

Tariff type variation in the domestic energy market

Introduction

DECC's Quarterly Energy Prices (QEP) publication¹ includes quarterly data on customer numbers in the domestic UK electricity and GB gas markets², split by payment type and energy distribution region. It also includes annual energy bills for electricity and gas customers, which are calculated based on a fixed consumption level, by payment type and region, and are averaged across all tariffs.

The data used to produce these bills and customer numbers is collected via the Domestic Fuel Inquiry (DFI), a quarterly survey of 8 domestic energy companies in the UK (the 'Big 6' plus two others)³. This provides DECC with price and customer number information for tariffs in the domestic energy market. The majority of these tariffs are no longer available to new customers; particularly in the case of fixed and capped tariffs, which are normally only featured for a short time before being replaced with an updated version.

This tariff data is aggregated and analysed to produce annual bills and customer numbers, based on standard annual consumption assumptions: 18,000 kWh per year for gas, 3,300 kWh for standard electricity, and 6,600 kWh for Economy 7 electricity (of which 3,000kWh are assumed to be consumed at the day rate and 3,600 kWh at the night rate).

This article examines the current structure of the domestic energy market; how many customers are on standard, fixed, online and social tariffs, and how average bills differ between these tariff types for a set consumption level.

The data in this article is based on identifying tariff types from the name of each tariff. Due to the nature of the domestic energy markets, the exact structure and/or names of tariffs can vary considerably between energy companies, and not all features of a tariff may be fully reflected in the tariff name. As a result, these figures should be treated as estimates.

Tariff types

The individual approach of each energy company to tariff structure and provision means that a perfect definition cannot be applied to all tariffs within a given type. However, for the purpose of this article, the following definitions have been applied:

Standard:

The basic variable tariff offered by a company, available on all payment types and to all new customers, and as such holding the majority of customers. The underlying prices and structures are the same for all customers within a distribution region. This category does not include any fixed, online, social, or green tariffs.

Fixed:

A tariff offering prices that remain constant at the initially offered level until a pre-defined expiry date, regardless of any price changes announced by the company. They differ from capped or tracker tariffs, which are usually set at x% above or below a variable tariff, and as such are liable to price fluctuations.

Online:

A tariff requiring customers to manage their account online and receive online bills, reducing billing costs for the company. These tariffs are thus offered at a discounted price to the standard tariff, but are sometimes only available for a short period of time before being replaced by an updated version. Customers usually supply their own meter readings.

¹ Available at: www.decc.gov.uk/en/content/cms/statistics/energy_stats/prices/prices.aspx

² Due to a lack of competition within the Northern Ireland domestic gas markets, figures are produced on a GB basis only.

³ The DFI covers more than 98% of the domestic energy market and can be used to produce figures representative of the domestic Electricity and Gas markets as a whole.

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Social:

A tariff available to 'vulnerable' customers, whether it be due to low income, age, illness or disability, at a price which must be at most the same as the cheapest standard alternative for a customer within that region on each payment type.

There is an element of overlap between these tariff types (with the exception of standard). For example, some customers may be on a tariff that is both fixed and online. The above definitions are based on our knowledge of the energy market, but are by no means definitive, and we welcome any suggestions to improve them.

Economy 7 Electricity:

Economy 7 electricity tariffs offer a day price and a reduced rate night unit price for electricity consumed within a given 7 hours each night. These are suitable for individuals that consumer the majority of their energy at night, i.e. those with storage heaters. Economy 7 is treated as a separate fuel rather than tariff, as fixed, online, social tariffs are available for Economy 7 customers.

Customer Numbers

At the end of quarter 3 of 2012, more than half of domestic energy customers were paying by direct debit (56% and 55% for gas and standard electricity respectively).⁴ The proportion of customers on standard, fixed, online and social tariffs by payment types at the end of quarter 3 2012 are shown in Table 1.

Table 1: The proportion of domestic Gas and Electricity (both standard electricity and Economy 7) customers on each tariff type, by payment method

		Standard	Fixed	Online	Social
Gas	Standard Credit	85%	4%	2%	5%
	Direct Debit	57%	18%	19%	4%
	Pre-Payment	97%	0%	0%	2%
Electricity	Standard Credit	87%	4%	2%	3%
	Direct Debit	59%	18%	18%	3%
	Pre-Payment	97%	0%	0%	2%

For standard credit and pre-payment payment methods, the large majority of customers are on a company's standard tariff at 85 and 97 per cent respectively for gas, and 87 and 97 per cent respectively for electricity. Direct debit has the lowest proportion of customers on standard tariffs at 57 per cent for gas and 59 per cent for electricity, as a result of the wide range of tariffs available to customers paying by this payment method.

We estimate that for direct debit, at least 4% of gas customers and total electricity customers are on both a fixed and online tariff. These customers are included in both columns in the above table.

