

Dora Ianora
Industry Codes and Licensing Manager
Ofgem
9 Millbank
London
SW1P 3GE

19th October 2012

Dear Dora

RE: the appeal of MAP CP 0130 - Treatment of Unallocable Prepayment Revenues

1. British Gas welcomes the opportunity to respond to the request for information from Ofgem regarding Utilita's appeal of MAP CP 0130, the Treatment of Unallocable Prepayment Revenues.
2. Whilst British Gas respects Utilita's right to appeal British Gas believes MAP CP 0130 should be implemented to enable the allocation of prepayment revenues and the appeal by Utilita should be rejected allowing the original decision of the MRA Forum to stand.
3. All industry parties have the same opportunity to use industry processes to recover money from the industry Unallocated Prepayment Revenue pot, although recovery of money is not possible for all instances. The fact that some Suppliers including Utilita have not done so should not be allowed to jeopardise the proposed process.
4. British Gas believes that implementing MAP CP 0130 will facilitate competition by re-distributing PPM unallocated transactions to the industry parties because it reflects their respective market shares. Through the industry forums the industry worked together to derive the fairest solution to allocate the residual Unallocated Prepayment Revenues.

British Gas' written representation.

a. Does the formula to re-distribute PPMs unallocated transactions better facilitate competition in electricity supply, in accordance with Standard Licence Condition 23 of the Electricity Distribution Licence?

5. The formula to re-distribute PPMs unallocated transactions is directly tied to competition in the electricity market, given that it is based on the market share held by each Supplier at the date of each affected transaction. As such, any changes to a Supplier's market share over the period should be accurately reflected in the calculation method.
6. The proposed distribution method is such that each Supplier will receive sums equivalent to their particular share of the market, without being informed of the shares apportioned to any other Supplier. The distribution is being calculated independently.

b. Is there a more efficient and economical way to re-distribute these unallocated transactions, which would better facilitate competition in the supply of electricity?

7. There have been discussions around this for some time now but market share is seen to be the fairest way to distribute these items, given that one of the main reasons that they remain unallocated is that the passing of time leads to a deterioration in the available data to support investigation.
8. A fairly large percentage of the funds presently being considered for dispersal relates to payments made on older metering technologies (Smartcard/Token). The optimal time for successful investigation of payment enquiries is while the relevant asset is still present within the customer's property. In the majority of cases, these are no longer available and Suppliers therefore are reliant on the data collected at the point of exchange.

c. Is the industry trying to find other ways of solving the issue of unallocated PPMs transactions?

9. As above, there have been discussions over the years regarding the unallocated PPMs transactions. The recent multi-Supplier Process is an example of an initiative introduced to help reduce the volume of unallocated PPM transactions.
10. The PPMs have circulated reports detailing all unallocated items to Suppliers for a number of years and have asked Suppliers to work through these and subsequently release payments they feel are due to them. Without wishing to speculate about our competitors, British Gas

has expended considerable energy over the years in identifying and releasing unallocated payments.

11. We have found, however, that aged items present more of a problem due to the necessary information no longer being readily available (meters being exchanged, BG no longer supplying sites, etc).
12. We have also found particularly for the aged items, that the economic return from unallocated investigation is becoming considerably lower than the effort/expense incurred in identifying these payments. Poor integrity levels for historic data do not readily facilitate ease of investigation to the extent that it can now take hours of time to investigate a issue without leading to success. In effect, there is a reason why these items were not allocated in the first place and those that can be easily resolved have been corrected.

d. Do you consider that this change aims to introduce an incentive on parties and, if so, do you think that the effect of this incentive would be retrospective?

13. British Gas wouldn't agree that this change is incentivising Suppliers, albeit that this may be down to the interpretation of the word, 'incentive'. All unallocated transactions represent payments made in respect of energy consumed. The Suppliers themselves will have already paid for the energy, albeit that they won't have received the corresponding payment from the customer.
14. This distribution should go some way towards reimbursing Suppliers for historic expenditure and by using a market share allocation model, Suppliers should receive sums roughly equivalent to those they could have expected to receive if there had been no original problem in allocating the payments.

Additional information

15. In addition to the above responses, we would like the following information to be taken into consideration.
16. Detailed specific information about the volume and value of unallocated payments is, and has been made, readily available to all Suppliers and there are long-established procedures operating within the industry to release these items. All Suppliers have acted and continue to operate in accordance with these procedures.
17. The information around unallocated payments is not something that has become suddenly available. All Suppliers have adequate time to act upon the information available to resolve unallocated items. Indeed, even after the MRA appeal decision, all Suppliers have had over four months to release any funds they believed to be theirs from

the unallocated items prior to the remaining eligible funds being 'ring-fenced' ahead of dispersal.

18. The only items being considered for dispersal under this formula at this time are those which have seen no fresh vends since 1 January 2010.

19. British Gas believes the above points explain why MAP CP 0130 should be implemented by enabling the fairest allocation of prepayment revenues and that the appeal by Utilita should be rejected allowing the original decision of the MRA Forum to stand.

20. If you have any questions regarding the response from British Gas, please do not hesitate to contact me directly.

Kindest regards,

Andrew Margan
(07789 577327)

British Gas