Sustainability *first*

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To: MarketMonitoring@ofgem.gov.uk

Dear Ofgem team

Call for Input on Review of Typical Domestic Consumption Values (TDCV) 2023

Sustainability First is a charity and think-tank focussed on social and environmental issues in energy and water. We have been closely involved in various regulatory debates, including around network charging and the RIIO price controls. We have also commented previously on Ofgem's approach to distributional impacts and participated in the consumer group calls that Ofgem has held around retail issues in the context of the current energy crisis.

We have also been in discussion with Ofgem about our concerns around the handling of Economy 7 in the price cap including the scope for gaming in how relative day and night rates are set. The basis for these concerns is set out in the Grid Edge Policy report[1] "It's a Lottery – How Ofgem's Price Cap Fails Economy 7 Customers" which is available on the Sustainability First website together with slides and notes from the roundtable we ran, which we are grateful to Ofgem for joining and presenting at. The clear consensus from all the consumer groups at the roundtable was that the treatment of Economy 7 customers needs more focus by Ofgem – both because of the demographics of these customers and because of the role time of use tariffs will need to play as part of the transition to net zero.

We were therefore pleased to see the specific reference to Economy 7 customers in your latest Call for Input on the TDCV and note the proposal to update the peak-off peak (or perhaps more accurately day-night) split as a part of that. We would then hope that, as indicated, Ofgem will revisit the use of a single national figure for this split within the price cap. The regional variation in this ratio was one of the issues that was highlighted in the Grid Edge Policy report and is confirmed again in your latest data.

That said, **we would strongly caution against undertaking piecemeal changes to aspects of the Economy 7 calculations which could actually be detrimental to these customers**. In particular increasing the assumed % night time usage without taking account of how this higher usage flows through into unit costs (and hence the p/kWh in the price cap) will simply result in prices increasing for these customers. As we have requested previously **it is important that Ofgem looks in the round at how Economy 7 is dealt with under the price cap, including the wholesale cost element highlighted in the Grid Edge Policy report.**

Getting a better understanding of Economy 7 usage patterns

As a part of this we would like to see a much more fundamental review of the patterns of usage of Economy 7 customers and are concerned that the longstanding TDCV methodology is no longer fit for purpose and risks creating a misleading ("precisely wrong") picture. There are two fundamental issues here, which we expand on further below:

[1] Sponsored by Glen Dimplex Heating and Ventilation

1) The TDCV analysis is based on customers with Economy 7 meters but is being used to underpin decisions about Economy 7 tariffs; and
2) The group of customers on Economy 7 tariffs comprises in effect two distinct populations – those with storage heating and those without – who have very different usage patterns but which are represented with a simple average.

In the Call for Input you make the point that you are reliant on aggregated data from Elexon and so cannot look at the distribution of usage patterns. Through its PIAG[2] work, Sustainability First has highlighted previously the need for Ofgem to have better data on demand patterns – given suppliers will have this data and can use it to their advantage. Ofgem should look at how it can get better data on Economy 7 usage patterns - even if only on a sample basis - in order to get a handle on the scale of these issues. This should include asking Elexon what additional analysis it could provide, including whether further profile data could be requested from suppliers to allow more granular analysis of current consumption patterns of customers with Economy 7 meters and restricted meters.

Given that going forward we are looking to see a significant uptake in Time of Use tariffs Ofgem should be taking this opportunity to think about how it will access the data it needs to oversee that developing market. Improving understanding of Economy 7 would be a first step on that journey.

The latest TDCV analysis shows that 18% of domestic electricity consumption is through Profile Class 2 meters. At nearly a fifth of domestic demand, this is a very substantial part of the market that needs to be better understood.

Meters v tariffs

Ofgem's Call for Input says that there are 3.7 million multi-rate meters. In using the TDCV data in its price cap calculations Ofgem is implicitly making the assumption that all these customers are on multi-rate tariffs which patently will not be the case. The CMA complex meters remedy gave customers the right to move to a single rate tariff without changing their meter and though not in scope of the CMA remedy it is clear that many suppliers do also allow this for Economy 7.

We have confirmed with Elexon that when a customer switches from a multi-rate tariff to a single rate tariff they remain settled under Profile Class 2 (unless they also have a meter change). ie the Profile Class is not a definitive indicator of whether a customer is on a multi-rate tariff. It is also unclear how customers on an Economy 7 tariff through a smart meter are treated in this analysis.

