Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Management of Customer Payments & Arrears

A Consultation Paper

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1. Introduction

The electricity supply market will be fully opened from February 19th 2005[1]. This will require a range of practical measures to be in place by that date if market opening is to be fully effective.

This consultation paper considers one such aspect of full market opening: the potential treatment of customer arrears and arising issues.

The consultation paper is without prejudice to any future legislation likely to be introduced, including legislation to give effect to Directive 2003/54/EC.

Interested parties are invited to comment on the issues raised in this paper by close of business on February 20th 2004. Submissions should be forwarded to:

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[1] See S.I. No. 632 of 2003

2. Background

The full opening of the electricity supply market will offer customers the opportunity to choose their supplier via the Change of Supplier process[2].

Suppliers active in the Irish market have indicated their concern at how customers' arrears and payments may be treated when customers change supplier.

2.1 Electricity & Customer Payments

The very nature of electricity as a commodity produced and consumed at the same time and the standard practice of billing in arrears means that electricity bill-paying customers are, by definition, in arrears until the bill is paid.

On the one hand, non-payment for electricity by final customers is not in the long-term interests of competition in supply, as it may impact on other customers and the integrity of the market. However, there is also a need to protect customers against any unnecessary and unfair treatment by suppliers.

2.2 Treatment of Arrears

Continuation of payment arrears on the part of certain customers may result in a level of 'bad debt' for the supplier. For the purpose of this paper, 'bad debt' is seen as continued aggregated arrears or non-payment of electricity used by the customers of a supplier. Arrears would not contribute to 'bad debt' if payment had been made within a reasonable time period.

At present, suppliers may offer customers a number of means for payment of arrears. However, as a last resort, a supplier may request the Distribution System Operator (DSO) to de-energise customers who default on payments.

2.3 Arrears & Full Market Opening

Full Market Opening

With the full opening of the market scheduled for 2005 and the resulting freedom of all customers to change supplier, the effectiveness of the final customer debt management process operated by the DSO on behalf of suppliers, in particular the de-energisation for non-payment process, may be reduced by the ability of a customer in arrears to undergo the Change of Supplier process.

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[2] The Meter Registration System Operator undertakes the Change of Supplier process. The MRSO is the meter registrar, data processor and data aggregator for the Irish market. The MRSO is a fully ring-fenced division within ESB Networks.

Change of Supplier Industry Processes

In preparation for full market opening in 2005, the Meter Registration System Operator is installing systems to allow for the increased number of customers.

These systems will support business processes that will allow for objections to changing supplier in certain circumstances. The Commission is of the firm opinion that these circumstances should not include supplier objections for the purpose of stopping customers in arrears from changing supplier.

2.4 Structure of this Document

The purpose of this paper is to outline options for the treatment of customer non-payment of arrears with the introduction of full market opening.

Section 3 outlines current practice employed by ESB PES in ascertaining the payment records of all customers currently not eligible to choose their supplier. It also briefly describes ESB Networks' duties in the event of a request from suppliers for de-energisation due to non-payment of arrears.

Section 4 puts forward a number of broad options that may be employed for the treatment of customer payments and arrears. This includes the use of security deposits, direct debit payment requirements as well as prepayment meters in preventing non-payment.

Finally, section 5 outlines policies employed in other jurisdictions to prevent customers in arrears from switching supplier.

Both sections 4 and section 5 outline how these options and policies may be applied to the Irish market, in particular how they would impact on the Meter Registration System Operator and by the Distribution System Operator in their respective roles as meter registrar and meter operator.

3. Customer Payments & Arrears – Current Practice

3.1 Prevention of Non-Payment of Arrears

In a normal commercial environment one would expect a certain level of non-payment of arrears and debt. Suppliers allow for this in their accounting procedures. In addition many suppliers put in place credit arrangements to guard against non-payment ranging from security deposits to requirements for a customer to have a direct debit in place.

ESB PES presently levies security deposits on certain customers based in part on that customer's credit history. This is done, in part, to offset the risk of non-payment. In some cases, ESB PES may refer to a customer database for this purpose.

This may put ESB PES at an advantage vis-a-vis other suppliers who would not have this information.

3.2 De-Energisation due to Non-Payment

As a last resort, suppliers, in accordance with the Meter Registration Agreement, can request the DSO to de-energise for non-payment. The defaulting customer is subsequently informed of impending de-energisation. If the customer makes no payment to the supplier, the DSO may de-energise the defaulting customer in accordance with the De-energisation Code of Practice[3].

