

Rachel Reeves MP,
Chair-Elect, BEIS Select Committee,
House of Commons,
London, SW1A 0AA.

24 February 2020

Dear Rachel,

Thank you for your letter dated 11th February regarding recent changes to our 'over the counter' service for customers with pre-payment meters.

First, I want to apologise to any customers who have faced difficulties as a result of some outlets being unable to accept British Gas pre-payment top ups in January and February. The Post Office and Payzone are working hard to fix this technical issue and we expect the remaining problems to be fixed imminently. We are conscious of the potential impact on our customers and we have taken proactive steps to help those customers who we do not think have topped up.

Regarding the decision to increase the minimum vend from £1 to £5, I want to highlight upfront that I decided to reverse this decision. With our customers' interests at heart, it is important that we continually assess the way in which we deliver our services to ensure good value for money. Before making this change, we undertook a customer impact assessment which showed that only a small minority of customers regularly vend below £5. However, I have listened carefully to the feedback we have received on this issue. As a result, I have decided to change the minimum vend requirements for over the counter services back to £1.

Finally, in regard to the decision to move to the Post Office/Payzone for our 'over the counter service' whilst we did not manage the transition as smoothly as we should have done, I remain of the view that the Post Office/Payzone is the best supplier for our customers. I will be working with Post Office/Payzone to conduct a review to establish what could have been done differently and where we can improve the service for the future.

Customers with pre-payment meters are important to us, and we have always remained mindful of the specific needs of these customers. Our decision to change service provider was not taken lightly.

We took the decision after a comprehensive procurement process. At all times, that decision-making process included consideration of the needs of customers, both in terms of access to top up locations and to be offered value for money.

I have answered each of your questions in the appendix below. I hope the information provided is helpful but do let me know if you have any further questions.

Yours sincerely,



Sarwjit Sambhi
Chief Executive, Centrica Consumer

Appendix

1. What is the rationale behind your decision to increase the minimum top-up for fuel payments from £1 to £5 and to remove customer access to PayPoint terminals?

Payzone decision

The decision was made after a comprehensive procurement process had been undertaken. After Paypoint indicated its intention to increase its charges (in response to the merger of the Post Office and Payzone), we decided it was in our customers' interests to undertake a full procurement exercise for over the counter services. In response to this, Post Office/Payzone offered better value than Paypoint, whilst also meeting our requirement to provide network coverage of 98% within a 1-mile reach for urban areas and 5 miles for rural areas. PayPoint had the opportunity to match this, recognising that it would be less disruptive to our customers, but was not willing to do so. The Post Office/Payzone also agreed to work closely with us to improve its outlet coverage, prioritising areas where we have more vulnerable customers or greater travel distances. Ultimately, we intend that this will mean that more of our customers are closer to a top-up point.

It is important to note that our drive for efficiency is not simply a commercial imperative (as it always is, in a competitive market) but also a regulatory requirement, as we now operate under a regulated price cap that serves to set a ceiling on what Ofgem considers to be the reasonable costs of an efficient supplier. That means we are required to seek out opportunities to reduce our operating costs, whilst balancing that against our objective to offer excellent customer service in the most efficient way. This consideration was all the more acute in circumstances where the previous provider had indicated its intention to increase its charges to Centrica (as I note above).

Minimum vend decision

We increased the minimum vend to £5 at the same time as the switch to Post Office/Payzone so we were able to communicate it at the same time. With our customers' interests at heart (as operation costs are ultimately borne by our customers) it is important that we continually assess the way in which we deliver our services to ensure good value for money. Before making this change, we undertook a customer impact assessment which showed that only a small minority of customers are regularly vending below £5. In addition, in January and February 2020 we proactively contacted a group of customers (c. 2,300) we identified as having frequently vended below £5, to ensure they were able to top up and to offer support.

Of those we were able to make contact with, nearly 70% said they were not impacted, and only 7% said that they had a concern. We offered this group of customers a range of support including referring them to the British Gas Energy Trust and Citizens Advice and (where applicable) offering to lower their weekly debt recovery rate or smart meter options to help manage their consumption.

I have listened carefully to the feedback we have received on this issue, including from a small number of customers. As a result, I have decided to change the minimum vend requirements back to £1.

2. How does British Gas' decision align with the approach of the other 'Big Six' energy companies?

We may not have a complete and up-to-date view of the approach of all of the other large suppliers and suggest that you may want to contact them directly to get a complete picture. By way of background, there are only two providers of this 'over the counter' service in the UK, Post Office/Payzone, and PayPoint. The providers suppliers use will be based on their own commercial considerations, including the location of their customers and value for money.

3. What proportion of the average pre-payment purchase made between £1 and £5 does the transaction cost constitute?

This information is commercially sensitive.

4. How much money will British Gas save from this decision? What will British Gas be doing with the savings?

It is important that we continually assess the way in which we deliver our services as the costs are ultimately borne by our customers, who expect value for money.

The financial arrangements around this decision are commercially sensitive. However, to best serve our customers' needs we want to become the lowest cost provider in the market place, and this means continuing to reduce our cost to serve. The decision was an element of this broader programme which we are undertaking to ensure the long-term sustainability of the business.

5. What assessment was undertaken on how the decision to increase the minimum top-up payment will impact your most vulnerable customers?

With our customers' interests at heart, it is important that we continually assess the way in which we deliver our services to ensure good value for money.

