



**Testing Consumer Take-Up of Energy Services:
Trial Suspension of 28 Day Rule
An Ofgem Consultation**

A Response by British Gas Trading

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1 INTRODUCTION

British Gas welcomes the opportunity to respond to Ofgem's consultation on 'Testing Consumer Take-up of Energy Services: Trial Suspension of 28 day rule'.

We support Ofgem in testing the hypothesis that suspending the 28 day termination rights will allow for an assessment of the increase in the take-up of energy services packages. In reaching the final assessment Ofgem should consider all aspects of innovation in the promotion of these energy services.

Following recent experience of objections to contract regime, we are concerned that there may be potential for abuse within the energy services trial, and urge Ofgem to incorporate sufficient monitoring to ensure such conduct does not arise.

In the remainder of this response we outline our responses to the specific questions raised by Ofgem in its consultation document.

2 SPECIFIC ISSUES

4.6 Respondents are asked to comment on Ofgem's proposal to conduct a trial suspension of the 28 day rule, and the proposed objectives.

Whilst we support the rationale behind the trial, to test whether there is opportunity to increase the take up of energy efficiency measures by domestic consumers, we have certain reservations about the need to suspend the 28 day rule for a trial period, and believe that there are sufficient opportunities allowed by current legislation by which to encourage such take up. Primary among our reservations is ensuring adequate consumer protection. We also have concerns about the launch timescales for the trial, including the time allowed for implementation and testing of full end-to-end support processes, in particular the objection process.

There are significant practical issues to be considered as regards objections, and ensuring sufficient information to suppliers on the objections raised due to this trial. In addition to industry process changes, consideration must also be given to the need and time required to train all customer service staff, sales agents etc. who will be engaging with customers who may be participating in this trial.

We believe that it is important that the objection reason is notified to the other supplier so that this can be monitored for abuse, and to enable suppliers to prevent re-registrations. We therefore fully agree that an effective audit trail is important and that this should be included as part of the trial. In addition, where an objection is made to a customer's transfer under the auspices of the trial, it is important that the customer is made aware that the transfer will be able to proceed if the customer repays any debt outstanding under the relevant scheme.

Ofgem states that the contract objection reason can be used but investigation as to whether this functionality still exists at an industry and supplier level has not yet been carried out. We urge Ofgem to consider the introduction of a new reason for objection code to support this trial. The Objections Working Group will be submitting a separate response on the practical and technical aspects of the objections issue. The Group will need to fully consider the implications of extending the current objection rules. In particular, if details of these objections are notified to the other supplier, then this will

require fairly significant changes to supplier processes. For example, the process changes required to introduce CROs took well over six months to implement. Changes to the MRA would be necessary to reintroduce contract objections for domestic customers.

4.10 Comments are invited on Ofgem's proposed approach to setting up the trial.

We support Ofgem in waiving of the obligation only for the trial period and are pleased that this will automatically expire unless an additional licence change is made.

We think that Ofgem should make it perfectly clear that suppliers will not be requested to allow customers to cancel their contract at 28 days notice for the whole duration of their contract (i.e. a maximum of five years), in respect of any customer signed up during the trial. However is the customer pays off the energy services debt in full before the end of their contract, the suppliers should lose the right to object, and the customer's right to terminate at 28 days should be restored.

4.19 Comments are invited on the relevance of this trial to community energy schemes, and pre-payment meter customers, and what changes might be required to facilitate their inclusion.

We believe it important all customer groups should be offered the opportunity to participate in the trial. Whilst many pre-payment customers may qualify as Priority households for free instalment of EEC measures, this is not true of all customers utilizing this payment method. Thus we think that pre-payment customers should be incorporated into the scheme, with energy efficiency charges collected through the meter. The current industry flows (D0190 in electricity and QS1 in gas) do not have fields available to notify service providers to put non-energy related debts onto pre-payment meters. Where a customer already in debt requests a pre-payment meter, a supplier would have to submit a flow combining all debt – supply charges and credit. Thus we would not be in a position to accurately indicate outstanding debt for each type of debt on an annual statement.

