

**Submission by the Society of St. Vincent de Paul
to the Commission for Energy Regulation**

Consultation on

**Market Monitoring in the Electricity and Gas Retail
Markets**

(CER /13/302)

28th February 2014



Society of St Vincent de Paul

Introduction

The Society of St Vincent de Paul (SVP) welcomes this opportunity to comment on and inform the Commission for Energy Regulation's (CER) proposals regarding market monitoring in the electricity and gas retail markets. SVP has called for such information to be collected, collated and analysed in its previous submission to CER on the high level design of smart metering. SVP has also contributed questions to CER's customer survey to gather on a qualitative basis some of the information which is proposed below.

This submission by SVP contains very specific proposals as to what additional information should be included in a market monitor. It does so with the rationale of getting a proper insight into the reality of energy use and expenditure for vulnerable households in order for the regulator and suppliers to provide the most effective service possible for a large cohort of domestic energy users. It takes as a template the 'social obligations' placed on suppliers by the Office of Gas and Electricity Markets (OFGEM) in Great Britain.

SVP acknowledges the consultation paper's realistic concern about additional burdens on suppliers. However, SVP has long been of the view that without an overall view of the energy market there is a danger of energy policies being inadequate and/or missing their target. SVP also believes that CER must be allowed access the additional resources it sees fit to make the best use of the incoming information.

Broadening market monitoring information requirements

In our submission to CER on the high level design of smart metering, SVP set out its rationale for seeking greater information on the domestic energy market stating:

SVP views the Smart metering roll-out as an opportunity to discern more information about domestic energy consumption and issues such as energy arrears and fuel poverty. We believe this information could be collated in advance of the roll-out and made publicly available. This will ultimately enable parties to suggest more targeted solutions for [financially] vulnerable customers. Energy debt in this context is arrears greater than the CER measure of €225 over 60 days in duration. In particular SVP proposes that CER should be able to:

- identify and collate detailed information from **all** energy suppliers to measure the extent of the debt arrears issue
- identify and collate detailed information from **all** energy suppliers to measure energy (over)use
- profile customers with arrears and thus identify relevant categories/types of customers who require greatest support and also to measure the effectiveness of current working solutions
- Quantify number of households in payment plan arrangements due to arrears
- profile customers with successful payment plans, e.g., level of payment, duration of plan.
- profile unsuccessful payment plans, e.g., no. of households who default on payment plans or renegotiate such plans within 1 month, 2 months, etc.

The consultation paper by CER on market monitoring in the electricity and gas markets allows SVP a broader view of the potential and granularity of the available information. This perspective is also enhanced by a review of the 'social obligations' of suppliers in the UK and the corresponding information available in reports by OFGEM. Taking this broader picture this submission therefore proposes additional data requirements to those already identified by SVP heretofore and, in particular, notes the detailed analysis of all debt undertaken by Ofgem through its recently reviewed social obligations.

Background to Ofgem Social Obligations

Energy suppliers in Great Britain are obliged to provide market data under their license conditions. According to Ofgem, they see the monitoring and reporting of such data as being ‘a key part of our work to protect the interests of consumers’¹. Information provided by suppliers is on a quarterly basis and is published identifying suppliers in most cases. Ofgem further states that ‘by monitoring these statistics, we can identify areas of suppliers’ policies and practices where improvements are needed. The information requirements include:

- payment methods
- levels of debt
- disconnection rates
- prepayment meters
- help for vulnerable customers.

OFGEM review of social obligations

The information proposed by CER in its consultation document is not dissimilar to the original requirements of OFGEM, whose monitoring and reporting dates back a number of years. However, it is of note that OFGEM undertook a relatively recent review of their obligations and data requirements to deal with the specific issue of debt². Of particular note to SVP in this regard is that the information originally sought excluded certain segments of customers and that deficit was acknowledged under the review. We refer you to some brief relevant extracts from their 2102 Annual Report.

- *Suppliers are reminded that they have obligations to ‘take all reasonable steps’ to assess ‘Ability to Pay’ and to avoid disconnecting certain groups of customers. Given this, they must ensure that they keep abreast of best practice in debt and disconnection and review and adjust their policies accordingly. One way suppliers can do this is by partnering with third sector expert organisations such as debt advice charities.*
- *Part-way through 2012, we reviewed and made some changes to the Social Obligations data that we collect from suppliers, for example we are now collecting more detailed information about customer debt and we have started to collect information about smart metering. In previous reports we have only looked at customers that are in debt that have agreed a repayment plan with their supplier. In Quarter 3 (July-September), to capture a fuller picture of customers in debt, we started collect information about electricity and gas accounts in arrears (where customers have not yet agreed debt repayment arrangements). We will be monitoring levels of arrears throughout 2013 and we expect to provide more of a discussion on this subject in next year’s annual report.*

OFGEM rationale for market monitoring

Ofgem state their rationale for market monitoring is to protect customers, especially those in vulnerable positions, but they also acknowledge explicitly the impact on suppliers, giving them six months to update their systems to take account of new reporting requirements, viz.:

