



Analysis

Collecting Domestic Utility Debt and Regulator Compliance

Lisa Phillips



Lisa Phillips
Managing Director
ACS, Advanced
Collection Systems

Biography

Lisa Phillips MCICM, is the Managing Director of Advanced Collection Systems (www.advancedcollection.co.uk). Lisa has been involved in credit management since leaving full time education. She started her career in a debt collection agency (DCA) where she gained experience and deep understanding in all areas of agency debt recovery. After this she worked for Statoil, a global energy company, now named Equinor. The knowledge and understanding of the energy and utilities sector she gained at Equinor enabled her to start Advanced Collection Systems (ACS) – a DCA specialising in UK utilities debt. Over the almost twenty years Lisa has been at the head of ACS she has grown the company into a fully regulated and accredited DCA.

Today ACS provides UK and overseas debt recovery and cash flow services for sole traders, SME's, and multi-national corporations as well as providing specialist debt recovery services to the UK's water, electricity, and gas utility providers.

Lisa is still leading ACS from the front. Lisa has put technology at the heart of ACS's debt collection process. A proprietary collection platform was at the core of the business when it was started and Lisa has constantly sought to ensure that ACS has the latest tools available. To equip it with the tools it will need to provide customers with competitive solutions into the next decade and beyond Lisa with her co-directors have identified the need to integrate big data and artificial intelligence based debt collection solutions into the business. As a result she has partnered ACS with AI development company Insight and the University of Hertfordshire in a KTP (Knowledge Transfer Partnership) awarded by the Department for Business Energy and Industrial Strategy (DfBEIS) to develop an AI based solution for debt collection.

Keywords Utility provider, Debt collection, Account disconnection, Financial performance, Financial resilience, Ofgem, Ofwat, Utility sector

Paper type Research

Abstract

*This article looks at how providers in the domestic energy market can adopt processes similar to those used to optimize debt collection in the B-to-B utility sector (described in the paper *Optimizing the Collection of B-to-B Utility Debt*¹) to comply with Ofgem's requirement to quickly and efficiently manage a customer's debt and simultaneously improve their financial performance. It reviews the downsides of the conventional debt collection and meter disconnection/change approaches, the advantages of changing to a process optimized for utility debt collection, and points to the changes in team structure, responsibilities and communications, and the support infrastructure needed to do this.*

Introduction

Ofgem² and Ofwat³ have been strengthening their regulatory frameworks to place more emphasis on a utility provider's financial performance and financial resilience.



Analysis

In addition, Ofgem^{4,5} has proposed strengthening its rules around how domestic energy providers manage customer debt. Suppliers are already required to help customers manage debt. However, a review of the sector by Ofgem reported that “suppliers are not moving quickly or efficiently enough to put customers who owe money on repayment plans, potentially pushing them further into debt or hardship”.

Adopting the processes used to optimize debt collection in the B-to-B utility sector (described in the paper *Optimizing the Collection of B-to-B Utility Debt*¹) can shorten the time taken to put customers on a repayment plan which eases the financial pressure on the consumer. This helps providers comply with Ofgem’s requirement to quickly and efficiently manage a customer’s debt. In addition optimizing the process of debt collection and meter management benefits the provider’s overall financial performance.

Background

The utility sector comprises B-to-B and domestic customers. The B-to-B and domestic markets differ in one critical aspect. Unlike B-to-B utility supply the provision of energy supply to domestic users is considered by many as an essential service which should not be removed. In addition, the utility sector as a whole has characteristics which challenge the process of credit management and debt recovery.

“Energy is an essential service, and suppliers must take particular care with those customers who are less able to manage and pay for their energy”

Mary Starks, Executive Director for Consumers and Markets at Ofgem

Restricted freedom

A utility provider does not have the same degree of freedom as firms in other sectors to manage their exposure to debt. In other sectors a firm can, at will, and without regulation, protect its financial performance by either:

- Withholding further products and services until payment is received;
- Fixing a credit limit;
- Approving additional credit extensions in advance; or
- Activating any securities held such as a “Retention of Title”.

