



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**CER Consultation Paper
Debt Management
Debt Transfer & Debt Flagging**

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Abstract: This consultation paper is further to the CER's decision on Prepayment Metering in the Electricity & Gas Markets (CER/11/823). It seeks comment on proposed changes to industry systems/processes to facilitate the repayment of debt by Pay As You Go customers in arrears after a change of supplier; referred to as debt transfer. This paper also seeks comment on whether debt transfer should also apply to customers with arrears switching suppliers to avail of a lifestyle choice Pay As You Go service. Finally the paper asks for comments as to the effectiveness of the debt flagging process and the thresholds that currently apply.

Target Audience:

The paper is for the attention of electricity and gas customers, suppliers, network operators, consumer organisations, and all other interested parties.

Responses to this consultation should be returned by email, post or fax and marked for the attention of Seán mac an Bhaird at the CER.

The CER intends to publish all relevant submissions received. Respondents who do not wish part of their submission to be published should mark this area clearly and separately or enclose it in an appendix, stating the rationale for not publishing this part of their comments.

Responses are invited no later than July 18th 2014

Related Documents:

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

[CER/11/823](#) – Prepayment Metering in the Electricity & Gas Markets – Decision Paper

For further information on this Consultation Paper, please contact Seán mac an Bhaird (smacanbhaird@cer.ie) at the CER.

Executive Summary

This consultation paper seeks comment from interested parties and stakeholders on the introduction of a debt transfer process and the debt flagging threshold currently in place. These together should 1) assist suppliers to provide better arrear plans to customers that have difficulty paying their bills 2) address the issue of “debt hopping” where customers switch supplier, to avoid paying their debt.

The debt flagging process was introduced into the retail market design in view of ongoing concern raised by energy suppliers and consumer organisations, that in the current economic climate, customer and industry debt levels were being exacerbated by some customers changing supplier in order to avoid paying their arrears or, to avoid disconnection. This practice of “debt hopping” is considered to raise costs for energy suppliers, and consequently for all consumers, and further compounds an individual’s debt situation making it more difficult to manage in the long run.

Concerns have since been raised that the debt flagging process does not work for customers who have Pay As You Go Meters installed, for financial hardship reasons. It was argued that a gaining supplier would not have an incentive to reject the switch of such a customer, even if a debt flag was raised. This is because the customer, who would continue to use their Pay As You Go meter after the switch, would not be able to accrue any further debt under their new supplier. As such, the new supplier would not be exposed to any debt risk and would have no reason to cancel a switch that was debt flagged. Noting these concerns, the CER published a consultation paper on the matter and ultimately decided in CER/11/283 to facilitate the repayment of debt after a Pay As You Go customer in arrears switches supplier; referred to as debt transfer. That decision did not provide detail as to how debt transfer would be implemented. This paper not only examines the processes for the implementation of debt transfer but also whether it should be extended to any customer switching to avail of a Pay As You Go service (including lifestyle choice). The paper also seeks comment as to the effectiveness of debt flagging at addressing “debt hopping”. It also seeks comment on consumer engagement and information to be provided to customers as a result of debt transfer.

Debt Transfer

Since the debt transfer decision was made in 2011, lifestyle choice Pay As You Go offerings and suppliers have increased in the market. In recent disconnection taskforce meetings, the CER worked in conjunction with the industry to establish further actions that could be taken to assist customers in managing their bills and avoiding disconnection.

Concerns were raised during those discussions, that CER/11/283 was too limited in its scope and debt transfer should not only apply to customers who have had a Pay As You Go meter installed under the financial hardship provisions but also to those switching to avail of a lifestyle choice Pay As You Go service. It was argued that the process should not be limited as a key point in this regard is whether the customer

was to prepay for their electricity or gas under their new supplier. If this was the case, the gaining supplier would have no incentive to cancel the switch.

In addition to asking whether the debt transfer should be extended to lifestyle choice offerings, the paper asks whether a debt threshold should apply to debt transfer. In this regard, the debt flagging threshold is proposed. This is being considered to make the debt flagging process more effective for all customers. If debt transfer were applied to debts lower than the debt flagging threshold, it would be drawing additional customers into the process whilst not making the debt flagging process any way more effective (because these additional customers would not be debt flagged).

In order for the customer to continue to pay off their arrears after they switch, the debt outstanding must be established and transferred over to the new supplier. There must also be a mechanism for suppliers to pay one another for this transferred debt. Possible options for debt transfer have been developed around different approaches for this payment mechanism between suppliers. These options are:

- **Option 1** the gaining supplier purchases the debt outright from the old supplier in one payment or over intervals e.g. quarterly
- **Option 2** the losing supplier is recompensed over time and in line with vends / top ups. In this option the supplier recovers the debt and passes it to the losing supplier.
- **Option 3** the gaining supplier has a year to pay back the transferred debt but if the customer switches in that time the supplier only recompenses the customer's previous supplier in line with customer vends / top ups

These options see the debt risk being placed to varying degrees on the losing and gaining suppliers, with option 3 being a hybrid of options 1 and 2.

It is proposed that option 2 could be automated with changes to the backend systems. The other options are more manual with the MRSO and GPRO providing suppliers with the required information to provide for debt transfer. In developing an automated solution the CER could only consider the systems that it has oversight and governance of. These systems pertain to customers with Pay As You Go meters services installed by ESNB and BGN. Were an automated solution adopted for these customers a manual solution would have to be run in parallel to support the other customers falling under debt transfer. In this regard, the CER questions the cost effectiveness, reasonableness and need for bespoke solutions to address debt transfer across the retail sector.

Debt transfer will see some changes to the market systems and require specific debt information to be passed between parties. It is of paramount importance that the customer is made aware of these changes; in particular the exchange of additional personal information, which is protected under data protection legislation - to which any process to be implemented must conform. It is proposed that the supplier will have to inform the customer, before signing them up, of debt transfer and clearly explain to them how it works. They will also be required to obtain customer consent at this point to allow the personal data required for debt transfer to be exchanged between parties. This will require a notice to be placed in the supplier's sign up

processes. This follows the process for debt flagging. In addition, it is proposed that an explanation of debt transfer will be provided to the customer when debt is being placed on a Pay As You Go meter and that a customer's final bill will also clearly identify how any outstanding debts will be managed under debt transfer.

Debt Flagging

In 2013 the CER reviewed the debt flagging threshold and applied new reduced thresholds to the process in July 2013. Analysis of the debt flagging data from when these new thresholds were adopted in July 2013 to the end of February 2014 shows that switching activity remains far in excess of the number of change of supplier (CoS) requests cancelled due to debt flagging. This is shown in the following table, which details the number of debt flags raised versus the number of Debt flagged CoS cancelled.

Market Sector	Debt Flags Raised	Debt Flagged CoS cancelled
Domestic electricity	(4.2 %) 7,153	(0.42 %) 723
Domestic gas	(1.19%) 799	(0.6%) 399
Small business electricity	(1.18%) 251	(0.15%) 32
Medium business electricity	(1.77%) 34	(0.16 %) 3
Small and medium business gas	(<1.71%) 51	(<0.67%) 20

Table 1. The number of debt flags raised and the number of debt flagged CoS cancelled from 1st July 2013 to 28th February 2014, where the figures in brackets show their corresponding percentages of overall customer switches¹.

The CER is inviting comment as to whether the debt flagging threshold and process, as currently designed, is effective and whether or not changes to the threshold and process are merited. While posing this open question, the CER would stress that it still considers debt flagging to be more consistent with the open market design than debt blocking. Both electricity and gas markets operate on a supplier-centric model that sees the customer as the initiator in any switch. The retail market model is structured so that customers deal exclusively with the gaining supplier of their choice, and the processes have been designed to ensure that the losing supplier does not have any inappropriate powers to veto or delay a customer switch. The implementation of a block by a losing supplier runs contrary to this principle and would potentially act as a barrier to market entry; as such, and having weighed a variety of factors in coming to its decision, the CER does not consider it an appropriate solution for a developing competitive market.

The CER seeks comment on the above options or alternatives that should also be considered. In coming to a final decision on this matter, CER will take into consideration, the impact on consumers, suppliers, networks. The final decision will

¹ Switches are taken as requested switches in electricity. For gas this has been calculated from the number of customers gained by suppliers plus the number of switches cancelled. Also note that BGN only provided data as to the number of switches in the IC sector. Small and medium businesses are contained in the IC sector but there additional medium sized business in the FVT sector that contains approximately 1,800 customers. As it was not possible to obtain switching data for these medium sized customers in the FVT sector, the %s in the table are based solely on IC data and presented as maximum values.

take into consideration the overall effectiveness of the solution, including, the cost effectiveness and time lines to implement the solution.