Excluding pre-payment customers from the trial could hamper the customer's right to a pre-payment meter, and this would fall foul of our Codes of Practice, which would require changes if pre-payment customers were not included in the trial. The licence also requires that prepayment meters are offered to all customers as a payment option.

Another particular group of customers are private tenants. The consultation does not fully cover whether the products should be offered to only home owners or to private tenants as well. It is the tenant who would benefit from decreased energy bills, but they may question having to pay for instalment of energy efficiency measures particularly if they only envisage residing at the property for a short period of time during which they are unlikely to see a return on their investment.

5.7 Ofgem invites comments on its proposals for a 4 per cent/50,000 customer limit, and for a two-year trial.

We support the 4 per cent limit on trial customers and agree that as this would be difficult for small suppliers they should be allowed a limit of 50,000.

We do not agree that the 4 per cent should be spread across the corporate group, the reason being that some holders of multiple licences could run a bundled trial product under a single brand. Note however that there could be some holders of multiple licences where

there is a small supplier within the portfolio. The proposed limit of 50,000 across the group would prevent them from applying 4 per cent to the "big" licence and 50,000 to the small licence.

We support the two year trial timescale as adequate to produce the results and experience required to fully evaluate the trial. We note however the fact that the trial period spans EEC and EEC2. If there is any improvement in the energy ratings for the products included in the trial, we propose that this is applied to the trial; however should they reduce, we would seek to ring fence the current energy ratings.

5.9 Ofgem invites comments on the proposed definition of energy services, and in particular: whether the Energy Efficiency Partnership for Homes Code of Practice for Energy Efficiency Providers provisions on advice should be made mandatory; whether a 15 per cent threshold is sufficient to make "cherry picking" rules unnecessary; and how the reduction in supplied energy should be measured (in particular, whether the methodology as proposed is sufficient to allow the inclusion of alternative generation); the proposal that customers should save money as a result of the package, and what discount rate might be used to assess this; and the proposal to allow up to one-third of the total cost to be paid up-front by the householder.

The consultation states that personal energy efficiency audit should be carried out in the home, with telephone and postal audits being the exception. We dispute that the latter two options should be an exception and believe that as long as these three options are offered to the customers that there should be no reason to make telephone or postal audits an exception.

We would welcome specific guidance on the content/structure of the EE audit to ensure consistency throughout the industry. Whilst the Partnership's Code of Practice may be consistent with Ofgem's recommendations for quality advice, we do not believe that the terms of the Code of Practice should be mandatory for energy service contracts.

We believe that a 10-15 per cent level of energy savings requirement is too high, and inflexible. Such a requirement would reduce the size of the available market, and limit the range of energy efficiency measures that would be offered, excluding certain property types (i.e. electricity only, solid wall, flats etc). Ofgem's view that a threshold of 10 per cent would encourage suppliers to install a sub-set of the required measures is clearly not the case. If a supplier can earn EEC savings from the installation of an energy efficiency product, why would they stop once an energy saving threshold is reached? Using EEC methodology only insulation measures are likely to achieve a 15 per cent energy saving, that is cavity wall insulation and virgin loft insulation, whilst condensing boilers may also achieve a 10-15 per cent energy saving.

Fuel switching is a key growth area under EEC and we propose that this measure should also qualify for energy services. The methodology explained in the consultation is not appropriate for fuel switching because the saving is not based on the energy consumption in the property, where standardised fuel savings are used. An alternative approach is required to promote inclusion of fuel switching.

A table is attached in an Annex, outlining estimated consumption reduction by property and measure type.

To simplify the proposal we would suggest that the installation of a major measure should be sufficient to qualify for an energy services package, such as insulation, condensing

boiler, CHP installation, or fuel switching. This would build on the arrangements currently in place for uplift of ESCO type schemes under EEC.

Ofgem comments about cherry picking, that is locking customers in where they will not benefit from any significant energy savings. We are also concerned about the potential for targeting high value customers and seeking to tie them in through an ESCO for a period of time.

Ofgem also comments on the need for suppliers to offer 'substantive credit' to enable the suppliers to object on the basis of energy services contracts. This needs to be fully defined, in that the fixed term period must be subject to 'reasonableness'. It is unlikely to be acceptable to spread the cost of a measure over five years where that measure has a total value of only £100. Perhaps a monthly minimum repayment value would be more appropriate, e.g. £5 per month. This would mean that customers are not being unfairly locked in and that suppliers cannot use low cost schemes as retention tools.