4. Options

This section lists a number of broad options that may be employed for the treatment of customer payments and arrears for full market opening.

4.1 Security Deposit Payments

Suppliers can encourage payment and hence can help avoid customer non-payment of arrears by charging a security deposit upon commencement of contracts. ESB PES currently charges certain customers a security deposit typically based on a 2-bill estimate.

Advantages

- Ease of Administration: Application would be preventative and could potentially be left to suppliers subject to a code of practice.

Disadvantages

- Burden: Asking every new customer to pay a deposit say for 2 billing periods would be a considerable burden;
- Competition: As ESB PES has considerable knowledge of existing customers and their payment record it would be at an advantage in terms of credit risk information via-a-vis independent suppliers who would not have a customer database and would not be able to discern between customers as a result.

<u>Retail (MDS) Systems/Process Changes</u>: Supplier's implementation of Security Deposits would not impact on systems & processes being implemented by the MRSO and DSO.

4.2 Direct Debit

Another means for addressing the issue of customer payments and arrears is the option of giving all customers the option of paying by direct debit. This has all the advantages of a security deposit.

However, the use of Direct Debit payment methods is limited at present. In 2002, Direct Debit payment constituted 22.6% of all cashless payments[4].

[3] The De-energisation Code of Practice outlines detailed procedures to be adhered to by the DSO concerning treatment of customers. This document can be found at http://history.cer.ie/De-energisationcode.pdf

[4] Total cashless payments in 2000 – €367 million Irish Bankers' Federation Fact File February 2003.

Therefore while the option is available to the industry, in practical terms, it is unlikely to address all cases.

4.3 Prepayment Meters[5]

At present, token meters or 'budget controllers' are used by ESB PES as a customer debt management measure as well as a means by which customers may budget for both future electricity use and arrears.

Prepayment metering includes a number of metering types including, but not limited to, token metering. For instance a system for 'topping up' exists in Northern Ireland.

Advantages

- Cost: Several types of prepayment metering are available that may have a lower material cost than current token meters. Cost vis-à-vis ordinary meters is an important issue here.
- Competition: This option may allow customer to pay in advance, avoid arrears and therefore be able to change of supplier without arrears.

5. Practices in Other Jurisdictions

A supplier's prevention of a customer's non-payment of bills and use of the Change of Supplier process to escape payment normally depends on contracts that exist between the said supplier and the customer.

However, several jurisdictions have introduced procedures that specifically attempt to avoid customer non-payment of arrears. These include such measures as publication of debt, credit checks or halting or 'blocking' of the Change of Supplier process[6].

Halting or 'blocking' of a customer changing supplier is not a feature of the Irish electricity retail market.

5.1 External Customer Register

The use by suppliers of an external customer register or credit referencing agency entails the use by suppliers of a credit agency to maintain customer payment records for all customers, accessible by all adhering suppliers.

Suppliers use these records to discern if a contract will be offered to a customer, and if so, on what terms.

[5] The Commission has published a consultation paper outlining issues and options in regard to Prepayment Metering. See http://www.cer.ie/cerdocs/cer03291.pdf
[6] See *Eurelectric Report on Customer Switching in Europe*, Eurelectric Working Group on Customer Switching, published March 2003. Countries covered in this report are Cyprus, Czech republic, Denmark, Finland, France, Germany, Hungary, Ireland, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the UK. See Eurelectric's website at: http://www.eurelectric.org/CatPub/Document.aspx?FolderID=1521&DocumentID=12526

This method is used in Australia as monies owed for electricity are legally treated as 'credit'[7]. Ontario refers to disclosure of information for debt purposes in its Retailer Code of Conduct[8].

Application to the Irish Market

In Ireland, this form of check is currently operated by the Irish Credit Bureau on behalf of numerous Irish financial institutions. These records document a customer's month-by-month payments in an objective manner i.e. list dates of payments within the year and compare them to agreed payment dates.

The Consumer Credit Act of 1995 specifically precludes utilities' bills from the legal definition of 'credit' thereby leaving the issue of credit referencing by suppliers open to interpretation under the terms of the Data Protection Act. However, this could be addressed by communicating reasons for disclosure of arrears information on bills and connection agreements.

Responsible Party: Suppliers and/or credit-referencing agencies would be responsible for this.

Requirements: The following would have to be clarified:

- Customer information which may be used by suppliers;
- Specific purpose of use would have to be communicated to customers through contracts or/and on bills.

