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Sent by email to: NonDomesticRetailPolicy@ofgem.gov.uk

Dear Paul,

RE: Consultation on Deemed Contracts and Standard Licence Conditions 7.3 and 7.4

Thank you for the opportunity to respond to Ofgem's consultation on deemed contracts and Standard Licence Conditions 7.3 and 7.4. Centrica welcomes the opportunity to respond to Ofgem's review of its guidance on deemed contracts.

The proposed guidance contains clarifications, particularly in relation to circumstances where a customer has the ability to consume energy and where suppliers continue to incur costs associated with a connected meter. We agree that it is important that suppliers are able to recover efficiently incurred costs, including standing charges and relevant network costs.

We also understand Ofgem's intent to clarify how bad debt risk may be reflected in deemed contract pricing. However, we ask Ofgem to ensure that any evidential requirements are proportionate, practicable and do not inadvertently restrict suppliers' ability to set appropriate deemed contract rates. We have suggested drafting changes to improve clarity on the approach to bad debt recovery and to recognise that there may be reasonable differences between deemed and contracted customer pricing methodologies.

In relation to transfer objections, we agree that the proposed text reflects the current licence drafting. However, we are concerned that the current framework leaves suppliers with limited ability to manage debt associated with deemed contracts. We therefore encourage Ofgem to review whether the rules remain appropriate, including whether further options could be developed to allow proportionate objection rights while maintaining appropriate customer protections.

We would also welcome further clarity on the treatment of security deposits for deemed contract customers and recommend that Ofgem ensures consistency between the proposed

deemed contract guidance and its existing best practice guidance on non-domestic security deposits.

Our detailed responses to the consultation questions are set out in the appendix.

We would be happy to discuss any of the points raised in this response.

Yours sincerely,

Essie Barnett
Senior Regulatory Manager

Appendix – responses to consultation questions

Q1. Do you agree with our proposal around the situations in when we generally view a deemed contract to exist depending on a customer's ability to consume energy? Please provide your reasons.

We consider Ofgem should clarify the policy intent of its proposed changes to the guidance, particularly in relation to cases where a deemed contract would likely not exist.

Ofgem have clarified that, where a customer has the ability to take supply i.e. a 'connected' meter, a deemed contract 'can arise'. And that this is the case even when a customer chooses not to consume energy. This clarification provides confirmation that suppliers may recover the cost of connected meters (usually billed through standing charges) in cases where no consumption is recorded.

However, Ofgem will need to carefully consider whether the guidance will allow suppliers to understand its effect in cases where a deemed contract would likely not exist. The proposed guidance states that where a premises either has no meter or has a meter which has been disconnected, a deemed contract would likely not exist. In this case it is important to distinguish between a capped or de-energised meter and a 'disconnected meter'. We believe the correct policy intent would be to allow suppliers to recover the costs of supplying energy when they are incurred. Ofgem should therefore consider whether the proposed drafting can account for the complexity of existing and potential future charging arrangements. For example, Ofgem should be aware of DCUSA change proposal 473.[1]

Finally, we note that Ofgem considers there may be cases where situations need to be resolved on a case-by-case basis including that where a disconnection request is delayed a deemed contract may still arise. We agree that this clarification is required. In some cases, suppliers will not have control over the timing of a disconnection request and could continue to incur charges until the request is complete.

Q2. Do you agree with our proposal around the reasonable recovery of bad debt? Please provide your reasons.

We support the intent of Ofgem's proposed changes which we understand to be clarification of the process through which suppliers can account for bad debt costs in deemed contract pricing. However, we have the following suggestions for further clarification:

1. Provision of evidence

Ofgem have proposed a caveat that increased costs of supplying deemed rate customers may be reflected 'to the extent' that suppliers can evidence and justify them. Whilst we understand the practical intent of this amendment, we would note that this could only be considered reasonable if relevant information requests are feasible for supplier to provide. Furthermore, this information requirement should not restrict suppliers' ability to price deemed contracts.

Any information requests should also be proportionate. Whilst the current guidance requires suppliers to review deemed contracts rates on a quarterly basis, evidence of such reviews

[1] Non-consuming De-energised CT-Metered sites - DCUSA

including the criteria applied is on request by Ofgem. This represents a proportionate approach to monitoring of deemed contract pricing, and we would expect such an approach to also be applied to additions to evidential requirements in paragraph A1.66.