We request clarification from Ofgem whether or not the measurement is based on total household consumption of just the primary heat source. In this we question whether the potential spot use of another fuel would also be included in the measurement, e.g. coal fire in a gas heated home. There is scope for manipulation of expected savings where other fuels exist as well. If measured in line with EEC, then the saving should be based on a theoretical model rather than actual results. Nonetheless the monitoring of any changes in actual consumption would prove added value during the trial.

Until we understand more about the potential for alternative generation, we are unable to comment on this particular aspect.

In addition to restricting the potential base for the trial, the requirement as set out by Ofgem, raises the question of the base for this 10-15 per cent energy saving. Should this be the national average energy consumption for a particular year, the specific customer's previous annual consumption etc.? This is fraught with complications. All things being equal, the implementation of energy efficiency measures should reduce energy consumptions, but there will always be exceptions e.g. extensions to the property, change of circumstance, etc. In addition, some consumers may take comfort from being able to heat their homes to a higher level than previously was the case. Consideration would also have to be given to the weather; if the previous winter has been mild, and the winter of the trial period particular harsh, it is doubtful that customers would experience a large saving. EEC methodology provides a recognised and trusted basis on which to calculate theoretical energy savings. Further validation would lead to confusion and increased costs, which would be passed onto the consumer, making energy services less attractive than other standard EEC propositions.

The requirement for the customer to save money is not clear. Could they be paying more during the contract (payment) period, only to benefit over the lifetime of the installed measures? Whilst most energy efficiency installed are cost effective, some currently are not, such as solid wall insulation, or micro generation such as photovoltaic installations. The cost effectiveness will also depend on the discount rates used. A decision on an industry acceptable level of cost effectiveness would disqualify some potential customers. As long as customers are in possession of all the facts, we do not believe that a personal choice to invest in what would appear to be a non-cost effective but energy efficient measure should be discouraged.

The amount of the deposit paid by the customer needs to be optional and flexible. If the consumer wants to pay for the product in full at the time of entering into an Energy Services contract, then they should retain that right. Currently 80% of our Energy Service

customers under EEC pay for the product in full at the time of installation, rather than taking the option of interest free credit over 2 years. If this pattern continues, it is doubtful what benefits the customer would gain from being locked into a long term contract.

5.10 Comments are requested on the proposed duration.

We believe that any contract accompanying an energy services package should be at least 12 months, and no more than five years. Suppliers should be allowed to be flexible in the range of fixed term contracts they offer.

5.12.2 Ofgem would welcome views on how indexation of prices for energy supplied should be applied, and how notification of price increases should be managed.

The main issue for customers entering into a fixed term contract is that they are not unduly penalised for their loyalty. We disagree with Ofgem's proposal to restrict price changes to three options (fixed, capped or indexation). The key principle should be to ensure that customers on energy service contracts are not over-charged. Therefore at a base level two customers on a similar payment type should expect to pay the same price and incur the same price increases/decreases. Other tariff options should be available, but it is possible that fixed or capped products over a five year tenure could be priced at a premium. Price indexation is overly complicated and unlikely to appeal to, or be fully understood by consumers.

In opting for indexed price contracts, it assumes that Ofgem has defined these contracts as having 'price certainty and clarity' rather than capped/fixed price contracts.

Indexation of prices is likely to be confusing for customers. If indexed prices are the option to be used in the trial, we support the fact the index should be across all suppliers; otherwise it does not protect customers who have given up the right to switch to a supplier with a new and originally attractive tariff option.

The DTI index is published annually in arrears, and thus would expose suppliers to a financial loss, in the event of year-on-year increases in wholesale prices. A marginal increase in the annual indices may mask significant movement in seasonal wholesale prices i.e. annualised indices would not reflect the seasonality of gas consumption (most gas used in winter when price is likely to peak). In addition, non-commodity costs may increase or be introduced by statute (e.g. increase in renewables obligation, costs of investing in embedded generation etc.) and these would not be reflected in the index.

