



Commission for Energy Regulation  
An Coimisiún um Rialáil Fuinnimh

## Audit of Compliance with Deposit Requirements in the Electricity & Gas Supplier Handbook 2016

### Information Paper

Reference:	CER17052	Date Published:	21/03/2017	Closing Date:	N/A
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*Regulating Water, Energy and Energy Safety in the Public Interest*

## Executive Summary

The CER is required to ensure that customers are duly protected and can benefit from competition. The CER has set out in the Supplier Handbook (CER/12/081) the minimum service levels that supplier must provide to their customers. The Supplier Handbook covers all key interactions with the customer including billing, disconnections and marketing. The requirements in the Supplier Handbook form part of the suppliers' licence obligations under Condition 18 of the Electricity Supply Licence and Condition 21 of the Natural Gas Supply Licence.

Suppliers are required to put in place Codes of Practice, Customer Charters and Terms & Conditions of supply that adhere to the relevant requirements of the Supplier Handbook. These are customer facing documents setting out the suppliers' specific products, services and guarantees.

The CER monitors suppliers' implementation of the requirements in the Supplier Handbook and conducts regular audits to ensure that suppliers are meeting these obligations. In November 2016 the CER conducted an audit of suppliers' adherence of the deposit requirements specific in the Supplier Handbook. The CER audited all suppliers of both domestic electricity and gas customers. The CER audited compliance with sections 6.3.4 and 6.3.5 of the Supplier Handbook. Those sections require suppliers who request a deposit to:

- Credit the deposit to the next bill where the customer has met their credit terms within the previous twelve months.
- Provide, when requested, the deposit as a refund rather than a credit on the bill.
- Inform the customer of the steps needed to improve their credit worthiness where a customer has not fulfilled their credit terms.
- Make customers aware of any social welfare support in relation to deposits.

For the purposes of the audit, the CER set out questions under three headings in order to assess compliance with sections 6.3.4 and 6.3.5. During the audit the CER gathered documentary evidence from suppliers and also gathered evidence during site visits to the suppliers' premises. The evidence collected can be broadly categorised under the following three headings:

1. Supplier Internal Policy, Processes and IT Systems

2. Communication with Customers
3. Refund / No Refund Process

The CER undertook an extensive audit and did not find any supplier in breach of the deposit requirements. Where a customer had not met the requirements for a refund of their deposit after 12 months, the best practice observed by the CER was:

that the supplier would then contact the customer indicating the reasons why the deposit was not being returned at that point in time and how they could improve their credit worthiness to get their deposit back.

The CER notes that there are different levels of automation between suppliers and different approaches adopted by suppliers in terms of deposits. Nonetheless, suppliers were found to be in compliance the obligations of the Supplier Handbook and met the requirements regarding:

- Crediting the deposit to the next bill where the customer has met their credit terms within the previous twelve months.
- Providing, when requested, the deposit as a refund rather than a credit on the bill.
- Informing the customer of the steps needed to improve their credit worthiness where a customer has not fulfilled their credit terms.
- Making the customers aware of social welfare support in relation to deposits.

No instances of non compliance were found during the audit. Where the CER had found non compliance, the CER would have named the supplier in question and identified the breach that was found. The CER will adopt such an approach in all its supplier audits. This Information Paper sets out the scope, methodology used to conduct the audit and commentary on the findings of the audit.

## Public / Customer Impact Statement

Regular audits are an integral part of the CER's role in customer protection. Customers must have confidence that suppliers are meeting their requirements in terms of service levels and must have assurance that these are independently monitored.

The CER has set out in the Supplier Handbook (CER/12/081) the minimum service levels that supplier must provide to their customers. The Supplier Handbook covers all key interactions with the customer including billing, disconnections and marketing.

The CER monitors suppliers' compliance with the Supplier Handbook through regular audits. This paper sets out the results of a 2016 audit on deposits. All domestic suppliers (both gas and electricity) were audited. The audit gathered evidence through a call for documented information and through site visits of suppliers' premises. Where the CER was satisfied that a supplier did not request any form of deposit, a site visit was not conducted.