Consumer Engagement and Information.

The introduction of debt transfer will change the experience of Pay As You Go customers in terms of how debt is collected. It will also see additional personal information being passed between parties. It is important that affected customers are aware of changes that ultimately arise as a result of a decision arising from this consultation and how they will be affected. This is particularly important when it comes to the exchange of additional personal information; which is protected by data protection legislation, to which debt management must conform.

This consultation paper covers: a) information to be provided to customers, under a range of scenarios, in the event of debt transfer b) processes that would be required under various scenarios in relation to provision of the required information, in the event of debt transfer, c) impact on the Supplier Handbook and codes of practice.

The aim of the proposals in this paper is to ensure that consumers are not negatively affected by the level of customer protection measures they would receive, are advised of the debt transfer arrangements and their rights under the relevant codes of practice.

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1 Debt Management - Introduction

The difficult economic climate has led to an increase of customer arrears and debt within the industry. To this backdrop, it is particularly important that customers are given effective assistance in managing their bills and clear any arrears they may have. In this regard, the CER has in place specific rules as to the assistance that must be afforded to those in genuine financial hardship and struggling to meet their energy bills. They include offering effective payment plans, tailored to an individual's circumstances, and where appropriate a free Pay As You Go meter. Like prepaid mobile phones, Pay As You Go meters see the customer buy credit at their local shop and topping up the meter. The credit is then used to pay for the electricity or gas as the customer uses it, rather than awaiting a bill. This can be helpful to the customer in managing their bills and avoiding the build-up of further arrears. With the launch of new Pay As You Go electricity meters in October 2011, there are now modern Pay As You Go solutions available to all suppliers in both gas and electricity retail markets. The CER continues to work with industry and customer support groups not only to ensure that these Pay As You Go meters are reaching those most in need but also that the general supports available to customers in genuine financial hardship are as effective as possible. The CER also continues to audit suppliers' adherence to the above requirements.

In addition to ensuring that rules are in place (and are being adhered to) in relation to the assistance to be provided to those in genuine financial hardship, the CER has also implemented, on foot of presentations made by industry and customer support and advocacy groups, a process to address "debt hopping" (where a customer switches to leave behind an unpaid debt). "Debt hopping" is considered not only to raise costs for energy suppliers, and consequently for all consumers, but also further compounds an individual's debt situation making it more difficult for them to manage it in the long run.

The process for debt flagging was introduced in October 2011. Where a customer requests to change to a new supplier and the customer has an outstanding debt, above industry thresholds approved by the CER, the customer's existing supplier must raise a debt flag. The debt flag indicates to the new supplier that the customer is in debt. The new supplier can then choose whether to proceed with or cancel the request to switch where this 'flag' has been raised. The rules for debt flagging are detailed in the Debt Flagging – Industry Code ([CER/11/181](#)). The CER monitors the use of this flagging facility by both losing and gaining suppliers on an ongoing basis to ensure that the process is being applied correctly. In the case of Pay As You Go customers, concerns have been raised by industry that a gaining supplier would have no incentive not to proceed with the switch, even if a debt flag was raised. This is because there would be no risk with such a customer accruing debt under their new supplier. Noting these concerns, the CER published a consultation paper which sought comments from industry and consumer organisations on two options:

- A.** maintain the current arrangements whereby a Pay As You Go customer ceases repaying debt to their old supplier in the event that they change supplier. The old supplier can pursue the customer separately for the recovery of the debt, or;

B. allow a Pay As You Go customer change supplier but make a change to the processes such that that they continue to pay off their outstanding arrears after they switch.

After taking into consideration all the submissions received to the consultation, the CER decided in [CER/11/283](#) to approve Option B i.e. a change in the market systems/process to facilitate the repayment of debt after a Pay As You Go customer in arrears switches supplier. In practice, Option B will see the customer's new supplier charging the customer for outstanding arrears they amassed under a previous supplier. [CER/11/283](#) did not provide detail as to how Option B would be implemented. This paper not only examines the processes for the implementation of debt transfer but also seeks comment on the effectiveness of debt flagging in its current form at addressing "debt hopping".

2 Debt Transfer - Lifestyle Choice Pay As You Go Services

As discussed in the previous section, debt flagging was introduced to tackle "debt hopping", which is considered to raise costs for energy suppliers, and consequently for all consumers, and further compounds an individual's debt situation making it more difficult for them to manage it in the long run.

Debt flagging has been operational since October 2011. Since that time, the number of Pay As You Go meters installed for financial hardship reasons have continued to increase and lifestyle choice Pay As You Go services have become a greater feature in the market. This is particularly evident in the electricity market where, in contrast to gas, a lifestyle choice Pay As You Go meter is not available to suppliers through the network companies and suppliers must develop their own lifestyle offerings / solutions. The following figures demonstrate these developments in the Pay As You Go sector.

- **Gas Pay As You Go:** Since 2011, 27,466 gas Pay As You Go meters have been installed across 2012 and 2013 for financial hardship reasons. During that time 3,783 gas Pay As You Go meters were also installed for lifestyle choice reasons.
- **Electricity Pay as You Go:** In electricity not only were there over 41,000 meters installed for financial hardship reasons but two suppliers entered the market offering exclusively Pay As You Go lifestyle choice services (PrePayPower and Pinergy) and in 2013 one of those suppliers (PrePayPower) gained the most domestic customers of all electricity suppliers (net gain of 47,558). Electric Ireland has also recently launched a Pay As You Go lifestyle offering.

In recent disconnection taskforce meetings, the CER worked in conjunction with industry to establish additional measures that could be taken to assist customers in managing their bills and avoiding disconnection. During that process, concerns were raised by suppliers that [CER/11/283](#) was too limited in its scope and debt transfer should not only apply to customers who have had a Pay As You Go meter installed under the financial hardship provisions but also to those switching to avail of a lifestyle choice Pay As You Go service. It was argued the key issue was whether the

customer was to prepay for their electricity or gas under their new supplier; if this was the case the gaining supplier would have no incentive to cancel the switch.

A review of the debt flagging statistics under the current thresholds (which were introduced in July of last year) shows that electricity suppliers, who offer exclusively Pay As You Go Services, cancelled significantly less debt flagged switches than any other supplier. In addition, they (combined) received the majority of debt flagged customers.

On the gas side there are no equivalent suppliers who only offer supply on a Pay As You Go basis. The percentage of switches cancelled for debt flagged Pay As You Go customers was on average lower than for debt flagged credit customers. Nonetheless, the difference between these percentage cancellation rates for gas was much smaller than that for electricity and indeed in some months the cancellation rates for debt flagged Pay As You Go gas customers exceeded those for debt flagged credit customers.

The above analysis demonstrates that due to the debt flag, suppliers do consider the risks associated with the acquisition of a debt flagged customer. In general, where a debt flagged credit customer is switching not to avail of a Pay As You Go service, a relatively high percentage of debt flagged switches are being cancelled. In contrast, data suggests that cancellations are relatively low where the debt risk is low / to none, where a customer is switching to avail of a Pay As You Go service. This may facilitate customers to “debt hop” and by doing such not only adversely affect the customer’s ability to manage their ever increasing debts but also increase costs for all customers. In CER/11/283 the CER decided that the limitations of the debt flagging process should be addressed. At that time only one option was considered. This was through the retail market process so that customers with Pay As You Go meters, installed under the financial hardship provisions, would continue to pay off their outstanding arrears after they switch. That decision did not address the same debt flagging limitations for customers in arrears switching to avail of a Pay As You Go lifestyle choice service. The CER considers that the same principles apply for these customers and as such the CER proposes that the market processes be changed so that debt transfer extends to these customers. This is especially in view of the growth in PAYG services offered by suppliers since the publication of CER’s original decision. This would bring all customers switching to a Pay As You Go service under debt transfer. Finally, the CER would note that for credit to credit switches debt flagging is making suppliers consider the debt risks associated with these customers and a significant proportion of such switches that have been debt flagged have been cancelled (note section 6 asks whether any changes to the current debt flagging process are warranted). The CER considers that any potential incremental benefits of including credit to credit switches into debt transfer would likely be outweighed by the costs of their inclusion.