2. Approach to cost recovery

Ofgem have proposed a clarification that it expects, suppliers to take a 'comparative' approach to cost recovery against contracted customers. We take this to mean that the pricing methodology should be **comparable**. However, Ofgem should note that there may be good reasons for pricing methodologies to differ, for example contract length. We would therefore suggest that Ofgem amends A1.66 as follows:

> *At the same time, when considering bad debt recovery and risk, we would expect that suppliers take a comparable ~~comparative~~ approach to how they recover these costs to their contracted customers except where there are reasonable differences.*

Q3. Do you agree with our proposed text that reminds suppliers of their obligations around customer transfer blocking and delayed switching? Please provide your reasons.

We agree that the text reflects the current licence drafting which does not include deemed contracts in the scope of non-domestic transfer objections.

However, we are concerned that Ofgem appears to have found evidence that the current licence drafting is not effective or that suppliers are experiencing issues in relation to debt on deemed contracts.

Ofgem has not reviewed objection rights under deemed contracts since 2004 when it consulted on transfer objections under deemed contracts for non-domestic customers. As far as we know Ofgem did not publish an outcome to that consultation. However, Ofgem did make a related decision in relation the MRA change proposal 144, in which it upheld the proposal that objections were only permitted based on 'Contract' terms.[2] In making this decision, Ofgem noted concerns of suppliers that the lack of an objection route for deemed contracts left suppliers unable to recover debt from customers supplied under a deemed contract. On the other hand, it noted that there was 'potential for misuse of objections where the circumstances in which they are allowed are determined unilaterally by the supplier'.[3]

Looking back at this process we consider that the options considered were highly binary. Ofgem's original premise was that the rules should 'place the onus on the supplier and customer to agree how their relationship should be managed' including grounds for objections'.[4] This is obviously not possible in relation to deemed contracts and the process ended by leaving suppliers in a situation where no objections at all are possible.

More recently, Ofgem reviewed the objections process for customers in a 'Contract'. This work found significant benefits in relation to debt costs. Ofgem noted:

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[2] 8953-authoritydecision_mcp144_0.pdf
[3] Ibid
[4] Consdoc2001_test

Without objections, we consider that firms would expect to make a larger provision for bad debt, and this would be reflected in higher prices for all consumers. We quantified this as being the largest benefit (£40-409m per year).

We consider that Ofgem should now review its rules in relation to objections to transfers of customers on deemed contracts. Whilst we understand Ofgem's original concerns (noted above), we also consider that Ofgem should look at further options for allowing grounds for objection. We have also raised this point in relation to Ofgem's Home Move consultation where Ofgem is looking at ways to reduce debt when customers move into a new property. Finally, we are also concerned that issues related to fraud in relation to the use of deemed contracts can exacerbate the impact of existing protections on suppliers' ability to manage debt.

Q4. Do you agree with our proposal around the circumstances in which suppliers should ask for security deposits? Please provide your reasons.

We would welcome clarification from Ofgem in its decision document on the reasons for it being inconsistent with existing licence conditions to charge security deposits to deemed contract customers. We would also note that Ofgem has existing guidance on best practice for non-domestic security deposits, and we recommend that Ofgem reviews this amendment to ensure consistency and clarity across both sets of guidance.[5] Recommendations on the use of security desposits (e.g. paragraphs A1.103 and A1.104) would be more appropriately included in this best practice guide and Ofgem should engage with suppliers on the implementation of this.

On paragraph A1.102 of the guidance, we would note that Ofgem should clarify its view that requiring a security deposit would represent a 'double charging'. To the extent that suppliers are requiring security deposits, we would expect this to feed into their assessment of bad debt risk for deemed rate customers overall. Hence, we do not consider the use of security deposits to be inconsistent with the inclusion of bad debt costs in deemed contract pricing. Per the guidance, suppliers should ensure that 'they have deemed rates which are applicable to relevant classes of customers'. Furthermore, we would note that we do not consider security deposits to be included within Ofgem's definition of Charges for the Supply of Electricity and Gas.[6]

Q5. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on?

No further comments.

Q6. Do you have any further comments on our proposals for the deemed contract guidance?

No further comments.

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[5] Non-Domestic Best Practice Guide for Security Deposits

[6] Defined as e.g. 'charges made by the licensee in respect of the supply of electricity to that Customer's premises, including (but not limited to) any Unit Rate (or, where applicable, Unit Rates), a Standing Charge (or, where applicable, Standing Charges) and any charges made for the provision of an Electricity Meter;'