Iain Osborne Director, Consumer Markets Ofgem 9 Millbank London SW1P3GE

4 May 2004

Dear lain

Re: Objections for Debt: Domestic Direct Debit Customers

We welcome the opportunity to comment on your recent letter, clarifying the circumstances in which an objection for debt may be raised to the transfer of direct debit (DD) customers.

We agree that there is a need to clarify the occasions on which an objection to a customer paying by direct debit is valid. We concur with Ofgem's position that a customer paying by monthly DD whose account records a debit balance at certain times of the year does not have a debt.

British Gas does not currently consider that there is a need to seek amendment to the Gas Suppliers Licence or the MRA. It is our view that the publication by Ofgem of clear and unequivocal guidance on the circumstances in which objections are permitted should be sufficient to ensure that all suppliers are fully aware of their obligations.

It may also be useful, for completeness, if Ofgem would also confirm their position in relation to payment reassessments of direct debit arrangements. Reassessment will normally take place at regular intervals and monthly payments may be increased to cover any shortfall in the previous period if consumption patterns have changed. It may also be helpful to clarify the circumstances in which an objection can be raised where a customer comes off a direct debit plan and reverts to quarterly payment.

The Examples

In general, we are in agreement with the position set out by Ofgem in each of the examples set out in your letter; we have commented on each of these individually. Our policy for objecting to customers who have included a debt onto a monthly direct debit scheme varies slightly to the scenario as set out in your letter and we have explained our policy in more detail below.

British Gas has always sought to adopt a responsible attitude when objecting to customer transfers because of debt. We strive to ensure that our policy for objecting not only meets our Licence and MRA obligations but is also fair to customers.

We have further commented below on each example set out in your letter:

 $\underline{\text{Customer A}}$ – we agree that no objection would normally be permissible in these circumstances.

Customer B – As above.

<u>Customer C</u> – Where a customer pays by monthly direct debit, British Gas will object to that customer transfer only where the customer originally had a debt included in the scheme and payments equal to that debt have not been made (as demonstrated by the example below), or where the customer has failed to make payments under the scheme and a demand for payment has been sent (outstanding for 28 days or more), requesting that the customer bring the account up to date and this has not been done.

British Gas Example

Customer is sent a demand for payment of £120, more than 28 days old and calls to arrange to move onto monthly Direct Debit, the debt of £120 is included in the scheme. Projected annual consumption of £360 plus £120 debt leads to a monthly payment of £40. We would object until the customer has made payments equivalent to the original debt (i.e. until the 3rd payment had been made, when total payments made would equal £120). We would not object after these payments had been made.

It is our view that this policy operates in customers' favour and prevents 'locking in' for what could be a significant period of time for a small initial debt.

The full value of the customers payments are used against the debt when determining grounds for objection. Since this method leaves no room for doubt as to when the balance is clear, we believe that our objection approach is robust.

All customers paying by direct debit are sent a statement each quarter advising of the amount of energy used and the cost of that energy, the value of payments made and any balance brought forward from the previous statement. This enables customers to monitor their consumption against their payments. We will assess all customer payments at 6 monthly intervals and increase or reduce them as appropriate to cover the customer's ongoing consumption.

<u>Customer D</u> – we agree that no objection would be permissible unless the missing payment amount had been demanded in writing and had been outstanding for 28 days or more.

<u>Customer E</u> – we agree that no objection would be permissible in these circumstances, that said, we do not allow customers to reduce payments to levels that will not cover their consumption. In cases where customers are finding it difficult to meet payment levels, we would suggest that the customer has a prepayment meter fitted to assist in budgeting.

There are two further circumstances in which it would be useful to have Ofgem's clarification on rights to object. For ease, we have set these out as examples to complement the other examples as set out in Ofgem's letter.

<u>Customer F</u> – customer F has been on direct debit for some time and her payments are reassessed. It emerges that the customer has not been paying enough to cover her consumption. In some cases, if consumption has increased, then this may leave a significant debit balance which will normally be included in the following year's direct debit plan. Where the debit balance is to be incorporated into the direct debit plan, through increased monthly payments, no objection should be raised.

If the customer has confirmed that they would like to pay the debit balance separately, a separate bill could be sent for the outstanding amount. An objection could then be raised 28 days later if the outstanding amount has not been paid.

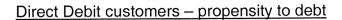
<u>Customer G</u> – customer has been paying by DD and then cancels the payment plan. No objection should be raised until a demand for payment has been sent and been outstanding for 28 days.

It is also worth commenting that where an unpaid debt was found at a customer's previous address and transferred to the new account, an objection can be raised provided that the amount has been billed and has been outstanding for 28 days.

Wider Policy

British Gas uses actual meter readings to bill customers wherever possible and we attempt to read all customer meters once every quarter. We also encourage customers to provide their own meter readings if they believe that an estimated bill is inaccurate.

We note Ofgem's comments about the use of direct debit statements as suspended demands for payment; we agree with Ofgem that this practice should be disallowed. British Gas does not operate this practice.



Our internal data indicates that on average, direct debit customers are less likely than customers paying by other means to default on a final bill.

I hope that the information provided here is helpful, if you would like any further information, please give me a call on 0208 734 9362.

Yours sincerely,

Colleen O'Donnell Regulatory Issues Manager