

Bart Schoonbaert  
Senior Manager  
Consumers and Sustainability  
Ofgem  
9 Millbank  
London SW1P 3GE

**Regulatory Affairs**  
British Gas  
Ground Floor, Lakeside West  
30 The Causeway  
Staines  
Middlesex  
TW18 3BY

23 October 2015

Dear Bart

**British Gas' response to Ofgem consultation on 'Smart prepayment for a smarter market: our proposals'**

Please find attached the British Gas response to the Ofgem consultation on 'Smart prepayment for a smarter market: our proposals' published on 9 September 2015.

I trust that you will find our response useful as you consider how to take forward your work in this area.

Please do not hesitate to contact Tony Herbert ([tony.herbert@britishgas.co.uk](mailto:tony.herbert@britishgas.co.uk)) on 07979 569762 if you would find it useful to discuss any part of our response.

Yours sincerely



Nigel Howard  
Head of Consumer Regulation  
**British Gas**

## Executive Summary

- British Gas welcomes Ofgem’s consultation on ‘Smart prepayment for a smarter market’. We concur with Ofgem’s view that smart meters can positively transform the experience of prepayment customers, and we are wholly committed to delivering this step-change.
- Without prejudice to wider discussions about moving towards Principles-Based Regulation (PBR), we agree with Ofgem that there is no evidence to suggest that the existing regulatory framework is not fit for purpose for smart prepayment. It offers customer protection whilst also enabling supplier innovation; only minor change is therefore required.
- We applaud the effort that Ofgem has taken to engage with suppliers to understand plans to offer smart prepayment functionality to customers. We are appreciative of Ofgem’s overall evidence-based approach and its decision to allow suppliers to innovate and compete in offering customers an enhanced prepayment experience.

Our answers to the questions posed in the Ofgem consultation document are provided below.

We would also like to make a general observation about the references to “treating customers fairly” or “fairness” that feature in the consultation document. In these instances it is unclear whether Ofgem is referring to “fairness” in the context of the Standards of Conduct (SOC), or “fairness” in a more general sense. As we stated in our response to Ofgem’s Call for Evidence on the Retail Market Review (RMR), we are concerned that Ofgem’s use of the term “fairness” has in some circumstances implied that an issue falls within the scope of SOC when it does not. This contributes to regulatory uncertainty. We also expressed concern that in some cases explicit or implicit references to SOC are occasionally being used in a way that drives homogeneity in supplier behaviour, when the SOC were never intended to “inhibit the ability of suppliers to innovate or differentiate themselves”<sup>1</sup>. Indeed, the SOC were designed to allow suppliers to compete on understanding and meeting consumer needs; we do not believe that they were designed to prescribe specific outcomes retrospectively.

We believe that there are some examples of such inappropriate usage of “fairness” in this consultation document. For instance, on Page 5 Ofgem notes that suppliers have obligations around “treating customers fairly” when prepayment meter customers switch supplier and have a period of credit in-between, and on page 17 where Ofgem states “we do not consider it fair” to disconnect a customer for debt accrued in credit mode if the customer had asked to be on PPM. While we may agree with specific customer treatments in these circumstances, we consider that Ofgem should exercise caution in its use of the term “fairness” so as to avoid implying the existence of prescriptive obligations with retrospective effect. If Ofgem seeks to impose prescriptive obligations, which would not be in keeping with the more general move towards PBR, then it would need to consult on such obligations in the normal way.

## Chapter: Two

**Question 1: Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)?**

**If not, please:**

- **explain why**
- **put forward suggested alternative(s) to this solution**
- **if relevant, suggest and explain any other action we should take**

1. Ofgem’s consultation document draws attention to the fact that at change of supplier there is a very small risk of a prepayment consumer going off supply, without the ability to top up and re-enable supply. We agree with Ofgem that the likelihood of this risk materialising is very low but that it is right that a solution is put in place to protect against this, as far as possible. We have actively participated in industry discussions led by Energy UK on how best to address this potential risk and agree with Ofgem that the most appropriate solution is for the smart prepayment customer to be switched to credit mode at the point of change of supplier.

