ANNEX

Summary Review of Proposals (non-confidential)

NB: please refer to the confidential cover letter for details of our commercial debt concerns.

Proposal 1: Maintain the Status Quo

Q.1: What are respondents' opinions on proposal 1?

Q.2: Are there any other measures which the Commission could take to alleviate suppliers concerns regarding debt levels?

VP&E Response: the Commission suggests it is possible for supplier concerns to be addressed via the revenue protection work that is underway, and addressed by the significant strengthening of debt management instruments arising from the proposed changes to Section 15 & 16 of the Energy (Miscellaneous Provisions) Act 1995.

We do of course welcome these important initiatives. However, the Revenue Protection measures are designed to deal with theft and safety. For customers connected with theft issues, these tend to be those customers that seek to avoid payment in the first place - by not running up an unpaid bill. Such customers are therefore below the debt line, but nonetheless represent a serious safety risk.

Whilst we have yet to see the final detail of what provisions will be made within Section 15 & 16 of the Energy (Miscellaneous Provisions) Act 1995, it is our current understanding this will extend the provisions to embrace the concept of Deemed Contracts and some additional powers of entry on safety grounds. Whilst very important, they do not address the debt hopping concern.

We do not therefore agree this option will resolve the supplier concerns connected with debt hopping.

Proposal 2: Introduce Process Changes

This proposal would mean that where a disconnection notice has been issued to a customer, any change of supplier request subsequently submitted would not be processed until the elapse of 21 days after the disconnection notice was sent. Thus the
change of supplier would proceed but as the disconnection would take place before the change of supplier, it would be with a disconnected supply.

Q.3: What are respondents' views on proposal 2?

Q4: Are there any other process changes (aside from debt blocking) which would be useful for managing indebted customers?

VP&E response: any additional credit management measures that help manage customers in debt will always be welcome and we will continue to explore all avenues at our disposal. However, we fail to understand in this case, how a disconnected customer transferring supplier is fundamentally any different to another customer with a debt (besides denying the customer of a supply with the former).

The issue we are specifically seeking to address is debt hopping, and this needs a well crafted debt objection procedure. We do not therefore agree this option will resolve the debt hopping to any significant extent.

Proposal 3: Introduce Debt Blocking for Business Customers

For this proposal, we respond to each of the individual points made by the Commission, these include:

- Who would assess, monitor and police the debt blocking process and ensure that such a system is not abused by suppliers?

VP&E response: this need not be complicated. There could be a strong element of self-governance to underpin debt objections (i.e. reducing to an absolute minimum the Commission's resource commitment). It would be far better to have an agreed industry procedure, rather than suppliers independently undertaking measures that are remote form day-to-day regulatory governance.

We note there are powerful tensions between competing suppliers to ensure a self-governing code of practice works in practice. We already have the experience of developing self-governing codes, i.e. sales practices, and this could be the next natural progression in that direction.

As for reporting of debt objections, this could readily fit within the existing industry and regulatory governance framework arrangements and reporting procedures, or overseen by an independent body. .
As with the experience in the UK, would the debt blocking system in Ireland have to be continually re-examined and altered?

**VP&E response:** It is important to note that Ofgem has not been able to devise a more suitable alternative to Great Britain’s (GB) debt objection procedures. Indeed, in the case of business customers, responsibility for when to object is now left to suppliers’ contract terms – i.e. the licence enables objections for ‘contract’ reasons, as defined by suppliers.

Providing the rules are well crafted, there is no reason why the process should have to be continually re-examined. And unlike GB, the rules could be built into a self-governing industry Code of Practice, such that changes (if required) can be more readily accommodated.

**What would classify as a default of contract?**

**VP&E response:** Once Proposal 3 has been agreed in principle, the industry rules can be crafted via stakeholder, industry and regulatory review.

**What would be the debt threshold?**

**VP&E response:** Once Proposal 3 has been agreed in principle, the industry rules can be crafted via stakeholder, industry and regulatory review.

**Would suppliers be adequately incentivised to manage risk and minimise customer debt?**

**VP&E Response:** We are proposing a solution which tackles debt hoppers. Suppliers will still need to have effective credit management policies and practices in place, and these will not have any less focus given the strong commercial imperatives at stake. Any company would want to keep its debt position to an absolute minimum, and will use all the means at its disposal to do so. The presence of a debt objection procedure would represent another tool in the credit management ‘tool-kit’, i.e. not a replacement for other measures. More specifically, it gives suppliers a better opportunity to negotiate with the customer various payment options, rather than taking difficult and expensive legal action.
Would additional requirements need to be placed on suppliers to help customers who they have debt blocked pay back what they owe, e.g. payment plans?

**VP&E Response:** the overall debt management practices of suppliers will not be affected, and they will continue to offer the range of payment options as they do today. When customers transfer supplier with an outstanding debt, they may have fewer options open to them and effectively two accounts to then manage (one finalised and one live) – assuming of course they pay.

How could having a debt blocking procedure be reconciled with the ERGEG recommendation?

**VP&E Response:** we would like to restate, the intention is not to prevent customers from being able to switch supplier. We are merely delaying the process until the debt has been paid for by a small (albeit significant) minority of customers that are intent on avoiding payment.

All other customers would switch without interruption, even for those customers that pay their debts and then switch. The focus is therefore to ensure that industry policy and procedures do not effectively condone practices that allow some customers to exploit procedural loopholes to their significant advantage, effectively leaving the majority of honest customers picking up the debt burden in the charges they pay. This cannot be right nor consistent with EU policy intentions.

In approving the implementation of a debt blocking procedure, the Commission would be tacitly accepting that supplier allegations of customer debt are accurate. Would this affect the Commission’s dispute adjudication?

**VP&E Response:** first, we do not agree this is tacitly acknowledging that supplier allegations of customer debt are accurate. It is however a tacit acknowledgement by the Commission that it is morally wrong to allow some customers to exploit industry procedures that are intent on avoiding payment. It is therefore right and proper for this loophole to be closed, albeit subject to industry rules that provide effective governance (self-governing or otherwise).

What would be the cost of system changes to introduce debt blocking?

**VP&E Response:** the system cost for electricity would be nominal, as the industry process already supports an objection process. For gas, a manual workaround could be devised pending the wider review of gas industry retail processes under CAG.
What would be the impact of introducing debt blocking on the overall debt levels in the energy industry?

*VP&E Response: this is a difficult question to answer because we are essentially addressing customer behaviour. However, in our cover letter we have set out how the debt position for Energia is being affected, and therefore how it could improve.*

Would pressure be put on the Commission to introduce debt blocking for domestic customers as well as debt blocking for business customers? The proposal set out in 2008 suggested an aged debt threshold of €500, however, this low threshold would presumably encapsulate some domestic customers.

*VP&E Response: at this stage, the focus should be on a procedure for business customers where the debt exposure is the greatest. It does not necessarily follow that similar rules should be put in place for domestic. However, if such an approach was deemed necessary at some point in the future for domestic customers, then we would expect the rules to be designed especially for this customer group.*

Q.5: What are respondents' views on proposal 3?

Q.6: Are there any other issues that the Commission should consider in relation to this issue?

*VP&E Response: we support Proposal 3, i.e. a debt objection process appropriately crafted for business customers, designed to target those customers that are in debt and seeking to switch supplier. The approach would ensure that customers are still able to switch once their debt has been paid to their old supplier.*