

## **GREEN DEAL: MDD (FIXED Monthly) and PARI PASSU**

### **Aims: GD MDD and Pari Passu**

- Meet the spirit of pari passu: *the pro rata apportionment of customer **payment** between electricity and GD **billed** amounts e.g.*

Electricity Bill	£80
GD Bill	<u>£20</u>
Total	<u>£100</u>

#### **Customer Payment      £25**

Proportion to Electricity	£20
Proportion to Financier	£5

For Dual Fuel customers where both utilities are charged on the same invoice and paid for in a single transaction, apply pari passu first between Gas and [Electricity + GD].

For the avoidance of doubt, where a Dual Fuel customer is invoiced separately for each fuel, the customer's gas and electricity charges would be settled independently. There would be no requirement for suppliers to apply pari passu across the gas charge and electricity + Green Deal charge.

- Minimise system and process change impact.
- Provide customer clarity and transparency regarding GD charges, payments / balances, and minimise impact on customer call volumes.
- Consistency with, and support for, CCA statement obligation. (GD Financiers responsibility)
- Handle differing scenarios, e.g.
  - o Good payer: no "insufficient funds" defaults
  - o Payment default and change of payment method
  - o Change of GD daily unit charge
  - o Change Of Occupier
  - o Change Of Supplier

### **Background: BAU MDD Process (Energy) - npower**

- Customer Statements produced at 6 monthly intervals.
- Mid-Term and End of Year Reassessments:
  - o Mid-Term (month 6 in assessment year): aim - amend MDD payment amount to achieve zero balance at end of assessment year, i.e. over the next 6 months. This takes account of estimated consumption (seasonally adjusted for full year) and associated charges; applicable discounts; current balance.
  - o End Year Reassessment: aim - to amend MDD payment to achieve zero balance at end of next "assessment" year, taking account of estimated consumption and associated charges; applicable discounts; current balance.
- If Dual Fuel, one single DD covering both electricity and gas.
  - o Customer has visibility of the individual payment amounts per fuel.

- Reassessment of electricity and gas DD payments done separately (within same bill) and brought together as a single overall DD payment.
- Between Reassessment bills, no reviews (unless at customer request). Specifically, no review following each payment.
- Payment Default ... if DD fails (insufficient funds):
  - Write to customer (immediately following bank notification) to inform them that DD will be re-presented and asking that customer ensures sufficient funds available.
  - If DD re-presentation fails, customer transferred from MDD to ROB. (Payment on Demand)
  - If debt, chase for outstanding debt immediately.
- No knowledge of energy consumption at monthly payment points.
  - Meter reads may be gained at other points, but not taken account of until DD Statement re-assessment point.

N.B. Other Energy Supplier DD Statement and Re-assessment processes may differ.

## **Principles / Assumptions**

- Overarching Principles:
  - Energy Suppliers pay GD Financiers when customers pay us and monies have cleared. (individual customer / payment basis)
  - Split of DD payment into Electricity and GD components is intrinsically "pari passu". No requirement for further reconciliation, apart from when there is a change of circumstances.
- Reassessment process ensures that DD energy payments reflect best view of consumption.
- Customers want visibility:
  - GD charge in billing period (i.e. no. days X daily charge)
  - *In the npower context*, visibility of the GD monthly DD component within their overall DD monthly payment amount.
- DD re-assessment "year" and GD anniversary (possible change in GD daily charge rate) will differ. Also, customer could have multiple GDs, with differing GD Providers / Financiers and differing anniversary dates.
- For most customers, GD component of MDD payment will be relatively small compared with Electricity component. Vacant sites and sites where FIT payments reduce the energy bill would be exceptions to this principle.

## **Proposed Approach:**

**Align GD payment to financiers with GD component of MDD, irrespective of balance position on electricity account.**

## **Scenarios:**

1. **No DD Default / No DD Reassessment / No change in GD Daily Charge**

- Monthly GD DD payment component derived from GD daily charge.
- Electricity component of DD payment paid into electricity account, GD component paid into GD account.
- Payment to GD Fin = GD Component of DD Payment, i.e. no account is taken of the net balance position on the electricity account e.g.

Dual Fuel MDD customer:

Elect. MDD component	£30
Gas MDD component	£60
GD MDD component	<u>£10</u>
Total MDD	£100

Payment to GD Financier = £10 (paid monthly, following clearance and processing)

**2. No Default / MDD Regular Reassessment Bill / No change in GD Daily Charge**

- Follow the Energy Supplier BAU process for reviewing the Electricity component of the DD.
  - Assumes that Electricity and GD components of the DD are, effectively, reassessed separately and then brought together into a single overall revised DD payment amount.
  - Apply BAU DD reassessment rules to Electricity component of DD whether Electricity account is in credit or debit.