Regulations and the way a utility service is delivered mean these options are not available in the domestic utility sector. A utility provider cannot withhold product by putting an account on-stop or withdraw access to credit. It is compelled to continue supplying a service which, unlike a physical product, is not recoverable.

Domestic utility providers are bound by rules regarding the continuation of the service and debt management, and therefore are required to be proactive in managing a domestic customer’s debt. However, prudent business management



means they should do so in a way which does not compromise their own financial performance.

Loss of (Limited) financial control

A utility provider does not have full control of its financial performance. Defaulting accounts have a hidden influence. A defaulting account can (effectively autonomously) extend the credit period given by the utility provider and increase its credit without limit and, because the provider is compelled to continue supplying the service, its cost of supply.

In the domestic utility market until the defaulting customer is put on a repayment plan the provider has to bear the cost of continuing to supply the account. More importantly the defaulting account is not counted by Ofgem as a customer on a repayment plan.

A single defaulting account has a small impact on the provider's financial KPI and customer performance KPI. However, when the effect of all defaulting accounts is aggregated the impact on the provider's business and customer performance can be significant.

Debt management^{6,7}

Suppliers are required by Ofgem's rules to help their customers manage debt and are required to move quickly to put customers who owe money on repayment plans and thus avoid pushing them further into debt or hardship.

"When suppliers let big debts accrue, it's a sign that they're not spotting debt or stepping in early enough to help customers who are struggling to pay bills."

Rachel Fletcher, Ofgem's Senior Partner for Consumers and Competition

Suppliers are required to monitor accounts to identify when a customer might be struggling financially and to proactively engage with the customer to find the best way to repay the debt. They are required to offer domestic customers a range of affordable re-payment options which include:

- Regular instalments through means other than a prepayment meter;
- Direct deductions from social security benefits;
- Through a prepayment meter, where it is safe and reasonably practical.

Meter management^{6,7}

Disconnection from the service is the only means a utility provider as to withdraw service and stop further credit extensions.

Disconnection is a practical option only in the B-to-B utility market. In the domestic utility market disconnection is highly controlled by the regulator and is not allowed



Analysis

except in exceptional circumstances. It is permitted only as a last resort. To avoid disconnection a provider is permitted to install a pre-payment meter (PPM) to recover a debt. However, like disconnection, the use of a PPM for debt recovery is highly regulated. The installation of a PPM must be done only as a last resort and to avoid disconnecting the customer and after all other appropriate options have been exhausted.

However, regulators are encouraging fewer PPMs to be installed. Some suppliers have taken steps to reduce the likelihood of debt build up, ultimately reducing the need for PPMs. These include providing hardship and trust funds and developing partnerships with third parties to provide customers with support early on. Notable initiatives are the programmes run by Macmillan Cancer Research and Npower and British Gas Energy Trust.

The strict requirements of domestic meter management mean negotiating a repayment plan cannot be done in isolation of discussions about moving to a PPM. Discussion needs to be held early on in the recovery cycle in order to avoid the customer getting into further debt. In addition, when changing a utility meter there are the mandatory checks to carry out, multiple authorities to liaise with, and site-based activities to complete before a change is carried out. At any stage in this process the debt may be repaid meaning these processes need to be stopped.

Conventional approach for collecting live utility debt

Typically, a live utility debt (one where the defaulting account continues to use the service) is processed in much the same way as other debt.

- Defaulting accounts are passed to the customer service (aka credit management) team who send out reminders of unpaid bills.
- If an account remains unpaid it is passed to the internal debt management team or a debt collection agency (DCA) who attempt to get payment.
- If this fails the account is passed to the meter management/disconnection team and the meter change process is started.
- After a PPM has been installed collection is made from PPM tariff adjustments.

This is a sequential process.

Live utility debt value and the time to collect

A sequential process is okay if the firm can limit its risk and exposure to bad debt by denying credit or refusing to continue to supply goods or services.

In the domestic utility market following a sequential process means the customer is exposed to higher debt and will remain out of a re-payment plan for longer.



