CRU Debt Flagging Review- Bord Gáis Energy Consultation Response
CRU 18/255
4th February 2018

1. Introduction

Bord Gáis Energy (BGE) welcomes CRU’s Debt Flagging Review Consultation. Currently, market structures and regulatory rules effectively allow a number of customers to switch supplier and avoid a sizeable amount of debt. This is known as ‘debt hopping’. Debt flagging has been in operation in the gas and electricity markets since 2011 to try to alleviate the issue of debt hopping, however BGE remains deeply concerned that the current debt flagging mechanisms are inadequate.

We must point out at the outset that although we welcome CRU’s proposed amendments to the flagging arrangements, unfortunately, the measures do not go far enough to reduce the rate of debt hopping to acceptable levels. Having trialled debt flagging for over seven years, the electricity and gas markets now need a step change in how debt hopping is handled to limit unpaid debt being smeared across all consumers. This consultation is an opportunity to strengthen current measures and the chance to make substantial improvements should not be missed.

Although CRU have presented debt flagging figures in their consultation, we believe it’s important to provide additional data which gives further insight on the limited effectiveness of current flagging arrangements. Debt flagging figures presented in CRU annual reports show that over half of all debt flags raised in the gas and electricity markets between 2016 and 2018 are ignored by the gaining supplier. This has resulted in significant levels of bad debt which, according to CRU, made up 9.6% of total supplier’s costs in 2016.

In our view, the extent of debt hopping is a distortion in the gas and electricity market that ultimately has a significant negative impact on most of the customer base. It’s vital that CRU take steps to correct this market distortion with a view to limiting the adverse impact on consumers. As an alternative measure to debt flagging, we put forward a case for the introduction of debt transfer- a system which would allow a customer’s debt to be allocated to their new provider on a change of supplier. BGE believes CRU have the regulatory powers to introduce debt transfer through a licence requirement. We feel a licence requirement- in the form described below- is a reasonable action for CRU that’s commensurate with the extent of bad debt in the market. As such, we request that CRU issue a public consultation on the introduction of debt transfer to the electricity and gas markets.

2. Debt Flagging- General Comments

BGE remains deeply concerned that the current debt flagging mechanisms are inadequate to address debt hopping. We must point out at the outset that although we welcome CRU’s proposed amendments to the flagging arrangements, unfortunately, they do not go far enough to significantly reduce the rate of debt hopping. The electricity and gas markets need a step change in how debt hopping is handled to minimise debt hopping to acceptable rates and prevent unpaid debt being smeared across all consumers.

Debt Flagging Data

Although CRU have presented debt flagging figures in their consultation, we believe it’s important to provide additional data which provides further insight on the limited effectiveness of current flagging arrangements. Debt flagging figures presented in CRU’s annual reports show that the majority of debt flags are ignored by the gaining supplier. Figure 1 highlights that 64% - 68% of electricity debt flags were ignored between 2016 and 2018 and similarly 51% - 61% of gas debt flags were ignored in the same period.
## Debt Transfer as an Alternative

The debt left behind by customers is smeared across the entire customer base meaning the honest customer is disadvantaged because of the current market design and regulatory rules. We do not believe this is in the best interests of consumers and we encourage CRU to investigate further measures to appropriately address debt hopping.

CRU’s 2017 Energy Supply Costs Information Paper\(^1\) highlighted that bad debt made up 12.7% of total supply costs in 2015 and 9.6% of supply costs in 2016. Most of this bad debt cost can be attributed to customers who have left debt behind after switching supplier. In our view, a debt transfer mechanism with appropriate consumer protections would provide a more feasible alternative to current flagging arrangements. A debt transfer mechanism would significantly increase suppliers’ ability to recoup this bad debt, which would ultimately enable suppliers to offer more preferential prices to customers.

Debt transfer would effectively be an extension of the current flagging arrangements whereby a debt flag is raised above a certain threshold. The incoming supplier could then voluntarily choose to accept or reject the customer switch in the same way as debt flagging arrangements operate presently. If the incoming supplier accepts the customer, their debt would be transferred to their new supplier for repayment. Suppliers could carry out a quarterly reconciliation of monies to prevent the transfer mechanism becoming overly administrative.

For clarity, debt transfer is not tantamount to debt blocking as the arrangements work on a voluntary basis and customers would remain free to change supplier to avail of more preferential rates or services. Debt transfer would in no way undermine the change of supply process.

We note that CRU said in its 2016 Decision Paper on Debt Management\(^2\) (‘2016 Decision Paper’) that it did not have the regulatory powers to put debt transfer in place. Given that debt transfer mechanisms exist in other jurisdictions such as the Debt Assignment Protocol in the UK, it is reasonable to consider that a debt transfer mechanism could be considered for Ireland, be that, in the context of existing regulatory powers or through the creation of new ones.

