



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Debt Flagging Review

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Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

*The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.*

www.cer.ie

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Abstract: Debt flagging has been operational in both electricity and gas markets since 17th October 2011. With debt flagging now in operation for over a year, a review of the debt flagging process has been conducted. This document details the results of that review, which includes changes to the monetary thresholds for debt flagging.

Target Audience:

This document is for the attention of customers, the energy industry, consumer organisations and all other interested parties.

Related Documents:

[CER/11/106](#) – Customer Bad Debt in Electricity & Gas Markets

[CER/11/181](#) - Debt Flagging Industry Code

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Executive Summary

Debt flagging was introduced in the electricity and gas markets on 17th October 2011. It was introduced to address concerns about ‘debt hopping’ which had been raised by energy suppliers, consumer organisations, and social advocacy groups. It sees the losing supplier raising a debt flag where a customer is seeking to switch away from them and the customer has an outstanding debt above amounts set by the CER. The gaining supplier, having received the debt flag, can then either choose to proceed with the switch or cancel it. The rules for this process are set out in [CER/11/181](#), the Debt Flagging Industry Code. The Debt Flagging Industry Code currently sets the debt flagging thresholds as those presented in Table 1.

Table 1. Current debt flagging thresholds as set out by [CER/11/181](#), the Debt Flagging Industry Code.

Market Sector	Debt Flagging Threshold
Domestic	≥ € 250 for > 60 days from due
Small Business	≥ € 750 for > 30 days from due
Medium Sized Business	≥ € 1,500 for > 30 days from due

With debt flagging now in operation for over a year, a review of the process was conducted. The outcome of that review is the subject of this paper.

The review has shown that a substantial number of customers have debts below the current debt flagging thresholds and that not more than 0.8 % of switches in any market sector were cancelled due to a debt flag. The review also showed that reducing the current thresholds by even 20 % would extend debt flagging to only a small percentage of customers (up to 4 % of any market sector). The CER has decided not to reduce the domestic thresholds by this amount as it would increase the administrative burden on suppliers and also see the thresholds approaching the average bimonthly bill of domestic customer, which on balance (between the interests of the consumer and the supplier) the CER believes would be a little restrictive whilst also ensuring that large debts are not accumulated by debt hopping.

For business customers, the impact of reducing the debt thresholds by 20 % on the number of debt flags raised is significantly less than in the domestic market. Reducing the debt flagging thresholds by 20 % would bring up to 4 % of the business sectors under debt flagging. This remains a small percentage of the overall market and is below the switching rates for these markets in 2012, which ranged from 13.4 % to 17.5 %, dependent on the market in question. Cognisant of the above and the current low levels of business customer switches cancelled due to a debt flag being raised, 0.25 % to 0.4 % dependent on the market (less than the cancellation rates in the relevant domestic markets), the CER has decided that the debt flagging thresholds for small and medium businesses be reduced by 20 % and set as € 600 for small businesses and € 1,200 for medium businesses.

The CER has also decided that the debt flagging of unmetered electricity supplies be formally commenced. This would see debt flagging applying to all electricity and gas customers from domestic, up to, but not including large Energy Users. These decisions see the debt flagging thresholds now being set as those shown in Table 2.

Table 2. Debt flagging thresholds to be adopted from 1st July 2013.

Market Sector	Debt Flagging Threshold
Domestic	≥ € 225 for > 60 days from due
Small Business and Unmetered Supply	≥ € 600 for > 30 days from due
Medium Sized Business	≥ € 1,200 for > 30 days from due

With the above changes it is not recommended, at this time, to introduce contract default as a reason to raise a debt flag for business customers. This is not only due to it adding additional changes to the process but also because suppliers presented only a very limited data set on which to base an appraisal of its merits. The revised thresholds will come into effect on 1st July 2013.

1 Introduction

1.1 Background Information

Debt flagging was introduced in the electricity and gas markets on 17th October 2011. It was introduced to address concerns about ‘debt hopping’ which had been raised by energy suppliers, consumer organisations, and social advocacy groups. It sees the losing supplier raising a debt flag where a customer is seeking to switch away from them and the customer has an outstanding debt above amounts set by the CER. The gaining supplier, having received the debt flag, can then either choose to proceed with the switch or cancel it. The rules for this process are set out in [CER/11/181](#), the Debt Flagging Industry Code. The Debt Flagging Industry Code currently sets the debt flagging thresholds as those presented in Table 1.

