

Your reference: CER/09/136
Our reference: DS/se180909



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18th September 2009

Elizabeth Farrelly
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Debt Blocking

Dear Elizabeth

Thank you for the opportunity to respond to the CER consultation paper on Debt Blocking.

This is an important issue which has a very direct impact on, not only those energy customers who wish to change supplier, but all energy customers. A change of supplier process which facilitates customers switching supplier without first settling their debt is, in our view, fundamentally flawed and will result in increased costs to all energy consumers.

The potential for Debt Blocking does exist in Northern Ireland and Great Britain. However, the Consultation Paper states that "...*debt blocking is prevalent in Northern Ireland...*" and we would like to clarify that Debt Blocking is not prevalent in the natural gas industry in Northern Ireland. If the Commission believes otherwise, we would request they provide evidence for this statement.

We support proposal three as outlined in the consultation paper which would introduce debt blocking for business customers and we have addressed the practical issues which the Commission have outlined in respect of this proposal below.

It should be the responsibility of each individual supplier to ensure they comply with any Debt Blocking process which was agreed with industry participants. This could be enforced through Licence conditions which would require suppliers to comply with any agreed procedures. Therefore, a breach by a supplier of the Debt Blocking process would be a breach of their Licence. This would ensure that suppliers adhere to any industry agreed process. If an industry participant were concerned regarding the actions of a particular supplier a complaint could be made to, and investigated by, the Commission. We would envisage this would only occur in rare circumstances and the administrative burden on the Commission would be minimal.

This would ensure that were a supplier to consistently abuse such a system their Licence could be ultimately revoked. We would also suggest that the Commission should consider fining suppliers who abused a Debt Blocking system. These sanctions would ensure that suppliers act in accordance with any Debt Blocking process.



The Consultation Paper states that the Debt Blocking system in the UK has had to be continually re-examined and altered. Firstly, the experience in the UK has not been one of continual re-examination and alteration and we would request the Commission provide evidence for this statement. However, the Debt Blocking process in the UK has been subject to periodic review which we would expect of any industry process to ensure it is still relevant and fit for purpose. We would also expect that any Debt Blocking process implemented in Ireland should be subject to periodic review in light of changing circumstances (e.g. to take account of any change in legal or economic environment). This is right and proper and demonstrates best practice.

It is our view that the classification of a default of contract and the debt level threshold is best not examined in the confines of this Consultation Paper which is examining the high level principles surrounding Debt Blocking and not the implementation of a Debt Blocking process. These rules can easily be agreed between industry participants and consulted upon at a later date.

The Consultation Paper raises the question if a Debt Blocking process were introduced would suppliers be adequately incentivised to manage risk and customer debt? Of course suppliers are incentivised to manage risk and customer debt. Energy suppliers operate on very low margins and cashflow and minimisation of costs is vital to the continued success of any energy supply business. Therefore, it would be absurd to suggest that because a Debt Blocking process were implemented that suppliers would not manage debt as proactively as if a Debt Blocking process were not in force.

Based on legal advice we have received we do not regard the implementation of a Debt Blocking process to be a breach of any legislative requirement and furthermore such processes already exist in Northern Ireland and Great Britain. It should also be noted that the energy supply market in Great Britain is a competitive market and customers have switched in much greater numbers than has been the case in Ireland. This demonstrates, and should provide assurance to the Commission, that suppliers are able to operate Debt Blocking processes in a manner which is not harmful to competition. In addition, all customers are able to transfer supplier once they have settled their obligations to the supplier. We believe this is reasonable and fair.

The cost of implementing system changes to facilitate a Debt Blocking process could presumably only be investigated once an overall process was agreed, however, it would be likely that such a system change would be less expensive than the cost to suppliers of customers debt hopping and not settling outstanding debt with suppliers.



Fundamentally, business customers should have nothing to fear from a change of supplier process which facilitates Debt Blocking as such a process is merely seeking to ensure that business customers keep their commitment to pay for the energy they have consumed. It is not requiring customers to pay for charges which are not due to be paid and such a process ensures that costs within the energy industry are minimised.



Should you wish to discuss any aspect of our consultation response please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

David Strahan
General Manager