Supplier of Last Resort (Electricity)

Consultation on dealing with customer credit balances

Power NI Response

23 June 2017

Introduction

Power NI welcomes the opportunity to respond to the Utility Regulator (UR) consultation in relation to customer credits and deposits in a Supplier of Last Resort (SoLR) event. As noted within the UR's paper, Power NI is currently the nominated SoLR in the Northern Ireland electricity market and therefore is acutely aware of the issues and challenges associated with the SoLR process.

Within the paper the UR discusses and describes the reasoning behind having a nominated SoLR. While this may be different to other markets such as GB, the specific characteristics of the Northern Ireland market do merit the 'nominated' approach and Power NI supports the UR's position in that regard. Unlike GB, there is an extremely high level of prepayment meters in the Northern Ireland market. Customer demand and satisfaction with that product offering has resulted in 43.5% of domestic customers using the prepayment solution[1]. The prepayment solution creates specific challenges in a SoLR event. The continuity of vending must be of paramount importance as without such infrastructure in place customers will disconnect and be left without electricity. The approach of nominating a SoLR allows for extensive testing and preparatory steps to be taken. This results in crucial supporting infrastructure being available to be called upon, at short notice, to facilitate a rapid transfer and continuity of vending services.

Customer Balances

It is not unusual for a customer who is on a phased direct debit to be in credit at certain times of the year. Most products are in fact designed in a manner that by making 12 even payments through the year you will either build up or pay of credit or debit in the summer months due to higher consumption in the winter. Ordinarily his normal operation works as designed and benefits customer by spreading the cost of electricity evenly over the year and avoiding the natural seasonality of bills.

This does however become an issue if the supplier becomes insolvent. As described by the UR existing consumer protection laws offer customers limited recourse. This issue was highlighted during the Open Electric event in December 2016 and while a solution was found Power NI considers it appropriate that the UR fully consults upon the enduring policy.

In considering the example set in other industries, the automatic rollover of prepayment customer balances and given the nature of the product Power NI considers it appropriate that the domestic electricity consumer is afforded protection in relation to credit balances held by a defaulting supplier.

[1] Per the UR's Quarterly Transparency Report May 2017

In relation to the specific question posed by the UR: "*Q1. Do you agree that the scope of any protection measures implemented to resolve issues with regard to outstanding credit balances due to a SoLR event should only apply to domestic customers?"* Power NI believes that additional protection measures should only apply to domestic customers and concurs with the UR's reasoning in that regard.

Coverage Options

In relation to the coverage options the UR has outlined no reimbursement, full reimbursement or and capped reimbursement as three potential options.

Based upon the premise that domestic customers should be afforded additional protection in line with other industries and in the interests of treating credit customers in the same manner as prepayment customers Power NI considers full reimbursement as the only equitable solution.

It is important to highlight that any reimbursement is wholly dependent upon the defaulting supplier providing the SoLR with accurate and timely information in relation to the closing balance on a customer by customer basis. This is a critical process point without which credit balances cannot be refunded by the SoLR. Power NI would therefore strongly urge the UR to take whatever steps are available to it to ensure that this data is made available. Power NI does understand however that following licence revocation the options available to the UR to ensure the provision of information are extremely limited.

In response to Question 2 "*Which of the proposed approaches do you consider most suitable for resolving the issue of the coverage of the protection for customers with outstanding balances?"* Power NI believes domestic customers should receive full reimbursement where the data is available to do so.

Power NI's response to Question 2 renders Question 3 as not applicable.

Funding Options

The UR outlines four approaches to funding the reimbursement of credit balances – an industry levy, payment by the SoLR, a combination of a levy and SoLR payment and a bond or insurance scheme.

Question 4 asks which of the proposed options is appropriate.

As a SoLR event is extremely rare Power NI considers a bond or insurance approach as being an unnecessary cost placed on consumers on an on-going basis. For this reason Power nI does not support an insurance approach.

Power NI also concurs with the UR's view that the payment by the SoLR option places an unreasonable financial risk and burden on the SoLR. This is compounded by the operational and reputational risk already taken by the supplier who is acting as SoLR and it is rendered inequitable given the high likelihood of customer churn following any event.

While the industry levy approach is already in place via existing licence conditions Power NI does accept that the supplier acting as a SoLR will retain a proportion of customers following an event. These customers have been effectively 'won' without acquisition costs and therefore a degree of consideration should be given by the SoLR.

In considering how that amount should be calculated (Question 5) Power NI believes that the UR should recognise that a large proportion of the customers will churn on to other suppliers (following the event in December 2016 Power NI have, to date, retained 58% of the customers affected). Recognising this fact the UR could then use the variable customer price control parameter and apply a 50:50 split to determine the contribution amount. Power NI believes this would result in an equitable contribution made by the SoLR.

Conclusion

Power NI welcomes the UR consulting on the issue of customer credit balances in a SoLR event. This important matter arose during the successful SoLR event in December 2016 and a clear policy on this area would provide clarity should a SoLR event occur in the future.

As described above Power NI believes that all domestic customer should receive full reimbursement of any credit balances and/or deposits. Power NI also considers that a reasonable contribution to that amount by the supplier acting as SoLR is equitable.