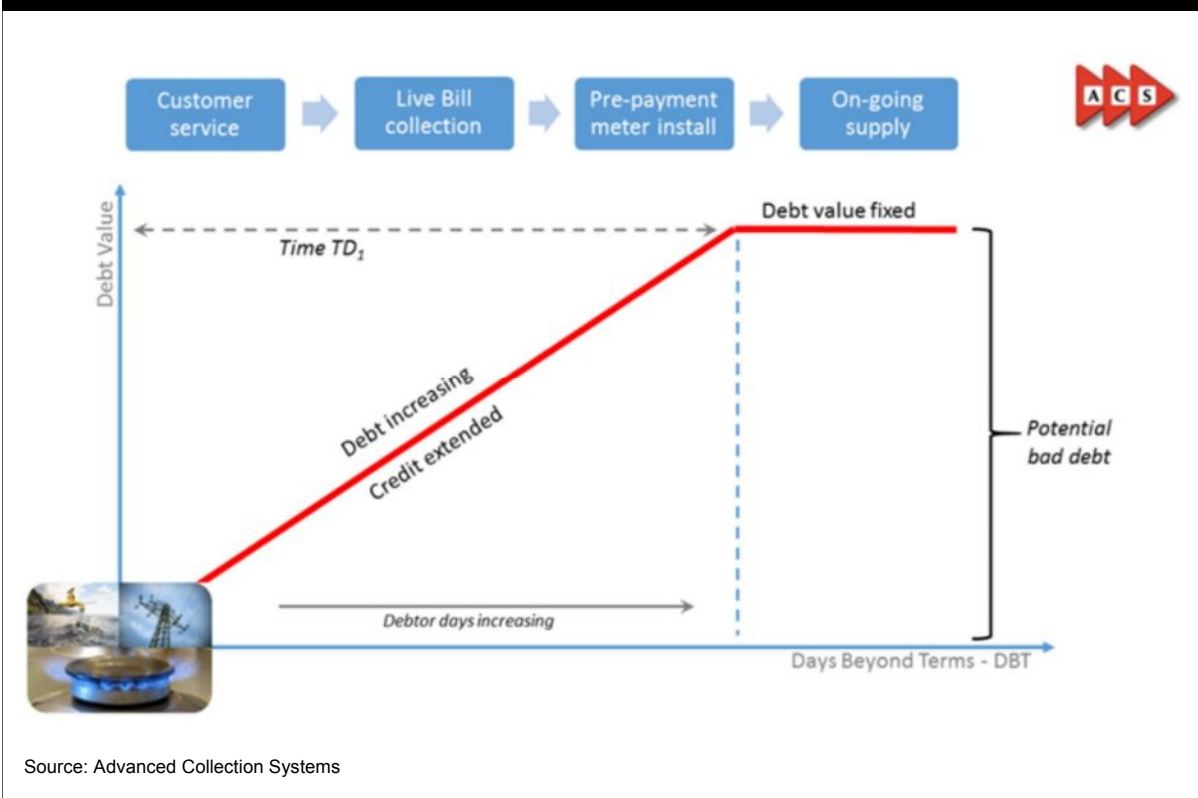
The longer it takes to collect the debt or disconnect the account the larger the final debt becomes. For the provider this means a weaker reported financial performance, a larger unrecovered cost of supply, and non-compliance with Ofgem protocol.

Time delays in collecting domestic utility debt

Ofgem has reported that the time between when a debt is passed to the customer service team and meter disconnection/change (TD1 in **Figure 1**) can be up to 180 days or 6 months.

The time TD1 is only partly within the control of the utility provider.

Figure 1: Debt flow in conventional debt collection



The customer service (aka **credit management**) and live bill collection (aka **debt collection**) times are within the scope of control of the utility provider. However, the disconnection time is controlled partly by protocols set by the regulators and the courts.

