Endesa Ireland response to CER/09/136
Debt Blocking

Endesa Ireland welcomes the opportunity to respond to the proposals included in the consultation paper on the Debt Blocking and its appropriateness in the Irish market.

Endesa Ireland recognises the significant financial implications of supplier hopping by customers who do not pay their bills. Within the SEM, suppliers are required to purchase their electricity from the pool on a daily basis. Generally, customer bills are paid monthly. This results in very tight cash flows for the supply companies, exacerbated by delays in payment or non-payment.

As the supply market becomes more competitive, supplier margins will decrease and bad debt will become a more significant issue. These outstanding debts will need to be recovered from the remaining customer base, increasing tariffs. Those in fuel poverty would be most affected by any increase in tariffs due to bad debt as they spend a larger proportion of their income on heating and lighting their homes. Therefore, the implementation of mechanisms to minimise bad debt are of interest to all electricity customers, but particularly those in fuel poverty.

CER has stated that any attempt to slow down or prevent supplier switching by these customers is contrary to ERGEG's report setting out Guidelines of Good Practice (GGP) for supplier switching. Endesa Ireland has confirmed with ERGEG that the GGP were not meant to address situations where customers with outstanding debts were trying to switch suppliers to avoid payment of these debts and are not necessarily applicable in these situations.

Endesa Ireland supports the introduction of some mechanism whereby commercial customers seeking to avoid outstanding debts were not facilitated in their attempts to switch suppliers until the outstanding debts had been discharged. For domestic customers, Endesa Ireland supports the proposal to disconnect customers for non-payment, after giving customers sufficient notice to allow them to discharge their debts.

Following are Endesa Ireland's views on the proposals contained within the consultation paper:

<u>Proposal 1 – Maintain the status quo</u>

This proposal would maintain the current change of supplier process, with no provision to prevent indebted customers from moving to a new supplier. CER has indicated that this is consistent with ERGEG's recommendations that "former suppliers should not hinder the switching process".

Endesa Ireland considers that the current process should be improved to protect supply businesses, which are operating with low profit margins making it difficult to absorb bad debt and to protect customers from tariff increases that will be needed to account for bad

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debts. It can be argued that maintaining the status quo discriminates against small suppliers as they have less of an ability to accommodate bad debt and discriminates against those in fuel poverty as they will be most affected by any tariff increases resulting from bad debt.

As stated above, ERGEG's GGP did not take into account issues relating to treatment of customers with outstanding debt and are not necessarily applicable in this situation. Endesa Ireland does not consider that the implementation of debt blocking proposals could be deemed to be suppliers hindering the switching process, it is the customer themselves that are hindering the switching process by not discharging their debts.

Endesa Ireland does not support maintaining the current process.

<u>Proposal 2 – Introduce Process Changes</u>

Proposal 2 suggests that the GPRO/MRSO should be advised when suppliers send customers a first notice of disconnection (21 days from date of letter). Any change of supplier request subsequently submitted would not be processed until after the 21 days, such that the supplier would have the opportunity to recover the outstanding monies or disconnect the customer. It is suggested that this would act as a disincentive to customers as they would be required to pay for a reconnection charge with their new supplier and would be inconvenienced by disconnection from the gas/electricity supply for a short time.

Endesa Ireland supports this proposal for domestic customers, as it would discourage customers from supplier hopping in an attempt to avoid payment of debts. Endesa Ireland does not consider that this proposal offers a significant disincentive to business customers and it would not help the initial supplier in their attempts to recover outstanding debt and prevent unnecessary tariff increases. Therefore, Endesa Ireland would suggest that a stronger disincentive be introduced for business customers.

<u>Proposal 3 – Introduce Debt Blocking for Business Customers</u>

Endesa strongly supports the introduction of debt blocking for business customers. The right to switch suppliers, as with any right, comes with responsibility. In order to exercise the right, customers are responsible for paying their bills.

Within the telecoms sector, suppliers have the right to disconnect for non-payment. This penalty has a significant impact on commercial enterprises as the telephone number is then put back into the number pool and cannot be recycled for 13 months. As such, commercial customers are at a significant disadvantage if they are disconnected. Disconnection from an electricity supplier does not carry such a hefty penalty for commercial enterprises, as they can reconnect with another supplier within 24 hours. Endesa Ireland considers that a more substantial disincentive must be implemented to reduce bad debt from commercial customers.

The Commission has highlighted a number of questions that must be addressed prior to the introduction of debt blocking for business customers. Endesa Ireland agrees that the details of how customers with outstanding debts will be blocked must be set out prior to implementing such a procedure. Acceptance of the principle that debt blocking should be introduced is a first step. Further consultation will be required to address the issues highlighted by CER in the consultation paper. Endesa Ireland has included preliminary responses to these issues below:

- *Who would assess monitor and police the debt blocking process and ensure it is not abused by suppliers*
  Endesa Ireland considers that this would fall under the remit of the Commission for Energy Regulation.

- *Would the system have to be continually re-examined and altered?*
  Endesa Ireland considers that the system would need to be monitored and revised when necessary to ensure that the debt blocking provisions remain appropriate, transparent and non-discriminatory.

- *What would be the debt threshold?*
  Endesa Ireland considers that there should not be a monetary value applicable, rather business customers that have failed to keep their energy supply accounts current should not be permitted to switch supplier.

- *Would suppliers be adequately incentivised to manage debt?*
  Endesa Ireland considers that the small margins available in the retail market are sufficient incentive to manage bad debt.

- *Would additional requirements need to be placed on suppliers to help customers who they have blocked pay back what they owe (payment plans)?*
  Endesa Ireland does not consider that it is the role of a supplier to provide debt servicing arrangements for customers. If suppliers were required to provide these services, the associated costs would need to be recovered through the tariffs. Rather than increasing the price of electricity for all, customers that require debt management advice should seek advice from the National Consumer Agency.

- *How could having debt blocking procedure be reconciled with ERGEG's recommendations?*
  Debt blocking procedures are not necessarily contrary to ERGEG's recommendations – this issue was not taken into account when drafting the GGP.

- *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?*
  Endesa disagrees that this tacitly accepts the suppliers allegation of customer debt are accurate and does not consider it in any way affects the Commission's dispute adjudication process.

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

These costs will be dependent on the arrangements that are introduced, which should be agreed between suppliers, CER and the MRSO/GPRO.

- *What would be the impact of introducing debt blocking on the overall debt levels in the energy industry?*
  Endesa Ireland does not have information relating to debt levels in Ireland.

- *Would pressure be put on the Commission to introduce debt blocking for domestic customers as well as business customers?*
  Endesa Ireland recognises that energy is a necessary resource and debt blocking may not be appropriate for domestic customers.

In the event that the Commission does not enact debt blocking provisions, Endesa Ireland would suggest that when customers without outstanding bills are switching to a new supplier, the new supplier is made aware of their arrears, such that they are able to put in place provisions for a higher security deposit / earlier cutoff terms.