5.12.6 Ofgem would welcome views on the proposals for a written quote and an independent second opinion.

We find it important that the customer receives a written quotation. However the content of this quotation should be at the discretion of the energy supplier whilst being compliant with existing legislation. Providing a written quotation in advance of signing an energy services contract is important. This should not however prevent customers from signing an energy services contract at the same time, if they wish. It can be proven from experience that customers prefer a one and done approach, and we should be seeking to restrict the number of customer visits to one or two as is absolutely necessary.

The proposal to provide an independent second opinion is likely to deter the growth of energy services. A second opinion should not be mandatory. This could cause unnecessary delay, add further cost and lead to customer dissatisfaction. Energy suppliers have an obligation to provide accurate data to their customers. If quotations are required to be checked by a third party, then this will undermine customer confidence.

EEAC's are not independent and should not be recommended as being a viable source.

5.12.8 Ofgem invites views on its proposed approach to cooling off periods.

We agree with Ofgem that the standard cooling off period should be applied to energy services packages. It is not merely the length of the cooling off period that is important, but the manner in which the customer's rights are communicated. These must be clear and transparent, as we have previously indicated in our response to the review of SLC 48.

5.12.9 Ofgem would welcome comment on whether its proposed termination arrangements would be appropriate, and whether there are other situations in which a right to terminate would be appropriate.

We believe that these termination arrangements are appropriate. Ofgem comments that the change of tenancy flag can be used, however we would highlight that this will not be available in gas until July at the earliest. We agree that customers must have the right to terminate their contract if they repay any amount outstanding.

5.12.10 Ofgem would welcome views on whether provision of product guarantees should be regulated.

It would be extremely difficult to link product guarantees to the duration of the energy service contract. Different energy efficiency products have different guarantee lengths e.g. cavity wall are typically 25 years, boilers are typically 1-2 years. Also these guarantees are run and administered by manufacturers not the energy suppliers. However the offering of service guarantees should be required for the duration of the contract, whereby for an appropriate fee the supplier arranges for any maintenance work that has to be carried out.

5.16 Comments are requested on Ofgem's approach to enforcement and verification.

In principle we do not foresee any issues with reporting on the number of customers on energy service contracts. It is important that these reporting requirements do not become onerous, particularly as any additional cost will need to be incorporated within the customer price. We would support similar reporting as currently exists under EEC; thus energy saved will be based on the EEC methodology and not actual savings.

Board level statements appear to be excessive and we fail to see what value these would add.

There will be reporting required under the trial to assess its effectiveness, but at the end of the trial period if it is decided not to proceed, it may be possible to reduce the reporting requirements accordingly, e.g. to a minimum of information on the remaining customers from the trial with an energy services contract.

5.21 Ofgem would be interested if there is support for the creation of a national list of sites where a non-terminable contract is in force, and the practicalities of such an approach.

With a potential for one million contracts we do not believe that a national database is feasible.

5.25 Taking all the design parameters together, Ofgem would welcome information from suppliers about the expected costs of participating in the trial.

Costs have as yet to be determined, however the process as described by Ofgem in its consultation will lead to significant overheads, which will need to be factored into the package price. Key areas that Ofgem should consider are:

- Requirement for home visit
- Access to independent second opinion
- Necessity to provide written quotation before energy service contract is signed.
- Additional reporting to Ofgem
- Likely manual workaround for objections process. The cost of reintroducing objection rights for a trial would probably be as great as for a full solution. We do not have any figures available for this, as backing this claim incurs further costs and resources.

6.3 Comments are requested on Ofgem's proposed approach to evaluation, and on the key priorities.

Monitoring will be very important as part of this trial, both in terms of customer take-up but also in the value of schemes, the length of time over which they are spread and the number of objections raised. We agree with Ofgem's approach to evaluation but would highlight the implications to suppliers (cost and resources) associated with supporting Ofgem in this.

Appendix 1 – comments on the draft RIA are requested.

We have no comments on the Regulatory Impact Assessment other than those made in response to similar issues throughout the consultation and this response.

Appendix 2 – comments are requested on the draft licence modification.

It is probable that further amendment is needed to allow for a charge when a contract is terminated through change of occupier.

