Prepayment Metering in the Electricity and Gas Markets

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Abstract:

The CER is consulting on options for the treatment of Pre Payment Meter customers repaying a debt within the change of supplier processes operated in the electricity and gas markets.

Target Audience:

The paper is for the attention of electricity and gas customers, suppliers, network operators, consumer organisations and all other interested parties.

Related Documents:

CER/11/106 – Customer Bad Debt in the Electricity & Gas Markets – Decision

CER/11/044 – Customer Bad Debt in the Electricity & Gas Markets – Consultation

CER/10/217 – Guidelines for Code of Practice on Disconnection

CER/09/052 – Guidelines for the Code of Practice on Natural Gas PPM

CER/06/157 – Prepayment Metering Policy in the Gas Industry

CER/05/060 – Management of Customer Payments & Arrears

CER/04/044 – Management of Customer Arrears

Executive Summary

The energy market has experienced a lot of change over the past number of years, one of the most notable of which is the impact of the current economic climate and the effects this is having on customers and indeed the energy industry.

Over the past 12 months the CER has thought it necessary to amend some of its retail policies to provide additional protection for gas and electricity customers. Two of these recent policy decisions are related to the operation of Pre Payment Meters in both the electricity and gas markets.

1. Disconnection Code of Practice

   In order to ensure the number of customers being disconnected for non payment is kept to a minimum, in November 2010, the CER amended its Code of Practice on Disconnection Guidelines to include the requirement that where possible, suppliers must offer customers the option of having a Pre Payment Meter installed as an additional step before moving to request a disconnection.

2. Debt Flagging

   More recently in June 2011, the CER approved that a debt flagging facility be introduced into the change of supplier processes in the electricity and gas markets. Debt flagging allows the losing supplier to indicate to the gaining supplier that the customer they are switching owes a debt above the industry threshold. The gaining supplier can then decide to proceed with or cancel the change of supplier request based on this information.

Since the issuance of the debt flagging decision, the concern has been raised that there is an inconsistency between the Code of Practice requirement and the debt flagging decision in the case of Pre Payment Meter customers who are paying a debt.

Suppliers have indicated to the CER that the debt flagging solution does not work for Pre Payment Meter customers as the gaining supplier has no incentive not to proceed to switch the customer as there is no risk of the customer accruing further debt.

The CER accepts that debt flagging may not be as effective for Pre Payment Meter customers, and is now seeking comments on the following options;

A. maintain the current arrangements whereby a Pre Payment Meter customer ceases repaying debt to their old supplier in the event that they change supplier. The old supplier can pursue the customer separately for the recovery of the debt, or;

B. allow a Pre Payment Customer change supplier but make a change to the market processes such that that they continue to pay off their outstanding arrears after they switch.

The CER currently considers there may be good reason to change to some form of Option B, but needs to consider the matter carefully. In particular, the CER is anxious that consumer bodies give their views on this issue.

If Option B is approved, it is possible that there may be consequential changes required to the CER's Guidelines for the Code of Practice for Electricity and Gas Pre Payment Meters.

In revising this Code, the CER will consider whether 100% of the overall debt owed to the old supplier should be carried forward by the customer when they change supplier, or whether some fraction of the overall debt should be carried forward.

The CER will also consider the minimum proportion of a customer's credit which should be retained for energy consumption versus being allocated to paying off the outstanding debt when the customer 'tops up'. This ratio will have an impact on the duration of time it takes a customer to repay their arrears. The CER seeks views on limiting the proportion of a customer's credit which is allocated for supplier debt repayment every time the customer 'tops up' to a maximum of 30%. This would leave a minimum of 70% of a customer's credit top up to be used for actual energy consumption.

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1.0 Introduction

1.1 The Commission for Energy Regulation

The Commission for Energy Regulation ('the CER') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sectors. The CER was initially established and granted regulatory powers over the electricity market under the *Electricity Regulation Act 1999*. The enactment of the *Gas (Interim) (Regulation) Act 2002* expanded the CER's jurisdiction to include regulation of the natural gas market, while the *Energy (Miscellaneous Provisions) Act 2006* granted the CER powers to regulate electrical contractors with respect to safety, to regulate to natural gas undertakings involved in the transmission, distribution, storage, supply and shipping of gas and to regulate natural gas installers with respect to safety. The *Electricity Regulation Amendment (SEM) Act 2007* outlined the CER's functions in relation to the Single Electricity Market (SEM) for the island of Ireland. This market is regulated by the CER and the Northern Ireland Authority for Utility Regulation (NIAUR). The CER is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

1.2 Purpose of this paper

The purpose of this paper is to seek the view of the public and the CER's stakeholders with regard to ***the treatment of Pre Payment Meter (PPM) Customers repaying a debt within the change of supplier processes operated in the electricity & gas markets.*** In order to make an informed and impartial decision on this topic, the CER wishes to obtain comments from members of the public, the energy industry, customers and all interested parties. The CER commits to considering all views equally and affording each respondent the opportunity to clarify any issue raised in this paper.

