

Regulatory Affairs

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Sent via e-mail: ger@ofgem.gov.uk

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Dear Mr Coughlan

Response to Ofgem's Open letter consultation on the modification of relevant licence conditions to enable the delivery of the Government Electricity Rebate

This is the British Gas response to Ofgem's Open letter consultation on the modification of relevant licence conditions to enable the delivery of the Government Electricity Rebate.

We welcome the opportunity to understand and comment on the framework for how the obligation on electricity suppliers will be delivered. We have two overarching comments to make on the proposed approach:

1. since the value of the rebate is low (set at £12) both the delivery mechanism for paying the rebate to customers and the systems set up to monitor and audit payments must be as simple as possible in order to minimise costs incurred; and
2. the timetable for delivering payments to customers is extremely challenging. As currently conceived, payments are expected to be made from October 2014 despite the fact that we have yet to see the Department for Energy and Climate Change's (DECC) document on proposed details of the rebate scheme, and confirmation is unlikely to be received until very close to the proposed 'go live' date. Given that British Gas will have to pay the rebate to over 6.5m customers this uncertainty creates significant risk. We welcome DECC and Ofgem's informal engagement with suppliers over how the scheme will work but would request that details are confirmed, including for outstanding issues (such as whether the £12 will be inclusive or not of VAT) as soon as possible and that there is no slippage in the proposed timetable.

Below we provide responses to the specific questions posed in the Ofgem open letter.

1. Whether you agree in principle with the proposal to introduce the new SLC, and your reasoning.

Although arranging for delivery of the rebate via licence is an unusual approach, we acknowledge that there are a number of reasons which suggest it is likely to be the most appropriate way to proceed:

- to ensure that all suppliers pay the rebate to their domestic electricity customers;
- to enable a clear demonstration of how taxpayer funds are used;
- to set up a temporary mechanism for making payments that is not envisaged to be required on an enduring basis; and
- to facilitate payment to large numbers of customers in a short timescale.

We agree with Ofgem that if a decision is taken to make further rebates to customers in future years then a dedicated and enduring mechanism should be created to do so.

Placing the obligation to deliver the rebate within the licence will help to ensure that the obligation is applied consistently by suppliers. However, such an approach raises a compliance risk for suppliers. We accept this, but would urge Ofgem and DECC to ensure that we have confirmation of the scheme's details sufficiently in advance of the scheme's 'go live' date in order that we are able to meet the licence conditions that will be placed upon us. If this is not forthcoming, we would expect that Ofgem would take this into account when monitoring supplier action.

2. Whether the proposed approach to the rebate is appropriate to minimise implementation costs and achieve the objective of reducing the burden of some environmental policy costs.

We welcome efforts to minimise implementation costs.

Since adding exceptions to policy – many of which are likely to need to be worked manually – will add to timelines and costs incurred, we would suggest that as far as possible exceptions should be limited, and a realistic timescale set in terms of their resolution (a March date is currently being mooted by DECC, which we consider is realistic).

The rebate will be paid to the vast majority of domestic electricity customers in a timely manner, but due to scenarios such as customer home-moves, changes of meter type and probate instances, there will be situations where any automated approach to applying payments will generate exceptions and require manual re-work. With that in mind, it is vital that a realistic timescale to resolve such instances is agreed, thus avoiding the risk of significantly increasing implementation costs.

More broadly, we would suggest that there needs to be an acceptance that in ensuring the rebate is paid in a timely manner to the vast majority of domestic electricity customers, some customer segments may lose out (e.g. those who pay for their electricity via their rent payment to their landlord).

It will also be necessary for DECC to communicate carefully any exceptions in order to avoid, as far as possible, disappointed and disgruntled customers. We are happy to

facilitate the payment of the rebate to customers but consider that we should not be held accountable for policy decisions made by others.

Efforts to reduce the administrative burden imposed on suppliers should also extend to the development of the systems which will monitor and audit suppliers' compliance with payment of the rebate. We would anticipate that Ofgem's experience administering the Warm Home Discount (WHD) and the Energy Company Obligation (ECO) – and the efforts that have been made to streamline the reporting requirements of each – should provide an instructive example when considering how such requirements should be constructed.

3. Whether requiring all licensed electricity suppliers to provide the rebate to all of their domestic customers (without a *de minimis* bill threshold) is an appropriate way to provide for proportionality and not materially distort competition in the energy market.

This proposal appears sensible, and is in line with efforts to minimise the administrative burden faced by suppliers.

4. Whether there may be any unintended consequences in the implementation of the rebate in this way.

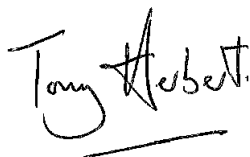
We are not aware of any unintended consequences that are likely to arise.

5. Whether introducing a sunset clause and limitations to the SoS' directions is an appropriate way to provide regulatory certainty.

We agree that a sunset clause and limitations on the SoS' directions should be included, and that this will help to provide a degree of certainty, for example in relation to the amount of the rebate, and how often it should be paid.

I trust that you will find our response helpful. Please don't hesitate to contact me if you would like to discuss any aspect of the response.

Yours sincerely

A handwritten signature in black ink that reads "Tony Herbert". The signature is written in a cursive style with a horizontal line underneath the name.

Tony Herbert
Regulatory Manager
British Gas