Meter disconnection/change time

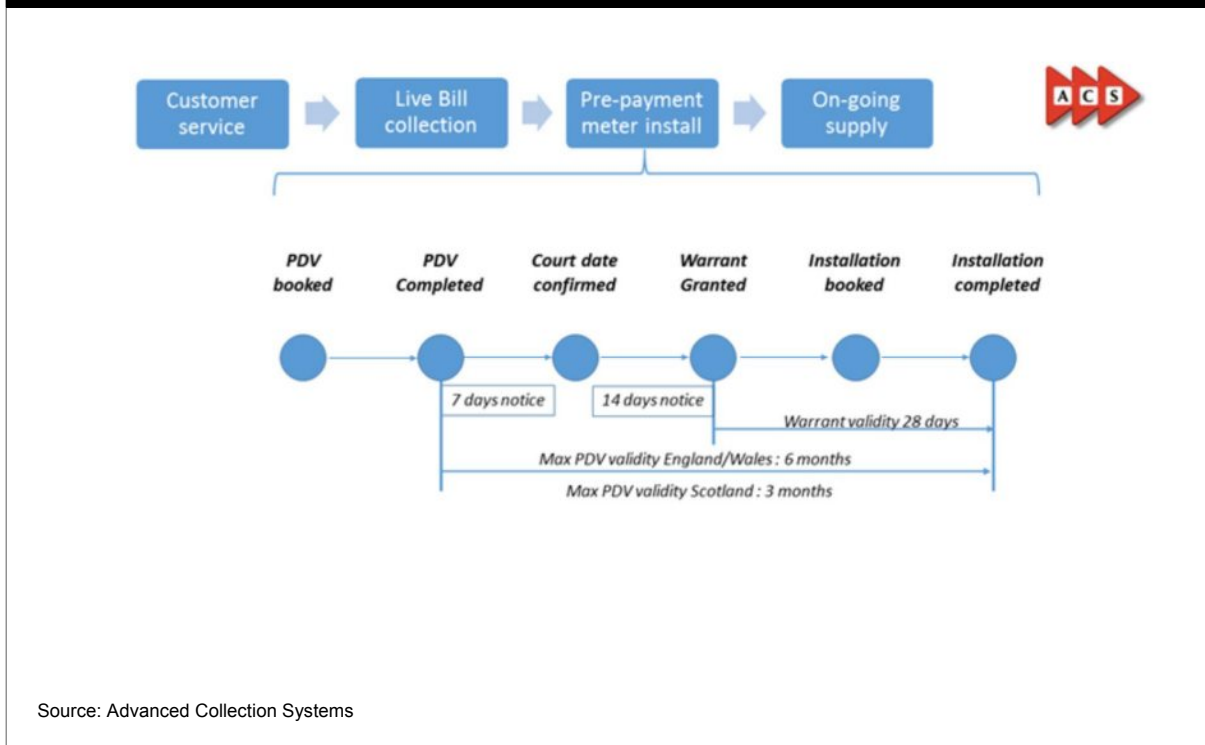
Mandatory notice periods and the need to visit the site twice, first to carry out a pre-disconnection visit (PDV) and then to make the actual meter disconnection/change, mean that, at best, meter disconnection/change cannot occur earlier than 21 days after the decision to disconnect has been taken.



Analysis

The time to set-up and complete a PDV, make a second site visit, and obtain a warrant will extend this time further – for example in remote areas such as Scotland arranging site visits for meter disconnection/change can be difficult. When added to the time already taken to attempt collection these times can increase the post invoice usage period significantly.

Figure 2: Mandatory notice periods in meter installation



Ofgem/Ofwat disconnections: A PDV is required to confirm that there are no vulnerable persons on site and to serve notice of intention to disconnect – at least 7 day notice must be given. At least a 14 day notice of the date of the court attendance to get a warrant to disconnect must also be given. A second site visit is required to make the disconnection or in the case of smart meters to comply with the Ofgem disconnection protocol.

Disconnection can only be made after the warrant has been issued and must occur within 6 months of the PDV if the property is in the UK or 3 months if in Scotland and within 28 days of the warrant being given.