Q1. Respondents are invited to comment on the proposal that debt transfer would be extended to include customers with outstanding arrears switching to avail of a lifestyle choice Pay As You Go service. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Q2. Respondents are invited to comment on the proposal that debt transfer would not extend to credit to credit switches. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

3 Debt Transfer – a debt threshold and sight of the debt amount

Before turning to specific options for the implementation of debt transfer, this section asks whether a debt threshold should apply for debt transfer and whether or not the gaining supplier should be provided sight of the debt amount prior to agreeing to the switch.

3.1 Debt Threshold

As detailed in previous sections, debt flagging has been introduced to tackle “debt hopping” and debt transfer is to be implemented to ensure that debt flagging is effective for all customer types. As such, the CER is considering whether debt transfer should only apply to debts above the debt flagging threshold (currently € 225 outstanding for more than 60 days from due). Where such a threshold applied, a customer with debt above the threshold would see all their debt transferred, while a customer below the threshold would have none of their debt transferred.

Where debt transfer was implemented for customers with debts lower than the debt flagging threshold, it would be drawing additional customers into the process whilst not making the debt flagging process any way more effective. In addition, the current market design only allows cancellations on the basis of a debt flag or an erroneous transfer. As such, where debt transfer did apply there would be, under the current design, no process for the supplier to cancel the switch.

Q3. Respondents are invited to comment on the proposal that debt transfer should only apply to debt above the debt flagging thresholds. If a threshold were applied, comments are invited on possible relevance to the debt flagging amount and process. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. If a threshold was not applied, should a new process for cancelling switches under debt transfer be introduced? Are there alternatives that CER should consider?

3.2 Sight of the debt amount

In addition to the adoption of a threshold for debt transfer, it is also questioned whether the gaining supplier should have sight of the outstanding debt before their opportunity to accept or cancel the switch, through the debt flagging process (or a new cancellation process, as mentioned in the previous consultation question). This

may be appropriate as the gaining supplier by not cancelling the switch through the debt flagging process, is agreeing to the customer's debt being transferred to it. This level of detail would also provide suppliers with a greater opportunity to distinguish between customers and better evaluate whether or not they should proceed with the switch. This may ultimately facilitate more switches as the gaining supplier, armed with this additional information, would not have to make any assumptions as to the customer's debt and could distinguish customers with relatively low levels of debt from those with relatively high levels of debt.

Q4. Respondents are invited to comment on whether or not suppliers should have sight of the debt amount to be transferred before opportunity to cancel the switch is gone. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

4 Debt transfer - Charging the Customer

In order for the customer to continue to pay off their arrears after they switch, the debt outstanding must be established and transferred over to the new supplier. There must also be a mechanism for suppliers to pay one another for this transferred debt. Possible options for debt transfer have been developed around different approaches for this payment mechanism between suppliers. These options are:

- **Option 1** the gaining supplier purchases the debt outright from the old supplier in one payment, or over set periods e.g. quarterly, bimonthly etc,
- **Option 2** the losing supplier retains debt and is recompensed over time by the new supplier and in line with vends / top ups
- **Option 3** the gaining supplier has a year to pay back the transferred debt but if the customer switches in that time the supplier only recompenses the customer's previous supplier in line with customer vends / top ups

These options see the debt risk being placed to varying degrees on the losing and gaining suppliers, with option 3 being a hybrid of options 1 and 2. These 3 options are now discussed in the following sections.

4.1 *Option 1-Purchasing Debt*

Under this option the gaining supplier purchases the outstanding debt outright, either upfront or over set intervals e.g. quarterly. For clarity, where a customer switches multiple times with debt, on each occasion, the gaining supplier purchases the remaining debt outright. Option 1 therefore shifts, with each switch, the debt recovery risk from the losing supplier to the gaining supplier. This can place a cashflow /financial burden on the gaining supplier depending on the amounts. Under this option the portion of debt collect by the new supplier from the customer from each vend would need to be reviewed, including options given to the customer regarding the recovery of their debt and the payment for their on-going energy consumption.

The financial burden on the gaining supplier may be reduced to some degree, where the payments were conducted, for example, once a year or once a quarter. In such

yearly or quarterly exercises, suppliers would calculate, for each supplier, the net movement of transferred debt. Where this net movement showed that more debt was transferred from them rather than to them, the supplier would invoice the supplier in question for the relevant amount.

As to the debt amount to be transferred, the CER considers it appropriate that it be based on the customer's final bill. When a customer changes supplier, the losing supplier must issue a final bill within six weeks. This is detailed in the Code of Practice on Customer Billing & Disconnection. The final bill must clearly detail the amount being charged by providing:

“Clear calculations of the amount due for electricity/gas supplied, (giving units, multipliers, rates etc. where appropriate), including any rebates or penalties, free electricity/gas allowance (where applied directly to the bill) etc, standing charge and any other amounts being invoiced being clearly separated (e.g. servicing)”

This provides the customer with a clear view of the amount and the breakdown of the remaining monies owed and an opportunity to query / dispute these figures. In addition, it provides the customer with an opportunity to pay and clear their debts.

Q5. Respondents are invited to comment on whether the debt amount to be transferred should be based on the final bill. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Q6. Respondents are invited to comment on whether payments between suppliers for transferred debts should be conducted upfront (when the debt is initially transferred), quarterly or annually. What are your preferred timelines? Outline reasons for your preference. Are there alternatives that CER should consider? Views are invited to the additional arrangements that may be required between the new supplier and the customer, with regard to the options that will be made available to recover the debt purchased.

Proposed system / process changes

The time required to ascertain the amount of debt outstanding from the final bill may vary from customer to customer as it will be dependent on the timing of the final bill being issued (at most 6 weeks after the switch) and whether or not the customer appeals the amount billed. In addition, the credit terms for paying the final bill by the customer may vary between suppliers – eg ten days after the final bill has been issued. This not only means that there is a potential lag between when the switch completes (which should be, excluding the cooling off period, within 3 weeks of the Change of Supplier request) and the time this process is finished but also a variance in this lag between customers. Without standardised timings, it may be difficult to automate a process for this option.

Taking into account these timing issues and the once off debt payment associated with this option, the CER considers it more suited to a manual solution. It is proposed

that this manual solution would be supported by the MRSO and the GPRO and a high level design proposal is presented in the next section, and views are invited on alternatives available for the manual solution.

The ultimate construct of this design will be considered alongside the responses to questions 3 & 4 of this paper, which asked whether debt transfer should only apply to customers with debts over the debt flagging thresholds and whether the gaining supplier should have sight of the amount of debt before they switch. However, it is envisaged that the roles presented in the next section will generally not change.

Manual Solution

The losing supplier will have to inform the gaining supplier of the debt outstanding. It would be the responsibility of the losing supplier to ensure that this information is sent (for example via secure email). The debt amount will have to be accompanied by the MPRN / GPRN of the customer so that the gaining supplier can identify the customer to whom the debt is associated. With this information the gaining supplier can then apply it to the customer's account.

To facilitate the above, a change in market processes is required as under the current market design the losing supplier does not know who the gaining supplier is (and vice versa). It is proposed that the MRSO / GPRO would identify the gaining supplier to the losing supplier.

Customers with Pay As You Go meters installed by ESNB and BGN are identifiable in the central market systems and the MRSO / GPRO could access this information. In contrast, the central market systems do not hold any information as to whether a customer switching is in debt. Without this information the MRSO / GPRO would not be able to identify the customers to whom debt transfer applies and in turn identify to the losing supplier who the gaining supplier is. In addition to the above, the central market systems do not hold any information as to whether a customer has another type of Pay As You Go device or is switching to avail of a lifestyle choice Pay As You Go service (eg a credit customer with arrears switching to avail of such a service). If debt transfer was to extend to such customers, the GPRO and MRSO would not be able to identify, without further information, the customers to whom debt transfer applies and in turn identify to the losing supplier the identity of the gaining supplier.

The following proposal is invited for comment. To enable the MRSO / GPRO to identify the customers to whom debt transfer applies, losing suppliers will be required to provide the MRSO / GPRO with a list of MPRNs / GPRNs of customers switching with Pay As You Go meters and with arrears (the introduction of a threshold could assist with the volume of checks to be done in this regard). In addition, and to cover off where debt transfer extends to customers with arrears switching to avail of a lifestyle choice Pay As You Go service, gaining suppliers will be required to submit to the MRSO / GPRO a list of MPRNs / GPRNs of customers who are switching to them to avail of such a service. Losing suppliers will also have to provide a list of MPRNs / GPRNs of customers with Pay As You Go devices to whom a debt was previously transferred and who are switching again with an outstanding debt.

