



CUSTOMER BAD DEBT IN ELECTRICITY & GAS MARKETS
(CER/11/044)

AIRTRICITY RESPONSE TO
COMMISSION FOR ENERGY REGULATION

APRIL 2011

GENERAL COMMENTS

We welcome the Commission for Energy Regulation's (CER) proposals to introduce a debt flag indicator to the market message utilised for the change of supplier process.

It has always been our view that the issue of energy debt management needs to be addressed at a market level in a way that protects the consumer.

As a supplier we are acutely aware of the difficulties faced by all customers in the current economic climate and are keen for these customers to continue realising the benefits of competition. It is clear that suppliers have a key role in working with all their customers to manage debt issues from an early stage.

In this regard it is essential that we differentiate between those customers in genuine financial difficulty who are struggling to pay their bills and those customers who choose not to pay their bills.

We have stated previously that both of these situations must be addressed by a combination of simultaneous measures in a pragmatic and fair manner.

This has to be done through helping customers in genuine financial difficulty manage their debt and avoid disconnection through top-up cards and payment plans, while also tackling the issue of debt hopping through the introduction of effective market processes regulated by the CER.

There is consensus across all stakeholders, both suppliers and consumer champions such as MABS and St Vincent de Paul, that continuing to ignore the issue of debt hopping only results in allowing customers to remain in denial about their financial situation and end up in a worse condition, through the build up of increasing debt, before they are eventually forced to face up to their situation.

While we welcome the CERs proposals which will identify customers in debt, we see this as a first step to address the growing issue of debt in the market. This proposal cannot be seen as a solution in itself and must not delay the roll out of a fully functioning prepayment solution which is urgently needed.

What follows are our comments on the specific issues raised in the consultation paper, and we would be happy to meet with the CER at any stage should they wish to discuss any of the comments within this response further.

DEBT HOPPING

The issue of debt has been and continues to be a major issue for all suppliers operating in the electricity market. It is our belief that all suppliers have evidence of customer's debt hopping from one supplier to another existing supplier takes initiatives to recover debt.

The current level of bad debts within the utility market warrants a change to the current market rules, and we welcome the consultation proposals in this regard.

At present, suppliers are powerless to prevent the movement of the customer from Supplier A to Supplier B/Supplier C/Supplier D and in so doing accruing debt across multiple Suppliers.

Unlike in other markets for goods and services, electricity suppliers can neither rely on recovery of goods supplied, nor on service termination in situations of wilful debt.

The current market structures and policies are penalising the majority of customers for the few who habitually debt hop.

We believe that through the implementation of a formal process for debt notification, as proposed in the paper, suppliers would be able to identify and provide assistance to customers in financial difficulty at an earlier stage.

The consensus among market participants and consumer groups is that addressing both the issues of a proper prepayment solution and the issue of debt hopping will, greatly reduce the number of customers reaching the stage of disconnection.

We therefore agree that a process should be put in place to flag debt to potential new suppliers.

SUPPORTING CUSTOMERS IN DIFFICULTY

The key to supporting customers in difficulty is customer engagement with their supplier at an early stage.

Given the wholly unsuitable existing Electric Ireland current budget controller technology, as proposed by the CER, which are expensive and does not provide the level of functionality that would be provided by a proper pre-payment solution, Airtricity has developed its own innovative and cost – effective payment method, that allows customers take control of their energy costs.

Our new SmarterEnergy card solution was delivered free of charge to all our customers and allows bill payers to manage the cost of their home gas and electricity to avoid build-up of debt. In order to ensure that our customers benefit to the greatest possible extent from this initiative, Airtricity is absorbing the transaction costs involved in supporting this flexible payment arrangement.

Customers can use this card, which is personalised and unique to their account, to make top-up payments of any amount into their Airtricity account at over 1,100 An Post offices or over 3,000 PostPoint outlets nationwide. The customer is then be billed for their outstanding balance in their next billing or when their next direct debit payment is processed.

In the current absence of a robust and secure prepayment solution, our card-based scheme results in an improved service to our customers and is an effective substitute, at no cost to the wider customer base, to the costly installation of insecure budget controllers.

This solution offers a simple and cheap arrangement to help customers manage their bills, without the risk of involuntary disconnection at weekends or other inconvenient times. For customers who are serious about paying their way, we believe that this is an important innovation which will help to support customers in managing their cash flow. In combination with an agreed payment plan for customers in debt, it puts customers in control without any need for complicated processes and thus offers many of the benefits of a budget controller, without the significant cost, risk of fraud and inflexibility.