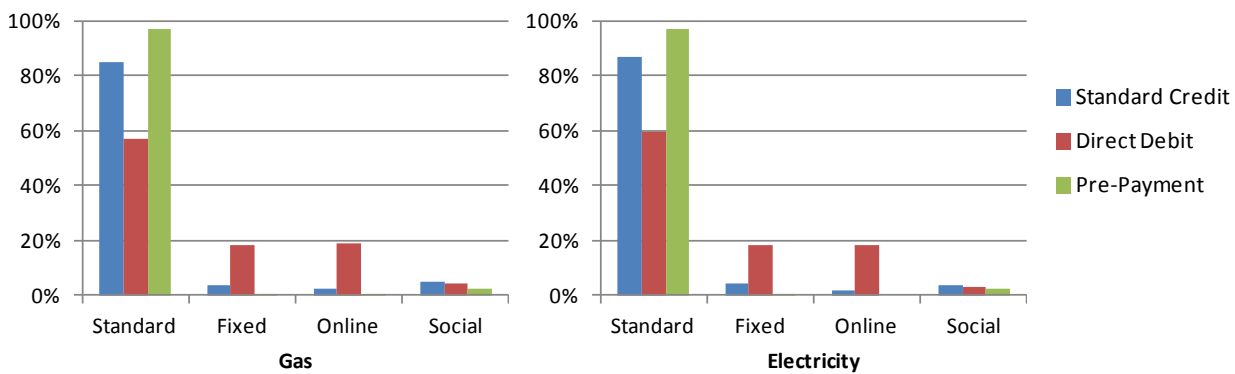
The wide variation in tariff types amongst direct debit customers is indicated in Table 1, with 18 per cent of both gas and electricity direct debit customers having chosen to fix their prices, and 19 per cent of gas and 18 per cent of electricity direct debit customers being on online tariffs.

Because of the small range of pre-payment tariffs available, the vast majority (97%) of customers are on the standard tariff. In the case of standard credit, despite a wider range of available tariffs, there is relatively little variation in tariff types when compared with direct debit customers.

Social tariffs follow a slightly different pattern to other types, as they depend on a variety of eligibility criteria. Some 'vulnerable' customers may feel more in control of their energy usage and payments by paying by standard Credit or pre-payment methods, and therefore there is very little difference in the proportion of customers on social tariffs between each payment method.

⁴Q3 2012 data available in Quarterly Energy Prices tables 2.4.2 for standard electricity and 2.5.2 for gas

Charts 1 and 2: The proportion of Gas and Electricity customers on Standard, Fixed, Online and Social tariffs, by payment method



There was very little difference between these distributions for gas and electricity in quarter 3 of 2012, as indicated in Charts 1 and 2. This is likely to be as a result of the large number of customers choosing to take advantage of dual fuel discounts offered, and so choosing the same energy company and tariff for both gas and electricity.

As with Gas and Electricity, whether an Electricity customer is on an Economy 7 (E7) or Standard Electricity has little impact on their choice of standard, fixed, or online tariff, as indicated in Table 2.

Table 2: The proportion of Economy 7 and Standard Electricity customers on tariff types at the end of Q3 2012

		Standard	Fixed	Online	Social
E7	Standard Credit	90%	4%	1%	3%
	Direct Debit	62%	19%	18%	2%
	Pre-Payment	98%	0%	0%	2%
Standard Electricity	Standard Credit	86%	4%	2%	4%
	Direct Debit	59%	18%	18%	3%
	Pre-Payment	97%	0%	0%	2%

The majority (86%) of domestic Electricity customers use Standard Electricity, whilst 14 per cent are on an Economy 7 (or equivalent ‘time of use’) tariff. The majority of customers on an Economy 7 tariff will use storage heaters to heat their homes, and therefore use electricity rather than gas for space heating.

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Table 3: The proportion of customers on Standard Electricity and Economy 7 tariffs at the end of Q3 2012

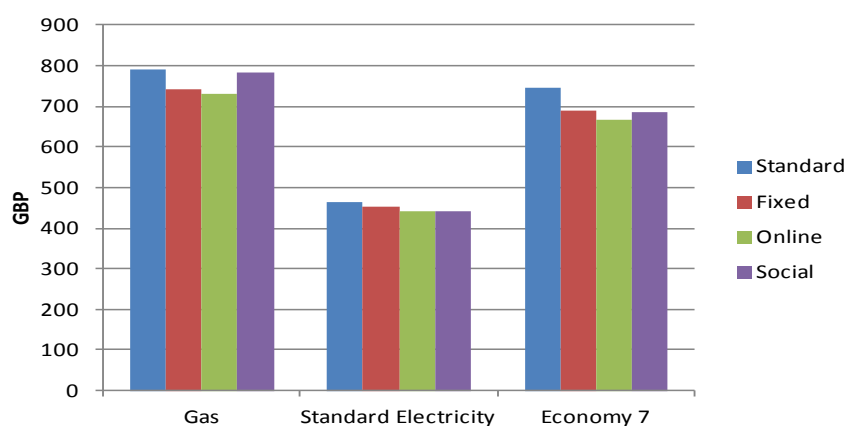
	Standard Electricity	Economy 7
East Midlands	71%	29%
East Anglia	75%	25%
South East	77%	23%
North Scotland	78%	22%
South West	85%	15%
Midlands	87%	13%
South Scotland	88%	12%
Southern	89%	11%
London	92%	8%
North West	92%	8%
North East	93%	7%
Merseyside & N. Wales	93%	7%
Yorkshire	93%	7%
South Wales	94%	6%
Northern Ireland	95%	5%
Grand Total	86%	14%

