



**Consultation on Customer Bad Debt in Electricity
& Gas Markets**

CER 11/044

ESB Networks Response

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1 EXECUTIVE SUMMARY

ESB Networks (ESBN) welcomes the opportunity to respond to Customer Bad Debt in Electricity & Gas Markets (CER/11/044).

The CER has asked for responses to proposals for an industry solution to deal with business (small and medium sized) and domestic customers that switch suppliers leaving debts with their old supplier.

In summary, ESB Networks is supportive of the need to deal with the issues arising from customer bad debt. However, ESB Networks is concerned about the impacts of any solution upon the programme to harmonise the Electricity Retail Markets in Ireland and Northern Ireland. A solution to Customer Bad Debt issues that relies on changes to the Retail Market Design in advance of delivery of Harmonisation would introduce additional risk and potential delay to this already challenging programme. An alternative approach is to employ an interim solution that does not depend on changes to the Retail Market Design.

The ESB Response is structured as follows:

Section 2.1 - Introductory Comments – provides an ESB Networks response to specific points in the CER paper.

Section 2.2 - Rol Options – Outlines a number of options to address Customer Bad Debt issues within an Rol context

Section 2.3 – Data Protection Issues – Provides a perspective on Data Protection issues.

Section 2.4 – Conclusions – provides summary and concluding comments.

2 ESB Networks Response

2.1 Introductory Comments

Regarding Debt Blocking (Q1), ESB Networks is supportive of the previous position of the CER that the ability of Suppliers to block a Customer switch on the grounds of debt is not generally conducive to the operation of a free electricity market.

Regarding Debt Flagging for either business or domestic customers (Q1), ESB Networks is supportive of debt flagging as defined in the CER Consultation paper section 3.2.2, in the sense of a “debt notification flag”, which would be “...*raised by the losing supplier in the event of a change of supply request to indicate to the new supplier that the customer has an outstanding debt... (akin to the Northern Ireland domestic market arrangements that have been put in place to allow for a debt contact process and the ability to transfer debt)*”.

ESB Networks is in favour of introducing differentiation based on customer segment or size . However, at present we only have separate processes and workflows for QH and Non QH customers. Introducing a differentiated approach for LEU customers will introduce additional complexity and necessitate changes in validation processes both in the case of automated processes or manual workarounds.

Regarding a Code of Practice (Q7) ESB Networks would be supportive of introduction of a Code of Practice in this area. A Code of Practice would help to clearly define Supplier and Customer obligations and expectations. The Northern Ireland “Code of Practice for Dealing with Customers with Debt wishing to Switch Supplier” provides a consistent, transparent and non-discriminatory framework to facilitate customers with debt to switch suppliers. The NI Code of Practice also proposes arrangements for the disclosure of information between the existing supplier and the new supplier where the registering customer is considered to have a debt owing to the existing supplier.

2.2 Rol Options

ESB Networks has reviewed the Customer Bad Debt issue and believes that the following 5 options are available:

1. Adopt the Northern Ireland Approach in its entirety
2. Adopt the Northern Ireland Approach partially
3. Adopt an Rol-specific and Market Message-based approach
4. Adopt an Rol-specific but Non-Market Message-based approach
5. Adopt a hybrid of two or more of the above options

These options are described in more detail below.

2.2.1 Option 1: Adopt the Northern Ireland Approach in its entirety

ESB Networks has conducted a preliminary analysis of the impact of implementing a full Debt Blocking and Debt Flagging solution based on the approach used in Northern Ireland. The findings are summarised in Appendix 1 and indicate that this full solution would entail extensive changes that would require:

- Amendment to at least 8 existing market messages;
- Creation of a new Market Message; and
- Modifications of up to 14 associated Retail Market processes

The reason why the impact is so extensive is due to the comprehensive nature of the Northern Ireland Solution, which supports Customer Debt Notifications relating to not only a Change of Supplier but also a Change of Tenancy. The NI Solution also supports communication between suppliers regarding transfer of debt.

ESB Networks wishes to stress that there is a very tight schedule for delivering existing approved changes to the Market Design up until the end of 2012, driven by the programme to implement Harmonisation of Electricity Retail Markets in Ireland and Northern Ireland. The extent of the changes required for the introduction of a comprehensive debt flagging and debt blocking solution as described above, could potentially jeopardise the timelines for implementation of Harmonisation in Rol. For this reason ESB Networks would advise against attempting to implement Option 1 until after Harmonisation.