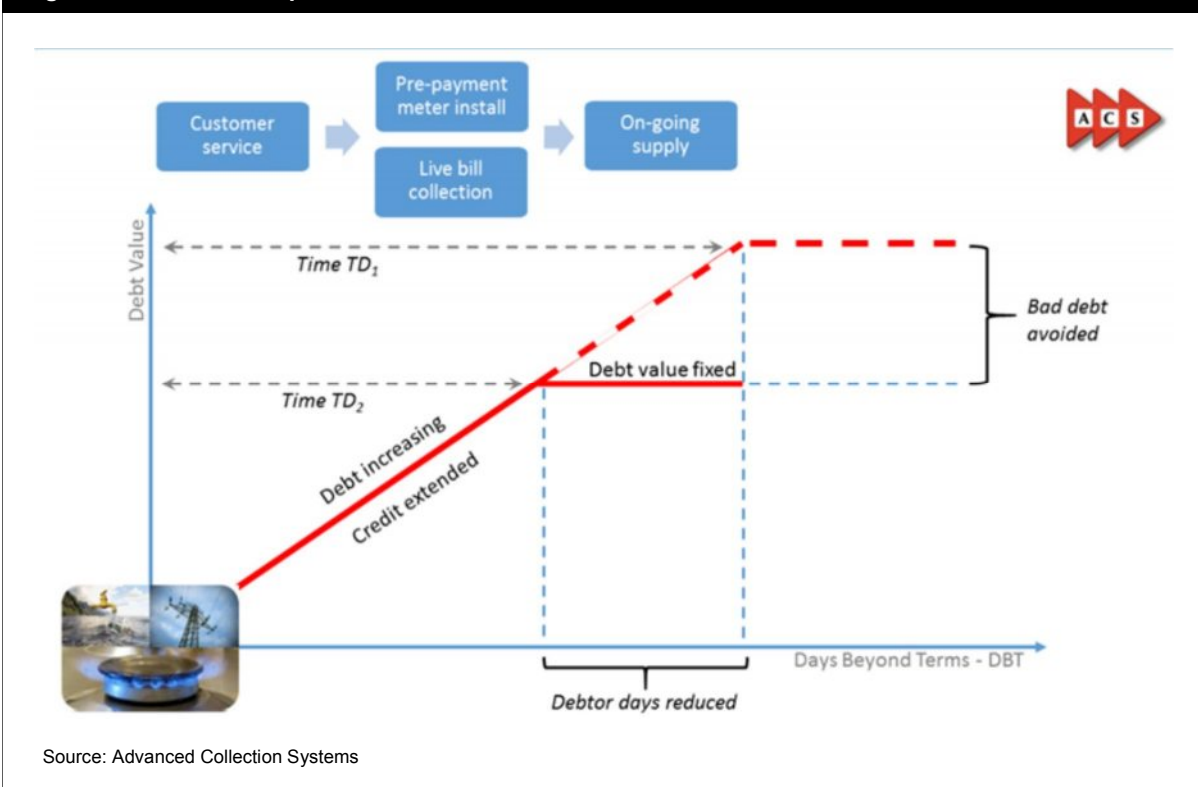
Shortening the overall time needed for utility debt collection

The time between when the debt is passed to the customer service team and when meter disconnection/change is made can be shortened by “coupling” the live bill collection and meter disconnection/change processes (TD₂ in **Figure 3**).

Running the processes in parallel unconnected to each other or combining them into a single process will not achieve the best outcome.



Figure 3: Debt flow in optimized debt collection



The best outcome is achieved only when the processes are run side by side each continuing independently of the other but coupled together by the diary dates of the meter disconnection/change process and a protocol which sets out the scope of responsibilities of each team. It is this seamless coupling of the work of the teams which unlocks the latent hard and soft gains in the coupled process and at the same time benefits the customer.

Hard gains

Hard gains come directly from the shortened time between when a debt is passed to the customer service team and meter disconnection/change or establishment of a repayment plan (TD1 and TD2 in **Figure 3**).

These are a direct and tangible benefit. Customers are put on a repayment plan sooner and meters disconnected/changed quicker than they would have been using a conventional approach. For the utility provider this means:

- Lower final debt value;
- Lower potential bad debt provision;
- Reduced cost of ongoing supply as a result of stopping usage by the customer;



Analysis

- Improved key financial indicators such as debtor days and cash flow;
- Reduced expose to large amounts of doubtful debt;
- Smaller amounts of bad debt provision.

