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Ms. Elizabeth Farrelly,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

15 September 2011.

via e-mail only

Dear Elizabeth,

Re: Consultation Paper on Prepayment Metering in the Electricity and Gas Markets

Vayu welcomes the opportunity to comment on the CER's paper with regard to prepayment meters (PPM) in both the gas and electricity markets (CER/11/166). This paper will help aid in developing competition in the PPM segment of each market, in particular the gas market currently only supplied by Bord Gáis Energy.

The introduction of CER/10/217 – Guidelines for Code of Practice on Disconnection, where suppliers are required to offer domestic Customers a PPM as an alternative to a disconnection, has necessitated further clarifications with regard to the debt associated with the relevant meter. The CER has recognised that the introduction of debt flagging may not be as effective for PPM as traditional meters during the change of supplier process. This is because the incoming supplier has no incentive not to proceed with the switch as there is no risk that they will accrue any further debt. As a result the CER has acknowledged that some changes may be required with regard to debt and debt allocation within the PPM segments.

Vayu's stance has not changed from previous papers and Vayu are staunchly in favour of a debt blocking option rather than the current debt flagging solution that has been adopted by the CER. Failing that, and in relation to the specific options and concerns noted in the paper, Vayu are in favour of Option B (changing the PPM current solution), as opposed to Option A (maintaining current arrangements). In addition to this, Vayu strongly favours a solution that enables 100% of the debt to be recovered, and that any outstanding debt remain payable to the outgoing supplier. Option B is a step in the right direction as it helps suppliers recover any outstanding debt, whilst also allowing the free movement of customers between suppliers.

Our responses to the individual questions are as follows:

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

- **Option A – maintaining current arrangements.**

Maintaining current arrangements for the PPM Market would be a retrograde step by the CER in relation to previous decisions, namely CER/10/217 – Guidelines for Code of Practice on Disconnection and CER/11/106 – Customer Bad Debt in the Electricity and Gas Markets – Decision. Leaving the PPM debt flagging and assignment as it currently stands is a disincentive for suppliers to follow the disconnection guidelines as set out in CER/10/217. By negotiating with Customers in debt, and then allowing them to avail of a PPM, the CER has taken the right socially responsible steps, while also allowing suppliers protect their revenue streams/debt recovery procedures.

If a Customer, after the installation of a PPM, can switch supplier without regard for the debt they had previously built up, there is no incentive for the outgoing supplier to install a PPM in the first place. Suppliers would rather disconnect the meter, as Customers are more likely to pay or at the very least negotiate a payment plan if the disconnection threat is real.

Allowing Customers to switch suppliers after the PPM has been installed, without the facility to recover the debt, only benefits the incoming supplier. By installing a PPM, the outgoing supplier is merely providing unrivalled security for the incoming supplier. With a PPM in place, the incoming supplier will never suffer bad debt issues, as the Customer must now pay for their gas before they consume it. The outgoing supplier is left with a level of bad debt that is likely to be irrecoverable. This is unacceptable and essentially endorses a debt-hopping mechanism.

In addition the paper states that should a PPM Customer switch supplier, the outgoing supplier can resort “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”. At this point Vayu would ask the CER how many similar cases have been successfully taken against individual domestic Customers? Taking this action is a costly and an arduous procedure and would most likely cause suppliers to increase their gas prices as a result of increased legal fees. Any potential margins that would have been earned would be more than offset by the legal fees incurred in recovering the outstanding debt. This is something that is contra to one of the CER’s goals to keep gas cost effective for consumers.

To be clear, Vayu does not favour Option A. Overall, Vayu would consider not altering the PPM change of supplier process and how debt is handled to be a deterrent to operating within this market segment.

- **Option B – Changing the current PPM solution**

Vayu agrees that a change should be made to both the current PPM solution for the gas market and the proposed solution for the electricity market. By introducing a system whereby a Customer’s debt transfers with the Customer when they change supplier will improve both markets and result in greater buy-in from suppliers. Under this mechanism, suppliers’ revenues are better protected and they will proactively encourage the use of PPM rather than merely following published guidelines as laid out in CER/10/217.

The introduction of a mechanism whereby debt is transferred with the Customer can serve to improve the gas market as a whole. Customers eligible to switch can benefit from other suppliers' rates, which may enable the Customer repay their outstanding debt quicker, while availing of cost savings at the same time.

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.

Some issues raised in the paper do not make commercial or business sense. Before considering the pros and cons of different means of recovering and transferring debt, two main issues should be addressed:

i. Proportion of debt that travels with the Customer at change of supplier.

The paper considers the option that not all of the debt associated with a Customer should transfer at the change of supplier. Vayu struggle to see the reasoning behind this; because a Customer wishes to change supplier, their debt is automatically reduced makes no commercial sense. The CER states that they are considering this proposal because all suppliers face a "certain level or risk of bad debt". We vehemently disagree with this view and it demonstrates a lack of commercial experience of the CER in today's tough economic environment.

This approach is completely at odds with the structure within the Single Electricity Market (SEM), whereby generators are secured against supplier default. Bad debts for generators are not an issue in the SEM. By not allowing the transfer of 100% of the debt the CER are removing the possibility of bad debt and making it a certainty.

