



**SCOTTISHPOWER**

## **Using Litigation**

Kevin Fogarty

# Common Perceptions



- That energy companies are among the softest of creditors. Domestic customers will prioritise the payment for other services over energy.
- One of the main reasons for that reputation is because energy companies are hampered by concerns about the bad PR that robust debt collection activities might generate.
- That because households and businesses cannot avoid consuming energy, supply companies can simply spread the losses arising from any unpaid bills across a customer base without any detriment to the supplier. Incorrect. Customers can switch to a supplier that is more efficient in the collection of debt and therefore able to offer lower prices.

# How Debt Arises



Business Customers: - Month of Consumption + 21 days to Invoice + 14 days to pay + 31 days over invoice dispute

= 3 months + of non-payment for supply

- To prevent this happening, the supplier can choose to disconnect. For domestic customers that normally means fitting a prepayment meter. For technical reasons, prepayment meters are not an option for businesses. Where customers have gone 'final' i.e. changed supplier, disconnection is no longer an option for suppliers.
- Debts may arise because a customer simply chooses not to pay. Debts can also arise for a number of other reasons.
  - Estimates may have been used to calculate consumption and those estimates may have underestimated consumption.
  - There may have been a change of occupier at a premises about which the supplier will not have been notified.
  - There can a meter issues. A recent problem that was discovered was that our data collectors were failing to multiply readings by a factor of ten. £10 millions of debt had arisen.

# The Recession



- Scottish Power has seen a doubling from 2008 in the amount of debt it is carrying because of insolvencies, for both domestic and business customers.
- In December 2008 one of our large retail customers entered a pre-pack and left behind in the old company a debt of £210,000. The MD of the Retail Division became personally involved in dealing with the account. It looked like the debt was lost but he wanted to ensure protection against non-payment by the new company. This was effected by disconnecting a number of key stores and agreeing payment of a security deposit before reconnecting.
- The MD established a working group which he chaired to handle the Top 50 business debtors composed of the billing, collections, sales and legal functions. The lowest value was £130,000. The highest was multi-million.
- Legal was invited to inform the business on what it could offer to assist with the increasing business failure and debts.

# Business Customers I



- One quarter of the Top 50 accounts have been passed to Litigation. Of those accounts, 50% are dealt with by statutory demand, 35% see arrangements to pay put in place and 15% result in court action.
- Of those that go for statutory demand, 100% have been successful where the score has been greater than 90.
- For insolvencies, the company will try to disconnect the debtor including where we have received notice of an intention to go into an administration.
- Litigation is on course to recover £2.5m in 2009.

## Business Customers II



- Legal carried out a review of the business terms and conditions
  - Tighten up provisions dealing with personal liability of directors.
  - The provision dealing with interest for late payment has been amended to incorporate a collar.
  - Layout reviewed for the better collection of customer details.
- Report from Insolvency Service in August CCR that practitioners are 2/3 compliant with the requirements of SIP 16 for pre-pack administrations. Following up on SIP 16. Numbers likely to rise when economy picks up.
- Considered seeking director disqualification. 300 are disqualified each year. BERR short on resources.

# Domestic Customers



## In House Paralegals

Principal Sum	Collected	%-age Collected	Costs Incurred	Recovered Costs	Recovered Costs	Average time in process
£124,012.	£59,636	48.09%	£8,321	£6,030	72.46%	256 Days

## External Firm

Opportunity	Collected	Uncollected Costs	Net % Recovery
£233,640	£65,825	£24,900	17.5%

## Recoveries Split by Value of Debt

Success Rate by Value Bands		
	% Success Rate	Average Length of time in process
£250-£500	64.86%	163
£500-£1000	48.78%	284
£1000+	22.54%	307

# The Challenges Ahead



- Accounts below the Top 50. Some 200,000 business customers. Some time left to go before the end of the impact of the recession.
- Litigation is one element of a collections function. Lots of other work in SP. Segmentation of domestic customers to tailor follow-up activities. Segmentation of business customers to determine what product can be offered, if any. Work in the Sales function to improve on the collection of customer data.
- With the introduction of Smart meters, the projects to connect renewable sources of energy, payment for the CERT obligation and the financing of Social tariffs, energy bills are set to continue rising.