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Dear Iain

Objections for debt: Direct Debit Domestic Customers

Thank you for your letter of 17th March regarding the above. We were pleased to receive Ofgem's promised discussion document on this issue and welcome the recognition that clarification on the conditions permitting a supplier to block customer transfers on the grounds of debt was required.

As you are already aware ScottishPower believe that it is fundamental in a competitive market that the customer's right to transfer between suppliers is as unfettered as possible. However, this right must be equally balanced with a supplier's right to recover outstanding debt from those customers that wish to transfer. Indeed the objections process is an integral part of our debt management strategy and as we have stated previously, our sole reason for debt objection is to prevent debt write off. With this in mind it is important that the current market mechanisms are understood clearly and applied consistently by all industry participants.

However, we also recognise that not all industry parties regard debt blocking as a debt management tool and we are aware of, for example, energywatch's commitment to campaign for the removal of barriers that prevent customers in debt from changing supplier. Given this, while we fully believe that Ofgem's discussion document has been a welcome first step in reviewing and clarifying this issue we believe that it would be useful for suppliers and Ofgem to jointly consider what next steps may be appropriate. This is something that we believe that Ofgem could progress through ERA and for that reason we will raise this issue with Duncan Sedgwick for consideration.

We have reviewed the examples provided in your letter and have provided detailed comments on these below. We recognise from these that Ofgem has taken a very precise definition of the MRA and Gas Licence and while this may be legally sound it is questionable how logical or indeed workable some of these scenarios are in an operational environment.

Customer A – In this the first and simplest example we recognise that Ofgem’s view is that a standard direct debit statement does not constitute a demand for payment. However, we remain of the opinion that it is legally possible to change the nature of a regular direct debit statement so that it can become a suspended demand for payment. Although we are not currently adopting this approach, and while we have recognised Ofgem’s views on this matter, it is not immediately clear that this approach would lead to the significant increase in debt blocking that is suggested. Clearly such a mechanism could for example be developed to specifically target customers repaying historic debt. This would mitigate Ofgem’s concerns over blocking transfers in a “wide range of circumstances” and would clearly demonstrate the debt management aspect of the objections process.

If after further discussion a wider industry consultation were taken forward we would expect the concept of a suspended demand for payment to be discussed as potential option available for suppliers to manage their debt exposure.

Customer B – In this instance we believe that Ofgem should clearly recognise that there is a shared and equal responsibility between the supplier and the customer to agree the outstanding amount and the method by which this will be repaid. The fact that a bill has not actually been sent to the customer to ratify this arrangement is unnecessary when there is explicit acceptance of both the debt and the repayment arrangement through the recalculation and agreement of the monthly direct debit payment.

It is unnecessary and indeed unhelpful to present a customer with a bill in this instance, as it would appear that such a bill could **not** be marked as “for information only”. Given this the presentation of a “bill” would bring additional and unnecessary confusion to the situation, potentially aggravating the customer and consequently causing the supplier additional costs in terms of explaining the reasons why it was necessary to present the customer with a bill in the first instance.

Customer C – While we welcome the ability to object to the transfer in the situation described for Customer C it is interesting to note that it is the presentation of the bill that has provoked the change in payment method to direct debit, therefore the instigating event is also the enabling factor in allowing the objection. While this clearly fits with Ofgem’s interpretation of the MRA and Gas Licence it seems that the presentation of the bill is paramount in every case even where this has not been done to facilitate the right to object. Looking at the situation simplistically it would seem more logical for the objection process to focus on the agreement with the customer to recover a debt over a period of time rather than the actual presentation of a bill at some earlier point in time. We recognise that this issue cannot be considered within the scope of the current discussion document but again we would expect such an issue to be debated if a wider consultation were to take place in the future.

Customer D – Where a direct debit customer misses a monthly payment we believe that there should be some mechanism in place to allow a supplier to object to a request to transfer. It would be difficult if not impossible to expect any supplier to recognise a transfer request, link this to a missed monthly payment, issue a bill and then wait 28 days before raising an objection as the objection window would undoubtedly have closed at some point earlier in the process. It is unreasonable to exclude this group of customers

from the objection process but Ofgem's interpretation of the MRA and Gas Licence appear to leave little or no scope to resolve this. Clearly in this instance a suspended demand for payment would be one way to address debt management for this group of customers.

Customer E – In this situation – as with Customer B - Ofgem's interpretation again results in an agreement being made with a customer, which is subsequently confused by the requirement to issue an actual bill to facilitate a potential objection should the customer choose to change their supplier at some point in the future. For the scenarios outlined for Customer B and Customer E Ofgem should recognise the complexity and to some extent perversity of entering into an agreement with a customer for a debt repayment scheme or a payment holiday and then requiring to send that customer an actual bill which, depending on the customer's particular circumstances and ability to pay, could be significantly detrimental to the supplier/customer relationship and consequently cause unnecessary cost and concern.

Through all of the examples outlined we would highlight that as a supplier our primary focus is on agreeing an acceptable way forward - whether this be a changed payment method, debt repayment scheme or payment holiday - with our customer that not only recognises their ability to pay but also minimises our exposure to bad debt write off. While we recognise that Ofgem is striving to clarify the peculiarities of the current market mechanisms we would also highlight that what is currently in place is not always of benefit to either customers or suppliers. We look forward to progressing this issue with Ofgem and as indicated above we believe that following receipt of all responses to this discussion document an industry wide meeting to discuss next steps would be welcome.

In the meantime please do not hesitate to contact me if you have any immediate queries on this response or if you require any further information.

Yours sincerely

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