Customer Bad Debt in Electricity and Gas Markets

Consultation Paper CER 11/044

March 2011
Table of Contents

1) Introduction ............................................................................................................................................... 2
2) Present Economic Climate ......................................................................................................................... 2
3) MABS Submission ...................................................................................................................................... 3
4) Other issues: .............................................................................................................................................. 5
1) Introduction

The Money Advice and Budgeting Service (MABS) was established in 1992 to help people on a low income to cope with debts and take control of their own finances. It is a free, confidential and independent service. It currently comprises 53 MABS Services, located in over 60 offices nationwide. MABS is funded and supported by the Citizens Information Board.

MABS National Development Limited (MABSndl) was established in 2004 to further develop the MABS Service in Ireland. It provides training and technical support to MABS staff nationally. MABSndl also assists the MABS service in providing educational and informational supports as well as assisting in highlighting policy issues that arise in the course of the money advice work on behalf of clients. MABSndl has responsibility for the ongoing development of the MABS website www.mabs.ie and for providing the MABS national helpline service.

2) Present Economic Climate

The current economic climate is proving difficult for many in our community who are faced with a considerable reduction in income and are endeavouring to sustain the basics necessary for living in face of considerable financial constraints. This demands consumers to undertake new and sometimes very difficult strategies to manage their money and their debts while endeavouring to maintain personal wellbeing and dignity. In MABS experience the vast majority of over-indebted consumers are in the ‘can’t pay’ category and the industry should be mandated to treat them as such.

MABS welcomes the opportunity to contribute to the CER consultation on “Bad Debt in Electricity and Gas Markets”. Our response in 2009 to the CER’s consultation document on ‘Facilitating Overindebted Consumers to Move to a Lower Tariff’ outlined our view that the preferred route to addressing the problem was contained in ‘Proposal 2’ of that consultation document. That document advocated:
• the development of new procedures to control debt levels;
• along with, initiating action as early as possible when a customer is getting into debt;
• and, the need for energy suppliers to be proactive in providing arrangements which will help the customer pay off their debt as soon as possible.

3) MABS Submission
Facilitating (in so far as possible) over-indebted domestic consumers to move to cheaper tariffs must be a basic principle informing regulatory change in this regard. It would perhaps be instructive, as part of the CER’s current consideration of issues, to also evaluate how many domestic customers with energy supply arrears have taken the prudent path of ‘shopping around’ for cheaper tariffs. In our view any arrangement that is put in place to address the concerns of suppliers must also facilitate the overindebted consumer in accessing the cheapest tariff available.

We understand the difficulty currently being experienced by energy supply companies, which is attributable to the ‘switching’ of suppliers by customers with outstanding arrears. We are however, of the view that, while ‘debt blocking’ may always be appropriate in the context of business customers; it is inappropriate for domestic consumers if the result is that consumers in financial difficulty are not able to switch to the cheapest available tariff.

Domestic customers who are in debt should have the choice to move to a cheaper supplier if it improves their situation. Our view, therefore, is that if ‘debt blocking’ is to be introduced for domestic consumers to prevent over-indebtedness, it must be accompanied by some mechanism that allows access to the cheapest market tariff.

Q1. Views are sought on the proposal to introduce ‘debt flagging’ for domestic customers.

A1. We are of the view that debt flagging should be introduced for domestic consumers provided that it does not prevent over-indebted consumers from accessing the cheapest tariff.

Q3. Respondents are invited to comment on the proposed grounds for raising an objection or notification;
1) Do you consider that it is appropriate to raise an objection or notification on the grounds of contract default? Is it appropriate for this provision to apply for both business and domestic customers?

Comment: In our view it is not appropriate for domestic customers.

2) Do you consider that the proposed debt thresholds and timings in section b are appropriate? Do you think the monetary thresholds should be the same or different for electricity and gas?

Comment: We agree with the debt threshold and timing (€200 and 56 days). The monetary value should be the same for both gas and electricity.

Q4. Respondents are invited to comment on the means of acquiring customer agreement to the information on debt being passed to a third party?

A4. We would favour the process and model outlined in the Ofgem Consultation Paper on a ‘Proposed debt assignment protocol for prepayment customer’s’ which requires the customers consent, (having had the options available outlined), to then give authorisation for the new supplier to see the account holder’s debt details.1

Q6. What are your views on allowing for customer debts to be transferred between suppliers?

A6 It should be the responsibility of the originating supplier to manage a customer’s account so that arrears are managed appropriately. Where an arrear is within the given limits for transfer, then the amount should be transferred to the new supplier for collection.

Q7. Respondents are invited to comment on the proposal to introduce a Code of Practice for a debt blocking or flagging process. Are you in favour of the proposal? Outline reasons for agreement or disagreement.

A7. A Code of Practice is very important to protect the consumer and to establish common practices across the sector in this regard.

1 Ofgem.co.uk (2010)
4) **Other issues:**

- Any arrears arrangement put in place as a result of switching must be affordable and sustainable given the customer’s financial circumstances. Refusal to proceed with switching where collection of arrears will take longer than, say, 52 weeks directly contradicts the principle of putting in place agreed affordable, sustainable arrears repayment plans.

- If these new arrangements are put in place, they should be accompanied by a meaningful campaign to inform consumers in debt of their right to switch suppliers. (In our experience many over-indebted consumers are insufficiently aware of their rights under existing Codes).

- More clarity is required on whether suppliers have the right to refuse customers wishing to switch to a cheaper tariff, when such customers are: 1) under the threshold amount and/or 2) within the time-frame. We are concerned that this could lead to cherry-picking of ‘lower risk’ customers.

- We believe that all prepayment customers should be entitled to switch, regardless of the amount of arrears.

- Consumers, whose application to switch suppliers is refused, should be entitled to an explanation of the reason from the supplier and the right to a full investigation of the circumstances by CER if required.

- We also consider it critically important to ensure that arrangements are in place which prevent any transfer to a higher or an unsuitable payment tariff (e.g. dependent on direct debit and/or email billing) where such systems are inappropriate for the customer.