The regional variation of Standard Electricity and Economy 7 customers in the UK is shown in Table 3. The most popular regions for Economy 7 tariffs are the East Midlands and East Anglia, where 29 and 25 per cent of Electricity customers are on these tariffs respectively.

Northern Ireland and South Wales have the lowest proportion of Electricity customers on Economy 7 tariffs, at 5 and 6 per cent respectively.

Bills

Chart 3: Average 2012 bills for Direct Debit customers on each tariff type⁵



Economy 7 bills are calculated separately to Standard Electricity bills, because many Economy 7 customers will use electricity for space heating, and so are assumed to have a higher annual consumption.

⁵ DECC Publishes bills in QEP both on a provisional basis (in December) and a final basis (in March of the following year)
December 2012

Online or Offline?

Most companies offer discounts to customers for managing their bills online, as it reduces costs for the energy company. Table 4 shows that in 2012, the average online bill was cheaper than the average offline bill for all fuel types and payment methods. It is important to note that not all consumers are able to access online tariffs and benefit from these savings, depending on whether they have easily available internet access, and whether they prefer to receive a paper bill.

Table 4: Average 2012 bills for customers on Online and Offline tariffs (GBP)⁶

	Gas			Standard Electricity			Economy 7		
	Online	Offline	Saving	Online	Offline	Saving	Online	Offline	Saving
Standard Credit	£813	£837	£24	£470	£500	£30	£752	£791	£39
Direct Debit	£729	£780	£51	£442	£462	£20	£666	£736	£70

Fixed or Variable?

Unlike the above online/offline comparison, the potential savings from switching between a fixed or variable tariff will depend on future movements in energy prices. Consumers sign up for a fixed tariff for a number of reasons including: expectations of future price rises and also for budgeting purposes. Initially customers on fixed term tariffs can see an increase in costs as the fix is likely to be higher than the current standard tariff at the time of the switch.

In 2012, direct debit customers on fixed tariffs paid less than those on variable tariffs for both gas and electricity. The savings were £32, £6, and £41 for gas, standard electricity, and Economy 7 customers respectively, as shown in Table 5.

Table 5: Average 2012 bills for customers on Fixed and Variable tariffs (GBP)⁶

	Gas			Standard Electricity			Economy 7		
	Fixed	Variable	Difference	Fixed	Variable	Difference	Fixed	Variable	Difference
Standard Credit	£849	£836	-£13	£503	£499	-£4	£777	£791	£14
Direct Debit	£743	£775	£32	£454	£460	£6	£688	£729	£41

Domestic energy prices rose in August-November 2011 and October 2012-January 2013, outweighing the impact of the price cuts in quarter 1 of 2012. Any customers who had fixed their energy prices before or during the initial price rises may have benefited from a lower energy bill than those on variable tariffs during 2012.

The average Economy 7 standard credit bills followed a similar pattern to direct debit, with the average variable tariff bill exceeding the average fixed tariff bill. For standard credit Gas and Standard Electricity customers, average 2012 bills were higher for those on fixed tariffs than for those on variable tariffs.

Social Tariffs

Table 6: Average 2012 bills for customers on Standard and Social tariffs (GBP)

	Gas			Standard Electricity			Economy 7		
	Standard	Social	Saving	Standard	Social	Saving	Standard	Social	Saving
Standard Credit	£839	£802	£37	£503	£455	£48	£794	£698	£96
Direct Debit	£791	£783	£8	£465	£443	£22	£746	£687	£59
Pre-Payment	£827	£794	£33	£502	£468	£34	£779	£738	£41

Social tariffs are available to vulnerable customers that might otherwise struggle to pay for energy at the standard market rates. Table 6 shows that in 2012 the average bill for social tariffs was lower than that for standard tariffs across all fuels and payment types; on average, a customer eligible for a social tariff will benefit from a lower energy bill than if they were on a standard tariff.

⁶ Very few customers are on Online or Fixed Pre-Payment tariffs (<1%), so savings for Pre-Payment customers are not shown

Special feature – Tariff type variation

User Feedback

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