1.3 Background Information

The gas and electricity market processes and procedures have to date been centred around the principle that no factor, including bad debt should prevent or delay a customer from switching supplier if they so wish. This principle was reflective of the CER's view that customer bad debt was a matter for individual supplier's to manage and mitigate as outlined in the 2005 decision paper CER/05/060 'Management of Customer Payments and Arrears[1]'.

[1] CER/04/044 – Management of Customer Arrears & CER/05/060 – Management of Customer Payments & Arrears

PPMs allow customers to purchase credit at vending outlets and apply this credit to their meters to pay for their energy consumption. PPM customers thus pay for their energy consumption in advance of actually consuming it and are not faced with a bill at the end of every billing period. When a customer runs out of credit they 'self disconnect' until they purchase further credit. This means the build up of debt is avoided.

In 2006, the CER issued a decision (CER/06/157[2]), which stipulated that the recovery of customer debt could not be directly facilitated and recorded by the PPM technology itself but instead could be recovered via supplier debt recovery tariffs. The CER was of the view that keeping the recovery of debt independent of the prepayment meter itself would enable a Networks business procure a less complex and costly PPM technology for roll out to the market. Debt recovery tariffs were also considered supportive of the CER's decision in CER/05/060 referred to above.

A PPM debt recovery tariff would have a higher unit rate per kWh purchased as it includes a standard unit rate (as for credit meter customers) and an additional charge to recover the debt. The more energy the customer consumes the more they would contribute to paying off their debt. In the event that a customer on a PPM debt recovery tariff changes supplier, the action of the customer switching to a tariff offered by the new supplier means that the customer ceases paying of their debt to the old supplier.

This CER/06/157 decision was issued in respect of the gas industry only as it contained a direction to Bord Gáis Networks (BGN) to procure a PPM technology that would support a multi-supplier environment which could be rolled out nationally.

At that time it was not considered necessary to require debt recovery tariffs for the electricity industry as ESB Electric Ireland was the only supplier of budget controllers, a technology which the CER and electricity industry acknowledged would need to be replaced in the near future.

1.3.1 PPM in the Gas Market

Historically, a PPM solution was only available to customers of Bord Gáis Energy (BGEnergy) in the Dublin and Eastern region. The 2006 decision paper referred to above, CER/06/157 'Prepayment Metering Policy in the Gas Industry' set out how PPM should be developed and implemented in a competitive gas market.

In summary CER/06/157 contained the following decisions;

- PPM should be available to all natural gas customers regardless of their geographical location.

[2] CER/06/157 – Prepayment Metering Policy in the Gas Industry

- BGN should develop and implement a PPM solution to support a multi-supplier environment for all geographical areas.
- PPM should be available to all customers and developers including vulnerable customers (subject to the supplier assessing the customer's ability to utilise a PPM) and Local Authorities.
- Cost of Installation
    - Customers or Developers who request a PPM should be required to pay the differential cost of a PPM versus standard credit meter.
    - Customers who are deemed by their supplier to be experiencing genuine financial hardship can have a PPM installed at no cost to them – with the costs to be recovered through network charges.
- Debt recovery facilities shall not be directly offered by the PPM technology. Suppliers can recover debt via debt recovery tariffs.
- A Code of Practice to be developed to ensure the protection of PPM customers.

Further to this decision, BGN initiated the PPM Rollout Project, the culmination of which led to the Go-Live of a new PPM solution on the 2nd December 2008.

As of the 1st August 2011, there were 42,423 PPM installed in the market. At present, BGEnergy is the only domestic supplier to supply PPM customers.

Given the impending winter period which usually results in substantially larger bills for gas customers given the increased heating requirements, the CER recently requested that all domestic suppliers who are not yet providing PPM make the necessary arrangements with BGN to enter this market as soon as feasibly possible.

1.3.2 PPM in the Electricity Market

The CER approved that ESB Networks initiate a PPM project to procure and implement a robust PPM solution for all domestic electricity suppliers in time for the winter period 2011.