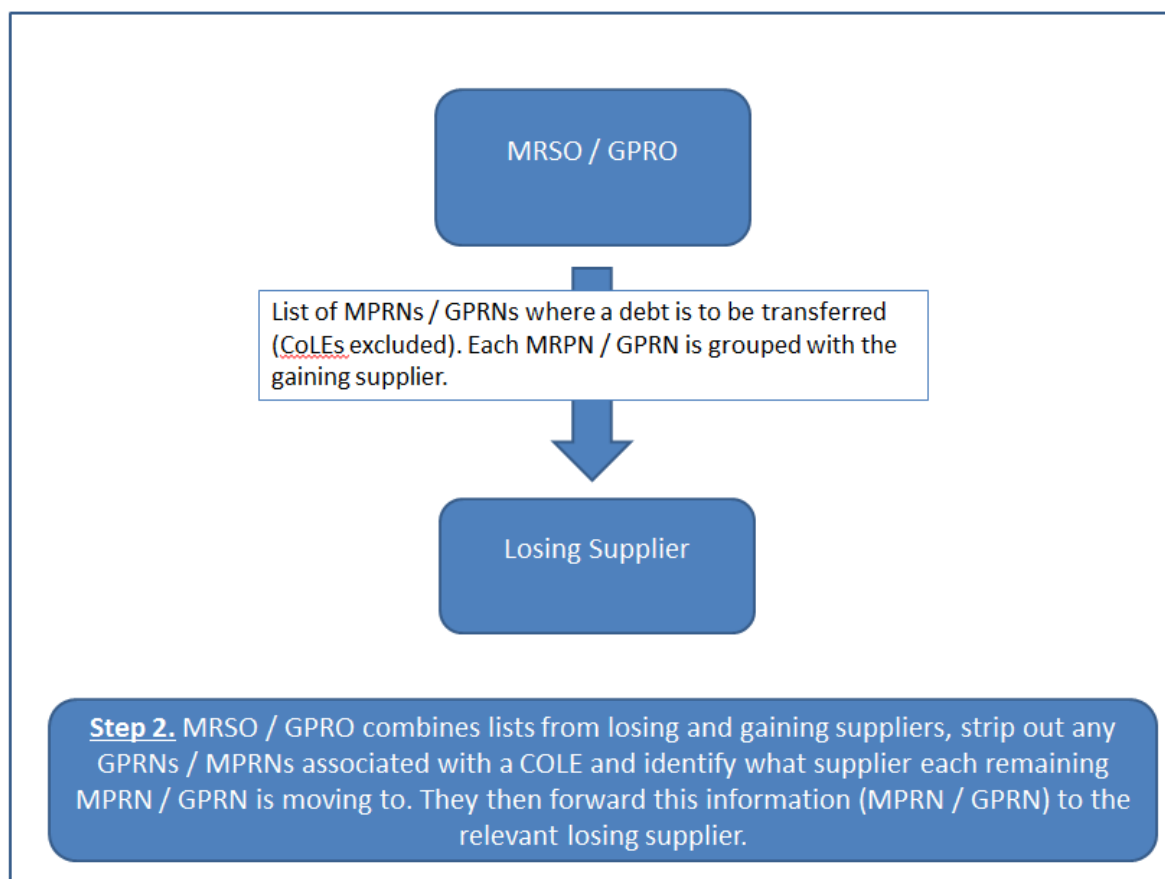
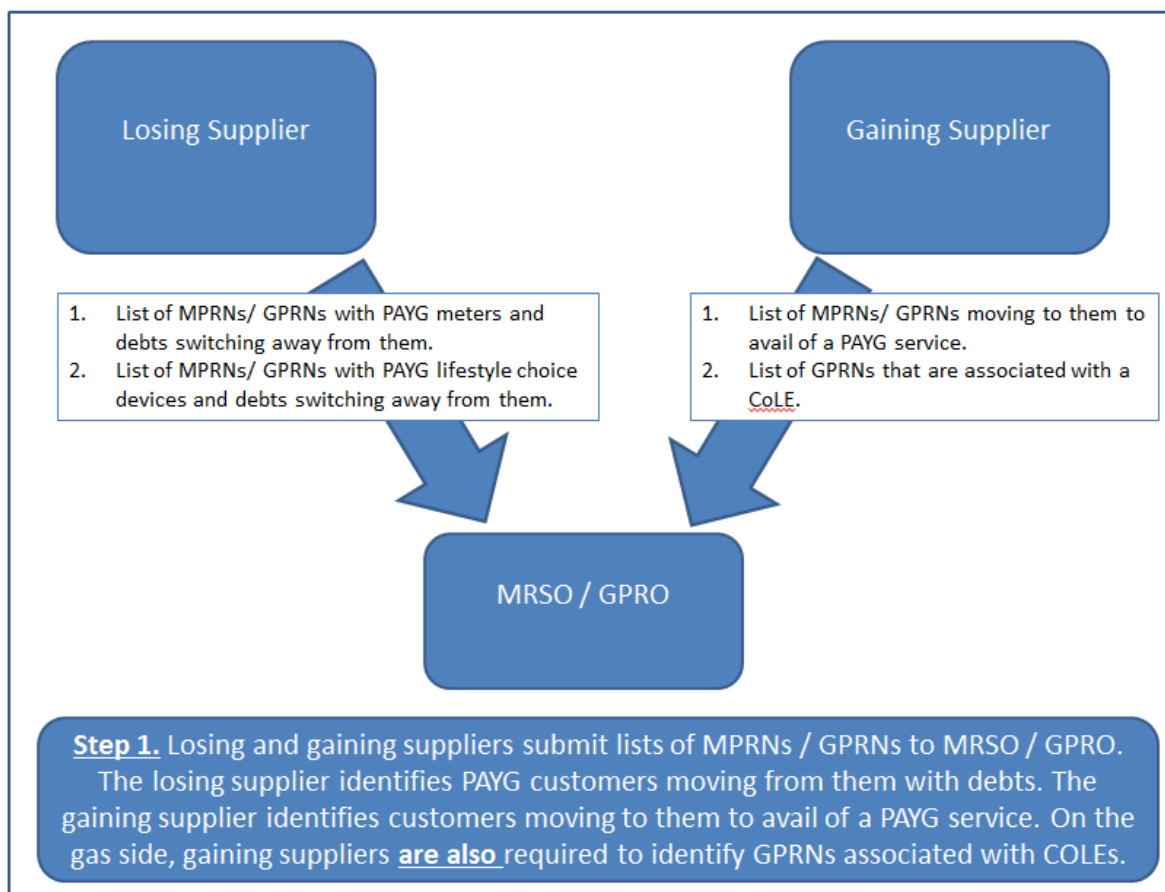
MRSO & GPRO Process