- *We take suppliers’ Social Obligations reporting seriously, as monitoring and reviewing it forms a key part of our work to protect the interests of customers, especially those likely to be in vulnerable situations. We use the reporting:*

¹ <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

² <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2012-annual-report>

- *to monitor trends in suppliers' Social Obligations over time*
 - *to monitor the effectiveness of our policies and*
 - *to identify best supplier practice and areas for improvement.*
- *Our Guidance was established in consultation with suppliers and it provided advance notice of Social Obligations reporting deadlines and what is required in response to each question. We recognised that suppliers would need time to update their systems to take into account revisions to our Guidance and we did not require suppliers to begin reporting under the revised arrangements, announced in March 2012, until 28 October 2012).*

OFGEM Findings 2012 and 2013

The findings of OFGEM in 2012 and 2013 typify exactly the overview information SVP believes that CER should hold. For example:

- At end of 2012, 5% of domestic gas and electricity accounts were in debt. In a third of these cases customers had not yet agreed an arrangement to repay the debt with their supplier.
- Average levels of debt rose from ca. £260 in Q1 2009 to £380 in Q2 2012.
- The OFGEM report from the 1st quarter of 2013 details the very low number of disconnections undertaken by suppliers, and supplier's details are published in this regard³.

SVP is anxious that a detailed picture emerges of energy debt in the Irish domestic market and therefore suggests that CER take cognisance of the experience and findings of OFGEM in this regard.

SVP Response to CER Document: Market Monitoring in the Electricity and Gas Retail Markets

2.2 Legislation and ERGEG Guidelines - The rationale of monitoring information

The consultation document outlines the domestic and European requirements on the CER for the collection and collation of information. It is clear that over time there has been a shift from monitoring market competitiveness to more of a customer focussed approach. The consultation also notes that there have been market developments since the initial consultation paper in 2011. It is also quite clear that there have been significant economic and social developments in Ireland over the last number of years and therefore this submission proposes that CER explicitly recognises financial vulnerability, fuel poverty and energy debt as a requirement and rationale of market monitoring.

2.6 Use of Data

SVP acknowledges industry concerns about the presentation of a market analysis. However, the central collation of information on the regulated energy industry has the potential to provide quality information to inform energy policy and interventions, particularly where indicators are cross referenced, e.g. households in debt who are using day/night tariffs. SVP believe that through understanding of energy use and energy debt, there is considerable potential to address fuel poverty in a more targeted manner than heretofore. It is on these grounds that SVP believes resources should be made available to CER, as it sees fit, to undertake such analysis.

3.2 Market Segmentation – segmenting the domestic market

Through our work on the ground SVP sees that the domestic market can be segmented in the following way:

³ <https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers%E2%80%99-quarterly-social-obligations-data-%E2%80%93-quarter-1-january-march-2013>

- Standard Credit Customers (in receipt of read / estimated bills every 2 months)
- Equalised Credit Customers (in receipt of a averaged bill every 2 months)
- PAYG Customers (customers who have received PAYG on hardship grounds)
 - Token Meter Customers (a subset of above using old generation meters)
- Pre-Pay Lifestyle Customers (customers who have opted for pre-pay option with service charge)

SVP believes that it is vital that the final segmentation is made to differentiate the pre-pay market between PAYG and Pre-Pay lifestyle meters. SVP also notes that there appears to be some confusion in the communities it deals with as to these differences between PAYG meters and lifestyle products, their capacities and their costs.

Furthermore, for the purposes of statistical analysis SVP sees a need for CER to have the capacity to differentiate customers on standard and day/night tariffs.

3.3.1 Switching rates

SVP notes CER's requirement for acknowledging failed switches. With our experience of customers switching due to accrued debts and in acknowledgement of the debt flagging procedures SVP believes it would be helpful for CER to analyse switches that were failed or rejected due to the debt flagging process. Such information would give information on the impact of debt flagging.

3.3.5 Disconnection Rates and PAYG Installs – threatened disconnections and 3rd party assistance

SVP welcomes the CER proposals on disconnections. In the event that automatic PAYG instalment becomes an option for disconnected customers data should be collected on this aspect also.

Self-disconnections are of great concern to SVP and we welcome CER's proposal to seek data on this issue. A more technical study of the PAYG market may also be able to monitor usage in sample households to investigate the phenomenon of under usage as opposed to self-disconnection.

Day-night Tariff meters and other exceptions to present generation PAYG meters

SVP sees a necessity in the current market for a greater enumeration and analysis of those households who are in arrears but are unable to avail of PAYG metering. Such households include:

- Households with day-night tariff meters
- Buildings that cannot accommodate the present technology – location of meter in apartments, blockages to wireless / remote use
- Landlord refusals in the private rented sector
- Distances from available credit retailer
- Supplier concern about customer capacity to operate meter

The monetary value of arrears in disconnection cases

Over the years SVP has endeavoured to give suppliers an analysis of the monetary value of the arrears that we encounter. SVP sees an opportunity here for such information to be collated and published on both a general basis and on a supplier basis. This information will show patterns both across the sector but also the individual responses of suppliers. SVP notes that the social obligations of suppliers by Ofgem gives specific information on the level of debt in granular detail and the information is also published according to supplier.