2.2.2 Option 2: Adopt the Northern Ireland Approach partially

Another option available might be to selectively adopt certain elements of the NI Solution, namely just those relating to customer switching. This can be divided into two variant sub-options:

Option 2a – Adopt the NI approach just as it relates to Change of Supplier

- This approach would mean implementing the aspects of the Northern Ireland approach that relate to Change of Supplier and not those relating to Change of Tenancy and Debt Transfer.
- However, the preliminary analysis undertaken by ESB Networks suggests that even this partial approach could still mean an impact upon at least 5 Market Messages, in terms of additional fields and additional code values.

Option 2b – Debt Contact Notification flag as part of existing Objections process

- This sub-option would be a “minimalist” implementation of the Northern Ireland approach. It would operate by modifying the 012 and 112 Market Messages to include a “Debt Contact Notification” flag¹.
- This would not in itself be sufficient since the identity of the gaining and losing Suppliers would not be transmitted by the Market Message system (unlike in Options 1 and 2a).
- Therefore some additional solution or workaround would be needed to supplement this sub-option.

2.2.3 Option 3: Adopt an Rol-specific and Market Message-based approach

ESB Networks has considered this option but would advise against it in both the short and long term.

- In the short term, we have outlined above the challenges of implementing any solutions to Customer Bad Debt that would impact the Retail Market Design, prior to Harmonisation.
- In the long term, implementing solutions that impact the Retail Market Design and that are Rol-specific would run counter to the approach for Harmonisation and

¹ In practical terms this would mean creation of an additional Objection Reason Code, alongside the current “ET” code for Erroneous Transfers.

may necessitate change to the Northern Ireland market. While such change would not be impossible it would require agreement and good justification.

2.2.4 Option 4: Adopt an Rol-specific but Non-Market Message-based approach

Another option would be an interim solution that did not directly impact the Retail Market Design. Such a solution would need to enable a losing Supplier to communicate the existence of an outstanding debt on the part of a customer trying to change to a gaining Supplier. At a minimum this would require the losing Supplier to know the identity of the gaining Supplier.

The existing Extranet cannot perform this function as it is designed to draw down information from the Central Market System and is not structured to handle transient or in progress information. Neither can the Extranet be used to hold a 'Debt Flag' as the Extranet does not have the functionality to permit Suppliers to post information. Consequently a successful solution must rely on a Supplier Debt Contact Notification.

A potential interim solution which would facilitate 'debt flagging' could be achieved if MRSO were to issue a weekly list to each losing supplier listing all in-progress registration requests including the identity of the gaining supplier. This would permit the losing supplier to take the initiative and contact the gaining supplier regarding the fact that a particular customer is in debt. The main advantage of this approach is that the initial step would lie with the losing supplier who is in a position to focus solely on those customers who are in the process of both moving supplier and in debt. The Suppliers could then agree between them the best way to proceed, including but not limited to:

- Cancelling the switch
- Proceeding with the switch and leaving the debt to be paid to the losing supplier
- Proceeding with the switch and transferring the debt to the gaining supplier

We would expect these subsequent choices to be defined and agreed within the Customer Debt Code of Practice.

2.2.5 Option 5: Adopt a Hybrid Approach

Rather than adopting one particular option to the exclusion of others a hybrid strategy might be the best approach. This might mean implementing the options in the following sequence:

Option	When
4: RoI-specific but Non-Market Message-based approach (e.g. MRSO weekly report to Suppliers)	From now until an agreed time after Harmonisation
2b: Partial use of the Northern Ireland approach (Debt Contact Notification flag as part of existing Objections process)	As part of Harmonisation
2a: Partial use of the Northern Ireland approach (Change of Supplier aspects only)	Post-harmonisation

This strategy would have the following benefits:

- Provides a relatively rapid short-term solution to the Customer Bad Debt issues
- Reduces the risk to delivery of Harmonisation
- Provides in the long-term a solution that leverages the Harmonised Market Message Schema and a proven Debt Contact Notification process

2.3 Data Protection Issues

ESB Networks is cognisant of the Northern Ireland context, where the customer is informed during registration that a Debt Contact Notification process is operated between suppliers. The customer is also advised that, where a Debt Contact Notification has been initiated by their Existing Supplier, the suppliers reserve the right to share relevant information for the purposes of transfer and/or recovery of the debt owing (in accordance with their Terms and Conditions of Supply).

Under the current RoI Retail Market Design a change of supplier request does not include the details of the losing supplier. ESB Networks is of the view that it would be reasonable

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to exchange details of the gaining and/or losing supplier in the interests of the efficient operation of the electricity (and gas) markets. ESB Networks do not believe that any actual information on debt levels should be included within the framework of the Retail Market Design.