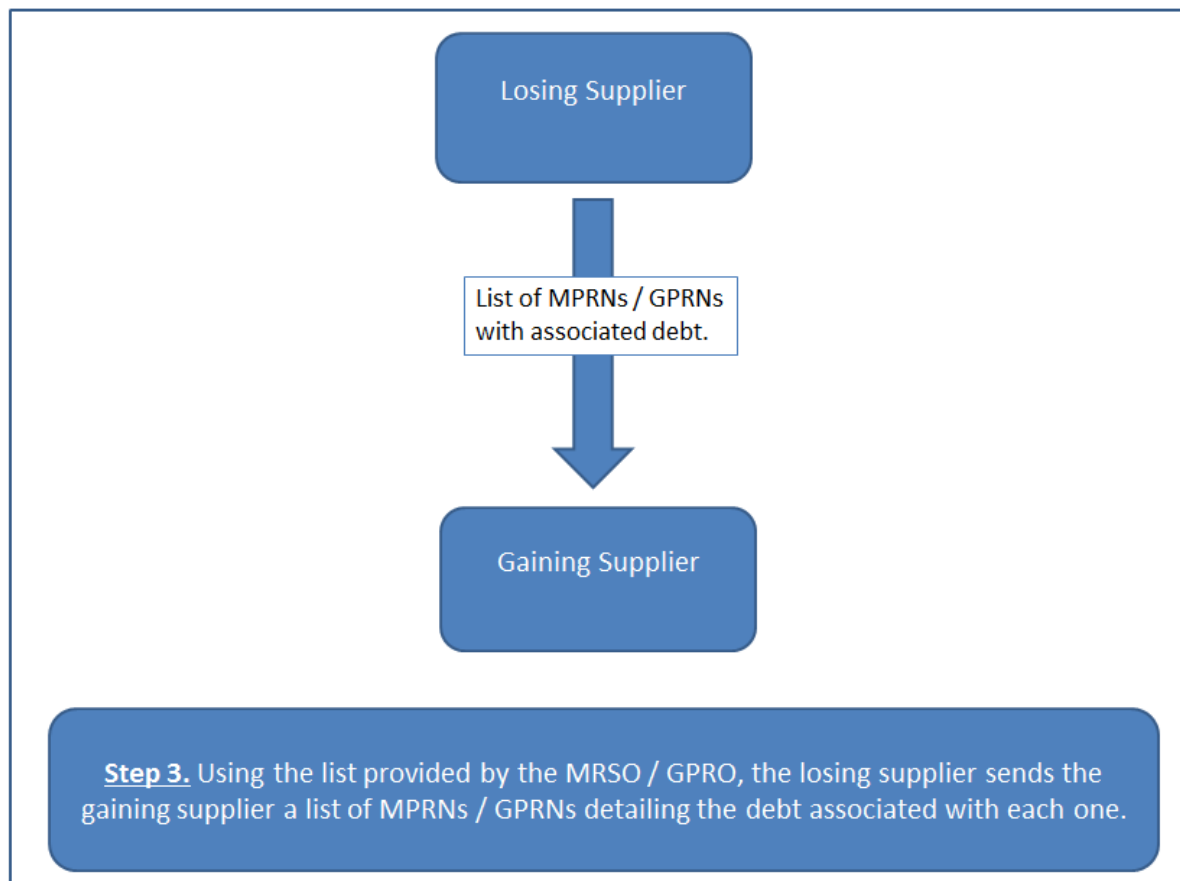
From these lists submitted by suppliers, the MRSO / GPRO will determine, in conjunction with the data available from the central market systems whether a customer has a Pay As You Go meter installed by ESNB or BGN, the customers who have a debt to be transferred. They will then communicate, to the losing suppliers of these customers, the customers to whom debt transfer applies and to whom they moved.

Before the information is passed on to the new supplier, a review will be done to ensure that there is no Change of Legal Entity involved with the switch. This is to ensure the correct customer's information is passed on to the suppliers

The MRSO will conduct this check on the electricity side and check for any inferred changes of legal entities (the same as the process for debt flagging). With Change of Legal Entity not captured in the market messages on the gas side, the gaining supplier will be required to identify Change of Legal Entities for customers they are gaining. The gaining supplier will have to identify these customers to the GPRO where the customer has a Pay As You Go meter or is switching to avail of a Pay As You Go service. They will do this by submitting a list of GPRNs to the GPRO. The GPRO will not pass on any information to the losing supplier pertaining to these customers. This will avoid the losing supplier sending any debt information to the gaining supplier where there has been a Change of Legal Entity. This approach is different than the Change of Legal Entity check done for debt flagging, which sees no lists of GPRNs exchanged but rather that the gaining supplier ignores any debt flags raised where there is a Change of Legal Entity. This difference is because the debt data being transferred under debt transfer is more detailed than that under debt flagging. The losing supplier will then pass the debt information to the gaining supplier.

The following images show the various steps of this manual process. The ultimate construct of this design will be considered alongside the responses to questions 3 & 4 of this paper, which asked whether debt transfer should only apply to customers with debts over the debt flagging thresholds and whether the gaining supplier should have sight of the amount of debt before they switch. However, it is envisaged that the roles of the various parties will remain as detailed here.





Q7. Respondents are invited to comment on manual process, proposed for option 1.

Views are also invited that a manual process is preferable for option 1. Outline reasons for agreement or disagreement. Do you agree with the manual processes presented? Are there alternative manual processes that can be used under option 1. Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

4.2 Option 2 –Gaining Supplier Collects Debt

Under option 2, the gaining supplier, collects the debt and pays back the relevant supplier overtime as the customer clears the debt through vends / top ups or once off payments. This option sees the debt risk staying with the losing supplier. It does not present the same financial constraints on the gaining supplier as option 1, but it does place an onus on the gaining supplier to collect and pass on debts collected in a fair and proportionate manner.

This option may not, however, place sufficient incentive on the new suppliers to pursue a customer with transferred debt for payment if the customer has stopped vending / topping up. This is because the overarching rule is that the debt is paid off in line with customer payments. So if the customer stops paying, there are no payments to be passed back. If the gaining/ new supplier was then to chase the customer for transferred debt they would be doing such solely to pass it back to another supplier. In addition, this option may see the gaining supplier setting the debt

recoupment rate as low as possible so that they retain a greater proportion of each vend. To counter such gaming, the CER considers it appropriate that suppliers would have to demonstrate that they are not treating customers with transferred debt any differently than their customers with other debt.

As to the timing of payments between suppliers, and similar to option 1, it is proposed that payments should occur once per year or each quarter; where a reconciliation exercise would be conducted. With up to a year between payments, the supplier to whom the money is owed could be placed in a vacuum as to the progress of the customer's new supplier in collecting the debt owed to them. For example, the supplier would only become aware of lower / higher than anticipated debt payments after a year

In relation to switching, the process would appear more complex than option 1. Under this option, the debt is paid back to the supplier under whom the debt was initially accrued. If the customer switched once, this would see monies being transferred between the gaining and losing suppliers. However, where the customer switched multiple times the position becomes more complicated. This is because the payments would have to be channelled back to the initial supplier in the chain; under whom the debt was originally accrued. For example if a customer switched twice, there would be three suppliers in this chain: the first supplier is the supplier under whom the debt was accrued, the second is the supplier to whom the customer initially switched and the third is the customer's current supplier. As the debt would be owed to the first supplier, vends / top ups from the customer's current supplier would have to make their way back to that supplier.

As to the debt amount to be transferred, the CER considers it appropriate that it be based on the final bill.

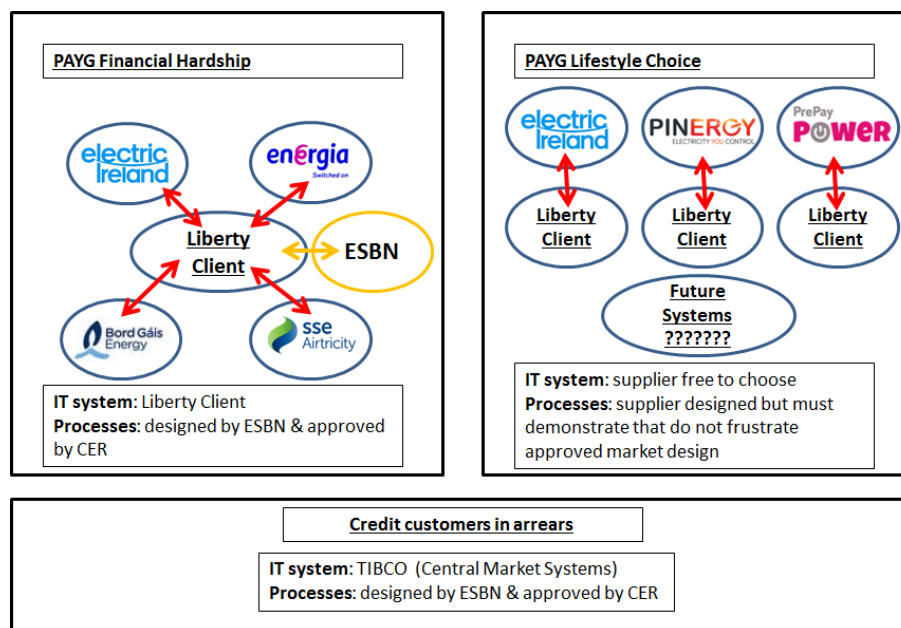
Q8. Respondents are invited to comment on whether the debt amount to be transferred should be based on the final bill. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Q9. Respondents are invited to comment on whether additional safeguards are required to ensure that supplier don't game the system to maintain a greater portion of a customer's vend. Do you agree with the proposal that suppliers would have to demonstrate that they treat transferred debt no differently than any other debt? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Q10. Respondents are invited to comment on how frequently payments between suppliers should be made (quarterly, annually or ongoing). What are your preferred timelines? Outline reasons for your preference. Are there alternatives that CER should consider?

