Response by Energia to CRU Consultation

Debt Flagging Review

30th January 2019
1. Introduction

Energia welcomes this opportunity to respond to the Commission for Regulation of Utilities Consultation on Debt Flagging Review. Customer debt in the market is an issue that is problematic for all stakeholders but in particular for customers who don’t pay their bills. These customers continue to accrue debt and as a result worsen their financial situation while simultaneously increasing the cost of energy for the rest of the market.

In an effort to tackle Debt Hopping the CRU introduced the Debt Flagging measure. This allows the losing supplier to alert the gaining supplier that a debt is associated with the customer which in turn encourages the supplier to refuse the customer thus blocking them from changing suppliers. While we welcome the publication of this consultation we believe that the Debt Blocking is the logical conclusion of the principle behind Debt Flagging and must be part of any market solution to debt.

This consultation provides some general comments first before addressing the consultation questions.

2. General comments

We welcome this timely review of the Debt Flagging process and believe that the less debt there is in the market the better it is for all stakeholders. As acknowledged by the CRU in the paper, accrual of debt in the market is not only problematic for the sector but for the customer who doesn’t pay their bill. In an effort to tackle this issue the CRU introduced Debt Flagging. This measure allows the losing supplier to flag to the gaining supplier that there is debt associated with the account. The expected outcome is that the gaining supplier will not take on the customer, in effect blocking the customer from debt hopping. These efforts stop short of a Debt Block as the CRU deem this to be against an “open and fair market”. Firstly, it is not clear how debt blocking differs in principle from debt flagging which also seeks to stop a customer switching by raising a flag. Secondly, maintaining this vague principle of ‘open and fair’ market for customer who does not pay for their energy puts additional costs onto customers who do pay for their energy, this hardly seems fair. The CRU outline in their paper that debt hopping makes a customer’s situation worse and this is in effect why they introduced the Debt Flag. By not introducing a debt block the CRU are perpetuating the cycle of debt for the customer by allowing them to move suppliers with debt and abdicating their responsibility to the customer.

In reality the absence of a Debt Block allows the customer to switch to a narrow range of more expensive providers who will effectively charge a risk premium. This customer moves with a debt issue and is now faced with being locked into a more expensive energy provider. It is not clear what benefit allowing debt hopping confers to the customer or the wider market and why the CRU wish to stop shy of debt blocking, but as acknowledged by the CRU debt hopping does not benefit the customer and in fact worsens their situation.

In relation to the powers that CRU feel debt blocking would confer to suppliers. This would apply to a very small percentage of customers who have not paid for the energy they have consumed. Furthermore, suppliers are heavily regulated with the CRU already having very strict criteria in relation to debt thresholds and engaging
with customers in debt; Suppliers themselves have also developed and signed up to the voluntary Customer Engage Code. Far from conferring disproportionate powers it would allow suppliers recover money owed in the confines of a heavily regulated and scrutinised space. Debt blocking is the only solution to debt in the market and is effectively applied in other jurisdiction such as Great Britain. Notably after a review of the practice in 2016 OFGEM found that it was on balance beneficial to customers.

It is acknowledged by the CRU that accruing debt is not in the customers interest and that debt hoping will worsen their situation yet the full implementation of what the CRU started in early consultations is being dismissed; namely debt blocking. We believe that debt blocking should not have been omitted from the consultation and in fact will benefit all customers.

For clarification:

<table>
<thead>
<tr>
<th>Market Sector</th>
<th>Current Threshold</th>
<th>Proposed Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>≥ €225 for ≥ 80 days from due</td>
<td>≥ €200 or &gt; 60 days from due</td>
</tr>
<tr>
<td>Electricity and (LV-NM/DG5)</td>
<td>≥ €600 for ≥ 30 days from due</td>
<td>≥ €500 or &gt; 30 days from due</td>
</tr>
<tr>
<td>Medium Sized Business</td>
<td>≥ €1,200 for ≥ 30 days from due</td>
<td>≥ €1,000 or &gt; 30 days from due</td>
</tr>
</tbody>
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The use of ‘or’ in the above table would imply that suppliers can use either the value or the days elapsed as a threshold for applying a flag. Is this the case or should it be ‘and’?

3. Consultation Questions

1. Do you have any comments on the CRU’s proposed changes to the monetary thresholds for raising a Debt Flag?

We welcome the review of the Debt Flag thresholds and support the lowering of the value for the reasons the CRU outline in the paper. However, this value is still significantly higher than Energia’s average bill of 160 euro. A higher threshold allows customers to switch with substantial debt before suppliers are able to apply a flag. Current thresholds in Northern Ireland are £100 which is nearly half the proposed CRU threshold. We would suggest a threshold closer to the supplier average of 160 euro.