ESB Networks also understands that the terms and conditions of at least one supplier already include a provision for the supplier to search the files of certain credit agencies or bureaus when assessing the customer for credit. ESB Networks suggests that it would not be unreasonable to extend this to include a check of the customer's credit with existing electricity and/or gas utilities.

2.4 Conclusion

ESB Networks is supportive of the need to deal with the issues arising from customer bad debt.

The incorporation of a debt blocking and debt flagging solution into the Retail Market Design and systems would entail significant changes to market messages and underlying processes. Implementing a full solution along the lines used in Northern Ireland in the next 18 months would impose a major risk to the delivery of existing committed programmes. ESB Networks has outlined a number of options that could be implemented (subject to more detailed analysis) to provide both a short-term and long-term resolution of Customer Bad Debt issues.

Appendix A - Potential Market Message impacts of Implementing the NI Approach

The table below shows the potential Market Message impacts of implementing the NI approach to customer bad debt issues in its entirety.

It considers the impact across three dimensions:

1. Change of Supplier

2. Debt Contact & Transfer

3. Change of Tenancy

	105 Change of Supplier Confirmation	105L Change Of Supplier Confirmation Customer Loss	010 Registration Request	012 Objection to Change of Supplier	111 111 Registration Cancellation	112 Notification of Objection	110 Notification To Old Supplier Of COS	016 * Change of Legal Entity	N140 Change Of Tenancy History
Change of Supplier			✓	✓ Add 3 x Objection Reason Codes: •CD - Contract Default (commercial only) •DCN - Debt contact notification (residential only) •DE - Aged Debt (commercial only)	✓ Add 2 x Cancellation Reason Codes: •Objection for Contract Default •Objection for Debt	✓ Add 2 x Cancellation Reason Codes: •Objection for Contract Default •Objection for Debt	✓		
Debt Contact and Transfer (Domestic)	✓ Add Old Supplier ID	✓ Add New Supplier ID	✓ Add: •Debt Transfer Flag •Previous Supplier AccountNumber •Previous MPRN •PreviousAddress				✓ Add: •Debt Transfer Flag •Previous Supplier AccountNumber •Previous MPRN •PreviousAddress		
Change of Tenancy History							✓ Add: •Debt Transfer Flag •Previous Supplier Account Number •Previous MPRN •PreviousAddress	✓ New Message – 24 Mandatory fields, 24 optional. See Appendix	

* Analogue of the 016 in NI is the N013 Message

Appendix B - Potential Market Process impacts of Implementing the NI Approach

The table below shows the potential Market Process impacts of implementing the NI approach to customer bad debt issues in its entirety.

			MPD 01 - Change of Supplier NQH	MPD 02 - Change of Supplier QH Metered	MPD 03 - CoS Objection and Cancellation	MPD 04 - Revert to SoLR	MPD 05 - New NQH Metered Connection	MPD 06 - New QH Metered Demand Connection	MPD 07 1.1 - New Distribution Connected Non-Participant Generator	MPD 07 1.2 - New Distribution Connected Participant Generator	MPD 14 - Readings Processing NQH	MPD 25 - Change of Legal Entity	MPD 28 1.1 New Unmetered Group Connection	MPD 28 1.2 New Unmetered Single Point Connection	MPD 33 - Change of Supplier - Single Point Unmetered
			MPD01	MPD02	MPD03	MPD04	MPD 05	MPD06	MPD07 1.1	MPD 07 1.2	MPD 14	MPD25	MPD 28 1.1	MPD28 1.2	MPD33
MsgNo	MsgName	Sender													
012	Objection to Change of Supplier	Supplier			✖										
111	Registration Cancellation	MRSO			✖	✖									
112	Notification of Objection	MRSO			✖										
010	Registration Request	Supplier	✖	✖		✖	✖	✖	✖	✖	✖		✖	✖	✖
105	Change of Supplier Confirmation	MRSO	✖	✖		✖									✖
105L	Change of Supplier Confirmation of Customer Loss	MRSO	✖	✖		✖									✖
110	Notification to Old Supplier of CoS	MRSO	✖	✖											✖
016	Change of legal entity	Supplier									✖	✖			
140	Change Of Tenancy History	Supplier	✖	?		?	?	?	?	?	?	?	?	?	?

Change of Supplier

012, 111, 112

Debt Contact and Transfer (Domestic)

010, 105, 105L, 110

Change of Tenancy History

016, 140