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CRU is required under S.I. No. 450 of 2010 and S.I. No. 630 of 2011 “to monitor the level and effectiveness of market opening and the development of competition in the supply of electricity and gas to final customers” and is required, on foot of this monitoring, to take any action deemed necessary to “(i) prevent a distortion or restriction of competition in the supply of electricity to final customers, or (ii) ensure that final customers are benefiting from competition in the supply of electricity”. We believe the lack of adequate measure to address debt hopping has created a distortion in the market where current arrangements facilitate competition on the basis of customer debt hopping. In addition, the large sums of bad debt being smeared across the honest customer base result in final customer not benefitting from this aspect of competition.

In its 2016 Decision Paper, CRU also explained that there could be practical difficulties in developing a debt transfer mechanism. Electricity lifestyle choice prepayment meters (PPMs) are not supplied by ESB Networks. This means electricity PPM lifestyle choice suppliers are free to use whatever systems they require as long as they do not frustrate the market design. Due to this market structure CRU have said they are not in a position to introduce an automated debt transfer solution. In our view CRU does have the regulatory powers to introduce a debt transfer mechanism through a licence requirement on electricity and gas suppliers. The licence requirement would make it mandatory for all suppliers to contract with a back-office provider that can facilitate debt transfers. Suppliers could then voluntarily raise debt flags if a customer with debt initiates a change of supply. Where a change of supply then completes, the supplier must accept the customer’s debt, which they will be in a position to do so in line with their licence condition.

Although it would not be preferable, CRU could also explore the possibility of introducing a manual process reserved only for electricity lifestyle choice PPMs which make up a smaller proportion of the overall market. Automated debt transfer solutions could then exist for electricity and gas credit and financial hardship meters.

As mentioned above, the lack of adequate measures to address debt hopping is distorting the electricity and gas markets ultimately to the detriment of customers. We feel a licence requirement- in the form described above- is a reasonable action for CRU that's commensurate with the extent of bad debt in the market.

On an initial assessment, BGE could not identify any data protection concerns with the proposed model. There would be a minimal increase in the personal data processing undertaken by market participants and we believe suppliers and Networks have a firm basis to process this data in line with the General Data Protection Regulation.

Overall, given the existence of debt hopping distortions in the market and the negative impact on customers, we request CRU to issue a further consultation on the introduction of debt transfer.

3. Consultation Questions

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

BGE welcomes the revision of debt flag monetary thresholds in line with current average bi-monthly bills and latest CRU typical consumption values. These new values will be helpful to allow suppliers raise a debt flag in line with current bill values. We agree that maintaining the same debt flagging monetary threshold in gas and electricity provides greater simplicity for customer understanding and awareness. The negligible difference between average bi-monthly gas and electricity bills would not warrant two different monetary thresholds. As explained in section two, although, CRU’s proposed amendments are welcome, we do not believe they go far enough to address the problem of debt hopping. The debt flagging statistics show that debt flagging is an ineffective mechanism and although the proposed changes will assist, suppliers still remain ill-equipped to adequately address debt hopping.
2. Do you have any comments on the CRU’s proposal to maintain the current timings for raising a Debt Flag?

Suppliers are currently not allowed to raise a debt flag until 30 days after a commercial bill is issued to the customers and 60 days after a residential bill is issued in both the gas and electricity markets. In its consultation paper, CRU explains that the reason for these time limits is to allow for supplier alignment with standard credit management cycles. In our view, credit management cycle time periods do not provide the most relevant reference point when setting debt flagging time-based thresholds.

As an alternative, consideration should be given to suppliers’ billing periods when setting debt flagging timelines. Once their bill is issued, Bord Gáis Energy customers are provided 14 days to make payment for their gas and/or electricity consumption. After this time, customers are in arrears and suppliers should be able to voluntarily raise a debt flag to make the gaining supplier aware that the customer has an outgoing debt with their previous supplier (provided all other rules are met). Enabling suppliers to raise a debt flag from 15 days after bill issuing is the most relevant timeframe to put in place.

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

We support setting the monetary debt flagging threshold for DG5 sites to the same value as DG 3 and 4 sites as the consumption values for these sites are most closely aligned and therefore provide the most appropriate reference point for setting a threshold. Also, we can see no other relevant basis for changing the monetary thresholds for DG5 sites.

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

As explained in section two, we remain deeply concerned that the current debt flagging arrangements provide very limited means for suppliers to prevent debt hopping. Debt flagging statistics demonstrate that debt flagging is a largely ineffective means of addressing debt hopping. Adequate opportunity has been provided to trial the use of debt flagging. At this point, we feel that alternative measures should be further investigated. We request that CRU revisit the prospect of introducing debt transfer to the gas and electricity markets.

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

Meter tampering poses a safety risk to the customer and those living in the surrounding area. The overall aim of the gas RP Code of Practice is to:

“set out a guiding framework for the mechanisms to protect gas consumers and the general public from the safety issues and costs related to gas theft, and to maintain a safe and secure gas network.”

To achieve this aim, adequate incentives must be in place to act as a deterrent to tampering. The energy component of meter tampering is the largest costs to the customer and our view is that the meter/network related costs alone do not present enough of an impediment to repeat tampering. Only a combination of both meter and energy related costs will serve to help prevent potential tampering that pose safety risks. To ensure that both costs are adequately recouped, debt hopping must be prevented.

