11th November 2011

To all energy suppliers.

Dear Colleague,

Domestic Customer Debt and Disconnections

It is a regrettable fact of this challenging economic climate that many households are falling into arrears with their energy bills and are struggling to manage debt. The CER has a statutory duty to protect consumers and is working with the energy industry to ensure that where a customer in genuine financial hardship falls into arrears they are afforded every opportunity to manage that debt and avoid disconnection of their energy supply.

I am writing to set-out the regulatory approach to dealing with this issue, as well as to remind energy suppliers of their responsibilities to their customers. Suppliers have a clear right to receive payment of the services they provide, but disconnection of a customer's energy supply should always be the last resort and suppliers have a key role to play in this regard. Over the past 12 months the industry has engaged across a range of initiatives to address the growing problem of energy debt amongst Irish consumers including a review of the code of practice, the introduction of debt flagging and most recently the roll out of keypad Pay As You Go electricity meters. This work is ongoing for winter 2011/12.

1. Review of Disconnections Code of Practice

All licensed gas and electricity suppliers are required to publish Codes of Practice across a range of key customer interactions. These Codes of Practice must be in line with guidelines set by the CER and are subject to our approval. In Q4 2010, more stringent guidelines were introduced on how suppliers must engage with customers, specifying the notice periods and the format of all communications regarding debt and disconnections. Suppliers must also facilitate payment options/plans for domestic customers experiencing genuine financial hardship and, where appropriate, engage with a money advisor acting on behalf of the customer e.g. MABS, a recognised charity or third party. This must include offering the customer a prepayment meter or budget controller if this is possible.

It is vital that all suppliers adhere to the Codes of Practice as set-out, and specifically those that relate to the steps a supplier must take before disconnecting any customer. The CER is auditing suppliers to ensure that they do. If they are not being adhered to, the CER will not hesitate to take measures to improve matters.

Notwithstanding the above, it should be noted that Vulnerable Customers cannot be disconnected at all during the winter period. The Department of Communications, Energy and Natural Resources has recently transposed new European legislation which expands the definition of a "vulnerable customer".

2. Review of the Costs of Disconnections

The costs of disconnection and reconnection are set at €70 and €61.74 (excluding VAT) for electricity and gas, respectively. The CER requires suppliers, requesting a disconnection for non payment, to absorb 50% of the total cost.

3. **Introduction of Debt Flagging**

Debt hopping, and indeed the high general level of debt, is acknowledged as a serious issue for the industry raising costs for suppliers and ultimately for all consumers. In the current difficult economic climate, customer and industry debt levels are being exacerbated by some customers' changing supplier in order to avoid paying their arrears or to avoid a pending disconnection. The introduction of the debt flagging process from 17th October should enable suppliers reduce the instances of debt hopping, and encourage over-indebted customers to address issues with arrears, and avoid disconnection.

4. Rollout of Pay As You Go Meters

Where a customer is experiencing genuine financial hardship the supplier must, as an alternative to disconnection, offer the customer a prepayment metering facility if this is possible. Pay As You Go electricity meters are being rolled out to customers in financial hardship from 24th October 2011. In the gas market, additional Pay As You Go meters will also be rolled out over the winter period. These meters are free of charge to those customers in financial need.

It is now up to suppliers to engage fully, offering a prepayment option to customers in financial hardship where that is an appropriate solution for the customer. Failure to offer customers a legitimate alternative while proceeding to disconnect a customer in financial hardship will be considered to be a breach of the code of practice. The CER will work to ensure that these meters are distributed in an equitable manner between suppliers, and to ensure that they are rolled-out as efficiently as possible. I would note that the costs of the meters are being borne by the general electricity and gas customer, so for that reason they are only being given free to those customers in serious financial need who are potentially facing disconnection. It is important that suppliers adhere to this when offering such meters.

5. Market Monitoring

The CER monitors activity in the retail markets for gas and electricity as part of its statutory functions. The CER regularly publishes market data and will shortly consult on an enhanced framework for retail market monitoring which will include a review of the range of domestic tariffs available in the gas and electricity markets. While the retail market for electricity is fully deregulated all suppliers are free to set their own tariffs, the 3rd European Energy Package requires that customers are offered a wide choice of payment methods, which do not unduly discriminate between customers. It also requires that prepayment systems shall be fair and adequately reflect likely consumption, and that any difference in cost arising from choice of method of payment, including prepayment systems, reflects the cost to the supplier of the different payment methods, With regard to this, I am asking all suppliers to ensure that customers on Pay As You Go meters are offered tariffs that reflect the cost to the supplier. As customers using such meters pay for energy in advance, it would seem that they may offer better risk management (ie improved cashflow with no risk of debt) and thus lower costs for suppliers, and this should be reflected in the tariffs. The CER will monitor supplier tariffs in this regard, and will enforce specific requirements if needed, but in advance of this, I would ask suppliers to consider the issue carefully and voluntarily pass along any cost savings to their customers.

In December, the CER will report on the level of disconnections (by supplier) and will provide additional information on the impact that debt flagging and Pay As You Go meters have had on the disconnections statistics. The December report will also include the results of the CER's audit of supplier's compliance with the requirements of the code of practice for disconnections. This qualitative feedback will demonstrate if customers are being fully supported by suppliers in managing arrears, to avoid disconnection in line with the requirements of the code of practice. Growing customer debt is one of the biggest issues facing the energy industry this winter. The CER will continue to work constructively with industry participants, and indeed all relevant stakeholders, to ensure that consumers in financial hardship are adequately supported to manage their arrears without fear of disconnection. It is incumbent on suppliers to engage fully so that customers are protected this winter.

Yours sincerely,

Dermot Nolan
Chairperson, Commission for Energy Regulation.