

Nigel Nash
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Ofgem
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25 April 2003

Dear Nigel,

Objecting in the Domestic Market

British Gas welcomes the opportunity to respond to Ofgem's recent consultation document.

We are broadly supportive of the changes that Ofgem have proposed and would support these in any proposed licence modification. However, we continue to have concerns over the potential for abuse of the new objection provisions, particularly in relation to Customer Requested Objections. We urge Ofgem to ensure that appropriate safeguards are developed to ensure that this new facility is used only in the way in which it is intended. We would like implementation dates for any new objection reasons to be harmonised between gas and electricity however, any delay in the implementation of customer requested objections should not impact on an implementation date for the removal of the right to object on contractual grounds.

As many erroneous transfers are caused by incorrect MPAN details, we would like Ofgem to encourage all Distribution Businesses to provide MPAS on-line which may help to reduce the number of erroneous transfers.

Objections for Contract

British Gas has long been an advocate of the removal of the right to object on contractual grounds, we believe that removing the need for customers to give notice to their current supplier before they can switch will produce a less complex process and also reduce the administrative burden on suppliers.

We are supportive of Ofgem's view that the use of termination notices does not prevent or reduce the numbers of erroneous transfers.

Co-operative Objections

We believe that the co-operative objections process should be the preferred industry method for the prevention of erroneous transfers identified during the objection window.

The co-operative objection trial, initiated by British Gas and Scottish Power, which seeks to establish appropriate timescales for the use of the co-operative objections process, has been working well. Initial results indicate that ET volumes have reduced between the suppliers in the trial; we expect to have full results by the end of May. It has been very encouraging to see additional suppliers join the ongoing trial.

We note that Ofgem have included co-operative objections in the draft licence condition, we consider that it would have been preferable to have the process continue on a voluntary basis rather than becoming an additional regulation. However, the inclusion of this clause will not prevent us from supporting changes to the licence condition.

In paragraph 3, Ofgem make reference to the recent consultation on I&C objections. We are supportive of aligning the rules in gas and electricity and of permitting objections in the non-domestic market only where the customer's contract permits it.

Customer Requested Objections

We recognise and share Ofgem's concerns about erroneous transfers and agree that wherever possible, steps should be taken to prevent these transfers from occurring. The Customer Requested Objections process should help in preventing some erroneous transfers in the domestic market. However, we have concerns that the introduction of this objection reason opens up the potential for abuse. We are pleased that this objection reason should only be used where the customer specifically states that they did not enter into a contract with the other supplier.

We would have significant concerns if this objection reason were extended to include any additional erroneous transfer reasons, as the old supplier is unable to confirm if an erroneous transfer would take place.

With many suppliers now focusing on a retention and consolidation strategy, rather than pursuing organic growth through an aggressive acquisition strategy, abuse of this may prove to be a significant current issue. The Customer Requested Objection reason must not be used to impede competition in the energy market.

Ofgem must ensure that firm guidance is given around the way in which suppliers should interpret this clause. In particular, such guidance should clarify that suppliers must not interpret this condition as an opportunity to try and retain customers by contacting them and seeking to persuade them not to transfer. Specifically, this objection reason code must not be used to retain customers who have changed their minds. The co-operative objections process can be used for this purpose and we comment on this above.

The ET statistics confirm that in the majority of cases where a customer identifies that they are being transferred erroneously, they make initial contact with the supplier that is transferring their supply in error. The existing process by which suppliers communicate and agree that a registration has been made in error can help to prevent these transfers before they happen by arranging a co-operative objection. One way of ensuring that the customer requested objection reason is not open to abuse would be to only permit these objections where there has been an inbound customer contact.

Ofgem comment in section 7.5 that 'the Supplier should maintain an adequate audit trail, for example, by recorded telephone call or customer signed correspondence...retained for at least 12 months'. It is our view that Suppliers **must** maintain an adequate audit trail of which the minimum requirements would be by recorded telephone call or customer signed correspondence, retained for at least 12 months. These are the only forms of evidence that should be acceptable. An inability by any supplier to comply with such a requirement should ensure that Supplier **could not** initiate CROs. It may be appropriate for Ofgem to ask that suppliers' demonstrate their ability to comply with this requirement before permitting them to raise CROs.

We would like confirmation from Ofgem as to the enforcement procedures which would be instigated if a supplier failed to maintain an adequate audit trail for customer requested objections. As this process is potentially open to abuse by suppliers, we would also like Ofgem to outline the approach that they intend to take to ensure that suppliers are complying with the requirements of this clause (monitoring, auditing etc.).

In section 7.6, Ofgem state that where a CRO is received, the supplier raising the objection should supply the reason that objection was raised. If the only reason for which a customer requested objection could be raised is where the customer claims never to have signed a contract with the other supplier, then it is not clear what this reason code is for. If it is for the inclusion of supporting information (which may be very helpful), then Ofgem should clarify this.

Wording of the licence modification

The re-wording of Licence Condition 46 leaves the ability to ask for 28 days notice intact, however the power of suppliers to prevent a transfer because this has not been provided is removed, rendering the provision meaningless. In addition, Condition 47(4) permits a supplier to require additional security where a customer terminates the energy part of a supply contract where the contract is also for the provision of other goods and services. By removing the ability to object on contractual grounds, there may be a reduced timescale in which suppliers can negotiate alternative payment arrangements with the customer. We are particularly concerned at the effect that this may have on the provision of energy efficiency goods and services that might be bundled with an energy supply contract.

Our concerns here could be allayed if the co-operative objections process could be used for customers with bundled energy efficiency products or services. This would enable such customers to be contacted by their current supplier and be advised of any financial impacts of their move. If the customer then decides to stay with their current supplier, the new supplier would permit a co-operative objection to be raised. We recognise that strict safeguards would need to be put around this to ensure that it was used only for cases where approved energy efficiency schemes were being used. We would welcome Ofgem's comments on this proposal.

We are supportive of the proposal that requires the supplier that raises an objection to a customer transfer in gas, to contact the customer and explain why – this will align the process with that in electricity and will ensure that the customer is kept informed.

Summary

We are broadly supportive of Ofgem's aims in relation to objections in the domestic gas and electricity markets. However, we expect Ofgem to publish clear industry guidance, and undertake regular market monitoring to ensure that there is no cause for confusion or abuse over the circumstances in which the customer requested objection reason is used.

To summarise, British Gas is supportive of:

- The removal of the right to object on contractual grounds;
- The introduction of a Co-operative Objection process in gas as the most appropriate way for the industry to manage erroneous transfers identified during the objection window. We would prefer that this continued on a voluntary basis and did not take the form of a licence requirement
- The old Supplier informing the customer of the reason for raising an objection and how it can be resolved
- The introduction of Customer Requested Objections on the basis that they are permitted only for the reason that the customer states they have not entered into a contract, and where an adequate audit trail is maintained for a minimum of 12 months.

If you have any questions on the content of this response, please contact me on 0208 734 9362.

Yours sincerely,

Colleen O'Donnell

Regulatory Affairs, British Gas