The CER undertook an extensive audit and did not find any supplier in breach of the deposit requirements. Where a customer had not met the requirements for a refund of their deposit after 12 months, the best practice observed by the CER was:

that the supplier would then contact the customer indicating the reasons why the deposit was not being returned at that point in time and how they could improve their credit worthiness to get their deposit back.

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## Related Documents

- CER/11/168 Electricity and Natural Gas Supplier Handbook Consultation Paper
- CER/11/168a Electricity and Natural Gas Supplier Handbook
- CER/11/225 Audit of Customer Disconnections 2011
- CER/12/081 Electricity and Natural Gas Supplier Handbook Decision Paper
- CER/13/248 Audit of Compliance with the Code of Practice on Disconnections
- CER/15/087 Audit of Compliance with the Code of Practice on Disconnections and the Code of Practice on Marketing and Sign Up
- CER/16/031 Review of the Electricity and Gas Supplier's Handbook Consultation Paper
- CER/16/287 Review of the Supplier's Handbook Decision and Further Consultation
- CER/16/289 Supplier's Handbook Revised Version

## 1. Background and Introduction

The CER has set out in the Supplier Handbook (CER/12/081) the minimum service levels that supplier must provide to their customers. The Supplier Handbook covers all key interactions with the customer including billing, disconnections and marketing. The requirements in the Supplier Handbook form part of the suppliers' licence obligations under Condition 18 of the Electricity Supply Licence and Condition 21 of the Natural Gas Supply Licence.

Suppliers are required to put in place Codes of Practice, Customer Charters and Terms & Conditions of supply that adhere to the relevant requirements of the Supplier Handbook. These are customer facing documents setting out the suppliers' specific products, services and guarantees.

The CER audits suppliers' compliance with the Supplier Handbook. The results of the audits input into the CER's consumer policy decisions and prompts review of the obligations contained in the Supplier Handbook. Section 2 sets out the scope, methodology and questions asked during the audit. The findings are discussed in Section 3, followed by conclusions in Section 4.

## 2. Compliance Audit 2016 – Scope, Methodology and Compliance Criteria:

This section covers the scope of the audit and the methodology used by the CER to conduct the audit and the questions tasked during the audit.

### 2.1. Scope

The scope of this audit is suppliers' compliance with sections 6.3.4 and 6.3.5 of the Code of Practice on Customer Billing and Disconnection for domestic customers. Sections 6.3.4 and 6.3.5 of the Supplier Handbook identify suppliers' obligations regarding the request for a deposit, the obligations to refund a deposit, the credit terms for the deposit and informing customers how to improve their credit worthiness. Those sections also place an obligation on suppliers to make customers aware of any social welfare arrangements in relation to deposits.

The relevant sections that were audited are as follows:

#### **Section 6.3.4 of the Code of Practice on Customer Billing & Disconnection-**

*“Where a supplier chooses to request a deposit from a customer at sign up, the deposit should be credited to the next bill where the customer has met their credit terms within the previous twelve months, i.e. If the customer pays monthly the deposit should be reflected on the thirteenth bill, if the customer is billed every two months the deposit should be reflected on the thirteenth bill, if the customer is billed every two months the deposit should be reflected on the seventh bill. Customers may request this as a refund.”*

#### **Section 6.3.5 - requirement**

*“Where a customer has not fulfilled their credit terms, the supplier shall inform the customer of the steps needed to improve his or her credit worthiness, and state what a customer must do in order for security to no longer be required. This may include the retention of the deposit until the customer has met the normal credit terms for a period of 12 months continuously.*

*Where appropriate suppliers should make customers aware of any social arrangements available in relation to deposits. E.g. through the community Welfare Officer etc.”*

To identify cases where an issue with deposits may have arisen, the CER checked whether it had received any complaints on the matter. The CER then requested suppliers to provide 25 Meter Point Reference Numbers “MPRN”s and 25 Gas Point Reference Numbers “GPRN”s across Bill Pay, Lifestyle Choice Prepay, Electricity, Gas and Dual Fuel, where appropriate, depending on the supplier customer offerings. The CER requested the number of MPRNs and GPRNs to represent certain scenarios. The scenarios associated with the 25 MPRNs and 25 GPRNs are outlined in Annex 2 of this paper. For example one scenario is defined as an electricity customer on bill pay who was required to pay a deposit, paid the deposit and was refunded the deposit.