These are the hard gains of running the two processes in parallel. Seamless coupling the processes is not needed to realise these gains. However, in the absence of seamless coupling the likelihood of significantly shortening the time to collection, placing the customer on a payment plan, or meter change is reduced.

Soft gains

Soft gains arise from leveraging the meter disconnection/change during the collections negotiation. This is only possible when the work of the two teams is seamlessly coupled. These gains are intangible but have a significant impact on the timing of the repayment and hence on the utility providers cash flow and borrowings. Additionally, these soft gains are responsible for ensuring that it is more likely that the time to repayment or placing the customer on a payment plan, or meter exchanged is minimized.

Earlier repayment: The collector is able to explore all repayment options including PPM installation and come to an early resolution and avoid the customer building up further debt or needing to have a PPM installed.

Regulatory compliance: Encouraging early repayment can help providers achieve compliance with Ofgem or Ofwat rulings. For example, in the case of **debt prevention**, early collection and/or meter disconnection/change prevents the customer accruing a large debt.

Agreed meter replacement: Engaging the customer early in the negotiation and introducing a PPM as a potential repayment solution can avoid (forced) PPM warrant installation later on.

Customer gains

Lower final debt: Being presented with all repayment options at the start of the negotiation and an early date for possible PPM installation means the customer can avoid running up an increasingly large debt and getting into more hardship.

Achieving a coupled process

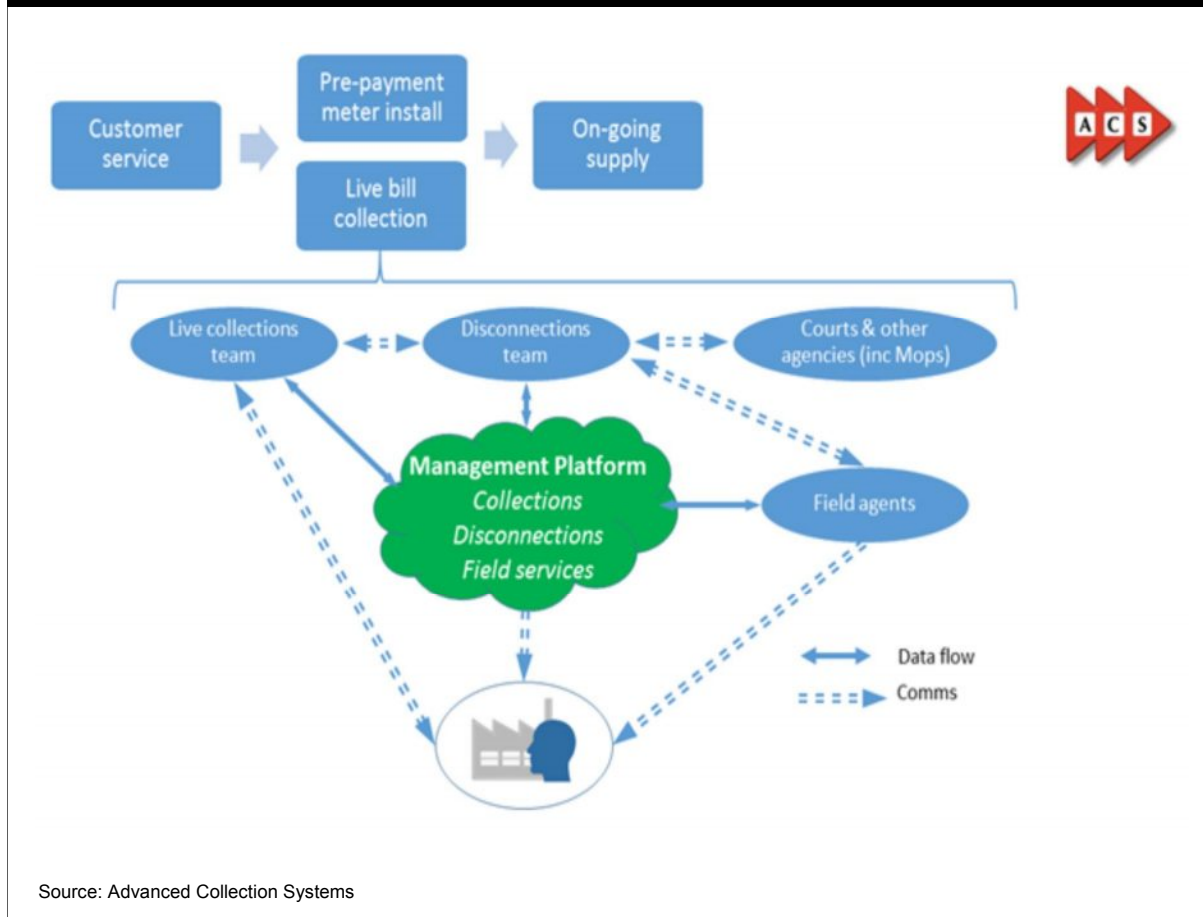
Coupling the processes is trivial in concept. However in practice it requires across the board organizational change. Changing from a conventional to a coupled approach needs changes to the IT platform, team management, and culture. How this is achieved is described in the companion paper *Optimizing the Collection of B-to-B Utility Debt*¹. This details the process and other changes needed in:

