



## SOUTH BANK MANAGEMENT COMPANY LIMITED

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22<sup>nd</sup> November 2011

By email and post

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Dear Mr. Milicevic

**Classification of premises for the purposes of the standard conditions of the gas supply licence: Ofgem's minded to position: Request for views**

This replies, as an interested party, to Ofgem's request for feedback and views on issues raised in your open letter on the above matter dated 12<sup>th</sup> October 2011. South Bank Management Company Limited (SBMC) is the tenant-owned non-commercial residential management company for a large apartment block (The Whitehouse Apartments, London, SE1) and I write as the person who first raised this matter with Ofgem as far back as 2006 and has followed the issue ever since.

Your request for views is principally directed at suppliers. However, I feel I can also provide a response which might be helpful based on SBMC's experience.

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?**

SBMC has sought a Domestic Contract ever since 2006 when, having read the licences, we became aware that we were a Domestic

Customer for gas supply (and indeed also for electricity supply) even though our annual gas consumption was more than 5 million kWh.

Having looked back through my files I have found the following paragraph in a letter I wrote to Ofgem's Head of Consumer Affairs in June 2006:

*"All the domestic companies I approached refused to supply us on the basis that the volume at the premises was so large (above approx. 73000 kWh) that we must be commercial customers. They referred me to their I&C sister companies. Prices quoted by these I&C sister companies were considerably higher (for the second year running) than the prices we could achieve either as domestic customers buying individually (if we had individual meters) or grouped together as SBMC. In order to ensure continuity of supply for my fellow residents I had no choice but to sign an I&C agreement."*

In 2008, when we re-approached gas supply companies for a Domestic Contract, the same process was repeated with the exception of one supplier who actually offered us a Domestic Contract over the 'phone (having been made aware of our high consumption), confirmed it in writing, but then rescinded it on the grounds of *"the high annual quantity of gas used at the property as we are not able to support this as a domestic property."*

I would also note that, when we approached suppliers in 2008, Domestic prices (for small quantities) were c.60% lower than the prices quoted for supply of a commercial contract in excess of 5million kWh. In seven years since 2005, therefore, we have found on three occasions that unit prices (which we had no choice but to accept and pay) were higher in the commercial gas market for our level of consumption than for the individual customer in a normal house.

Since 2008, while we have been pressing Ofgem to investigate this matter we have not sought a Domestic Contract from gas suppliers but we have no reason to believe that their position has changed and that gas suppliers are still not offering Domestic Contracts to large customers such as ourselves.

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?

In their earlier submissions, several suppliers have sought to argue that treating customers such as ourselves as Domestic Customers would impose, under Part B of the SLC's, onerous and expensive conditions which would be impossible to meet. However, as I point

out in my own submission, since the contractual relationship is between supplier and SBMC (or companies with the same characteristics as SBMC), then SBMC is the Domestic Customer rather than an individual. It will therefore actually be easier for suppliers to meet their License responsibilities.

The only Part B condition which might impose additional costs for a Domestic Contract, as compared to an I&C contract for the same volume of gas, is 27.11, the protection against cut-off in winter if the building contains vulnerable residents. It is a statistical certainty that all large residential will contain vulnerable residents so there is no need to identify them. Other than major supply disruptions, where the ERA's Safety Net arrangements would protect large residential buildings, the only reason for cut-off would be non-payment.

In practical terms the risk of non-payment can be dealt with via bespoke contracts which would include a security deposit, just as in the I&C market. It is also quite likely, given the financial status of non-commercial residential management companies where service charges are levied in advance of the need for payments to suppliers, that the sector will be a better credit risk than commercial companies of comparable size.

You also raise the issue of whether certain customers should be allowed to change their classification from domestic to non-domestic if such a change would yield materially better contractual terms and conclude that this would not be compliant with the terms of the Licence, specifically SLC 22.1.

I believe this is an incorrect conclusion. SLC 22.1 must be read in conjunction with Condition 6, where Domestic and Non-Domestic Premises are defined. A prime determinant in whether Premises are Domestic or Non-Domestic is the nature of the purchaser. If the purchaser is a commercial entity (such as a third party managing agent), then the Premises are Non-Domestic; if non-commercial (such as SBMC) then the Premises are Domestic. In SBMC's case, The Whitehouse Apartments would immediately become Non-Domestic if we chose to manage the building differently.

You go on to state that your view is that the licence is sufficiently clear and that the type of contract a customer is offered should be based on the specific residency situation of the customer. This is not actually the case at the moment. The residency situation in large apartment blocks such as ours is clearly domestic. This is confirmed by the lower VAT rate levied on gas/electricity to these buildings. Yet the majority will have commercial third party managing agents running the buildings and will therefore be Non-Domestic Premises, with I&C supply contracts and without Part B cut-off protections.

Some of the consumer groups who provided earlier submissions suggested that the definition of a Domestic Customer (for both gas and electricity) should be aligned with VAT rules. This would be simple for suppliers to identify and might be the right way to achieve clarity and what Ofgem and consumer bodies seem to want.

I hope my comments have been helpful

Yours sincerely

Andrew Walker  
Chairman  
South Bank Management Company Limited