Proposed system / process changes

As this option does not see once off payments for each switch but rather payments being continuously passed back for each customer, the CER considers that this option lends itself more to an automated solution than option 1. As shown in the below figure, the CER only has governance and oversight of the Pay As You Go solution for financial hardship in electricity. These Pay As You Go meters are installed by ESNB. In contrast ESNB does not provide a lifestyle choice offering for suppliers to avail of. As such, electricity suppliers seeking to offer lifestyle choice PAYG solutions must develop these themselves and they are free to use whatever system they want – they must however demonstrate that their processes in no way frustrate the approved market design. The CER is not in a position to design an automated solution for these lifestyle choice Pay As You Go solutions, as, even on a basic level, a new supplier could enter adopting a new IT system for which a developed design was not compatible. The options are therefore that a manual solution applies to all or an automated solution is developed for the financial hardship Pay As You Go meters with a manual solution running in parallel for the lifestyle choice Pay As You Go solutions.



On the gas side the case is somewhat different, as BGN provides both financial hardship and lifestyle choice PAYG offerings to the market (all suppliers can avail of such). The CER has governance and oversight of both these offerings and as such could oversee the development of an automated solution for both.

Manual Solution

As detailed in the previous section, a manual option can work for all customers falling under debt transfer.

With the debt remaining with the customer's initial supplier, the process will have to provide for vends / top ups under the customer's current supplier being sent back to that supplier.

Where the approach for option 1 was followed, and the customer's current supplier was informed by the MRSO / GPRO of the customer's previous supplier, the instance of multiple switches would require money being passed back along this chain; from supplier to supplier. That is the customer's current supplier would pass money back to the customer's previous supplier. They would in turn pass the money on to the next supplier in the chain and so on until the payment reached the supplier under whom the debt was originally accrued. This would see certain suppliers acting as agents/ middlemen, simply collecting money from one supplier to pass it on to another supplier. The CER considers that this process would be more cumbersome and has concerns that it would see refreshed debt information being passed on to all suppliers in the chain until the debt was cleared; even though some suppliers in the chain would no longer have any contact with the customer nor any ultimate exposure to the amassed debt but were simply acting as a middleman.

An alternative approach is where the MRSO and GPRO identify not the customer's previous supplier but the supplier to whom the debt is owed. This would facilitate the payment of collected monies directly to that supplier and as such eliminating the need for suppliers acting as middlemen. The CER considers this option may be more appropriate as it minimises the movement of information between parties. The CER does note, however, that this process would see the supplier from whom the debt was initially transferred being made aware of the customer's switching behaviour until the debt is cleared. This is because that supplier would receive payments from the customer's various suppliers. The MRSO / GPRO would identify the relevant suppliers through the manual process as previously detailed earlier in section 4.

Q11. Respondents are invited to comment on whether they agree that a manual option is preferable for option 2. Outline reasons for agreement or disagreement. Do you agree with the manual process presented? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Automated solution

As stated previously, the CER can only develop an automated process for Pay As You Go meters installed by ESNB and BGN. For other customers falling under debt transfer a manual process would need to be run in parallel. The proposed manual solution is that presented in the previous section.

To allow for automation a placeholder amount for the debt to be transferred would be required. This is because, the switch would most likely be completed and the customer already set up with a new account under their new supplier if the final bill was awaited. For clarity, the final bill and payments towards it will ultimately determine the debt amount transferred and as such if there are differences between this amount and the placeholder, then the debt amount transferred would have to be

adjusted on the customer's account. It is suggested that the place holder should be the debt amount on the supplier's backend systems at the time of the switch.

ESBN and BGN have been requested to evaluate the options for these automated solutions. Considerations are how a process for Change of Legal Entity should be included in the automation, how the debt will be automatically transferred over to the customer's new account and to what degree the process should be automated. In regard to this latter point, a key question is whether the customer's current supplier should be in receipt of the proportion of the customer's vend attributable to the transferred debt or whether they should not receive this and that it be directed back to the relevant supplier, for example, by Payzone or PayPoint. This does pose a question for the approach that can be used for suppliers that do not fall under the system governed by CER in the electricity sector.

Q12. Respondents are invited to comment on whether an automated solution for customers with PAYG meters installed by ESBN and BGN and a manual option for all other customers falling under debt transfer is preferable for option 1. Outline reasons for agreement or disagreement. Do you agree with the processes presented? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider? Views are also invited on the cost efficiency questions that arise for implementing varying solutions and implementation time frames for both options. Are there any other factors that need to be considered?

Q13. Respondents are invited to comment on whether an automated solution for customers with PAYG meters installed by ESBN or BGN should see the customer's current supplier receiving the entire vend amount or whether the proportion of that vend attributable to debt should be sent directly to the supplier to whom it is owed. Outline reasons for your preference. Are there alternatives that CER should consider?

4.3 Option 3-Hybrid

Under option 2 there was no incentive on suppliers to recoup transferred debt from customers who have stopped vending / topping up. Option 1, required the gaining supplier to purchase the transferred debt in its entirety even if the customer subsequently switches without clearing that debt. That requirement placed a financial burden on the gaining supplier, which may make them more hesitant to acquire customers. Option 3 has been developed to try and address these shortcomings. Under this third option, the gaining supplier would be required to pay back the transferred debt within 12 months but if the customer switched in this time the supplier would only have to recompense the customer's previous supplier in line with what the customer vended / topped up while they were with them.

Q14. Respondents are invited to comment on the proposal that the gaining supplier would be required to pay back the transferred debt within a year. However if the customer switches in this time the supplier only recompenses the customer's previous supplier in line with what the customer vended / topped up while they were with them. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

System / process changes

This is a hybrid of options 1 and 2. The payments back to previous suppliers depend on whether the customer switches again with debt remaining within a year. This option is being proposed as it potentially places a lesser financial burden on the gaining supplier than option 1 (as it removes the necessity to pay the debt upfront regardless of whether the customer switches) while incentivising the supplier to follow up on any outstanding debt if the customer stays with them for longer than a year. The difficulty is that this outcome is not known before the 12 months is up. As such, it is a difficult process to automate and a manual process is proposed. The manual process is the same manual process outlined for options 1 and 2 and it would be up to the supplier to determine how long the customer has been with them and whether they have to pay the full debt amount or not.

Q15. Respondents are invited to comment on whether they agree that a manual option is preferable for option 3. Outline reasons for agreement or disagreement. Do you agree with the manual process presented? Are there alternatives that CER should consider?

In conclusion to the above, the CER seeks comment on the above options or alternatives that should also be considered. The final decision will take into consideration the overall effectiveness of the solution, including, cost effectiveness and time lines to implement the solution.

4.4 Adjustments to Debt Transfer Amounts

This section addresses the treatment of adjustments to debt amounts queried by the customer and upheld post change of supply.

Customer Related Adjustments

Where a customer wishes to query or challenge a debt amount that was transferred, the CER considers it appropriate that they should engage with the supplier from whom the debt in question was transferred. Only that supplier would have sufficient data to look into a customer's complaint / query effectively (they are the only supplier with sight of the customer's top ups / vends immediately prior to the time the customer changed supplier and the debt was transferred). From final bills the supplier in question should be readily identifiable. For example, a customer switches twice and a debt is transferred on both occasions. Each time, the customer switched, a final bill would be issued detailing the debt outstanding and to be transferred. The

customer with reference to these bills should be able to identify which debt amount they want to query. Where they wish to query the debt amount transferred between their first and second supplier, they would contact their first supplier. If the customer wanted to query the debt amount transferred between their second and current supplier, the customer would contact their second supplier.

In cases where the customer needs assistance in identifying the supplier in question, their current supplier will be expected to assist them and the MRSO and GPRO will in turn assist the suppliers as appropriate.

Q16. Respondents are invited to comment on the proposal that where the debt amount transferred was queried by the customer, the query should be lodged with the supplier from whom the debt was transferred. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

The CER also considers it appropriate that where ultimately the debt transferred was found to be incorrect through customer query / complaint, the supplier handling the complaint should not only write to the customer confirming the adjustment but should also initiate the process for ensuring that the customer's current supplier reflects the adjustment in their charging of the customer.

In the event any monies are owed to the customer (because they had paid off more than the adjusted debt), it is also considered appropriate that these would be refunded by the customer's current supplier (who would be the only party with sight of the customer's most recent top ups / vends). In adjusting the amount being charged or refunded to the customer, the customer's current supplier would be required to write to the customer confirming the adjustment and why any refunds were being issued. Where a customer has switched multiple times, it is possible that the customer could be owed money by more than one supplier in the chain (there would be three suppliers in the chain if the customer switched twice). It would not be appropriate for the customer to engage with all these suppliers. This is another reason why the customer's current supplier should conduct the refund. The MRSO / GPRO will support this process through the manual processes detailed earlier in this paper.

