Prepayment Metering in the Electricity and Gas Markets -- CER/11/166
12 September 2011

Foreword:
Bord Gais Energy welcomes the opportunity to comment on the aforementioned paper. The issue is of primary importance in dealing with consumer debt in a holistic manner. Given the requirement to offer a prepayment solution as an alternative to disconnection, the forbearance shown to date by Suppliers in adopting this process, must not be undermined by regulations which then encourage a customer to abandon repayment of debt incurred.

Proposal 1

A) Maintain the Status Quo

Under this proposal, a consumer with debt who has opted for a prepayment meter as an alternative to disconnection may move supplier. The CER rightly note that *"it remain the sole decision for the incoming supplier as to whether to proceed with the change of supplier request or not."* Given that the consumer is on a prepayment meter, there is little or no credit risk to the new supplier in proceeding with the registration. For this reason, it is unacceptable to oblige Suppliers to offer a prepayment meter as an alternative to disconnection when the practical consequence of this is to forego debt owed. The status quo is not consistent with the decision by the CER's decision to oblige suppliers to offer a prepayment meter as an alternative to disconnection.

B) Amend Current Switching Process for PPM Customers Repaying a Debt.

In this scenario, a customer will be free to switch but in switching will still have to pay outstanding amounts owed. This is an essential feature of a multi supplier PPM market in view of the CER decision (CER10/217) where a supplier is obliged to offer a PPM as an alternative to disconnection.

> *"5. Financial Hardship*
> *Suppliers must 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."

We believe option B has the following advantages:

Provides for Change of Supplier & Ease of Repayment:

1. The customer in debt will be able to move supplier while maintaining a repayment schedule by vend i.e. in small manageable chunks as opposed to lump sum prior to re-connection.

Avoids Customer Disconnection:

2. Customer in debt will be able to avoid disconnect/reconnect charges (by acceptance of a PPM under Financial Hardship criteria)

Suppliers will Cooperate with Process:

3. Suppliers will continue to offer PPMs as an alternative to disconnection i.e. Suppliers will know that they are not writing off debt by offering a PPM because the Debt will be recorded on the meter & repaid regardless of Supplier.

Consistency in Regulatory Policy:

4. The CER will have maintained consistency in regulatory policy, which we believe is a prerequisite for stability and general market confidence (It is not reasonable to expect Suppliers to offer PPMs as a disconnection alternative when the practical outcome manifests itself as a debt write-off).

All 4 of these key points fail in practice, if the status quo is maintained.

2.2.2.2 Implementation

In respect of implementation, the CER state that it *"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."*

This appears to leave the approach to specific implementation open.

In the event that Proposal B (Q1) were adopted in gas we believe that this must be accompanied by a Back-Office solution to be provided by BGN, capable of:

1) Reading the uploaded debt from the meter
2) Decrementing a CER prescribed industry standard percentage from each vend (post CoS) and offsetting this against the debt on the meter.
3) Offsetting continues until a zero balance exists.
4) Transferring of funds on an incremental basis to the outgoing supplier until a zero balance exists on the meter.

It is essential that the solution be provided by BGN given both the small scale nature of Irish Gas Market and the limited number of PPM in use.

2.2.2.3 Additional Considerations

<u>Portion of Debt which travels</u>

"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."

We see no linkage between this and the normal business risks associated with bad debt provision. The CER decision (CER10/217) obliging Suppliers to offer a PPM as an alternative to disconnection have brought about additional bad debt risk for suppliers. This paper merely serves to bring the implications of that decision to a logical conclusion. Regardless of the proposals contained within this paper, supplier will continue to encounter those risks associated with Bad Debt e.g. The Customer

- owing debt accepts a PPM and subsequently leaves the premises (debt does not follow new occupant)
- changes supplier but does not vend for prolonged periods (Supplier loses the time value of money)
  etc.

In addition to this, the CER is proposing what is in effect an artificial levy on Suppliers which is mutually exclusive of normal business risk. The effect of this proposal is say to customer "if you change supplier you will be granted a financial incentive by the Regulator at the expense of the supplier to whom you owe money. The more often you

change supplier, the more discount you will receive at the expense of your current supplier." The CER note that *"that in the U.K., the customer pays 100% of the debt accrued after the switch is affected."* We must inform the CER that this principle does not apply to any PPM market in any location we have examined (and for obvious reason). We strenuously reject the concept of what is in effect a levy on the existing supplier to encourage its customers to abandon part of its debt owed. This concept is bordering on recklessness.