2. Do you have any comments on the CRU’s proposal to maintain the current timings for raising a Debt Flag?

We are supportive of a shortening of the timings. The threshold in Northern Ireland is 42 days. By allowing 60 days the customer could have nearly 4 months of debt built up but still switch without a debt flag being raised.

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3. Do you have any comments on the CRU’s proposal to set the debt flagging threshold for unmetered supply to that of DG5?

No Comment

4. Do you have any other general comments on the CRU’s proposed structure or values associated with debt flagging?

No Comment

5. Do you have any comments on the CRU’s proposal to introduce an RP Flag to both the electricity and gas market?

Energia are supportive of any approach which will provide tighter controls to deter customers from debt hopping but as with the current Debt Flag process the ultimate decision to accept a debt hopping customer lies with the new Supplier. To date the current Debt Flagging arrangement continues to show that customers are still transferring to new suppliers irrespective of the Debt Flag so raising an RP flag may have little impact if Suppliers adopt the same approach. Energia would argue that the focus in raising an RP flag fraud places an exaggerated emphasis on this area which only applies to a small number of customers. While it is essential that we discourage meter tampering and energy theft the point remains that without Debt Blocking customers can and will continue to accrue debt then switch.

When a RPU investigation has taken place and Networks have exchanged the meter a communication process commences with the customer regarding the fraud and associated Network costs. To date there is clear evidence that a substantial number of customers dispute the ownership of the debt, the time period billed and the amount billed. To place an RP flag at the stage that the meter has been exchanged and prior to the Networks communication with the customer will not work and will cause confusion and rework. The RP flag can only be raised at the point that Networks have completed their customer communication and they have passed the charges onto Suppliers to bill.

6. Do you have any comments on the CRU’s proposal to align the minim threshold value to raise an RP flag with that of a debt flag?

Energia are supportive of this approach, but at a lower threshold as outlined under our response to question 1.

7. Do you have any comments on the CRU’s proposal to have no minimum time threshold for a supplier to be able to raise an RP Flag on a customer?

We would welcome some clarification on the timescales for the investigative work to be carried out by the Market Operator before the “RP Read” is provided. Ideally suppliers would like to raise an RP Flag to the market as soon as possible after meter tampering is suspected, and not whenever the RP Read is provided to the supplier. However, we appreciate that it is also important to establish robust processes that ensure that industry is confident that a customer has in fact tampered with a meter before raising an RP flag. We ask that you provide further clarification in relation to:
• How would the RP Read work; would this be a new market message type or would it be utilising the 260/261MM that already exist?

• How would the supplier identify the read as revenue protection?

8. Do you have any comments on the CRU’s proposal to have a time limit of one year for a supplier to be able to raise an RP Flag on a customer?

We do not see how we should be obliged to use any payment from a customer against RP debt in the first instance. If a site remains on supply and a pay arrangement was made for the RP debt, we would still want to obtain payment for current bills as they fall due, as well as for the RP debt. If there remains outstanding debt due to meter tampering 12 months after the RP Read, Suppliers should still be able to raise an RP Flag to the market. As there is no obligation for suppliers to refuse supply due to a debt flag; we would at least want other suppliers to know there is a revenue protection issue associated with the site.

9. Do you have any comments upon the suitability of maintaining the Debt Flag as a suitable deterrent to meter tampering?

In the absence of Debt Blocking the Debt Flag process would appear to the next best alternative. As discussed in greater detail under section 2 of this response, the only complete solution to debt hopping is debt blocking. Debt Flagging is heavily dependent on the approach to debt hopping by the new Supplier to either accept or reject the flag. As evidenced by MRSO figures a significant number of customers with a debt flag are accepted by the gaining supplier. This also includes scenarios where the customer undergoes a CoLE to avoid the flag.

10. Do you have any other proposals upon measures that could be introduced to reduce the levels of meter tampering?

Energia supports efforts to put in place a mechanism to minimise the risk of energy fraud customers from transferring suppliers is necessary but would suggest an additional approach.

While customers may transfer to a new Supplier at any stage after the investigation has completed and the RP flag has been raised the customer may switch while an investigation is ongoing. At this point Networks have not formally confirmed that there was tampering. When the fraud has been confirmed, the correct customer has been identified and billed for the correct charges suppliers should be able to raise a retrospective RP flag with the gaining supplier.

There will be a lag between the point where a customer is suspected of meter tampering and the point where the tampering is confirmed. As the customer becomes aware that they are under investigation for meter tampering they may switch before a RP Flag can be applied to the account. If the customer completes a COS a final bill will be created which includes the RPU debt to the old Supplier. At this stage the old Supplier will be aware that a RPU customer is attempting to Debt Hop. We propose that the old Supplier should have the option to request the New Supplier to cancel the registration thus transferring the customer back to the Old Supplier and
encouraging the customer to address the RPU Fraud debt. We believe that a window of 60 days should be allowed for this option. While this is not an “erroneous transfer” the suggested approach would follow the same process.