- Debt flow;
- Activity scheduling;



- Communications and responsibilities;
- Management and control.

Figure 4: Communication flows and management platform



The key to executing many of the changes needed is a management platform which combines the features of a conventional debt recovery platform with meter disconnection/change and field services management solutions. In addition to conventional debt recovery functions the platform must:

- Provide and manage separate collections and meter disconnection/changes diaries;
- Arrange the activities so that site visits, warrant applications, and the utility provider's meter operator agent (mops) appointment are diarised at required times along with other needed services such as locksmiths or dog handlers;
- Allow field agents to upload reports, documents and images resulting from site visits.



Analysis

Proven to deliver results

Refined over almost two decades of work with utility companies the process is a proven scalable and adaptable solution for collecting debt and managing meter disconnection/changes for utility providers from across the sector, irrespective of their business model and business volume.

The coupled process has been used by ACS to collect debt for clients ranging from small start-ups to the top ten ranked B-to-B utility providers including providers from the Big Six. Named Collect+ by ACS it has been used to collect payment from defaulting live-billed accounts and manage Ofgem/Ofwat compliant meter disconnection/changes for both B-to-B utility debt as well as domestic utility debt. The management platform, known as Colman, which provides the control and coordination required to run a successful coupled process also provides a 24/7 on-line portal for utility clients.

Reference

- 1 Phillips, L. (2019) "Optimizing the Collection of B-to-B Utility Debt", *Credit Control Journal and Asset & Risk Review* <https://www.creditcontrol.co.uk/collecting-b2b-utility-debt>
- 2 Ofgem (2019), Supplier Licensing Review: Final proposals on new entry requirements https://www.ofgem.gov.uk/system/files/docs/2019/04/slr_-_final_proposals_on_entry_requirements.pdf
- 3 Ofwat (2016), 'Consultation on how companies demonstrate long-term financial resilience', January. https://www.ofwat.gov.uk/wp-content/uploads/2015/07/pap_con20160127longtermviability.pdf
- 4 Ofgem (2019) Draft Consumer Vulnerability Strategy 2025 https://www.ofgem.gov.uk/system/files/docs/2019/06/draft_consumer_vulnerability_strategy_2025_0.pdf
- 5 Ofgem (2019) Vulnerable consumers get more help, but suppliers not doing enough to help manage debt <https://www.ofgem.gov.uk/publications-and-updates/vulnerable-consumers-get-more-help-suppliers-not-doing-enough-help-manage-debt>
- 6 Vulnerable consumers in the retail energy market 2017 <https://www.ofgem.gov.uk/ofgem-publications/122828>
- 7 Vulnerable consumers in the energy market: 2019 https://www.ofgem.gov.uk/system/files/docs/2019/09/vulnerable_consumers_in_the_energy_market_2019_final.pdf