

Classification of premises for the purposes of the standard conditions of the gas supply licence

We welcome the opportunity to give our views in response to the above consultation in particular on the minded to position indicated by Ofgem.

We provided a response (attached) to the Ofgem December open letter where we expressed our opinion that a premises that is commercial in nature and occupied by a group of persons operating as a non-profit making organisation should be treated as non-domestic, on the basis that the contractual relationship would be made with an organisation and not an individual domestic customer. However given Ofgem's minded to position we would wish to highlight some issues and unforeseen circumstances that are likely to arise.

Definition of a non-commercial collective

Ofgem's consultation sets out the distinction between domestic and non-domestic not simply in terms of its 'end use' but also in terms of the classification of the organisation i.e. commercial or non-commercial collective. The definition given for non-commercial collective may be interpreted widely, for example it may include educational or other organisations that raise funds but do not make profits. These organisations who currently contract on a non-domestic basis may wish to continue to do so. Ofgem's position indicates that such organisations may be forced to be treated as domestic possibly, against their wishes, unless they changed their legal status.

Firm load shedding

Gas transporters rely on a process known as firm load shedding in order to manage potential gas supply emergencies. Large industrial and commercial premises would have their supply interrupted to protect domestic customers. If commercial type premises were to be awarded domestic status the transporters ability to manage national and local emergencies may be curtailed. The firm load shedding issue is an important aspect of Ofgem's Significant Code Review into Gas Security of Supply which has just published its initial findings.



In answer to the specific questions:

1. How do you currently treat multiple tenancy sites with single gas boilers with a small number of Domestic Customers?

We would not normally be able to identify such a site. The contracting nominee for the site would need to seek a business supply, whilst also completing a VAT declaration form which stated it was a domestic supply. Only this would show that there were a number of domestic premises on the site.

2. How do you currently treat multiple tenancy sites with a single meter point serving a large number of Domestic Customers whose combined consumption is significantly above that of a traditional single domestic residence?

If the contracting nominee followed the process of Q1 we would normally offer a non-domestic contract.

3. How many customers with whom you have a contract would be affected by the clarification described above?

We are unable to quantify absolutely as we do not separately identify these from other non-domestic customers. For example a multi-site contract with a university may include office buildings and residential blocks of flats. If the customer submitted a VAT declaration satisfying the criteria for treatment at reduced VAT rate then it would be possible to identify them, however this would depend upon the customer submitting the appropriate declaration. The identification of a non-commercial collective may be possible due its VAT status however as described above domestic usage itself does not satisfy Ofgem's definition. Suppliers would need to rely on an organisations own view of its classification for which suppliers could not warrant authenticity.

4. What would be the impact on your business of the clarification described above?

We would have to develop a specialist team to carry out pricing, contracting and servicing for an unknown number of customers.

We would need to modify our processes for contracting with multiple tenancy sites to identify those which are now classified as Domestic. We would readily flag this on our system, but would need to modify our credit management and other procedures to ensure that domestic procedures are followed rather than business. The additional risks of credit

management would need to be priced into the contract and, if material, may be reflected in our credit vetting procedures. These costs are discussed in Q5 below.

5. In principle, would it cost more for high consumption Domestic Customers as described above to be supplied with a bespoke domestic contract for gas rather than a non-domestic contract?

Yes, there would be additional costs associated with the vulnerable provisions as follows:

Disconnection for non payment of bills or other means of recovery

If the domestic collective became indebted but one or more vulnerable consumers were being supplied as tenants it may be difficult or not possible to disconnect as the disconnection would apply to all the tenants including those that may be vulnerable. Large debts may accrue without suitable sanctions short of legal action. It would not for example be possible to install a pre-payment meter as they do not exist in sizes other than domestic. In any event it would not be possible to meter an individual domestic customer within the collective as the supply and meter would be centralised. It would also be impossible to meet the requirements of [SLC27.8] to offer direct deduction from benefits as a payment method.

Engineering work associated with the disconnection of a commercial size supply would cost more than a domestic supply.

SLC 27 would need amending to accommodate Ofgem's minded to position.

Provision of safety and energy efficiency advice

Advice on domestic premises is relatively simple, a multi occupancy premises is more akin to a commercial premises with the complexity that comes with commercial installations. For example individual tenants may or may not have access to heating and hot water controls. Simple advice such as 'do not turn the thermostat too high' may be inappropriate. Any energy efficiency initiatives would require interaction with a suitable professional experienced in commercial energy management. The counter to this would be that it may be reasonable to expect that the domestic collective would contract for utility services including maintenance with a suitable provider and the advice may be simply that they should do so. The maintenance aspect would be paramount in terms of safety. Individual tenants may be more at risk than others dependant on the location of the central boiler plant. It may be the case that a central metered supply is distributed to individual gas appliances within each apartment. In this case the safety advice may have to be tailored to

the specific circumstances, for example it would seem inappropriate to advise consumers to 'turn the gas off at the meter'. It is likely that a technical survey of the premises would be required and specific safety advice issued.

In contrast, where the gas contracting party is non-domestic such as a local authority then it would be the responsibility of the non-domestic consumer to put these measures in place.

Contract management

Management of non-domestic contracts does not require any of the aspects mentioned above. Bespoke contracts require bespoke contract management. The domestic collective may nominate an organisation or individual to interact with the supplier, however as Ofgem consider the individuals within the collective to be domestic consumers it seems likely that contact would be made directly. Each individual would need to be identified as part of a particular bespoke contract and a particular set of circumstances, whether in terms of individuals status, i.e. vulnerable or not and the circumstances surrounding the particular premises as described above.

This would require a specialist team with specialist training. The identification of the collective and an individual within the collective would have to be possible within supplier's central systems so that the person taking the call from the customer would be able to consult with their specialist team or transfer the call to that team.

Pricing issues

The requirements of SLC25A would mean that each bespoke contract had to be reviewed in order to ensure a justified differential to single site domestic households with large usage. Given that the latter are likely to be larger and wealthier households, we would expect it to be considered reasonable to offer a lower price to multiple tenancy properties but preparing the justification would be an additional regulatory burden.

Standard License Condition SLC 22

Ofgem's position suggests that it would not be acceptable for a customer to change classification to non-domestic after gaining clarification that they are domestic unless circumstances change. We interpret this as meaning that such a customer or domestic collective could change their status if they changed the domestic collective to a commercial limited company.