---

<sup>1</sup> Ofgem, The Retail Market Review: Findings and Initial Proposals, 21 March 2011

2. As industry takes forward this solution, British Gas is considering the potential knock-on consequences, including those highlighted by Ofgem in relation to contractual issues and recovery of debt. However, our view is that existing supplier obligations will serve to protect consumers and we agree there is therefore no need for further safeguards to be introduced.
3. We agree that this solution should apply to all smart meters which are operating in prepayment mode, irrespective of the type of customer being served.

**Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:**

- **explain why**
  - **suggest and explain any alternative(s)**
4. Ofgem proposes to monitor suppliers' offerings of key smart prepayment functionalities through an expansion of the reporting conducted by suppliers via the Social Obligations Reporting. We presume that Ofgem wishes to collect this data to stay abreast of market developments in the provision of smart prepayment and its key functionalities, and do not disagree with what is being requested. However, we believe that before introducing new reporting requirements Ofgem should take two important steps. Firstly, Ofgem should set out clearly why the metrics that they are asking for are essential and represent value for money. Suppliers already report on a wide range of metrics, incurring costs that are ultimately passed on to customers, so it is important that each new requirement is considered carefully. Secondly, Ofgem should make clear whether the information requested will or may be published, and if so when this will be and what format it will take. We would request that Ofgem set out its intentions in respect of the information relating to smart prepayment functionalities.
  5. We note that in relation to the use of emergency credit, alerts and other capabilities made possible by smart prepayment, Ofgem states that "*we expect suppliers to make use of these functionalities*". It is unclear whether Ofgem simply anticipates that suppliers are likely to want to offer such services to customers, or is placing an expectation on suppliers to do so. If it is the latter, we do not consider that this is appropriate without first going through a formal consultation and establishing specific rules. Such an approach would certainly appear to be at odds with Ofgem's wider approach to regulation, where it has publicly expressed a desire to rely more on principles and less on prescriptive rules over time.

**Question 3: Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:**

- **explain why**
- **suggest and explain any alternative(s)**

**(Also see appendix 3 for detail on proposed changes)**

6. While we agree with Ofgem's proposal to monitor suppliers' offerings of key smart prepayment functionalities, we have some comments about the proposed data points. Specifically, new metrics A8.15 and A8.19 ask suppliers to specify the options / range of flexible emergency / friendly credit offered to customers at the end of the reporting period and the format of the return is a "Text Box". We recognise why Ofgem may have chosen to propose this approach but it seems to be out of step with other reporting requirements submitted via the Social Obligations portal. We have some doubts as to how useful this free-form approach might be in terms of allowing Ofgem to make comparisons or to gain a full understanding of what has been reported. In our view, there may be merit in Ofgem considering including a drop-down menu with some pre-determined options and also an "Other" option for the reporting of these metrics.

**Question 4: Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:**

- **explain why**
- **suggest and explain any action we should take**

7. We agree with Ofgem's assessment of the areas where it does not propose to take further action at this stage, including recording meter location, dealing with the 'perfect storm' scenario, self-disconnection, change of tenancy and customer communications. These areas will of course continue to benefit from existing protections, while it is also in suppliers' interests to deal with them as efficiently and effectively as possible.

### **Chapter: Three**

**Question 5: Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:**

- **explain why**
  - **suggest and explain any action we should take**
8. We agree with Ofgem's assessment that in general the existing regulatory arrangements remain fit-for-purpose for a smarter market, and that they do not pose a barrier to innovation.

**Question 6: Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:**

- **explain why**
  - **suggest and explain any alternative action we should consider.**
9. Without prejudice to discussions about PBR, we agree with Ofgem's proposal to update the Safe & Reasonably Practicable Guidance. We welcome the clarifications provided about the requirement to offer cash as a payment method, and also that consideration of the distance from top-up outlets does not apply if a customer does not want or need to top up by cash.

**Question 7: Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:**

- **explain why**
  - **suggest and explain any alternative amendments we should consider.**
- (Also see appendix 4 for detail on proposed changes)**

10. We agree with the proposed amendments to the Safe & Reasonably Practicable Guidance, as outlined at Appendix 4, and have no comments to make.

