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Dear Jeremy

## **Open Letter: notifying of Ofgem's intention to launch a project to protect consumers from back billing.**

This is Centrica's response to Ofgem's Open Letter in which Ofgem states its intent to launch a project into improving the protections afforded to consumers from back billing. The contents of this response are not confidential and can be published.

Centrica has long been active in ensuring that consumers are protected from any detrimental effects arising from back billing issues.

- We have applied the prevailing back billing principles (currently, with a limit of 12 months) to domestic consumers in line with Energy UK's Billing Code of Practice<sup>1</sup> (CoP) since its creation.
- We have proactively reduced the level of back billing we apply to micro business (MB) consumers and are also signatories to the Voluntary Standards for back billing of micro business energy customers<sup>2</sup>. To be signatories to the MB standards, suppliers must commit to applying back billing limits of four and three years for gas and electricity fuels respectively. Centrica has gone further than these requirements, by applying a one year limit for both fuels.

We believe that the scope of Ofgem's back billing project should explore the introduction of a reduced limit for smart meters. We agree that smart meters should reduce the need for suppliers to back bill domestic consumers and we support a six month back billing limit for customers with smart meters.

Whilst we support Ofgem in completing a review to improve the framework governing back billing, we believe that the following points within this response should be considered when creating such a framework:

- We believe that if Ofgem were to take a prescriptive approach, i.e. by introducing set limits into licence, then Ofgem should produce evidence to demonstrate why a prescriptive approach is the most effective and proportionate remedy, including compared to a principles-based approach. Ofgem provides very limited justification in

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<sup>1</sup> E.UK Code of Practice for accurate bills can be viewed here:

<http://www.energy-uk.org.uk/publication.html?task=file.download&id=6067>

<sup>2</sup> Voluntary Standards for back billing of micro business energy customers can be viewed here:

<http://www.energy-uk.org.uk/files/docs/Policies/Micro%20business/VoluntaryStandardsforBackbillingofMicroBuisnessCustomersApril2.pdf>

the letter of intent, for example by showing evidence of detriment, risk of detriment, or showing that the existing limits for domestic and MB customers offer inadequate protection. Justification might include gaps in consumer protection because of some suppliers not being signatories to the CoP, resulting in an unlevel playing field in terms of cost and competition. Ofgem should also consider whether or not suppliers have commercial incentives to introduce back billing limits voluntarily.

- Ofgem's letter of intent questions what the scope of the project should be, i.e. whether to apply a licence obligation for both domestic and non-domestic consumers. We believe that the scope of the project should focus on providing protection to domestic and MB consumers rather than all non-domestic consumers. We believe that the current arrangements are suitable for larger non-domestic consumers and that Ofgem should focus on / limit its attention to extending back billing protections to MBs. Such an approach would be consistent with the existing regulatory framework, which offers extra protections to MBs, and the existing voluntary approach to MBs adopted by Energy UK members.
- If the result of the project is to introduce new licence obligations, then Ofgem should consider how such a limit is introduced. We believe that any limit introduced should not be an absolute hard cap, i.e. 'a supplier can never back bill further than 12 months'. Rather, the obligation should be reflective of the current back billing CoP and MB standards, both of which allow for exceptions to be considered where the customer bears responsibility for the issue. These exceptions are, for example, when the supplier has not been able to create an accurate bill because of difficulties engaging with the customer to gather the required information from the meter. We believe this approach of allowing for exceptions should be applied to both domestic and MB consumers. In doing so Ofgem needs to consider whether and how it reflects or refers to the substance of the CoP in licence condition.
- We believe that a reduced limit for smart metering is appropriate in the domestic sector, but believe a limit of one year for all MB customers is sufficient at this moment in time. We believe that the issues in billing MB customers are different and more complex than those experienced in the domestic sector (e.g. change of tenancy patterns). We believe that reducing the limits for smart MB sites should be an aspiration and should be considered by Ofgem once the DCC is implemented and fully functional with all supplier testing completed.

- Finally, any licence obligation which defines the back billing principle will have an impact on the EUK Billing CoP. The CoP focuses on five principles<sup>3</sup> to protect domestic customers including the back billing limit. The four non-back billing principles relate to licence conditions and provide some further assurance that signatories meet these obligations. Therefore, we do not believe that these principles should be introduced as licence conditions (i.e. there would be unnecessary regulatory duplication).

We trust that our initial views above will be helpful to Ofgem as the back billing project commences.

We look forward to engaging positively with Ofgem on this project, and as it develops, would be happy to discuss any aspect of the billing customer journey. As such, please feel free to contact my colleague, Gregory Mackenzie, at [gregory.mackenzie@britishgas.co.uk](mailto:gregory.mackenzie@britishgas.co.uk).

Yours sincerely



**Nigel Howard**  
**Director of Consumer Policy**  
**Centrica**

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<sup>3</sup> CoP Principles are: Switching, Meter Reading, Energy bill & Statements, Payments & refunds and back billing.