The audit looked at customers who had been signed up between June 2014 to June 2016. This time period of two years was chosen so it could cover a number of eventualities in terms of deposits. For example, the two year period provided sufficient time to investigate instances where a customer, after twelve months, had not received their deposit back and had to take steps to improve their credit worthiness to get it back.

## **2.2 Methodology**

The CER used a three step methodology to audit the suppliers’ compliance.

The methodology used for the audit can be described in three steps:

1. **Detailed Questionnaire:** A detailed questionnaire was sent to suppliers requesting information on internal systems, processes and procedures that are in place to meet the deposit requirements. Suppliers were asked to provide documentary evidence on their deposit policy, processes and the IT systems in place to monitor & refund deposit payments. The questionnaire can be found in Annex 2 of this Information Paper.
2. **Case Scenarios:** Scenarios were developed by the CER to identify different types of customer situations: type of customer, energy product, whether they paid a deposit and whether or not they received their deposit refund. For example one scenario is defined as an electricity customer on bill pay who was required to pay a deposit; paid

the deposit and was refunded the deposit. Suppliers were also requested to provide a list of MPRN / GPRNs, as appropriate, relevant to each scenario developed by the CER. These scenarios are outlined in Annex 3 of this Information Paper.

3. **Site Visit:** Once the CER reviewed the suppliers' submissions to the questionnaire and the suppliers had provided a list of the MPRNs/GPRNs, the CER undertook a site visit. During the site visit, the supplier was requested to walk the CER through each MPRN / GPRN for each scenario. The walk through was done using the suppliers' IT systems to demonstrate how the deposit process was managed. At the site visit each supplier was asked the same set of questions about the MPRN / GPRN when examining each scenario. The purpose of the site visit was to enable the CER to independently verify the process and systems to support the documented evidence that the supplier had provided.

In response to the CER questionnaire in Step 1, some suppliers indicated that they did not request deposits from domestic customers. This may be for the reason that they only supply customers who pay through direct debit or who prepay for their gas and / or electricity. Where the CER was satisfied from the documented evidence that the supplier did not request any form of deposit, no site visit was conducted. Table 1 sets out for what suppliers a site visit was conducted on the basis that they requested deposits.

**Table 1** In the audit the CER did not conduct a site visit where the supplier did not request any form of deposit. This table shows those suppliers who were visited because they request deposits and those who were not visited because they did not request deposits from their customers.

SITE VISIT	NO SITE VISIT
Electric Ireland	Energia
Bord Gáis Energy	PrePayPower
SSE Airtricity	Pinergy
Flogas	
Panda Power	

## 2.3 Questions asked to ascertain compliance

In order for the CER to assess compliance with the deposit requirements of the Supplier Handbook a set of questions were developed. The questions were categorised under three headings:

1. **Supplier Internal Policy, Processes and IT Systems**

- a. Policy – Has the supplier a documented deposit policy in place; are the deposit terms reasonable?
- b. Process – Has the supplier documented a process for agents to follow regarding the request and refund of a deposit? Is the approach consistent across the customer base?
- c. IT systems – Do the IT systems support the policy and the process? Is there evidence of integrated deposit tracking in the IT system?

## **2. Communication with Customers**

- a. Notification – Was the customer notified that the supplier required a deposit to be paid? Were the terms of the deposit communicated to the customer?
- b. Credit Worthiness – Was it explained to the customer how to improve or meet the terms of the deposit refund requirements?
- c. Social arrangements – Were the customers made aware of any social support arrangements where they were unable to meet the terms of the deposit refund?

