Prepayment Metering in the Electricity and Gas Markets (CER/11/166)

Airtricity Response to

Commission for Energy Regulation

September 2011

INTRODUCTION

We welcome the Commission for Energy Regulation's (CER) recent initiatives around the introduction of both an effective prepayment infrastructure together with addressing the issue of debt hopping within the retail energy markets.

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.

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.

In this regard we welcome the principal set out in the CER paper that a customer should not be able to ignore any outstanding debt by switching supplier. However serious consideration must be given as to how such proposals could be implemented, and we would advocate that the CER convene a workshop with all stakeholders on the practicalities of implementing such a proposal ahead of making a final decision on this matter.

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.

Treatment of Customer Debt and PPM

Amend current switching processes for PPM customers repaying a debt

The issue of debt has been and continues to be a major issue for all suppliers operating in both the electricity and gas markets. 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 markets 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.

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.

In this regard we believe that the implementation of process whereby a prepayment customer will continue to pay off any outstanding debt after changing supplier is welcome.

Ahead of deciding to implement such a proposal however there must be serious thought given to how it would function both from a customers and suppliers perspective.

For example if this process was implemented it would require that any customer on a PPM with a debt who changes supplier must be kept on a PPM meter until this debt is paid off. If the customer was able to change supplier and then come request the PPM be withdrawn the old supplier would lose the ability to recover the debt.

It is our belief that the most effective and efficient way for this proposal to work in practice is that a PPM customers meter would have to have two registers set up on it, one which would track ongoing usage and the other which would manage the debt.

The payments systems associated with PPM could then allocate the payments for current consumption to the customer's current supplier and also allocate any debt payments to the supplier with which the debt originated. This could be done in the background without any need for interaction among the customer and the suppliers in question.

Proportion of Debt which travels

We strongly disagree with the suggestion within the consultation that less than a 100% of the debt would follow the customers.

As previously mentioned 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.

To allow a situation whereby a customer can reduce their debt by switching supplier is wrong. This would clearly an incentive for a customer to debt hop.

The proposal to allow a situation whereby a lower proportion than 100% of the outstanding debt follows the customer acts to foster a culture of indebtedness, and goes counter to the stated view of both consumer champions and suppliers on what customers need. We would therefore urge the CER to ensure that a customer pays off all of any outstanding debt after changing supplier.

Allocation of customer credit to Energy Consumption v Debt Repayment

We support the CER proposals that there be a limit on the proportion of a customer's credit which can be allocated for debt repayment at each 'top up'. However the proposed maximum level of 30% is too low. Not all customers will wish to pay off their debt in this manner; some customers will wish to have a higher % of each top up allocated to repaying their debts. In this regard we would ask that the CER increase the proposed threshold to 35%. This would allow suppliers the flexibility that is required to establish payment arrangements that suit each individual customers needs.

We would also like to flag that this apportionment is not possible on tops that cover emergency credit due to the capabilities of the technology and would ask that this is clarified in the final code.

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 principal set out in the CER paper that a customer should not be able to ignore any outstanding debt by switching supplier.

Notwithstanding this, we do support the CER proposal to limit the % of debt that will be repaid after a change of supplier takes place; we believe that this only acts to actively encourage debt hopping, which is fundamentally wrong.