ESB Networks has procured a key pad PPM technology similar to that operated in the Northern Ireland. The CER has approved that the cost of 100,000 of these meters to be socialised via the networks charges so that they can be provided, at no cost, by suppliers for customers under the financial hardship provision. To clarify the 100,000 meters will only be available for installation in financial hardship cases.

<u>Budget Controllers</u>

To date, budget controllers have been used by domestic customers in the electricity market. They are not meters but a device that is installed in addition to a customer’s meter. Budget controllers are less sophisticated than the current PPM technology implemented in the gas market and in the gas and electricity markets in the Great Britain (G.B). and Northern Ireland and can be subject to abuse or fraud. While the budget controller solution can be provided by all domestic electricity suppliers, ESB Electric Ireland is the only supplier who provides budget controllers currently.

All budget controllers are installed under the financial hardship provision and all associated costs are recovered through the network charges. Unlike in the gas market, customers and local authorities do not install and pay for them by their own preference because of the limited number of budget controllers available.

2.0 Treatment of Customer Debt and PPM

2.1 Introduction

The energy market has experienced a lot of change over the past number of years, one of the most notable of which being the impact of the current economic climate and the consequential effects this is having on customers.

Over the past twelve months, the CER has decided to amend some of its retail policies to provide additional protection for customers. Two of these policy decisions are directly related to the operation of PPM in the electricity and gas markets.

2.1.1 Disconnection Code of Practice

The CER issued a revised Disconnection Code of Practice in November 2010[3]. The revised Code was issued given the CER's concerns over the rising number of disconnections, particularly in the electricity market during 2010. The Code included a number of strengthened stipulations to ensure that suppliers adhere to a set of minimum requirements before they request a customer to be disconnected for the reason of non payment.

In order to ensure that the number of customers disconnected was kept to a minimum, suppliers were required (where possible) to offer a customer a PPM under the financial hardship provision before the supplier issues a request for a disconnection.

In light of this requirement and the substantial increase in the number of customers experiencing difficulty paying their energy bills, the CER has observed a sharp increase in the number of PPMs which are being installed in the gas market since the beginning of 2010.

2.1.2 Debt Flagging in the Electricity and Gas Markets

As noted in section 1.3, the CER has in the past decided that customers should not be prevented from switching supplier on the grounds of bad debt.

The CER has acknowledged the effects the current economic climate is having on customers' ability to manage payment to their energy suppliers, a concern which has been emphasised to the CER by consumer organisations such as the

[3] CER/10/217 – Guidelines for Code of Practice on Disconnection

St. Vincent de Paul and MABs. The CER is also aware of the resulting increased bed debt levels being accumulated in the energy industry.

Given the change in customers' circumstances, the CER decided a review of its 2005 decision was necessary and published a consultation paper in March[4] and a decision paper in June[5].

The CER decided that a debt flagging facility could be introduced in the electricity and gas markets for domestic and small and medium business customers. Debt flagging means the losing supplier is notified where a customer has decided to switch to another supplier. The losing supplier is given the opportunity to indicate or 'flag' to the gaining supplier that the customer in question has a debt (above the industry threshold). The incoming supplier can then decide whether or not to proceed with the switch.

The CER decided to approve debt flagging as it is a balanced measure to help protect customers from accruing multiple debts with different suppliers whilst maintaining the customer's right to change supplier.

The decision paper required that debt flagging is in place from 1st October 2011. The paper set out that the CER will develop an Industry Code to make sure that customer protection is upheld and that the processes put in place comply with data protection requirements.

2.2 Treatment of Customer Debt and PPM

During the consultation process for the bad debt paper, suppliers requested that the CER approve a process for PPM customers with bad debt similar to that operated in the G.B. market, namely the Debt Assignment Protocol (DAP).

The debt flagging paper did not approve that debt could be transferred to the new supplier in the case that a PPM customer with a debt switched supplier, however the paper did note that the CER would keep this decision under review.

In G.B., a domestic customer can be prevented or 'blocked' by their current supplier from switching where they have an outstanding debt. In the event that the customer is blocked for this reason, if the customer has a PPM and an outstanding debt which is below £200[6], the customer has the option of reverting to their chosen supplier and requesting that the outstanding arrears is transferred with them when they switch.

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[4] CER/11/044 – Customer Bad Debt in the Electricity & Gas Markets – Consultation
[5] CER/11/106 – Customer Bad Debt in the Electricity & Gas Markets - Decision
[6] If the debt is above £200 – the only recourse for the customer to proceed with switching to an alternative supplier after they have been blocked is to first pay the amount outstanding to the current supplier.