Advantages

- Ease of Administration: Neither the MRSO, the DSO nor the Commission would have to administer this.

Retail (MDS) Systems/Process Changes: An external credit referencing list would not impact on systems & processes being implemented by the MRSO and DSO.

5.1.1 Combination of Credit Referencing & Security Deposit/Direct Debit/Prepayment Metering

In this case the security deposit charged, prepayment meter offered and direct debit payment method administered to a customer would be made on the basis of the customer's payment history. This method is used in Australia and Canada[9].

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[7] An example of how 'credit' is treated for the purpose of electricity can be found in the state of Victoria, Australia. Victoria's Essential Services Commission (ESC) has published Guidelines in this regard. These can be found at the ESC's website at: http://www.reggen.vic.gov.au/apps/page/user/pdf/ElecGuideline4Final_PublicVersionApr02.pdf
[8] Ontario's Retail Code of Conduct was published in August 1999. This document can found at Ontario Energy Board's website at: http://www.oeb.gov.on.ca/documents/elrecode.pdf
[9] OFGEM's proposals on this issue are documented in 'Proposed debt assignment protocol for prepayment customers: A consultation document'. This can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/399_31oct02.pdf

Application to the Irish Market

Retail (MDS) Systems/Process Changes: Supplier's implementation of Security Deposits would not impact on systems & processes being implemented by the MRSO and DSO.

5.2 Change of Supplier Restrictions

5.2.1 'Debt' or Arrears Transfer

OFGEM, the regulator in England, Scotland & Wales, operates a debt management policy based on, on the one hand, allowing an indebted customer to change supplier, but on the other hand, only allowing that transfer on the basis that the existing arrears is willingly carried by the customer.

If an indebted customer wishes to change supplier in England & Wales, it must sign a tripartite agreement with its old supplier and new supplier to carry the arrears up to a limit of £100 sterling.

Application to the Irish Market

Responsible Party: Suppliers & customers would be involved in adhering to a arrears transfer process.

Advantages

- Agreement by all Parties: A signed agreement for transfer by the customer, administered by OFGEM, eliminates ambiguity regarding responsibility for arrears.
- Data Protection: The customer voluntarily discloses arrears information.

Disadvantages

- Bureaucratic: May require considerable policing due to the need for agreement on arrears transfer from both suppliers and the indebted customer.
- Arrears Threshold: Who would set arrears threshold?/How would this apply to different sized customers?

Retail (MDS) Systems/Process Changes: Supplier's implementation of Security Deposits would have considerable impact on systems & processes being implemented by the MRSO and DSO.

5.2.2 Change of Supplier Frequency Restriction

Under 'Annex A: Measures on consumer protection' of the Electricity Directive 2003/54/EC, customers may not be charged for changing supplier.

However, the number of times a customer changes supplier in any given time may be restricted. A customer can be delayed from changing supplier in a number of ways.

First of all, a customer may be required to stay with a supplier for a certain period of time once changing to that supplier. At present, for example, customers in France are normally required to sign contracts for 3 years.

Alternatively, all customers may face a standard delay in changing supplier. This is present in most European countries and varies from 5 days in the Netherlands to 5 weeks in Norway.

Application to the Irish Market

Responsible Party: The MRSO would be responsible for administering this frequency blocking process. The Commission would determine, in consultation with suppliers, the limit, if any, on the number of times customers would be allowed change supplier for a particular time period.

Requirements: The following would have to be clarified:

- Treatment of arrears after 'blocking date' passes.

Advantages

- Ease of Administration
- Objectivity: The MRSO would block all customers from changing supplier for a limited period following a previous change of supplier.
- Data Protection: As all customers would be 'blocked' for this purpose; no customer specific information would be disclosed without consent.

Disadvantages

- Indirect Application: This method does not directly address the issue of non-payment of arrears. While it does allow for de-energisation to take place before the Change of Supplier can go through, the problem of arrears accrued between periods is still not resolved e.g. if the customer can move no earlier than March 1st and does not pay monies owed as of January 15th, what happens to amount of arrears non-payment after Change of Supplier date in March?

Retail (MDS) Systems/Process Changes: A Change of Supplier halt or 'block' would require **minor** changes to systems & processes being implemented by the MRSO and DSO.

6. Next Steps

The Commission welcomes the views, comments and suggestions of all interested parties regarding the points and options raised in this paper.