Current debt flagging arrangements require debt to have existed for either 30 (commercial) or 60 (residential) days. Tampering takes place over significant timeframes because Suppliers and Networks must identify, investigate and confirm that tampering has taken place before the cost of stolen energy can be allocated to the supplier. For these reasons, RP-related debt has been in existence for a significant period prior to being transferred to the Supplier. Suppliers should not be required to allow further time to elapse before raising a flag. As such, we agree that suppliers should be in a position to raise an RP Flag once we have received an RP Read/undercharge. An RP Flag would help to address a significant gap in the market that could enable customers to change supplier and avoid their debt. This is essential to ensure that significant sums of RP-related bad debt do not impact the honest customer base.
Additionally, the RP Flag will allow suppliers to closely monitor the premises for repeat tampering offences serving to increase detection rates and in turn, reducing the safety risk of tampering. It’s important to note that a separate RP flag helps suppliers to fulfil their reporting requirements as outlined in their licence.

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

If a monetary threshold is required for RP flagging, debt flagging monetary thresholds would be the most relevant reference point for simplicity and consistency. However, setting a monetary threshold for RP flagging is not needed and would send the wrong signal to tamperers in BGE’s view.

Debt flag thresholds are based on average bi-monthly bill monetary thresholds which is relevant for financial hardship cases. However, as there is a lead time to detect, identify and confirm tampering cases most tampering cases take longer than two months to confirm meaning that nearly all cases will exceed the debt flagging monetary rates. Setting any monetary threshold for a RP Flag is irrelevant and it sends the wrong signal to current and potential tamperers. On a principle basis, all tampering should be disincentivised regardless of the monetary value associated with that tampering. It would be misguided to put mechanisms in place to address higher value tampering cases only. If the safety risk of tampering is to be limited as far as reasonably practical, tamperers and those who benefit from tampering should remain responsible for the associated costs- whether they are considered large or small.

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?

As explained in response number five, the nature of RP processes results in RP debt existing for several months before the supplier is allocated the tamper-related energy costs. Suppliers should not be required to allow further time to elapse before raising a flag, so we are supportive of CRU’s proposal to introduce a flag without a minimum time threshold.

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?

The issuing of ‘RP Reads’ or ‘undercharges’ allocates the energy costs of meter tampering to suppliers. Not only does the undercharge allow the supplier to recover energy-related tamper debt from the relevant customer, it provides a signal to tamperers as well as those who benefit from tampering, that there are disincentives to tampering with meters.

Therefore, limiting the use of RP flagging to one year does not create adequate disincentives to tampering as the majority of customers will still have the ability to leave most of their debt behind with their previous supplier.

RP flags should be raised up until the point of full repayment. Once the customer repays their tamper debt in full, a RP flag can no longer be raised. We strongly believe this is the most suitable approach to deter individuals (who have benefitted from tampering) from switching suppliers and avoiding the associated tamper debt. However, if a maximum timeframe must be sent, we request that CRU consider the seasonality of gas vendors on prepayment meters in setting a timeline. As such, the minimum timeframe should be set to two years to allow at least one year of gas vending.

As demonstrated through the data provided in section two, debt flagging is ineffective for the majority of cases so we do not feel it is appropriate to rely on this mechanism, particularly for tamper-related debt. Use of debt flagging for RP cases would not be suitable as it would prevent accurate reporting on the issue which is important for incoming supplier monitoring for potential repeat tamperers and also for broader market review/ monitoring of RP processes. If a debt flag were raised and subsequently ignored by the gaining supplier, the new supplier is not aware of the previous tampering and cannot monitor the site for
potential repeat offences. This would severely limit suppliers’ ability to detect tampering which goes against market objectives.

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

As explained in our response to question eight, we don’t believe it’s appropriate to use debt flagging for tamper cases after the proposed one-year period for RP flagging. In our view, a one-year limit to RP flagging would exacerbate the existing of meter tampering given that customers would be enabled to repay only approximately one seventh of the energy costs associated with tampering before they can switch supplier and avoid the remainder of the costs.

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

BGE recommended the following additional measures to address meter tampering in the gas and electricity markets. Many of these proposals have been previously brought to the attention of CRU through the development of Revenue Protection Codes of Practice. We provide a high-level overview of recommendations and would welcome further discussion:

Conclusion

Over half of all debt flags raised between 2016 – 2018 were ignored by the gaining supplier which demonstrates that debt flagging is a very limited mechanism to address debt hopping. Although we welcome CRU’s proposed changes to the current debt flagging arrangements, unfortunately they do not go far enough. Current market arrangements do not adequately enable suppliers to address bad debt which, in 2016 constituted 9.6% of total supplier costs. The extent of debt hopping has created a distortion in the gas and electricity retail markets which ultimately has led to significant negative impacts for consumers as bad debt gets smeared across the entire customer base. Having trialled debt flagging for seven years, the gas and electricity markets now require a step change in approach to address debt hopping so we request CRU to release a public consultation on the introduction of debt transfer as an alternative mechanism to address debt hopping.