If the new supplier decides to proceed with the switch by acquiring the customers debt, the old supplier will transfer the full amount of the debt to the new supplier for the customer to repay but the new supplier will only pay the old supplier for a proportion of this debt – typically around 90% of the full amount outstanding – this acts as an incentive for the new supplier to facilitate debt transfer under the DAP arrangements.

The decision not to approve a DAP in conjunction with the debt flagging arrangements in the Irish market would effectively mean that if the incoming supplier was agreeable, a customer with a PPM who was repaying a debt could switch supplier before their outstanding arrears have been repaid up to the industry approved debt flagging thresholds.

Since this decision was published, some suppliers have expressed concern about the compatibility of requiring suppliers to offer a PPM to customers prior to disconnection and the CER's decision not to require that PPM customers continue to pay off debt even when they change supplier.

The view has been put forward to the CER that the debt flagging solution does not work for PPM customers as unlike for credit meter customers, the gaining supplier has no incentive not to proceed to switch a PPM customer who has been flagged as having an outstanding debt. This is because by virtue of being a PPM customer, there is no risk that future debt will build up. In these cases the losing supplier, who requested the installation of a PPM, is left with the debt. The key reason for this is that the new supplier has the ability to ascertain whether a customer transferring to it is a PPM customer – if the supplier was not aware of this, then the potential problem could be considerably lessened.

Suppliers have stated that this arrangement creates a disincentive to compliance with the Code of Practice to offer a PPM as they may have a greater probability of receiving payment from a customer following a disconnection than after installing a PPM.

To clarify in the opposite scenario, a customer does not lose any credit which is outstanding at the point in time that they switch supplier.

2.2.1 Review of Treatment of Debt for PPM Customers

The CER has been working with ESB Networks and suppliers to introduce a PPM solution into the electricity market in advance of this winter period. Similarly, BGN and domestic gas suppliers who currently do not service PPM are working together in order to process the entry of these into the gas PPM market.

As both industries are finalising market arrangements and processes to allow all domestic suppliers offer PPM (for circumstances of financial hardship), the CER has decided to consider the concerns raised by suppliers. In other words, the CER will review how PPM customers with debt are treated in a competitive multi supplier market. A comparable contributor to the decision to conduct a review is as the CER considers that an alternative arrangement may also be better for customers.

The CER is seeking respondents' comments on whether or not the current arrangement where PPM customers are treated the same as credit meter customers within the change of supplier procedures should be maintained. The CER is considering two alternative approaches (and variants thereof):

2.2.2 Proposals

2.2.2.1 Options

A) Maintain Status Quo:

Uphold the current arrangements with customers with debt in the change of supplier and debt flagging processes. Under this option, PPM customers with a debt would be treated the same as credit meter customers. This means that if a PPM customer with debt initiates the change of supplier process and is flagged by the outgoing supplier as having a debt, it remains as a sole decision for the incoming supplier as to whether to proceed with the change of supplier request or not. If the incoming supplier proceeds with switching the customer, the debt ceases to be repaid to the old supplier and old supplier resorts to other methods to recover the arrears left outstanding similar to those utilised in the case of credit meter customers, i.e. through Court action for example.

B) Amend current switching processes for PPM customers repaying a debt

Given the requirements placed on suppliers to ensure that the number of customers being disconnected from supply are kept to a minimum and accepting that the debt flagging arrangements approved by the CER may not be as effective for PPM customers as for credit meter customers, the CER is minded to consider amending the change of supplier arrangements for PPM customers repaying a debt.

To clarify the CER is not open to approving a situation similar to a debt blocking arrangement whereby PPM customers repaying a debt cannot switch supplier in any circumstance. The CER is however minded to introduce an arrangement where a PPM customer repaying a debt can switch supplier but must continue to pay off their outstanding arrears after they switch.

At this time, the CER is of the view that it may be appropriate to approve Option B as this option will allow PPM customers with a debt to switch but as their debt effectively 'travels' with them, the losing supplier is not left with outstanding arrears after facilitating the installation of a PPM instead of disconnecting the customer.

Furthermore, the CER considers that Option B may be beneficial from the customer point of view as under the current arrangement if a PPM customer switches they will receive a lump sum bill from their old supplier with request for immediate payment. This would then be followed up with debt collection. If the customer's debt travels with them when they switch, the customer can continue to make payments in smaller more manageable amounts.

