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Dermot Nolan
Chief Executive
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Dear Dermot

Open letter – customer satisfaction with British Gas' complaints handling

Thank you for your open letter of 22 September on customer complaint handling, which was published alongside the report of your latest survey into customer satisfaction with suppliers' complaint handling performance.

As you are aware, the results show that our performance deteriorated slightly with a 4% drop in overall satisfaction for those domestic consumers surveyed. This is clearly disappointing given the strategic importance we have placed on reducing levels of customer complaints across our domestic and non-domestic businesses.

However, it is relevant that the data on which the survey is based was collected in 2015. As such, the report does not reflect the impact of the initiatives we introduced over the last year, specifically targeted on this issue. Encouragingly, progress over the last year on complaints has been very positive with our incoming residential complaints reducing by 36% year to date compared to 2015.

From a business customer perspective, progress has been similarly strong. Most significantly, the underlying issues associated with the implementation of a new billing system have now been resolved. This means we are able to resolve business complaints more quickly, and reduce repeat contact. As a result, incoming business customer complaints have reduced by 27% year to date compared with 2015.

In the remainder of this response we set out in more detail the steps we've taken to improve the handling of our customers' complaints over the last year. We also set out a number of the more ambitious programmes we are planning to launch in the coming year, including applying lessons learned from the operation of our Services business that we believe will have a sustained and material impact on the way in which we deal with our customers' complaints.

We have made material improvements in our complaints handling processes

The improvements we have introduced over the past year have focused primarily on:

- Establishment of a new operating model for complaints handling
- Investment in our people; and
- Improvements in the way we communicate with our customers.

Establishment of new operating models for complaints handling

We have re-organised our customer service into centres of excellence and these changes have demonstrated clear performance improvements in same day resolution and reduced repeat contact.

For our residential customers, we have completed a successful pilot with complaints which cannot be resolved within 1 working day re-directed to a specialist team to be account managed. This model will be rolled out across all appropriate sites by the end of June 2017.

All business customer escalated complaints are dealt with in a centre of excellence, and we have seen significant improvements in such complaints being responded to within 24 hours. Our frontline teams now have access to additional resources which they can call on if they feel more support is required to resolve a given query quickly. As a result, customers are able to access a skilled individual on the first contact with us, we can undertake better diagnosis and deliver fewer repeats. Repeat complaints have reduced in 2016 from 29% to 13.7%

Investing in our people

We recognise that one of the most effective ways we can improve customer complaint management is through investment in our people and by providing them with all the skills and knowledge required to diagnose and resolve a customer's complaint quickly, and to their satisfaction.

It is for this reason we introduced a Customer Service-wide coaching programme in 2016 aimed at helping agents reduce rates of repeat UK Home complaints. We also introduced initiatives aimed at enhancing agents' technical knowledge on Customer Payment Schemes, which remains a large driver of complaints. We also spent in excess of £1m delivering c. 99,000 hours of Service Excellence training from 2015 through to 2016 for c.4350 agents.

Throughout 2015-16 we recruited 355 additional staff to improve the service levels we provide to our customers. By 5th December we will have completed the recruitment of an additional 280 resources to further support service levels throughout the upcoming winter period, with a particular focus on supporting our most vulnerable and prepayment customers.

This year, for UK Business, we have also rolled out dedicated complaints training to our 500 front line advisors who deal with business customer contact and we have continued to provide coaching support to our offshore teams, representing an investment of over £300k in staff training, coaching and development.

We also believe the introduction of a new "Accountable Persons" (AP) framework for complaints handling will have an enduring impact on the quality of our complaints handling processes right across the business. This framework includes amongst other things an AP Handbook to make the role and responsibilities of the AP clear, including assurance aspects around on-going monitoring and analysis of performance Management Information. The

framework also includes a business-wide Complaints Business Review governance group which meets monthly to review our complaints performance against our desired customer outcomes. The resultant ongoing monitoring enables the identification of risks via quality assurance processes, compliance and audit reports and an internal controls framework, which in turn drives process improvements in our customers' complaints journey.

Improvements in customer communications

We have undertaken a number of specific initiatives to improve our communication with customers. In September 2015 we launched a new screen prompt to help agents confirm customer satisfaction (or otherwise) before closing the complaint. This has contributed to a c.7% point improvement in the 'evidence to close a complaint'.

We've also introduced the option of registering business complaints via social media channels including Twitter and Facebook, and launched web chat for our micro-business customers. We had 1,238 customers contact us this year via social media and 155 complaints were raised through this channel.