Table 1. Current debt flagging thresholds as set out by [CER/11/181](#), the Debt Flagging Industry Code.

Market Sector	Debt Flagging Threshold
Domestic	≥ € 250 for > 60 days from due
Small Business	≥ € 750 for > 30 days from due
Medium Sized Business	≥ € 1,500 for > 30 days from due

In addition to the monetary thresholds presented in Table 1, the code stipulates how and when a supplier must raise a flag and what information the supplier must provide the customer during the process – particularly during sign up and when a switch is being cancelled due to a debt flag.

With debt flagging now in operation for over a year, a review of the process was conducted. The outcome of that review is the subject of this paper.

2 Findings

2.1 Debt Flagging Activity and Thresholds

As can be seen from Table 2, overleaf, switching activity has been far in excess of the number of change of supplier (CoS) requests cancelled due to debt flagging. In fact debt flagging led to no more than 0.8% of customer switches in any market being cancelled – note for gas, that the % figures were based on data up to end of September as this was the most up to CoS data available at the time of review; all other figures are for up to November 2012.

Table 2. Number of debt flags raised and CoS requests cancelled due to debt flags – where the figures in brackets show their corresponding percentages of overall customer switches.

		Debt Flags Raised	CoS Requests Cancelled
Domestic	Electricity	7,618 (3 %)	1,838 (0.8 %)
Domestic	Gas	843 (1 %)	466 (0.4 %)
Small Business	Electricity	534 (1.4 %)	97 (0.25 %)
Medium Business	Electricity	84 (2.5%)	14 (0.4 %)
Small & Medium Businesses	Gas	83 (2.4 %)	18 (0.25 %)

Data shows that reducing the current thresholds by even 20 % would extend debt flagging to only a small percentage of customers (up to 4 % of any market sector). However, this may increase the volume of debt flags substantially (particularly for the domestic market) and, in tandem, the administrative burden on market participants.

A 20 % reduction in the thresholds for the domestic market would see the thresholds approaching the average bimonthly electricity bill - as can be seen from the data presented below. It should be noted that these figures were calculated from the average annual consumption figures approved for use for accredited price comparison websites¹ and the available tariffs offered by all suppliers for credit meters. All figures are inclusive of VAT.

Electricity:

Average urban domestic: ranges from € 175 to 198 (inclusive of PSO and VAT)

Gas:

Average domestic: ranges from €139 – 161 (inclusive of carbon Tax and VAT)

All these figures are below the debt flagging threshold for domestic customers, which is currently €250 (outstanding for more than 60 days after payment becomes due). As such, a supplier will first be in a position to debt flag a non-paying customer, with an average bill, 60 days after that customer's second bill becomes due for payment. With bills issued typically every two months and typically two week's given to the customer to pay, this means that the customer could not be debt flagged until half a year has passed (**note:** where the customer was being billed every month, then the debt flag could be raised a month earlier).

To match the average bill of the most expensive electricity plan (ie €198), the debt flagging threshold would have to be reduced by 20 %. It should however be noted that the average bill does not take into account the change in consumption across

¹ Where a consumer is unable to provide their annual consumption figure the website provider must use an average annual figure of 5,300kWhs for electricity and 13,800kWhs for gas – see [CER/11/144](#).

the year (eg higher consumption in Winter), the size of a household or the type of house. On the matter of the size of the household, this is one matter that St Vincent de Paul raised when asked about the debt flagging thresholds and whether they should be reduced. They said that, although they were not calling for a reduction in the thresholds, any reduction in the thresholds should be done in a manner that does not significantly impact on switching nor on larger households, with higher consumption (eg larger households with more occupants).

As to business customers, the current thresholds of € 750 for small businesses and € 1,500 for medium businesses were set to reflect the greater bills of these customers. During the review data was provided by a supplier as to the average bills of their business customers. The large variance in bill size across small businesses was evident in the submitted data; with the average bill at the larger end of the scale being closer but still remaining under the debt flagging threshold. On the basis that the majority of small business customers have bills significantly lower than the debt flagging threshold, a supplier requested the threshold to be reduced to €250. It is not proposed to do such a large adjustment at this time; where debt flagging has been running for a relatively short time (since October 2011). As to the average bill size of medium businesses a supplier submitted data showing that they were above the current debt flagging thresholds.