Disconnections in the event of failed repayment plans

SVP believes that it would be helpful to see the number of households who are disconnected despite their involvement in payment plans. It would also be useful to see the number of payment plans entered into in this instance. See also SVP proposals on arrears, payment plans and budgeting options in 3.5.3 below.

Threatened Disconnections

For many households assisted by SVP threatened disconnections are in fact a bigger feature than actual disconnections. Therefore SVP believes it would be helpful to see the statistics on the quantity of such late notice letters and the translation of such threatened late stage into PAYG meters, or not, as the case may be. The rationale for this is to understand the level of PAYG refusals in these situations and to give a complementary indicator on energy debt.

3rd Party Assistance

SVP believes it should be possible for the industry to put on record the number of customers who have assistance from a 3rd Party (SVP or MABS) flagged on their accounts.

3.3.6 Debt Flagging

SVP has already seen a need for debt flags and switching to be correlated – see 3.3.1. In relation to the CER proposal SVP welcomes the wider collation of information. SVP also sees merit in categorising and collating information on the number of debt flagged customers who opt for life style choice pre-payment meters.

3.4.1 Vulnerable Customers

SVP sees merit in collecting information on vulnerable customers. An issue of concern for the SVP with this cohort is their need to self-refer as opposed for the provision of a facility for 3rd party referrals. However, it is important to differentiate in the dissemination of such information that vulnerable in this instance excludes financial vulnerability.

3.5.1 End-User Prices

SVP welcomes this proposal and seeks assurance that information on end-user prices in the life-style pre-payment metering market will also be categorised.

3.5.3 Arrears, Payment Plans and other Budget Options

SVP strongly welcomes CER proposals in regard to arrears and payment plans. SVP sees this information as core to providing an understanding of financial hardship in the domestic energy market and had proposed that the capacity to collect this information justifies an explicit goal of market monitoring to uncover levels of energy debt and fuel poverty.

SVP has argued in many fora that while PAYG meters are making a substantial impact for financially vulnerable customers there are nonetheless, in our view, an even greater number of credit customers who are struggling to meet their bills. The information requirement proposed by CER will help enumerate this issue and could indeed be further advanced taking cognisance of the social obligations required by Ofgem.

SVP suggests the following additional information could also be added for analysis.

- The number of payment plans entered into by household as well as the number of payment plan breakdowns.
- profile of successful payment plans, e.g., level of payment, duration of plan.
- profile of unsuccessful payment plans, e.g., no. of households who default on payment plans or renegotiate such plans, the level of payment, and timing of breakdown by month.
- The historic arrears of life style pre-payment meter customers

Our over-arching aim is more targeted interventions on fuel poverty based on up-to-date granular quantitative data on the overall energy market.

SVP also takes this opportunity to recirculate the payment plan example from the Ontario Energy Board⁴ where customers are afforded the opportunity to make repayment plans based on their levels of use and level of debt. In this instance eligible low-income customers are allowed, with certain conditions, more time to pay outstanding balances to their electricity utilities. Those time periods are:

8 months...	If you owe an amount <i>less than</i> twice your average monthly bill
12 months...	If you owe <i>more than</i> twice your average monthly bill but less than five times your avg. monthly bill
16 months...	If you owe <i>more than</i> 5 times your average monthly bill

Such repayment policies/guidelines offer easy-to-understand payment plans for vulnerable customers and may offer simpler implementation options for suppliers.

Equalised billing

Equalised billing has the potential to represent a useful budgeting tool for households who opt to remain as credit customers. SVP sees a need however for an analysis of this sector of the market to ensure that such billing is representative of usage. An indication of the number of such accounts which require to be topped up, or indeed remain in positive credit, will give an indication of the accuracy of this budgeting tool. The indicator in this instance may be where accounts or either topped up or remain in credit for a value higher than the monthly / bi-monthly payment.

3.8.3. Customer Charters

SVP welcomes the gathering of information on the customer charter. Crucially the number of complaints made by customers and compensatory payments offered by suppliers under the contract of the charter should be recorded.

Conclusion

SVP welcomes extended market monitoring in the domestic energy market. SVP holds that an understanding of domestic energy debt is key to finding appropriate solutions to the phenomenon that will be both in the interest of customers and suppliers. SVP sees this consultation as an opportunity for the CER to state explicitly that a core purpose of obtaining and analysing such data is for the protection of financially vulnerable customers.

Recognising the additional burden on suppliers, SVP does note that such reporting is already well established in Great Britain. The comprehensive reports by Ofgem are the target for which we must strive and underscore the benefits of an analysis of a wider review of the strengths and weakness of international regulatory frameworks⁵.

⁴ See <http://www.ontarioenergyboard.ca/OEB/Consumers/Consumer+Protection/Help+for+Low-Income+Energy+Consumers>

⁵ SVP would like to acknowledge the voluntary assistance of Mr Tom Geraghty CEng. MIEI in providing technical expertise to SVP to inform and shape this submission.