Q17. Respondents are invited to comment on the proposal that the customer's current customer would refund any monies owed due to an adjustment in a transferred debt. In doing such, the supplier would have to write to the customer detailing the refunded amount any why it was refunded. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Supplier Related adjustments

In situations where suppliers are required to make payments to each other, due to the adjustment in debt amounts, the following process is proposed and comments are invited to this proposal and alternatives available.

Each supplier in the chain would have to pay the next supplier the difference between the debt that was transferred and what should have been transferred and any payments they received from the customer in excess of the corrected debt amount.

All suppliers would be required to pass on any monies received from a supplier that pertain to excess payments by a customer to the next supplier in the chain. This would continue down the chain until all such monies reached the customer's current supplier. It is noted that if this process was not followed and suppliers only paid one another for the differences between the debt amounts transferred, the customer's current supplier may not be in receipt of all monies owed to the customer. An illustrative example of this is provided in figure 1.

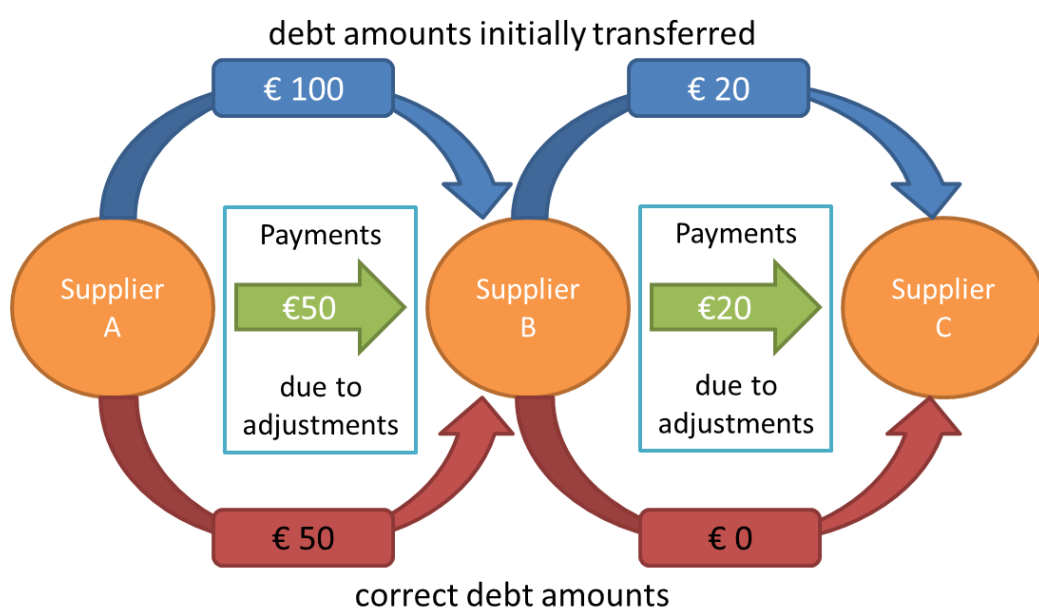


Figure 1. An illustrative example where a customer changed supplier twice with a debt transferred on both occasions and it then materialised that the debt amount transferred was too high. Payments between suppliers to correct the amount of debt that they had purchased upfront would not see the customer's current supplier (in this case supplier C) being provided sufficient money to refund the entire amount they are owed due to the correction in the debt amounts (in this case €30).

Figure 1 shows an instance where a customer switched suppliers twice, with outstanding debts on both occasions. When they switched for the first time (from supplier A to supplier B) a debt amount of €100 was initially transferred. Under supplier B the customer paid off €80 of the debt and then switched supplier again (to supplier C). The €20 outstanding was subsequently transferred to their new supplier (supplier C). It then materialised that the €100 transferred from supplier A to supplier B should have been €50 and that the customer would have paid off all this debt under supplier B. If suppliers only recompensed one another for the differences in the debt amount transferred between them, supplier A would recompense supplier B €50 and supplier B would in turn recompense supplier C €20. The customer, however, is owed more than this as they had already paid back €80 or €30 more than they should have.

Q18. Respondents are invited to comment on the proposed requirements on suppliers as to repayments when adjusting a debt amount that was transferred. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

5 Debt Transfer - Customer Engagement & Data Protection

The introduction of debt transfer will change the experience of Pay As You Go customers in terms of how debt is collected. It will also see additional personal information being passed between parties. It is important that affected customers are aware of changes that ultimately arise as a result of a decision arising from this consultation and how they will be affected. This is particularly important when it comes to the exchange of additional personal information; which is protected by data protection legislation, to which debt management must conform.

This section covers: a) information to be provided to customers, under a range of scenarios, in the event of debt transfer b) processes that would be required under various scenarios in relation to provision of the required information, in the event of debt transfer, c) impact on the supplier hand book and codes of practice.

5.1 Informing the customer

When acquiring a customer

Sections 5.8 and 11.8 of the Supplier Handbook stipulate the requirements supplier must adhere to when signing up a customer. It places specific obligations on suppliers to clearly explain to the customer what service and to whom they are signing up to. These obligations include explaining to the customer how their account and outstanding balances under their old supplier will be handled. In this regard, it stipulates that a supplier when signing up a customer must explain “*how the customer’s existing account will be closed and the new account will be opened*”. The supplier must explain “*that any balance will be dealt with by the previous supplier*”.

With the introduction of debt transfer, a change will be required as it would be the gaining supplier collecting outstanding balances / arrears. This will be relevant to customers in arrears that already have a Pay As You Go meter installed or (and as being consulted upon in this paper) is switching to avail of a Pay As You Go service.

It is proposed that before signing up a customer, suppliers will be required to clearly explain to the customer that debt transfer is in operation, how debt transfer works, how their old account will be closed and any outstanding arrears paid for. This will ultimately drive a change to the Supplier Handbook.

Q19. Respondents are invited to comment on the proposal that suppliers, when signing up a customer, must clearly explain to the customer that debt transfer is in operation and how debt transfer works – how their old account will be closed and any outstanding arrears paid for. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

To facilitate debt transfer, where the customer continues to pay outstanding arrears after they switch supplier, the gaining supplier would have to be made aware of the amount that the customer owes (as they have to charge the customer for the debt and also inform the customer as to their progress in clearing this debt). This information constitutes personal information and falls under data protection legislation.

Data Protection law prohibits any third parties, such as suppliers from, transferring personal information in their possession regarding a customer, without that customer's prior consent. This prohibition does not apply to business customers. The CER is cognisant of previous high level advice provided by the Office of the Data Protection Commissioner, which noted that the customer should be informed, before they agree to sign up with the supplier, of the exact personal information to be shared and in what instances this information will be shared. For debt flagging, this led to additional obligations being placed on suppliers through the Supplier Handbook and the Debt Flagging Industry Code.

With debt transfer requiring the flow of personal information between suppliers, it is proposed that the same obligations be applied to debt transfer. In relation to any additional changes required in relation to notifications to the customer, the CER will liaise with the office of the data protection commissioner on this matter.

The current obligations on suppliers are outlined in Annex 1.

Q20. Respondents are invited to comment on the means of explaining the changes to the customer and acquiring their consent, in line with data protection legislation, for the required information on debt to be passed to the gaining supplier. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

When installing a PAYG meter for arrears

At present the Supplier Handbook requires², that (where applicable) before a Pay As You Go meter is installed for debt reasons, the customer must be made aware in writing of the total amount of their debt, the likely length of time to repay the debt and how their instalment for debt recovery has been calculated e.g. €x weekly over 36 months.

Under debt transfer it is proposed that an explanation of debt transfer should also be included in these statements. Such statements should clearly detail how debt

² Supplier Handbook section 9.3.3 (d)

transfer works and how the debt amount to be transferred will be established. Where credit customers with arrears who switch to avail of a Pay As you Go service are included under debt transfer (a proposal being consulted upon in this paper), the CER considers it appropriate that such a statement is issued to the customer when the debt is being placed on the Pay As You Go backend systems by their new supplier. This will ultimately drive an update to the Supplier Handbook.

Q21. Respondents are invited to comment on the proposal that suppliers, when installing a Pay As You Go meter / device, will have to clearly detail in writing how debt transfer works and how the debt amount to be transferred will be established. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Q22. Respondents are invited to comment on the proposal that where a credit customer switched to avail of a Pay As You Go meter, the gaining supplier would write to the customer detailing the debt amount to be placed on the meter.

Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

Once a PAYG meter is installed

Once a Pay As You Go meter is installed, the supplier is required under the Supplier Handbook to provide the customer with a statement, at least three times a year, of consumption, debt outstanding, debt repaid and payments made. This obligation is to ensure that the customer is furnished with sufficient information as to their debt liabilities.

It is important that under debt transfer that the customer continues to obtain sufficient information to manage their debt effectively.

Where a debt is transferred, the CER proposes that the customer's new supplier will be required to adhere to the statement requirements outlined above and issue a statement to the customer, at least three times a year, on consumption, debt outstanding, debt repaid and payments made. The supplier will be obliged to issue such statements until the customer clears their debt or changes supplier. This will require that the gaining supplier has sight of the debt amount transferred. This will ultimately require an update to the Supplier Handbook.

Q23. Respondents are invited to comment on the proposal that suppliers will be required to provide customers with a transferred debt with a statement, at least three times a year, of consumption, debt outstanding, debt repaid and payments made. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider?

When losing a customer

When a customer changes supplier, the losing supplier must issue a final bill within six weeks. This is detailed in the Code of Practice on Customer Billing & Disconnection. The final bill must clearly detail the amount being charged by providing:

“Clear calculations of the amount due for electricity/gas supplied, (giving units, multipliers, rates etc. where appropriate), including any rebates or penalties, free electricity/gas allowance (where applied directly to the bill) etc, standing charge and any other amounts being invoiced being clearly separated (e.g. servicing)”

Where the customer is in disagreement with the amount billed they are entitled to query the debt statement with the supplier and, if they so wish, lodge a complaint with the supplier. Where the supplier and customer cannot reach a mutually acceptable position, the customer may submit a formal complaint to the CER³. In such instances, the supplier may not take further action to seek payment until the outcome of the CER’s complaint process has been issued. Once the CER’s determination has been issued the supplier must bill the customer in accordance with it.

The above process should not change under debt transfer as proposed in section 4. One of the proposals being consulted upon would see a debt transferred over to the new supplier before the switch is completed. Regardless, of whether this is the case or not, the CER considers it appropriate that any debt amounts being transferred should be a matter between the customer and the supplier from whom it is being transferred (this was previously discussed in section 4).

The CER considers it appropriate that the final bill should clearly state whether the amounts owing have been transferred (if option 1 in section 4 is adopted) and will be paid back as they vend / top up with their new supplier or that any monies owing (if option 2 in section 4 is adopted) will be transferred over to their new supplier.

Q24. Respondents are invited to comment on the proposal that suppliers will be required to clearly state on the final bill how the debt amount will be transferred. Do you agree or disagree with this proposal? Outline reasons for agreement or disagreement. Are there alternatives that CER should consider? Are there any additional processes or customer information requirements CER should consider

6 Debt flagging

The CER reviewed the debt flagging process in 2013. The review showed that switching activity has been far in excess of the number of change of supplier (CoS) requests cancelled due to debt flagging. It led to the reduction of the debt flagging

³ Before lodging a complaint with the CER, the customer must have gone through the supplier’s complaint process. As such when lodging a complaint with the CER the customer must provide the complaints reference number given to them by their supplier.

thresholds for both domestic and business customers. The new thresholds are shown in the below table. These thresholds were adopted from 1st July 2013 and as such have been operation for approximately 10 months now. The debt flagging review also led to the formal implementation of debt flagging for unmetered supplies.

Market sector	Debt Flagging Thresholds
Domestic	≥ € 255 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

New debt flagging thresholds introduced from July 2013.

Analysis of the debt flagging data from when these new thresholds were adopted in July 2013 to the end of February 2014 shows that switching activity remains far in excess of the number of change of supplier (CoS) requests cancelled due to debt flagging. This is shown in the below table, which details the number of debt flags raised versus the number of Debt flagged CoS cancelled. It shows the number of debt flags raised and the number of debt flagged CoS cancelled from 1st July 2013 to 28th February 2014, where the figures in brackets show their corresponding percentages of overall customer switches⁴.

Market Sector	Debt Flags Raised	Debt Flagged CoS cancelled
Domestic electricity	(4.2 %) 7,153	(0.42 %) 723
Domestic gas	(1.19%) 799	(0.6%) 399
Small business electricity	(1.18%) 251	(0.15%) 32
Medium business electricity	(1.77%) 34	(0.16 %) 3
Small and medium business gas	(<1.71%) 51	(<0.67%) 20

Source: ESB Networks & BG Networks

The CER is inviting comments on the effectiveness of the debt flagging process as currently designed and whether or not changes to the process (beyond the implementation of debt transfer) are merited; noting that not much time has elapsed since the introduction of the revised threshold. In the context of the above proposals, argument to support revision is invited.

An option that has been raised is that the structure of the thresholds could be changed so that each customer group (domestic, small business and medium business) has an additional higher threshold introduced. Each sector would then have two thresholds; one higher than the other. Where the debt amount was greater than the lower threshold but less than the higher threshold, the lower debt flagged would be raised. Where the debt was greater than the higher threshold the higher debt flag would be raised. This would allow suppliers to further distinguish between debt flagged customers and take this into consideration when deciding whether or not to cancel a debt flagged switch.

⁴ Switches are taken as requested switches in electricity. For gas this has been calculated from the number of customers gained by suppliers plus the number of switches cancelled. Also note that BGN only provided data as to the number of switches in the IC sector. Small and medium businesses are contained in the IC sector but there additional medium sized business in the FVT sector that contains approximately 1,800 customers. As it was not possible to obtain switching data for these medium sized customers in the FVT sector, the %s in the table are based solely on IC data and presented as maximum values.

Views have been invited on the proposal of two thresholds for debt flagging and the amounts for the thresholds.

On the matter of debt blocking, the CER continues to consider that debt flagging is more consistent with the open market design that exists for both gas and electricity retail markets. Both markets operate on a supplier-centric model that sees the customer as the initiator in any switch. The retail market model is structured so that customers deal exclusively with the gaining supplier of their choice, and the processes have been designed to ensure that the losing supplier does not have any inappropriate powers to veto or delay a customer switch. The implementation of a block by a losing supplier runs contrary to this principle and would potentially act as a barrier to market entry; as such, and having weighed a variety of factors in coming to its decision, the CER does not consider it an appropriate solution for a developing competitive market.

Finally in posing these questions, the CER is cognisant that debt transfer is designed to address limitations in the debt flagging process and is likely to change the dynamics of debt flagging for the domestic markets.

Q25. Respondents are invited to comment on whether the current debt flagging process is effective. Outline reasons for agreement or disagreement. Do you see merit in the introduction of a second higher threshold so gaining suppliers can distinguish to a greater degree between customers' debt levels. Views are invited on the amounts for higher threshold. Are there alternatives that CER should consider?

7 Next Steps

Responses to this consultation are welcomed before 18th July 2014. Before that date, the CER will hold industry workshops on debt transfer and its implementation.

Annex 1

This annex outlines the obligations placed on suppliers through the Supplier Handbook and the Debt Flagging industry code.

Debt Flagging and Data Protection Requirements

- At point of registration/sign up, the customer must be made aware that debt flagging is in operation in the electricity and gas markets and that the supplier currently registered to this GPRN/MPRN will alert the proposed new supplier that there is a debt outstanding on this GPRN/MPRN account at this time, in line with industry agreed thresholds.
- It is insufficient to include a reference to debt flagging in suppliers' standard customer terms and conditions of supply only.
- The sign up form or application which the customer completes when they choose to be switched to a new supplier (whether it is the physical page or online form) should contain the relevant wording in a 'prominent' position, which clearly outlines that there are debt flagging processes in operation in the electricity and gas markets and what this infers.
- It is necessary for a tick box to be included so that the customer confirms that they have read and understood this notice.
- Where the customer initiates the CoS process over the phone, the supplier agent must inform the customer verbally about the debt flagging arrangements in operation and what this infers and capture the customer's agreement.
- The recommended wording for this notice has been approved by the ODPC for use by suppliers:-
 - *When your request to switch is processed, your current supplier will notify us if you are in arrears for more than levels set for all customers by the Commission for Energy Regulation. If we decide not to carry out the switch because of arrears, we will tell you in writing. (Arrears - an overdue payment that has not been paid.)*
- Should a supplier choose not to use this wording for the notice, this supplier must ensure that their alternative wording meets the requirements of the ODPC.
- Suppliers must be able to demonstrate that they have advised customers that debt flagging arrangements are in operation and acquired their consent to proceed to switch.

As mentioned in the above paper, with debt transfer requiring the flow of personal information between suppliers, it is proposed that the same obligations be applied to debt transfer.