

ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER
Improvements in energy price measurement using Ofgem data

Purpose

1. This paper sets out the contingency plan for consumer price inflation statistics if new large sources, such as retailer scanner data, are unavailable for inclusion in the monthly publication round.

Actions

2. Members of the Panel are invited to comment on:
 - a) the relative merits of the methodological options presented; and
 - b) the advantages of including fixed tariffs in our consumer price statistics sooner (Feb-24) rather than later (Feb-25+)

Background

3. At the last Stakeholder Panel, ONS presented initial plans and analysis for improving the quality of the energy (gas and electricity) component of CPI by extending the coverage of the index to include fixed-term energy tariffs. The Panel welcomed the opportunity for the new data source to be considered and agreed that its inclusion should not be rushed. As such, it was agreed that the ONS would continue development work to enable the new data to be introduced in February 2024 as part of the annual update, as long as further assurances had been received relating to the permanency of the data source.

Update on data and quality assurance

4. We have had positive discussions with Ofgem about a longer-term commitment to the provision of the data. Ofgem have noted the value of the tariff data collection and confirmed that the data is used also for purposes other than energy price cap policies, and so have indicated the ability to maintain data coverage and granularity, separate of policy change influences. However, any decision on enduring data collection would need to consider the value of the data collection for facilitating statutory objectives, and the proportionality when considering impacts on industry. Ofgem have also agreed to a twelve-month minimum notice period should their data collection change. This enables ONS to receive from Ofgem full disclosure of tariff and supplier information within tariff-level microdata. To provide further contingency, ONS are also looking at options to collect fixed-term data in-house that may provide an option for the March 2024 deadline. Preparations continue for the ingest of the de-anonymised data (which requires more secure transfer arrangements than those used for the anonymised dataset).
5. Detailed work on understanding any differences between Ofgem data and our own collections is on hold until we receive the de-anonymised data that will allow us to match at an individual tariff level. Work on the revision properties of the data between the preliminary and final release are ongoing. Ofgem have unfortunately confirmed that they are unable to provide historic vintages of preliminary and final datasets so we are only able to assess revisions for the two quarterly datasets that we have received. This analysis will be presented at Friday's panel.

Update on methods

6. Due to scale of work required and competing timescales consider that introducing new methods into the basket by March remains a significant risk. However, not including any fixed tariffs in the basket also continues to have the risk of the index not accurately capturing all developments in the energy market.
7. We continue to look at options for making improvements in the near-term. In the previous stakeholder panel we presented some options for how the additional Ofgem data could be introduced. We continue to look at a unit value index (UVI) approach, but building in stratification of different types of product as suggested by the Technical panel.
8. Now we have agreement to access unredacted data, we are also considering a matched-pairs approach, this would enable an extension of the coverage of the basket but wouldn't be a change in the underlying methods. There are various ways to do this:
 - a. Use the fixed tariffs from the Ofgem data alongside current ONS variable tariff collections, maintaining the current method of price measurement during the year.
 - b. Same as above but instead of incorporating a fixed tariff setup into the existing items, creating separate items representing fixed tariffs and using Ofgem data to inform the balance for item expenditure weights.

This approach would mean that the prices of fixed tariffs would be captured but changes in the balance of fixed and floating tariffs during the year would not be (consistent with wider expenditure patterns in the basket). However, depending on how new fixed-rate tariffs are treated, the matched pairs approach could produce fixed-price indices that are very unresponsive to changes in the market. We plan to outline these issues in the discussion with the panel on Friday.

Next steps

9. Once unredacted data is received we plan to seek to explain differences between the ONS and Ofgem data over the past as part of the quality assurance process. We will also produce draft versions of a matched-pairs index to compare to the UVIs.
10. We are seeking comments from Panel members on any part of the work or any wider thoughts on the energy market such as whether there's any intelligence that can be shared on the likely development of energy prices over the next 12 months, or how consumers would be expected to react in terms of fixing their tariffs. In particular we would welcome views on the relative priority of improving the coverage in 2024 versus other development and transformation priorities.

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