It will therefore help to address debt management within the industry while we wait for the implementation of an effective, scalable and secure pre-payment solution.

PRE-PAYMENT METERING

This consultation largely ignores the issue of prepayment metering.

The current budget controller technology, as set out by the CER, is ineffective, ill conceived and cannot be portrayed as a complete solution to managing energy debt in Ireland.

We have clearly demonstrated that there are better, more effective, secure and more efficient prepayment options available to the Irish market, such as the prepayment meters used in the Northern Ireland market. Our proposal is supported by all other Irish suppliers and it has been agreed by Networks that it is a quick and relatively inexpensive solution to implement

As stated above we believe the only effective long term answer to the problem of debt is the introduction of a combination of an effective prepayment infrastructure together with addressing the issue of debt hopping.

Customers in genuine hardship all have one thing in common. They are unable to manage or face up to the magnitude of debt outstanding. If given the opportunity, to manage smaller amounts, there is every likelihood that a customer will succeed in dealing with their debt.

This opportunity is being denied to them by the current market structures which instead foster a culture of indebtedness. If matters are to improve, this must change. The consumer must be allowed avail of a scalable prepayment solution if that is what suits their requirements. We would therefore urge the CER to prioritise the roll out of the proven keypad technology, which has virtually eliminated disconnection for debt in Northern Ireland.

DEBT SOLUTIONS

While we note the concerns the Commission might have around the introduction of debt blocking, we believe that there is a balance to be struck between allowing industry bad debt levels to increase and the need to protect customers against any unnecessary and unfair actions by suppliers.

We believe that the proposed debt notification is a welcome first step in the process of addressing debt within the energy markets, which

can be integrated with external process to deliver an effective market solution.

We agree with the CER that it is important that the process of debt notification is tightly monitored and agree that this should be done through an appropriate code of practice. This method is currently used to ensure that suppliers behave acceptably and obey the relevant market rules, and as such we believe this method is entirely appropriate for addressing behaviour in the management of debt hopping. This proposed code should be consulted upon and agreed with all stakeholders to ensure that customers receive the same level of service from all suppliers within the market.

We agree with the CER that explicit upfront agreement should be obtained from domestic customers at the point of sign up to enable data, such as existence of bad debt, to be notified to a third party such as a new supplier. It is our view that this is best achieved through having the relevant clauses included in the Terms and Conditions that the customer signs up to with their supplier.

It would become rapidly apparent if suppliers were to abuse this facility and suppliers would naturally police each other's behaviour in this area, providing a natural incentive for compliance in addition to the Commission's supervisory activities.

The proposed flag should be introduced for both domestic and non-domestic customers. We do not agree with the CER proposal to exclude LEU and LDM customers from this process; it should apply to all customers within the market.

Contract default should be included as a reason for raising a debt flag, particularly as this is the case in the NI market and this would work towards further harmonising the market rules across the Island.

We are broadly in agreement with the proposed debt thresholds and timings as set out in the consultation; however we feel that these thresholds and timings should be kept under review to monitor their ongoing appropriateness (including recognition of the impact of inflation over the longer term). It is our view that thresholds should be roughly equivalent to two month's worth of consumption. While the current proposed figure is in line with this, energy prices will fluctuate and the figure should be adjusted accordingly, on a regular basis.

We do not believe the implementation of a debt blocking/flagging procedure will have a negative effect on customer switching. The proposals would not prohibit a customer from changing supplier it would just ensure that they did not leave a substantial debt behind them when doing so. We are currently in the customer acquisition mode and as such would not be supportive of any new processes that we believe would limit a customer's ability to change supplier.

While we understand the need for the market operators to carry out an impact analysis ahead of implementation, from our understanding of the current market process we believe that the cost of system changes required to implement debt blocking would be minimal. The functionality is already built into the current system but is currently not utilised.

CONCLUSION

With the decline in the Irish economy and the tightening of cash flow, Airtricity believes that the issue of debt hopping will continue to grow and that suppliers' ability to mitigate this increasing risk is severely limited under current market rules.

The current market structures and policies are penalising the majority of customers for those who are inclined to debt hop. We believe a debt hopping strategy will curtail this cost to the industry and ultimately to all consumers. We therefore welcome the CER's proposals to introduce a flag in the market systems which will identify customers in debt.

Notwithstanding this, it is our view that this is only a first step in the process of addressing the growing issue of debt in the market. It cannot be seen as a solution in itself and must not delay the roll out of the fully functioning and secure prepayment solution which is urgently required to support a competitive market.