2.2 Unmetered Supply and Contract Default

Though the current debt flagging thresholds range from domestic customers up to Large Energy Users, they do not include unmetered electricity business connections captured in DUoS Groups 3 and 4. These DUoS groups pertain to unmetered public lighting and other unmetered loads - associated with local authorities in the case of DG 4 and other businesses in the case of DG3. Typical examples of unmetered loads are given as street furniture, traffic lights, bus shelters and telephone kiosks. Unmetered supply may have loads up to 2 kVa, which falls below the minimum loads associated with the higher DUoS business groups. Such an anomaly is not present on the gas side, where all customers bar Large Energy Users are covered by debt flagging (note there are no unmetered sites on the gas side).

As to contract default, it was stated that the merits of introducing it as a reason to raise a debt flag for business customers would be kept under review. Under this review, very limited data re contract default was submitted. This did not provide for robust analysis of the merits of introducing contract default as a reason to raise a debt flag for business customers.

2 Decision

In summary, the review has shown that a substantial number of customers have debts below the current debt flagging thresholds and that not more than 0.8 % of switches in any market sector were cancelled due to a debt flag. The review also showed that reducing the current thresholds by even 20 % would extend debt flagging to only a small percentage of customers (up to 4 % of any market sector).

However, this may increase the volume of debt flags substantially (particularly for the domestic market) and, in tandem, the administrative burden on market participants.

A 20 % reduction in the thresholds for the domestic market would see it align with the average electricity bill, which does not take into account the change in consumption across the year (eg higher consumption in Winter), the size of a household or the type of house. As previously highlighted, though St Vincent de Paul is not calling for a reduction in the thresholds, they have stated that any reduction should take into account larger households and not significantly impact on them. For this reason and the potential large increase in the number of debt flags, a 20 % reduction to the domestic debt flagging threshold is not been implemented. Rather, it has been decided that the threshold be reduced by 10 % - that is to € 225. In making this decision the CER is striking a balance between the interests of the consumer and the supplier and is not moving reducing the threshold further as it believes that €200 may in fact be a little restrictive whilst also ensuring that large debts are not accumulated by debt hopping.

For business customers, the impact of reducing the debt thresholds by 20 % on the number of debt flags raised is significantly less than in the domestic market. Reducing the debt flagging thresholds by 20 % would bring up to 4 % of the business sectors under debt flagging. This remains a small percentage of the overall market and is below the switching rates for these markets in 2012, which ranged from 13.4 % to 17.5 %, dependent on the market in question. Cognisant of the above and the current low levels of business customer switches cancelled due to a debt flag being raised, 0.25 % to 0.4 % dependent on the market (less than the cancellations rates in the relevant domestic markets), the CER has decided that the debt flagging thresholds for small and medium businesses be reduced by 20 % and set as € 600 for small businesses and € 1,200 for medium businesses.

With the above changes it is not recommended, at this time, to introduce contract default as a reason to raise a debt flag for business customers. This is not only due to it adding additional changes to the process but also because suppliers presented only a very limited data set on which to base an appraisal of its merits.

The CER has also decided that the debt flagging of unmetered electricity supplies be formally commenced. This would see debt flagging applying to all electricity and gas customers from domestic, up to, but not including large Energy Users. With the current thresholds for debt flagging, increasing in size from domestic to small to medium business customers, in order to reflect the relative size of the bills incurred by each party, it is recommended that the threshold for unmetered electricity supply be initially set to match that of the DUoS group whose average consumption it is closest to. The average consumption of unmetered connections (DG3 and DG4) lies between those of DG5 and DG6. However, as shown in Table 3, it is much closer to the average consumption of DG5, in particular the average consumption of DG5 dual tariff customers.

Table 3. The percentage difference between the average consumption of unmetered connections and other business connections (these figures are based on estimates provided by the DSO).

Average Consumption (GWh)		
DG5	24Hr	-48.15%
DG5	Dual Tariff	-2.58%
DG6	LV MD	1,147.35%

As such, it has been decided that the debt flagging threshold for unmetered supply be initially set to that of DG5 (note the same threshold is applied for 24Hr tariffs and dual tariffs).

These decisions, see the debt flagging thresholds now being set at those levels presented in the below table. The CER notes that some industry documentation will have to be updated to reflect these changes. These new thresholds will come into effect on 1st July 2013.

Table 4. Debt flagging thresholds to be adopted from 1st July 2013.

Market Sector	Debt Flagging Threshold
Domestic	≥ € 225 for > 60 days from due
Electricity and (LV-NonMD/DG5)	≥ € 600 for > 30 days from due
Medium Sized Business	≥ € 1,200 for > 30 days from due