

Society of St Vincent de Paul

Submission to the Commission for
Energy Regulation on Customer Bad
Debt in Electricity & Gas Markets

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Introduction

The Society of St Vincent de Paul (SVP) welcomes the opportunity to make this submission to the Commission for Energy Regulation on Customer Bad Debt in Electricity & Gas Markets. This submission draws on the experience of recent energy related submissions to the Regulator and briefly sets out our concerns and proposed approaches regarding the issue. We believe that CER has been somewhat preoccupied by the task of facilitating the switching of domestic supplier without sufficient consideration of the implications of this process. As a result, SVP believe that energy arrears should be both flagged at one level and blocked at a more severe level of arrears, and should also be flagged and blocked at different levels to reflect the relative level of arrears between gas and electricity. These levels are set out in more detail in the 'SVP Proposal' section and with rationales for each energy type, based on our own data on household arrears.

The experience of the Society of St Vincent de Paul (SVP)

SVP is the largest charity of social concern and action in Ireland, with a variety of services for households being provided by our 9,500 voluntary members and 500 staff across the country. At the core of our work is home visitation, where we assist families and individuals all around the country through social contact, advice and practical support. Many of the people we assist struggle to pay bills for essentials such as energy bills and sometimes have to make a choice between heat and food. One of the largest areas of SVP Conference (parish group) expenditure in our support of low income households is dealing with energy related debt and working with families to avoid disconnection.

In recent submissions we have set out the extent and importance of the SVP's assistance with households dealing with arrears and our work to avoid disconnection of households we assist. Indeed, energy costs and the historic lack of protection for financially vulnerable customers has been at the forefront of the SVP policy agenda for over 5 years. During that period we have proactively and successfully made 'energy agreements' with ESBIE Customer Supply, Bord Gáis, Flogas and Airricity. The process of coming to these agreements has benefited our understanding of the position and experience of energy suppliers and we hope likewise we have been able to influence our colleagues in the market.

Analysis of Arrears

SVP has analysed the energy bills and arrears brought to us in the calendar years 2009 and 2010 and our findings suggest a reduction in the average cost of electricity bills and arrears but a sharp rise in the level of gas arrears.

Average Energy Arrears for Electricity and Gas 2009 and 2010

	November 2009	November 2010	Range November 2010
Electricity	€548	€438	€32 to €3000
Gas	€455	€636	€60 to €3000

Average arrears in November 2010 equate to approximately 2-3 times basic weekly social welfare

The significance of this information to this consultation is that customers who approach us in arrears are:

- amassing large arrears
- generally approaching organisations like SVP usually at a very late stage
- not in, or refusing, communication with their energy supplier.

Other evidence coming from SVP Conferences shows that:

- SVP members are concerned about debt-hopping
- Sharp practice is perceived among our members in relation to encouraging customers to switch
- Significant differences exist in the quality of care for financially vulnerable customers
- Deposit requirements and direct debits are pushing customers into arrears
- There is a need to promote and provide access to Pre-Payment meters
- The Household Budget Scheme is key to those we assist and should be promoted by all utilities
- There appears to have been a preoccupation by CER to facilitate switching without sufficient consideration of its implications. These include the encouraged accumulation of arrears, the incentives that switching presents to avoid the consequences of these, and the viscous circle of multiple energy debts accruing to the one household.

SVP conferences are concerned for, and assist, financially vulnerable households based on promoting responsible practices at both customer and provider level in order to bring about efficient and economically sustainable energy use. That is why switching, debt flagging and debt blocking are of key interest to us.

Switching and Debt Blocking

Switching, while offering consumers choice and lower prices, has also encouraged the practice of 'debt hopping' among domestic users. Customers who use switching options to avoid debt responsibilities not only present additional costs of debt recovery but also face the possibility of running out of options in a small, albeit deregulated, market. When customers have exhausted all potential energy suppliers they will invariably turn to charitable organisations such as ourselves requesting assistance with settling their accumulated debt - often significant - in order that they may be re-connected. The following is feedback from one of our members:

We had a case last week where a single young mother with a small baby was disconnected from [named energy supplier] with a bill of about €700 which included a deposit. When we arrived at her door the day after our meeting she had already been connected by [named energy supplier] with no mention of what she owed [previous named energy supplier].

While acknowledging the advantages of switching, the SVP understands the necessity for some level of both debt flagging and debt blocking as part of the suite of actions undertaken by suppliers to prevent debt-hopping and providing budgeting options of customers. Debt blocking disallows a customer from switching if they have a certain amount of arrears arising from their last bill. SVP notes that the UK Energy Regulator *Ofgem* has debt blocking protocols in place which are informative for this consultation. Ofgem have a cap of £200 for non-disputed bills and this complies with EU legislation/Directives. such a protocol restricts the possibility of customers accumulating unsustainable arrears by frequently switching energy suppliers.

SVP Proposal on Customer Bad Debt in Electricity & Gas Markets

Electricity – Flagging

Where an electricity customer's current bill plus any arrears amounts to €200 or over, this should be flagged and utilities who are potential providers to the customer should be able to know, but only have access to the single fact, that the customer's current bill plus any arrears amounts to €200 or over.

Electricity – Blocking

A customer should be blocked from switching at the stage where there are unpaid arrears over two or more billing periods (four months) amounting to €200 which is over the amount of the current bill. Our rationale for this is that:

- the most recent average arrears recorded for those seeking SVP assistance (and in electricity arrears) are approximately €440
- We regard amounts below this average to more likely be ‘manageable’ in terms of a payment plan over a reasonable repayment period and
- This level allows people to have a current bill of up to €240 which is possible over the winter period, especially if reliant on electricity-based central heating

Gas – Flagging

Where a gas customer’s current bill plus any arrears amounts to €250 or over, this should be flagged and utilities who are potential providers to the customer should be able to know, but only have access to the single fact, that the customer’s current bill plus any arrears amounts to €250 or over.

Gas – Blocking

A customer should be blocked from switching at the stage where there are unpaid arrears over two or more billing periods (four months) amounting to €300 which is over the amount of the current bill. Our rationale for this is that:

- the most recent average arrears recorded for those seeking SVP assistance (and in electricity arrears) are approximately €640
- We regard amounts below this average to more likely be ‘manageable’ in terms of a payment plan over a reasonable repayment period and
- This level allows people to have a current bill of up to €340 which is possible over the winter period, especially if reliant on gas fired central heating

Review of Flagging and Blocking

We believe that the above levels of arrears for electricity and gas, and for flagging and blocking, should be open to review every six months, or when the most expensive domestic energy prices are changed; whichever is more frequent.

Conclusions

This consultation coincides with a continuing challenging period for many Irish households. At a time of reducing energy costs for many, increasing numbers of households are vulnerable to fuel poverty. The Society of St. Vincent de Paul, through its work on the ground, has extensive experience of the harsh reality of families sitting around tables with a series of bills they struggle to pay. A flexible and understanding attitude is required for households experiencing financial hardship. That said, the practice heretofore of allowing people to amass substantial debts with energy companies a multiple of times is neither progressive nor a sustainable arrangement for the household in arrears, the utility creditor, MABS or the SVP. As a result, we believe that energy arrears should be both flagged at one level and blocked at a more severe level of arrears, and should also be flagged and blocked at different levels to reflect the relative level of arrears between gas and electricity. For our purposes we have used our own figures on arrears to calculate what we regard as appropriate levels for flagging and blocking respectively. Our experience of the financially vulnerable has informed our proposals in this consultation.