

## **Ofgem Consultation: Classification of premises for the purposes of the standard conditions of the gas supply licence**

### **Response by the Energy Ombudsman Service**

- 1 Ofgem seeks comments from interested parties on whether it is necessary to:
  1. amend the definition of “Domestic Customer” and/or “Domestic Premises” within the standard conditions of the gas supply licence; and
  2. amend some of the conditions within Part B of those conditions, which apply to suppliers supplying gas to domestic customers;in order to clarify the licensing regime applicable to energy suppliers which supply gas to a legal entity which purchases gas on behalf of a number of individual residents.
- 2 It is understood that the current definitions permit a supplier the discretion to determine whether such an entity can get a domestic or business contract. The Energy Ombudsman Service (the EO) has seen several cases where the not-for-profit organisation has complained that the supplier did not exercise its discretion to grant a “domestic” contract. There has been a fairly wide spectrum of volumetric demands, depending on the number of residents in the premises supplied.
- 3 The open letter is unclear about whether the supplier would be obliged to grant a domestic tariff to any not-for-profit company managing a single supply to multiple domestic apartments or other dwellings, irrespective of the number of individuals or volume of gas. The EO believes there is a case for limiting the proposed facility for extending the domestic supply rules, depending on the volume of gas in question. It is to be expected that there would be an economic trade-off between bulk supplies under a business contract and modest amounts under a domestic arrangement. The actual “optimum unit price” will, inter alia, vary (sometimes widely because of price volatility) depending on the gas price, the various tariffs available and the volumes required.
- 4 In the EO’s view, there is a good case for modification of the licence to accommodate such requests from not-for-profit management companies where the volumes of gas required are reasonably modest. The highest volume seen for one of the above complaints was about 4 million ft<sup>3</sup> pa, which was for a very large block of more than 300 apartments. The average usage here, therefore, was of the order of 4,000 kWh pa per apartment (note that it is not known whether this quantity of gas was only for heating or if it also served for cooking). Most of the other such complaints have been for much smaller volumes and numbers of residents.
- 5 It seems to us that a reasonable allowable maximum level of volume demand is commensurate with the small business limit for complaining to the EO – namely the gas equivalent of 200,000 kWh per annum – which was prescribed by Ofgem. This equates to approximately 17,700m<sup>3</sup> per annum or 6,250 units of 100ft<sup>3</sup>. Ofgem’s derived average for medium domestic household gas consumption is 16,500 kWh pa, which would yield a notional 12 domestic households. However, given that the majority of not-for-profit management companies would be serving a block of apartments (as above), with consequential economies of (heating) scale, the probable actual number of residents

within a 200,000 kWh envelope is significantly more than 12 and could be several times that.

- 6 Hence, below this proposed limit of 200,000 kWh pa, suppliers would be obliged to offer domestic rates to these not-for-profit management companies, while above this figure, suppliers would, as now, be able to decide whether to apply domestic or business tariffs to customers.
- 7 We are unsure how the above might be incorporated into the regulations, in particular the disconnection for non-payment by the not-for-profit entity, which would affect all of the residents, some of whom might be vulnerable or otherwise come under SLCs 26 and 27.