3 ANNEX I

Estimated Consumption Reduction by Property and Measure Type %

Property Type	No of Bedrooms	CFL	HWT	TRV	Condensing Boiler	Loft Insulation 1	Loft Insulation 2	CWI 1	CWI 2	Fridge Freezer	Fuel Switching		
											Elec to Gas	Oil to Gas	Coal to Gas
Flat	1	1.07%	6.25%	6.05%	8.60%	56.19%	13.65%	8.16%	13.51%	3.83%	24.11%	7.65%	32.86%
Flat	2	0.87%	5.06%	4.89%	10.11%	66.06%	16.04%	9.59%	15.88%	3.10%	28.35%	9.00%	38.64%
Flat	3	0.73%	4.25%	4.11%	12.39%	80.96%	19.66%	11.76%	19.47%	2.60%	34.74%	11.03%	47.36%
Mid-Terrace	2	0.73%	4.25%	4.11%	8.45%	28.03%	6.75%	9.59%	15.81%	2.60%	23.75%	7.52%	32.27%
Mid-Terrace	3	0.66%	3.86%	3.74%	9.63%	31.95%	7.69%	10.93%	18.01%	2.37%	27.08%	8.58%	36.79%
End-Terrace	2	0.73%	4.25%	4.11%	10.98%	28.03%	6.75%	16.65%	27.18%	2.60%	31.60%	9.78%	42.95%
End-Terrace	3	0.66%	3.86%	3.74%	12.52%	31.95%	7.69%	18.98%	30.99%	2.37%	36.03%	11.14%	48.96%
Semi- Bungalow	2	0.69%	4.05%	3.91%	11.11%	48.68%	12.20%	13.21%	21.64%	2.48%	32.38%	9.89%	43.79%
Semi- Bungalow	3	0.61%	3.54%	3.43%	11.33%	49.66%	12.45%	13.47%	22.07%	2.17%	33.03%	10.09%	44.67%
Det Bungalow	2	0.64%	3.73%	3.61%	11.74%	45.43%	11.59%	14.72%	23.99%	2.28%	34.70%	10.45%	47.06%
Det Bungalow	3	0.56%	3.27%	3.16%	11.98%	46.38%	11.83%	15.03%	24.49%	2.00%	35.43%	10.67%	48.04%
Det Bungalow	4	0.50%	2.91%	2.82%	12.31%	47.65%	12.16%	15.44%	25.16%	1.78%	36.40%	10.96%	49.36%
Semi- House	2	0.69%	4.05%	3.91%	12.78%	30.03%	7.18%	18.07%	29.27%	2.48%	36.95%	11.38%	50.23%
Semi- House	3	0.61%	3.54%	3.43%	12.93%	30.39%	7.27%	18.28%	29.62%	2.17%	37.39%	11.51%	50.82%
Semi- House	4	0.54%	3.15%	3.05%	13.18%	30.97%	7.41%	18.63%	30.18%	1.93%	38.10%	11.73%	51.79%
Det- House	2	0.64%	3.73%	3.61%	15.38%	30.89%	7.62%	25.77%	41.52%	2.28%	45.48%	13.70%	61.51%
Det- House	3	0.56%	3.27%	3.16%	15.59%	31.30%	7.73%	26.12%	42.08%	2.00%	46.08%	13.88%	62.33%
Det- House	4	0.50%	2.91%	2.82%	16.02%	32.16%	7.93%	26.84%	43.23%	1.78%	47.35%	14.26%	64.04%

Source: Combination of British Gas Estimate of consumption & OFGEM EEC Spreadsheet values

Consumption numbers based on Southern region because the bills in the Southern region are the closest to the national average.

Electricity consumption is single rate electric.

The CFL numbers are based on 1 * 20w + 3 * 15w

The number of TRV's used is 6 irrespective of property type.

Assumed efficiency of Condensing boiler to be 90.4%

Loft Insulation Type 1 - Virgin loft 0-250mm

Loft Insulation Type 1 - Top Up 200mm : 50-250mm

CWI 1 refers to post 1976 properties

CWI 2 refers to pre 1976 properties

Assumed Frost Free Fridge Freezer unit from OFGEM spreadsheet