We are also currently trialling the use of two way texting to help confirm satisfaction with the customer more quickly, therefore enabling us to resolve complaints sooner. A new web chat platform was fully deployed at the end of 2015 and a planned email system replacement in 2017 will reduce our turnaround time for email and website complaints.

We continually explore further enhancements to our website to ensure it is easy for our customers to contact us and we can resolve their complaints faster. Changes made this year include the pre-population of information on customer complaint forms and proactively routing customers to contact us by telephone. Both changes are contributing to quicker resolution timescales.

How we continue to improve the complaints handling experience we give our customers

We are confident that the improvements we have introduced over the past year will result in a material improvement in our complaints handling capabilities. However, we also recognise the importance of continually looking to improve the way in which we handle customer complaints.

We are therefore introducing important strategic changes to our operating model that we believe will deliver not only consistently better and enduring customer outcomes but also a step-change in our measured complaints performance. Our ambition is to move us from being the best of the larger suppliers, to having the lowest levels of complaints per customer in the industry. We are therefore targeting reducing our 2016 complaints per 1000 customers by up to 2/3rds by 2021.

The changes we are introducing to achieve this include:

- Establishing UK Customer Operations (UKCO) as a new operating function focused entirely on improving customer interactions; and
- Within UKCO, creating a new Optimisation function, targeted at eliminating the underlying drivers of customer dissatisfaction and establishing and embedding a significantly enhanced continuous improvement capability and culture across the enterprise.

New operating function: UKCO

This new function was established in 2016 to focus purely on our interactions with customers and reports directly into the Group Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland, demonstrating the importance we are placing on putting customers at the heart of everything we do.

UKCO comprises all of the operational teams involved in the delivery of end-to-end customer experiences: from sales, through service, to renewals, retention and complaints, and into collections, front and back office, offline and online. This means we can now manage the end-to-end customer experience through one focused management team. This will allow us to improve our ability to address the root causes of complaints effectively, with an objective of preventing them occurring in the first place.

A key priority of UKCO is to develop consistent customer experiences focused on getting things right first time, every time and enabling customers to interact with British Gas how and when they want. To deliver this we are investing to create a more flexible, multi skilled workforce, and to reduce failure demand in both our processes and systems. We are also reducing the number of processes we undertake to meet our customers' needs through simplification, standardisation and automation of simple tasks and driving a material uplift in our self service capabilities to meet the changing demands of our customers.

New Optimisation function within UKCO

This new capability located within UKCO is due to launch formally in January 2017 and is mandated to drive an enterprise-wide Continuous Improvement Strategy for our domestic and micro-business customers, by improving our ability to eliminate the drivers of customer dissatisfaction through Root Cause Analysis and NPS initiatives.

Understanding and addressing the top issues that make customers dissatisfied remains a key priority for us. We implemented a bespoke Complaint Journey NPS survey for our residential customers in November 2015 which involved undertaking deep dives into the key drivers behind our scores. This has allowed us to better understand and target areas for process and customer experience improvement. Our NPS survey also introduced more complaint specific questions in order to give advisors tailored complaint handling feedback.

NPS data is now used as an integral part of our overall insight for business customers, including root cause analysis. In 2015-16 we made a number of key changes in response to this analysis, including the introduction of a no-standing charge proposition for our non-consuming customers, which delivered a reduction in standing charge complaints. We are introducing a Complaints Survey in Quarter 4 2016 to gain further insight to improve the complaints journey. Our insight shows some consistent themes (e.g. "Keep me updated" and "Closing the complaint") and we plan to maintain our focus on addressing these through our complaints mitigation training in 2016-17.

A sincere and continuous commitment to improve

We hope this update demonstrates that handling complaints to our customers' satisfaction remains a key priority for us and illustrates our commitment to continuous improvement in this area.

Our key focus is to continue to reduce the time it takes us to resolve a customer complaint and ensure the customer is regularly kept up to date whilst this is happening. To help us achieve this, we have invested in improving the knowledge and capability of our people and

we continue to review and improve our operating model to ensure complaints are dealt with quickly and efficiently, including a new approach to Continuous Improvement.

We are grateful for the insight provided by the report and the opportunities for improvement it has highlighted. My team is looking forward to meeting with you soon to discuss our results and planned improvements in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Hodges". The signature is written in a cursive style with a large, looped initial "M".

Mark Hodges