## **3. Refund / No Refund Process**

- a. Does the supplier monitor the credit worthiness of the customer and the 12 month period to return the deposit?
- b. Is the refund processed? Does the customer have the choice to receive the refund as a payment or a credit?
- c. What is the process for a “non refund” and is the customer’s credit worthiness monitored?

# **3. Findings**

The CER followed the three step process methodology outlined in Section 2.2. The CER assessed all the documentary evidence provided during the questionnaire phase. During the site visit an extensive analysis took place regarding the suppliers’ internal processes and IT systems following a demonstration of each MPRN / GPRN scenario. The findings are now outlined as to suppliers’ compliance with the deposit obligations of the Supplier Handbook.

### 3.1. Supplier Internal Policy, Processes and IT Systems

The CER had a set of questions to ascertain the suppliers' compliance under the heading of internal policy, processes and IT systems. From the gathered evidence it was established that suppliers do document their policy on when they will ask for a deposit, how the deposit will be requested and the credit terms of the deposit. Examples of circumstances that may influence whether or not a deposit is requested include home ownership, tenancy, credit risk and other criteria set out by the supplier. From the suppliers' responses to the CER questionnaire it was noted that suppliers who accepted payment only by direct debit policy or those who provided only a lifestyle prepayment service do not request deposits from their customers. For customers who have a prepayment meter installed for financial hardship reasons, a deposit is never requested. Where the CER was satisfied from the documentation provided that no deposits were requested a site visit was not required.

The suppliers set out in their deposit policy documentation the monetary amount requested and the different category of customers for which deposits were taken. From the documentary evidence and the site visit, the CER found that suppliers monitor on a regular basis the payment of deposits and evaluate the credit worthiness of the customer to receive their deposit refund. In some instances this is a highly automated process and in others it can be a more manual process. All suppliers demonstrated that a deposit policy was in place supported by internal processes and IT systems.

### 3.2. Communication with Customers of Deposit Credit Terms

In order for the customer to be bound by the credit terms they must be notified at sign up of the requirement to pay a deposit and of the terms associated with the deposit. Suppliers do inform customers at the beginning of the sign up process that a deposit is required. The terms of the deposits are included in any initial information that is provided to the customer or the customer is informed as to where they can source the deposit terms. This information may be included in letters or the supplier's website. They are always included in suppliers' Terms and Conditions. The CER did not find any breaches with regards to communication with the customer on the deposit terms.

The deposit requirement in the Supplier Handbook states that "*the deposit should be credited to the next bill where the customer has met their credit terms within the previous twelve months*".<sup>1</sup> The credit terms for every supplier in their deposit policy requires

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<sup>1</sup> Section 6.3.4 of the Code of Practice on Customer Billing & Disconnection of the Electricity and Natural Gas Supplier Handbook (CER 12081)

customers to pay their bill in full and on time in order to get their deposit refunded. Suppliers communicate with customers regarding payment difficulties but, in that engagement, do not specifically state that their credit rating for non-payment will affect the refund of the deposit.

Finally the last sentence of the deposit requirement states “*Where appropriate suppliers should make customers aware of any social arrangements available in relation to deposits. E.g. through the community Welfare Officer etc.*” The suppliers demonstrated that, where appropriate, the supplier will advise the customer to contact an external agency.

### **3.3. Refund / No Refund Process**

The third heading the CER used to ascertain the suppliers’ compliance was the refund / no refund process. The Supplier Handbook requires suppliers to credit the deposit on the next bill after twelve months if the customer has met the credit terms. Under the Supplier Handbook the customer may request the deposit as a refund rather than a credit on their bill. During the audit, the CER did not find any breaches of this requirement. The suppliers were crediting the customers within the specific timeframes and providing a refund where requested rather than a credit on the bill.