However, the CER will review its position on Option B after the consultation period, and wishes to hear from consumer representatives on this matter.

Proposal 1 – The CER is seeking industry views on the following options for the treatment of PPM customers who are repaying of debt within the change of suppliers' process in the electricity and gas markets;

A) maintain the current arrangements whereby a PPM customer ceases repaying a debt to their old supplier upon switching to an alternative supplier and the original supplier pursues the customer separately for the recovery of the debt.

B) introduce a change to the current PPM solution in the gas market and the proposed PPM solution for the electricity market whereby a PPM customer repaying a debt can switch supplier but must continue to pay off the their outstanding arrears after they switch.

Q1. Respondents are invited to comment on Option A and Option B as outlined in this section. Are you in favour of either of these proposals? Outline reasons for agreement or disagreement.

2.2.2.2 Implementation

On the basis of preliminary discussions with the Network businesses in both markets, the CER has been advised by BGN in the case of the gas market solution and ESBN in the case of the impending electricity PPM solution that such an arrangement could be facilitated by making alternations to the PPM technology and/or amendments to the supporting front and back office arrangements and/or by suppliers making changes in their internal systems.

Given that the PPM solutions in the electricity and gas markets differ in some respects, the CER acknowledges that this means that there may be slight differences in the implementation of Option B into the gas and electricity markets.

2.2.2.3 Additional Considerations

As proposed above, the CER is currently of the view that some version of Option B may be appropriate. If this is approved, the CER will review its Guidelines for Code of Practice on Electricity and Gas PPMs. At this time, the CER considers that the following will need to be considered;

- Proportion of Debt which travels

The CER will stipulate the proportion of the debt owed to the losing supplier at the point of the switch which will travel with the customer to continue to be repaid when the customer moves to their chosen supplier. The CER notes that in the U.K., the customer pays 100% of the debt accrued after the switch is affected.

The CER will consider whether 100% or a lower proportion of the outstanding debt should travel with the PPM customer when they switch supplier. The CER is considering doing this in order to have cognisance of the fact that generally all suppliers face a certain level or risk of bad debt.

- Allocation of customer credit to Energy Consumption v Debt Repayment

The length of time that it takes a customer to repay their debt is a function of how much energy they consume in the case of debt recovery tariffs or how many times they top up their credit in the case that debt is recorded on the meter itself.

The CER cannot predetermine the minimum or maximum amount of time that a PPM customer has to repay a debt. The CER can however stipulate the proportion of customer’s credit which is allocated to energy consumption versus repayment of a debt. This relevant ratio of which will influence the time it takes for a customer to repay their arrears.

The CER believes it is very important to stipulate a minimum percentage of credit which must to retained for allocation towards actual energy consumption every time a customer ‘tops up’. By preventing a large majority of the credit purchased from being immediately allocated to reducing their arrears every time the customer tops up, this ensures that the customer has a reasonable amount of credit for their heating needs etc.

The CER notes that it has set a defined ratio for emergency credit[7] in the Gas PPM Code of Practice Guidelines. Where a customer has used the emergency credit on their meter and then tops up their credit, a minimum of 30% of any credit payment must be allocated to available credit for gas usage, with a maximum of 70% being allowed for the recovery of the cost of emergency credit used.

The CER is minded to approve a different ratio for the recoupment of general debt. At this time, the CER considers that a maximum of 70% to be allocated to general customer debt as is the case for emergency credit (regardless of whether the customer has switched or not) would be considerably too high.

In this regard, the CER seeks views on limiting the proportion of a customer's credit which is allocated for debt repayment every time the customer 'tops up' to a maximum of 30%. This would leave a minimum of 70% of a customer's top up to cover actual energy consumption.

Q2. The CER has outlined a number of additional aspects which would need to be considered or reviewed subsequent to the approval of Option B. Respondents are invited to comment on the considerations and highlight any additional points which would need to be reviewed if the CER decided to approve Option B.

[7] When a customer runs out of credit, to avoid self disconnecting at inappropriate times, they have the option of utilising their emergency credit by pressing a button on the meter itself which releases €5 worth of credit. The customer cannot use the emergency credit facility again until the €5 has been repaid from the previous time.

3.0 Responding to this Consultation

The CER invites comments on the proposals presented in this paper from interested parties to be submitted no later than 5.00pm on 15th September 2011. Comments should be sent, preferably in electronic format to;

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The CER intends to publish all comments received – those respondents wishing for certain sections of their submission to remain confidential should submit the relevant sections in an appendix marked confidential.