There are practical implementation issues that arise with this concept. A changeover read will be needed when a PPM customer changes supplier (no different to a Credit Meter customer). Normally this is done by a meter reader. This is the established and most cost effective means of obtaining a closing read. In the case of a PPM where a proportion of the debt travels, the meter needs to be reprogrammed. This can only be done by a fitter. The cost of a special Read undertaken by a meter reader is €39.50 (Incl. VAT). There is no specific attendance charge in the current siteworks document for a special visit by a Fitter for reprogramming works. However, work of a less complicated nature requiring special attendance by a Fitter (e.g. a meter lock) costs €70.07. Logically, the cost of implementing a meter programming exercise should cost more due to increased time/complexity. The cost for an Aborted Site Visit for example (where no work is undertaken but a Fitter is in attendance), is €144.98. This means that each CoS for Financial Hardship under a "Proportion of Debt travels" principle will cost a multiple of what it need cost. Along with implementation of a principle with is fundamentally destabilising, the cost of implementation would be a multiple of 2 to 3.5 times what it need be. The proposal must be abandoned immediately.

Proportion of Credit Allocated to Debt Repayment

We have considered the issue of the ongoing percentage apportionment of consumer credit used to repay debt. We agree with the CER's statement that *it is important to stipulate the minimum credit that must be retained for allocation toward actual energy consumption every time a customer tops up*. This is important for a number of reasons:

- Consumer confidence will increase if it is widely known that at least X% of each vend will go towards energy.
- Stipulation of a specific percentage by the CER will facilitate boundaries on future Back Office systems common to (& necessary for) all suppliers in the market.

We believe the present limit in respect of emergency credit (30%) allocated to energy should remain. A distinction must be made between recovery of emergency credit and general debt in the sense that rules should not encourage a consumer continually utilise emergency credit as part of their daily routine. This will inevitably lead to instances of there being no credit available for actual emergencies.

We agree with the CER proposition that there be a different ratio for the requirement of general debt. The present 70:30 gas : debt ratio is mentioned in this regard. We believe it's important to point out that this limit was set in a:-

- very a different economic climate with lower general debt levels &
- market where there was only one PPM Supplier

In view of this, we believe a marginal increase in the proportion allocated to debt is needed because:

- It is important in a change of supplier scenario that the old supplier reaches finality with the customer and that the incoming supplier & customer be allowed reach the point where the long term business traction understood by both at take-on be effected as soon as possible.
- The impact of Change of Tenancy is reduced
- Future misunderstandings that may arise between a supplier and a customer that has changed supplier several times will be minimised. If for example a customer who has moved once decides to move again because they expected Supplier 2 to be deliver better value, they may reach the same opinion with Supplier 3 because they have not yet repaid their debt to Supplier 1.

It is in the interests of all parties that matters are brought to a conclusion asap.

That said, limits exist on the percentage that can realistically go towards debt repayment while maintaining viable customers relationships. A €10 vend is relatively common. A reduction of the ratio to 50:50 would not work smoothly because in the instance where a consumer (commonly) operates on a €10 vend, a balance of €6.50 would remain after emergency credit repayments have been deducted. Debt repayments will be deducted thereafter up to a specified rate. After 2011/12 prices increases have been taken affect, the average Irish household will spend €822 pa on gas. This predominantly occurs over the 30 weeks of the heating season. The average daily spend on gas over the forthcoming year will be €3.91. In the event that the CER were to approve a revised gas:debt ratio of 65:35, the average customer repaying both emergency

credit and debt repayment would be able heat their home for a day with an 8% surplus on a common €10 vend. We therefore believe scope exists for a marginal increase in the debt recovery component to 35%. Suppliers would be able to reduce this component where they find that non-optimum customer relationships are materialising.

Additional Points

Given the scale of the Irish market place (particularly in gas) we believe appropriate Back Office functionality must be provided by BGN in order to facilitate the flow of debt recovery payments between suppliers. We believe it highly unlikely that this functionality can be put in place for the start of the heating season. A temporary moratorium on Change of Supplier within the PPM market until appropriate back office system are in place is essential to avoiding large scale future disruption to this market segment.

Conclusion:

In summary we believe that:

- Debt Memory functionality should be immediately activated.
- Proposals to discount debt on Change of Supplier are irresponsible in principle and would result in disproportionate implementation costs. They should be abandoned immediately.
- The issue of emergency credit recovery should operate on a different principle (to conventional debt recovery) as suggested by the CER. This will ensure the preservation of the "emergency" concept.
- While practical limits exist on the debt recovery ratio, we believe a marginal increase in the ratio to 65:35 is needed/progressive and can work in practice.
- BGN provided Back Office systems are essential and a temporary moratorium is needed on CoS in the PPM market until these can be put in place.