The Supplier Handbook also states that “*Where a customer has not fulfilled their credit terms, the supplier shall inform the customer of the steps needed to improve his or her credit worthiness, and state what a customer must do in order for security to no longer be required.*”<sup>2</sup>

Since the deposit credit terms require the customer to pay on time and in full to receive their deposit back, the refund of a deposit is associated with the suppliers’ debt recovery process. Some suppliers contact the customer by letter to explain why a deposit will not be refunded after 12 months. Other suppliers do not proactively contact the customer after the 12 month period to explain why the deposit was not refunded, as the reasons for such would have been outlined to the customer when they signed up. In such instances, the supplier still ultimately refunds the deposit to the customer when they have met the credit terms.

The Supplier Handbook states that suppliers must credit the deposit on the bill and on request refund the customer. Suppliers refund the customer through a credit on their bill and the customer would have to contact the supplier to get a refund (cash /cheque/EFT).

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<sup>2</sup>Section 6.3.4 of the Code of Practice on Customer Billing & Disconnection of the Electricity and Natural Gas Supplier Handbook (CER 12081)

During the audit the CER found that suppliers took different approaches in reminding customers that they would not receive their deposit back if they did not meet the credit terms. The CER notes that some suppliers communicate more proactively with their customers to tell the customer how they can improve their credit worthiness and get their deposit back. The requirement in the Supplier Handbook states that *“the supplier shall inform the customer of the steps needed to improve his or her credit worthiness, and state what a customer must do in order to no longer be required. This may include the retention of the deposit until the customer has met the normal credit terms for a period of 12 months continuously.”*

## 4. Conclusion

The CER conducted a thorough and extensive audit on all domestic suppliers regarding the deposit requirements in the Supplier Handbook. The Supplier Handbook requires suppliers who request a deposit to:

- Credit the deposit to the next bill where the customer has met their credit terms within the previous twelve months.
- Provide the deposit as a refund where requested.
- Inform the customer of the steps needed to improve their credit worthiness where a customer has not fulfilled their credit terms.
- Make customers aware of any social welfare support in relation to deposits.

The CER reviewed all the documentation provided by the suppliers and visited the suppliers who requested deposits. For the purposes of the audit the CER set out a list of questions asked to ascertain the suppliers' compliance with sections 6.3.4 and 6.3.5. The questions asked were categorised under these three headings:

1. Supplier Internal Policy, Processes and IT Systems
2. Communication with Customers
3. Refund / No Refund Process

The CER undertook an extensive audit and did not find any supplier in breach of the deposit requirements. Where a customer had not met the requirements for a refund of their deposit after 12 months, the best practice observed by the CER was:

that the supplier would then contact the customer indicating the reasons why the deposit was not being returned at that point in time and how they could improve their credit worthiness to get their deposit back.

The CER will continue to monitor suppliers' compliance with Supplier Handbook and conduct regular audits to ensure that suppliers are meeting their obligations to their customers.

# Annex 1 – Questionnaire sent to suppliers

## QUESTIONNAIRE

### Audit of Compliance with Sections 6.3.4 and 6.3.5 of the Code of Practice on Billing and Disconnections

The table below sets out the scope of this year’s audit of compliance with selected requirements of the Supplier’s Handbook, together with evidence required to support suppliers’ submissions.

**The CER requests the information is provided by 14<sup>th</sup> October 2016.**

<b>Insert Name of Company</b>
<b>Section 6.3.4 - requirement</b> 6.3.4 Where a supplier chooses to request a deposit from a customer at sign up, the deposit should be credited to the next bill where the customer has met their credit terms within the previous twelve months, i.e. If the customer pays monthly the deposit should be reflected on the thirteenth bill, if the customer is billed every two months the deposit should be reflected on the thirteenth bill, if the customer is billed every two months the deposit should be reflected on the seventh bill. Customers may request this as a refund.
<b>Information request</b>

1. Please provide details of your company's internal processes and procedures (including but not limited to staff and third parties training, credit control systems, IT systems etc.) implemented to meet compliance with this requirement.
2. Please describe your policy on deposits in respect of domestic customers. At the minimum, this should include the following: explanation of how the credit terms for the deposit are set, whether deposit amounts vary amongst customers and if yes, why, criteria for establishing credit worthiness of customers.
3. Please provide details in relation to (i) how are the credit terms explained to customers and (ii) how do you monitor that the credit terms have been achieved?
4. Please provide details of the approach used by your company in crediting deposits to customers who have fulfilled their credit terms.