If this is allowed to happen then a Customer could switch suppliers four times and reduce their debt substantially. If, for example, 90% of the outstanding debt transfers at the change of supplier, then by simply switching to four different suppliers, the Customer's debt will be reduced to 66%.

An analogy that could be used to demonstrate the absurdity of this proposal would be that of a bank and a mortgage. If a Customer has a mortgage with Bank A and wished to switch to Bank B due to a preferential interest rate (similar to a Customer switching gas supplier due to a preferential gas rate) should the principle amount owing/outstanding to Bank A be reduced solely due to the fact they have changed mortgage "supplier". The financial regulator would definitely not allow this arrangement. Also, Irish Government policy on extensive debt forgiveness is that it should not happen and "is not a realistic option"[1]

Vayu strongly opposes this proposal, and any debt a Customer has incurred should be paid in its entirety.

[1] Extract from speech by Minister for Finance, Michael Noonan T.D. to an Oireachtas Finance Committee on 1 September 2011.

ii. The treatment of the debt on the PPM.

At present the debt does not sit on the meter or the back-end systems; it remains on the suppliers own books. An option discussed in the paper is that the debt is then recovered through a higher debt recovery tariff. The debt should sit on the meter/back-end system and be treated separately to the gas consumption.

We would make the point that having a higher debt recovery tariff can act as a competitive disadvantage, as a Customer may perceive they are paying a higher tariff, rather than recognising it is due to the debt recovery. Moving away from a debt recovery tariff would also help facilitate whatever decision the CER adopt in relation to debt transfer.

In addition to the two above issues, other considerations do exist and Vayu's position on these is detailed below:

iii. Debt Transfer Options

Vayu understands that there are two methods of transferring debt when a PPM Customer switches supplier. These options are:

a. The original debt remains outstanding and due to the outgoing supplier. Any money received through a debt allocation mechanism from each "top up" is sent directly to the outgoing supplier and the Customers debt reduced by the appropriate amount.
b. The incoming supplier buys the debt from the outgoing supplier, and as such the debt recovery becomes the responsibility of the incoming supplier.

Vayu firmly believes that the debt should remain with the outgoing supplier and our preferred option is that the debt recovery element of any top up is passed directly to the outgoing supplier with a unique GPRN/MPRN identifier. The outgoing supplier would, as is done presently, provide the Customer with regular statements showing the outstanding debt.

This should only be the case however, if the incoming supplier cannot alter the debt amount outstanding associated with the meter, i.e. only the system operator can alter the debt with explicit instruction from the outgoing supplier. In addition, provisions must be in place to allow the outgoing supplier reduce the outstanding debt if the Customer pays a lump sum directly to the outgoing supplier, bypassing the PPM top up facility.

Vayu does not agree with the option of transferring debt between suppliers, and being forced to transfer only a percentage of the debt stipulated by the CER. The CER should check the legality of such a proposal. Forcing suppliers to buy debt from each other is unreasonable and against each suppliers interests. Vayu are of the opinion that 100% of the debt should remain payable to the outgoing supplier.

iv. Allocation of Customer Credit to Energy Costs vs. Debt Recovery

As providers of heat and power, suppliers have a level of social responsibility to domestic Customers. As such, and it has been shown that those who will want the use of a PPM will most likely be in financial hardship. However, this may change as more end-users become familiar with the Pay-As-You-Go (PAYG) aspects of PPMs. They are already know the PAYG model from the mobile phone industry and using PPMs is widely expected to increase significantly in the coming years.

Suppliers must be mindful that the amount of money from each “top up” allocated to the debt repayment is not excessive, but equally should ensure that the “debt” is repaid in a reasonable timeframe. A range of between 25 to 35 per cent of the “top up” value should be allocated to debt recovery. This allows the Customer have sufficient credit to use the gas/electricity over a given period, whilst allocating a sufficient amount to the debt.

A lower level would result in debt repayment being minimal and unnecessarily extended over a prolonged period of time. This would not benefit the supplier or the Customer. In addition, each supplier should have the ability to set their own levels up to the maximum. Each case will be unique, and as such different mitigating factors will apply.

When a Customer changes supplier the CER approved debt allocation rate must become active immediately. Having a common, standard rate that is payable when a Customer switches supplier will lead to a more transparent and easy to understand market for the Customer.

Conclusion

Although we favour a debt blocking mechanism for the wider industry, our concluding remarks on this paper are that Vayu favours a change to the current/proposed PPM solutions for both the gas and electricity market. Changes to the treatment and transfer of debt on PPMs will improve the processes and market, and is a progressive step by the CER.

Vayu stresses that it firmly supports the changing of the treatment of debt, allowing it to be stored on the meter/back-end systems, and it remaining 100% owed to the outgoing supplier. The supplier with the outstanding debt must also retain control over the debt allocation percentage up to a CER approved maximum, while this CER maximum must be the default rate when a Customer has changed supplier.

The CER is well aware of the narrow profit margins suppliers work within. Any move by the CER to put this under continued pressure in the current environment is very unwelcome. We, as with all supply companies, are obliged to settle our own obligations in a rigid timeframe and we cannot be expected to absorb an additional drain on working capital.

We would be grateful if the CER considers these views and we would welcome a discussion on any aspect of this response paper at a future date.

Yours sincerely,

Keith Donnelly.