Before making this change, we undertook a customer impact assessment, including the impact on the most vulnerable groups, which showed that only a small minority of customers are regularly vending below £5. As I mentioned above, in January and February 2020 we proactively contacted a group of customers (c.2,300) we identified as having frequently vended below £5, to ensure they were able to top up and to offer support.

Of those we made contact with, nearly 70% said they were not impacted, and only 7% said that they had a concern. We offered this group of customers a range of support including referring them to the British Gas Energy Trust and Citizens Advice and where applicable offering to lower their weekly debt recovery rate or smart meter options to help manage their consumption.

However, I have listened carefully to the feedback we have received on this issue including from a small number of customers. As a result, I decided to change the minimum vend requirements back to £1.

We will also continue to provide support to our vulnerable customers through our specialist call centres and the British Gas Energy Trust, which last year helped nearly 30,000 families with advice and grants.

6. What will the reduction in access to top-up terminals mean for customers with mobility issues, disabilities or those living in remote and rural areas? Has British Gas made any assessment of how far it would expect people to reasonably travel?

I appreciate your concerns around customers having fewer outlets to top up at, but it is the location of those outlets which is important (rather than the absolute number of them).

We gave full consideration to overall network coverage, outlet volumes and locations for all customers paying over the counter (in accordance with Ofgem's Safe and Reasonably Practicable guidance). We have specifically analysed the aforementioned guidance, alongside our contractual agreement which is to provide network coverage with 98% within a 1-mile reach for urban areas and 5-miles for rural areas.

The Post Office/Payzone also agreed to work closely with us to improve its outlet coverage, prioritising areas where we have more vulnerable customers or greater travel distances.

Alongside the Post Office/Payzone, we have offered to work with MPs concerned about the location of top-up points in their constituency to ensure areas where there are longer travel distances are prioritised for recruitment of new vendors.

7. How will you be monitoring the impacts of the increased minimum top-up payment and reduction of top-up terminals on your consumers? What support are you providing to impacted customers?

In January and February 2020, we proactively contacted a group of customers (c.2,300) we identified as having frequently vended below £5, to ensure they were able to top up and to offer support.

Of those we were able to make contact with, nearly 70% said they were not impacted, and only 7% said that they had a concern. We offered this group of customers a range of support including referring them to the British Gas Energy Trust and Citizens Advice and where applicable offering to lower their weekly debt recovery rate or smart meter options to help manage their consumption. In regard to the move to the Post Office/Payzone, we will continue to monitor the rollout, and work with the Post Office/Payzone to identify areas where we have more vulnerable customers or greater travel distances, in order to prioritise recruitment.

8. To what extent is increasing the minimum top-up payment and reducing the number of top-up terminals commensurate with trying to reduce the risk of self-disconnection and self-rationing?

As discussed above, we have now reversed the decision to increase the minimum vend from £1 to £5, and we intend that the move to Post Office/Payzone should ultimately mean our customers are closer to a vend location. Importantly, as stated above, PayPoint and Post Office/Payzone both meet our requirement for 98% of our customers to live a maximum distance from an outlet of 1 mile in urban areas and 5 miles for rural areas.

Addressing your question of vulnerability more broadly, I wanted to underline how seriously we take our responsibilities. For example, recognising the risk of self-disconnection, we monitor customers who have disconnected to understand the reasons for this, and offer support. We can offer emergency and friendly credit, discuss manageable payment plans and sign-post them to third party organisations such as the independent British Gas Energy Trust.

By way of background, I thought it might be helpful to highlight some of the broader work we do to help tackle fuel poverty. In 2019 we spent £158m helping over 595,000 households and have spent more than £1.1bn helping customers in need (including voluntary and mandatory contributions) over the last 5 years. In 2019 support included:

- Over £6m to the British Gas Energy Trust, which helped nearly 30,000 families with advice and grants as well as funding 75 specialist energy debt advisers across 17 partner organisations, including Citizens Advice
- Providing the £140 Warm Home Discount to over 610,000 of our customers over the 2019/20 winter period
- Delivering energy efficiency measures such as loft and cavity insulation to low income, fuel poor and vulnerable households through the Energy Company Obligation (ECO).

9. How is your roll-out of smart pre-payment meters progressing? What proportion of your pre-pay customers have had smart meters installed?

British Gas has been at the forefront of the smart meter rollout, having installed more than 7.7 million meters in homes and businesses. British Gas has had a smart prepayment offer for around 5 years, installing 800,000 smart prepayment meters, developing innovative digital applications and payment channels. Around 30% of our pre-payment customer base has a smart meter.

Our data shows that:

- 83% of British Gas Smart Pay as you go (PAYG) customers surveyed are more satisfied with their smart meters than previous standard meters.
- 90% of British Gas Smart PAYG customers surveyed agree that their smart meters help them understand their current balance
- 88% of British Gas Smart PAYG customers surveyed agree that their smart meters make it easier to top up.

10. What is British Gas doing to speed up the roll out of smart pre-payment meters?

We recognise the added benefits of a smart meter for pre-payment meter customers and were an early adopter of this technology. British Gas was one of the few suppliers to have invested in delivering pre-payment meters to customers before there was a SMETS2 solution because we felt that the customer benefit was so important.

We have also been at the vanguard of resolving industry issues that have frustrated progress such as defects and performance problems on the Arqiva solution that have blocked progress in the North.

We continue to offer smart meters to our eligible pre-payment customers and agree that this is an important part of the programme.