**Evidence to support details**

*Please fill in and number the response*

**Section 6.3.5 - requirement**

Where a customer has not fulfilled their credit terms, the supplier shall inform the customer of the steps needed to improve his or her credit worthiness, and state what a customer must do in order for security to no longer be required. This may include the retention of the deposit until the customer has met the normal credit terms for a period of 12 months continuously.

Where appropriate suppliers should make customers aware of any social arrangements available in relation to deposits. E.g. through the community Welfare Officer etc.

**Information request**

1. Please provide complete details of your company's internal processes and procedures (i.e. staff and third parties training, IT systems, credit control policies etc.) implemented to meet compliance with this requirement.

2. Please provide details of the nature and content of communication sent to customers regarding the steps they need to take to improve their credit worthiness.
3. Please provide details of the approach and content used to make customers aware that any social arrangements available in relation to deposits e.g. through Community Welfare Office etc.

**Evidence to support details.**

*Please fill in*

**Specific requirements**

**Please provide details in relation to the following:**

- a. How many electricity and gas customers did you acquire between June 2014 and June 2016?
- b. Of this number, how many customers received their deposit back?
- c. Please provide detailed information as to the number of electricity and gas customers acquired between June 2014 and June 2016 **who did not receive their deposit back**. At the minimum, this information should include the following:
  - The credit worthiness criteria set out for these customers
  - How did you determine whether these customers have fulfilled the credit worthiness criteria?
  - In cases where it was determined that the credit worthiness criteria have not been achieved, please provide details as to how you notified these customers of the steps they need to take to improve their credit worthiness? Please provide evidence to support your statement
  - Did you communicate clearly to these customers what they should do in order for deposit to no longer be required? Please provide evidence to support your statement

**Evidence to support details.**

*Please fill in*

**General Information Requirements**

1. In relation to each of the above, please provide details of internal processes including but not limited to staff / third parties training (i.e. customer care centres, sales agents), relevant internal IT systems, policies and procedures, engagement with other parties such as nominated representatives
2. Please provide separate answers to address the above question for (i) bill pay customers and (ii) PAYG customers, both financial hardship and life style choice. These should be named accordingly.
3. Where supplementary information can enhance explanation, or where additional measures have been introduced, these should be included.
4. All information to be provided electronically and numbered for ease of reference.
5. Where evidence relating to bills have been requested, the supplier may mark over the GPRN and MPRN as well as the address of the customer.

## Annex 2 – Scenarios sent to suppliers in advance of the site visit –

Criterion	Type of MPRNs and GPRNs	MPRN Bill pay	GPRN Bill pay	MPRN prepay	GPRN prepay	
Current customers who paid a deposit and were refunded the deposit	bill pay customers	3	3	0	0	
Current customer who paid a deposit and have not been refunded the deposit	bill pay customers	3	3	0	0	
Current customers who were disconnected for non-payment of account and subsequently reconnected, where a deposit was required in advance of the reconnection.						
<ul style="list-style-type: none"> <li>• Deposit refunded</li> </ul>	bill pay customers	3	3	0	0	
<ul style="list-style-type: none"> <li>• Deposit not refunded</li> </ul>	bill pay customers	3	3	0	0	
Former customers who paid a deposit and were refunded the deposit	bill pay customers	3	3	0	0	
Former customers who paid a deposit and were not refunded the deposit	bill pay customers	3	3	2	2	

Current pay as you go financial hardship customer initially signed up as bill pay customer, who has paid a deposit, then accepted a pay as you go meter for financial hardship, where the deposit has been refunded to the customer	bill pay to prepay customer	0	0	3	3	
Current pay as you go financial hardship customer initially signed up as bill pay customer, who has paid a deposit, then accepted a pay as you go meter for financial hardship, where the deposit has not been refunded to the customer	bill pay to prepay customer			2	2	
		18	18	7	7	50