propose to update the price cap benchmark in our Call for Input, however we welcomed stakeholder views on this point considering the proposed revised TDCVs. Two out of nine respondents were in favour of updating the benchmark, four respondents raised concerns and the remaining three did not comment on this point.

2.28 The two respondents were in favour of updating the benchmark to account for significant changes to consumption since 2017. One respondent stated the decline in consumption has impacted both the median and mean levels of energy use. Both respondents said that by updating the benchmark, suppliers would be better able to recover operational costs under the cap. One stakeholder commented they found no evidence the current price cap methodology was designed for the longer-term trend of declining consumption and the latest proposed TDCVs were not foreseen and accounted for, particularly as the cap was designed to last until 2023.

2.29 Stakeholder concerns were centred around the Profile Class 2 TDCVs underestimating energy usage of homes with electric heating and electric storage heating. Several respondents noted that off-gas grid customers will be facing higher costs than a typical dual fuel customer bill as communicated under the current EPG of £2,500. One stakeholder thought this disadvantaged off-gas grid customers for recognition in policy interventions and appropriate financial uplifts.

2.30 A stakeholder proposed we reconsider the use of a single national consumption split, citing the regional variation within this ratio reported in the Call for Input, noting variation is likely due to the prevalence of electric storage heated homes. They added that the lower average cost to suppliers to service Economy 7 customers because of their higher off-peak usage should be reflected within the current price cap calculations. The stakeholder strongly advised against making "piecemeal" changes to aspects of Economy 7 calculations and proposed a wider review of how Economy 7 is dealt with under the price cap.

2.31 One respondent, who was in favour of amending the TDCV values in the price cap benchmark, suggested this may avoid confusion caused by having two separate values, one for communicating bills and another for calculating them.

Our Response

2.32 Given our assessment and stakeholder feedback which supports amending the TDCV values, we intend to reflect the updated TDCVs in how we communicate

the level of the price cap from the implementation date of 1 Oct 2023. We will ensure this change is communicated clearly and appropriately to all stakeholders. We will make clear that the revised TDCVs (all else held equal) will result in a lower level of the price cap that is being communicated, which is due to a downward revision of the underlying consumption assumptions, rather than a reduction in underlying costs.

Role of benchmark consumption

2.33 We note that a few responses suggested a further review of whether the 'benchmark' consumption used in calculating the level of the price cap (3,100 kWh single rate electricity, 12,000 kWh gas and 4,200 kWh multi-rate electricity) should be amended. We do not think there is sufficient evidence to warrant a review of benchmark consumption at this stage and we note such a review would be outside of the scope of this decision letter. Nevertheless, we make the following points in response to the feedback raised.

2.34 The role of benchmark consumption differs from TDCV and we do not believe a change to TDCV requires a consequential change to benchmark. We noted this as part of our previous TDCV decision in 2020.[12] Benchmark consumption (among other things) determines the appropriate allocation of costs recovered via the nil consumption cap level (ie equivalent to the standing charge) compared to costs recovered volumetrically. The current benchmark continues to fulfil this purpose. TDCV is used to ensure a standardised approach to communicating consumer bills in a comparable way.

2.35 Additionally, we do not consider a change to benchmark consumption is requisite to ensuring suppliers can finance their licensed activities, which is one of several matters we must have regard to in determining the methodology of the price cap. We calculate the TDCV based on median consumption. However, the allowances suppliers recover under the price cap will depend on the average (mean) consumption of their default tariff customers. Mean consumption was above median consumption when we set the cap. This meant suppliers would over-recover their operating costs, as these are partly recovered volumetrically. We recognised this as part of our assessment of headroom.[13]

[12] Ofgem (2020) Decision for Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/decision-typical-domestic-consumption-values-2020

[13] Ofgem (2018) Default Tariff Price Cap Decision (see Appendix 2, paragraph 3.65) https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview

2.36 The evidence used in this TDCV review suggests mean consumption remains higher than median consumption.[14,15] We therefore consider the current benchmark consumption level continues to allow a notional supplier[16] to recover their efficiently incurred operating costs. However, we will monitor consumption trends over time and may consider a further review of the role of benchmark consumption, where the evidence supports this and we believe it to be justified.

Treatment of Economy 7 customers under the price cap

2.37 As noted in previous sections, we have decided not to amend the 58:42 assumed consumption split for Economy 7 customers, as supported by the evidence that the existing split broadly remains appropriate. We therefore do not propose to make any consequential changes to our assessment of compliance with respect to relevant Economy 7 tariffs under the price cap, which will also continue to use this split.

2.38 We have considered whether adopting a regional assumed consumption split would be a suitable alternative to the GB average split currently in place. We do not think such an intervention would be proportionate or necessarily in consumers' interests. An assumed consumption split is intended to represent an aggregate split that ensures suppliers can recover their efficiently incurred costs from these customers, alongside ensuring Economy 7 customers, as a group, pay no more than a fair price for their energy when having regard to this 'aggregate' demand profile. Since consumption behaviour varies considerably at an individual level, it is not possible or practicable to set an aggregate split that takes into account individual consumption behaviour. Furthermore, we have not received any suitable evidence that changing the GB average approach to setting the Economy 7 assumed consumption split would be beneficial to Economy 7 customers overall. Rather, we expect some Economy 7 customers may benefit from this change and others maybe disadvantaged.

[14] Ofgem (2023) Call for Input: Review of Typical Domestic Consumption Values https://www.ofgem.gov.uk/publications/call-input-review-typical-domestic-consumption-values-2023

[15] DESNZ (previously BEIS) Subnational electricity and gas consumption summary report 2021 https://www.gov.uk/government/statistics/subnational-electricity-and-gas-consumption-summary-report-2021

[16] Notional supplier is a theoretical and efficient supplier that has no direct comparison with existing suppliers but draws from the properties across efficient suppliers in the market.

2.39 We note there is considerable variation within regions as to how suppliers price their day and night rates for Economy 7 customers. We believe it would be helpful to raise awareness of the potential financial benefits available to Economy 7 customers in moving to a tariff offering with a day and night rate more in line with an individual's own consumption profile. We would welcome constructive engagement from all our stakeholders to ensure Economy 7 customers are aware of their own consumption behaviour and the financial savings available from being on a tariff better aligned to an individual's own consumption pattern.

2.40 Finally, we note the purpose of this decision letter is on whether to amend our TDCVs based on our updated assessment of consumption data. We will be mindful of the impact of current and scheduled cap work on Economy 7 customers. As our work on the price cap continues, there may be upcoming workstreams to consider specific issues for Economy 7 customers and stakeholders will be able to provide representations as part of these workstreams.

Implementation

2.41 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 October 2023**. We will use the new values in all relevant publications from this date.

2.42 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 and EPG compliance, suppliers should continue to comply with their obligations as set out in SLC28.A and SLC28.AD, and ensure values are set in accordance with EPG levels.