**Question 8: Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:**

- **explain why**
  - **suggest and explain any alternative amendments we should consider.**
11. We are soon to promote our smart prepayment offering to customers, having trialled it extensively in order to ensure that it meets customer needs and offers an optimal customer experience. At present, our smart prepayment offering will allow customers to top up their meters in a range of different ways: by phone, online, via our App, and also at Paypoint and Post Office outlets.
  12. Offering customers the ability to continue to top-up via more traditional methods – at the Post Office or Paypoint outlet – will enable all customers to pay by cash should they wish to do so. This inclusive approach should also help to give customers the confidence to opt for smart meters even if they are unsure about using newer technology or do not have access to a bank account.
  13. In its consultation document, Ofgem proposes to ask suppliers to submit data via Social Obligations Reporting on the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option (referred to in Appendix 3 as Data Item A8.27). It is not clear whether this proposal relates only to customers who have actively chosen a smart prepayment tariff that does not offer cash as a payment method, or whether suppliers will be asked to provide data about customers who are

offered a range of payment options (including cash) as part of their tariff but opt not to pay by cash. We would welcome clarification from Ofgem on its intention and how this would apply, if at all, to suppliers who may offer smart prepayment customers the ability to top up via a range of payment methods, including cash. Ofgem should be mindful that we anticipate that many of our customers can, and will, use a variety of top-up methods including cash.

14. In addition, we would highlight that we would not record, and therefore would be unable to report on, the number of customers who *asked* for alternative top-up methods. Any reporting requirements should relate to actual choices made by customers.

**Question 9: Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:**

- explain why
- suggest and explain any alternative(s)

**(Also see appendix 3 for detail on proposed changes)**

15. We are content with the data points which Ofgem proposes to include in the Social Obligations Reporting on cash as a payment option, subject to the comments made in response to Question 8.

**Question 10: Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.**

16. In its consultation document Ofgem provides helpful confirmation of the relevant licence conditions which mean that suppliers can charge differently for different payment methods, including between smart and traditional prepayment tariffs, where this reflects genuine differences in underlying costs.
17. Over recent years British Gas has taken steps to level the playing field for traditional prepayment customers, and we now offer customers the same prices to customers using traditional prepayment meters as we do to those paying by Quarterly Cash Cheque. Over time, we anticipate that the widespread use of smart meters across our prepayment customer base will reduce costs. As and when this happens we will pass these savings onto our smart prepayment customers.
18. Reducing the cost of smart prepayment tariffs will give customers a tangible financial benefit, and therefore serve as a useful incentive to encourage customers to opt for a smart meter. Given the timetable for smart rollout, the importance of this messaging should not be underestimated.
19. However, as Ofgem notes, this is a complex area which may have potential consequences which need to be considered, for example in relation to customers who may want a smart prepayment meter but may not yet be eligible to have one. We are actively considering how best to deal with this problem, and to minimise adverse outcomes. In addition, we are also looking to broaden the range of tariffs available for smart prepayment customers.

#### **Chapter: Four**

**Question 11: Do you agree with our proposed approach to micro-businesses? If not, please:**

- explain why
- provide any evidence to support your position
- provide details on which existing arrangements we should consider extending to micro-business consumers, and why

20. Ofgem notes that the prevalence of prepayment in the micro-businesses market is very low and it therefore does not propose to extend any of the existing regulatory arrangements to micro-businesses, though it does propose that the same process to switch a smart meter to credit mode should apply equally to microbusiness customers. We agree with this approach.

## Chapter: Five

### **Question 12: Please provide any general views on phasing out the traditional prepayment infrastructure**

21. We agree that Ofgem should consider the implications and risks associated with a future exit from the traditional prepayment infrastructure. While we recognise that this falls outside the remit of the current consultation on smart prepayment and is not an immediate priority, we do consider that it is helpful for Ofgem to consider the key issues at this early stage and to start to make plans for when, and how, action should be taken.
22. Industry's experience in handling the phasing out of token electricity prepayment meters may prove valuable in considering the best way to address the phasing out of traditional prepayment infrastructure.