In the Grid Edge Policy report, to address this, the assumption is made that, of the total profile class 2 population, around 3 million customers are actually on multi-rate tariffs. However the report also highlights the complete absence of any published data on this important point. It is not clear if Ofgem have access to this information through their monitoring of the price cap but this feels a basic information gap (numbers on a particular type of tariff) that Ofgem should be addressing.

This distinction between Economy 7 meters and tariffs is important as looking at the total Economy 7 meter population will almost certainly lead to an underestimate of the level of night usage for price cap purposes. Customers who have multi-rate meters but are on single rate tariffs will presumably have a demand profile more like that of a singe rate (PC1) customer. As such the pattern of usage of multi-rate tariff customers will have a higher proportion of night usage than the TDCV meter-based analysis suggests (and also a higher annual consumption). Answering the basic question

[2] Public Interest Advisory Group on access to smart meter data: https://www.smartenergydatapiag.org.uk/

about how many customers are on multi-rate tariffs would allow the likely scale of this impact to be assessed and hence whether adjustments need to be made to the TDCV methodology.

However, as highlighted above, it is important that this improved understanding of the day-night pattern of usage is reflected in the cost calculations to ensure that they properly reflect the lower average cost of serving these customers – which the current price cap calculations do not. Simply increasing the assumed % of night time usage in the weighting of day and night rates in the price cap would perversely result in Economy 7 customers facing higher tariffs. Changes to assumptions about the usage pattern cannot be made in isolation but need to be part of a wider review of the treatment of Economy 7 in the price cap, including a review of the wholesale costs.

With and without storage heat

The other distinction highlighted by the Grid Edge Policy report is between customers with and without storage heating (the original intended use of these tariffs). Data from the English and Scottish Housing surveys shows that around 1.5 million households have electric storage heating. As such around half of Economy 7 tariff customers fall into each group (with and without storage heating).

Anecdotal evidence from consumer advisers and storage heater manufacturers is that customers with storage heating would be using significantly more than 40% of their electricity at night. Again, a plausible assumption is that those without storage heat (who have multi rate meters for historical reasons) will have a night- day split more like that of a customer on a single rate tariff at 20-80 while customers with storage heating have a split more like 60-40. That would give an average night-day split of 40-60 in line with the TDCV analysis but where notably this average is not representative of either those with storage heating or those without.

Differences in the proportion of customers with storage heating is the most likely explanation of the regional differences highlighted in the TDCV analysis and hence merits being better understood.

This data on the distribution of usage patterns will be harder to collect but for the reasons set out in the Grid Edge Policy report is key to understanding and effectively regulating this part of the market.

One of the major concerns that Sustainability First has in this area is the extent to which customers are complying with their "treating customers fairly" obligations and ensuring that where customers are on Economy 7 or other multi-rate tariffs these are suitable for their needs. To understand the scale of this issue Ofgem does urgently need to find a way to improve the data that it collects on actual usage patterns.

Annual consumption figures

The issue raised above on the distinction between Economy 7 meters and tariffs is also relevant to annual consumption figures and means that the consumption for customers on Economy 7 tariffs is likely understated.

On the wider question of whether the main TDCV annual consumption figures should be updated we do not have a strong view. Clearly if the decision is taken to update them then it is important that proper thought is given to their use in customer communications to avoid creating the impression that bills are falling when they are not.

Related to this we welcome the use that is increasingly being made of the low / medium / high figures to help explain bill impacts – moving away from the single headline figure which wrongly created the impression of an absolute cap on bills.

This information on different levels of usage including the decile level analysis is very helpful to wider stakeholders looking to understand the distributional impacts of Ofgem policy decisions or the case for targeted support to customers, for example. We have commented previously[3] on the fact that Ofgem itself does not make use of this data in its own distributional impact analysis and believe Ofgem should at least provide a reconciliation between this TDCV data which we consider robust and the survey data underpinning Ofgem's approach to distributional impacts. We also recommended at that point that Ofgem carried out more work to better understand the usage patterns of customers with electric heating.

Finally, we note that the problem of 2020 being seen as an anomaly because of Covid might be expected to replay in a different way this year with customers cutting back radically on energy usage given current price levels. We assume that Ofgem is engaged with the BEIS statistics team to help them in understanding these wider trends on both electricity and gas demand.

We hope that the evidence we have provided has demonstrated the need for Economy 7 to be given more focus by Ofgem in its approach to estimating the TDCVs (and more widely) but would be happy to discuss this further if that would be helpful.

Yours faithfully

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cc Zoe McLeod, Policy Director Sustainability First

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3 https://www.sustainabilityfirst.org.uk/images/publications/consultations/sf_ofgem_IA_guidance_final_300920.pdf (and associated Technical Paper)