**3. No DD Default / Change in GD Daily Charge between DD re-assessment points**

- Show actual GD charges in MDD Statement. (following same process as electricity)
  - e.g. £1.00 GD per day for X days, £1.10 GD per day for Y days (X+Y = bill period)
- Timing of change in GD DD payment to reflect change in GD Charge?
  - Need **flexibility** on approach to re-assessment. (driven by customer and/or Energy Supplier)

**Option 1 - Defer MDD payment change to next regular re-assessment point**

- Do **not** change MDD payment amount until next DD re-assessment.
- At DD re-assessment:
  - Apply BAU rules for electricity component.
  - Reassess GD DD payment component on similar basis to energy, i.e. taking account of GD balance and future GD charges based on the new rate and any future changes if known.
  - Pay GD Financier the new GD DD payment amount as collected, not as charged i.e. GD charges and payments will differ over the short-term, but will balance within 6/12 months.
- GD Financiers may push back against this option! The *agent* role in passing on new charges is technically not being fulfilled. There could also be Consumer Credit Act (CCA) implications in the reconciliation of "charges due" versus "charges paid". Counter argument is that, for some suppliers, this reflects their standard billing process where energy prices change and "deficits" are not recovered until the next reassessment.

**Option 2 - Defer MDD payment change for customer to next regular re-assessment point, but energy supplier pays new charge to financier**

- Do **not** change MDD payment amount until next DD re-assessment.
- At DD re-assessment:
  - Apply BAU rules for electricity component.
  - Reassess GD DD payment component on similar basis to energy, i.e. taking account of GD balance and future GD charges based on the new rate and any future changes if known.

- o Energy supplier pays GD Financier the new GD charge, but continues to collect at "old" rate until next reassessment. GD charges remitted to financier and payments collected will differ over the short-term, but will balance within 6/12 months.
- o By incurring a "cash flow cost", the energy supplier keeps the DD stable (a key driver of DD attrition) and circumvents an additional reassessment process.
- o There are definite CCA implications in that annual statements would show different "charges paid" amounts to those actually collected.

**Option 3 – Amend GD DD component as soon as possible**

- Amend GD DD component as soon as practical to reflect revised GD daily rate, as notified by GD Financier. (ideally, need advance notification from GD Financier of daily charge change)
- Multiple Green Deals: to avoid customers having their DD payment amounts changed several times per year, (because each GD could have a different Provider/Financier and therefore varying GD anniversary dates), push for:
  - GD charge to be changed only once per annum. (as previously discussed)
  - A single “charge change date” per GD customer, e.g. anniversary date of most recent GD arrangement.
- **Recommendation** – need flexibility to incorporate into Energy Supplier DD Statement and Re-assessment processes and also requires definitive CCA implication advice which may preclude options 1 and 2.

**4. New Green Deal**

- Need **flexibility** to either:
  - Change MDD amount immediately, or
  - Defer to next MDD regular re-assessment.
- Decision dependent on range of factors e.g. conditions attached to agent role, customer wishes, scale of GD charge, time to next regular assessment etc.

**5. DD Default (“Insufficient Funds”)**

- BAU process to DD re-presentation.
- BAU process if attempt to collect DD fails at 2<sup>nd</sup> attempt, i.e. switch payment method from MDD to Receipt Of Bill. (Payment On Demand)
- If no debt, follow Payment On Demand process for future GD payments / pari passu.
- If debt (electricity and GD), chase.
  - Full payment – pay GD component of debt to GD Financier.
  - Part payment – apportion to electricity and GD accounts pro-rata to relative billed amounts.
  - No payment – follow BAU Debt payment journey.
  - As DD is a “monthly billed agreement”, if a payment is missed the next payment received is not applied “backwards” to remedy the missed payment.

**6. Variant on DD Default: Electricity Debt Accrued Prior to Green Deal Set Up**

- Policy issue which is independent of payment method.
- Options:
  - **Allocate customer payment to Pre-GD electricity debt first**

- advantageous to Energy Suppliers if electricity **debt** prior to GD i.e. if part payment, greater amount to electricity account.
  - business logic i.e. Pari Passu should only apply to charges / payments post GD set up.
  - becomes less relevant over life of Green Deal.
  - in practice, won't generally know what the precise balance is at GD set up. (but could use previous bill as surrogate)
- **Apply pari passu to the balance at bill point, i.e. age of debt ignored**
  - simpler approach to operate.
  - easier for the customer and service agents to understand.
  - for some suppliers, may be the only feasible approach without significant system change. (e.g. npower legacy billing system does not match payments against specific bills)
- **Recommendation - keep simple: apply pari passu on overall balance at bill point.**

#### **7. DD Defaults / Customer owes both Electricity and GD (same period) - Payment Arrangement is set up**

How are payments allocated against arrears and ongoing electricity consumption and GD?

- Scenario:
  - Customer MDD set up to reflect consumption and GD charges, e.g. £50 MDD (£40 electricity; £10 GD)
  - Customer MDD defaults.
  - Payment arrangement set up to recover arrears and future (electricity consumption + GD) charges.
    - For example, new monthly payment amount = £80.
- **Recommendation - apply the same electricity / GD percentage split to the new payment amount.**
  - In the example above, amount allocated to electricity =  $80\% \times £80 = £64$ .
  - Allocation to Green Deal =  $20\% \times £80 = £16$ .

#### **8. Change Of Occupier**

- BAU process applies, i.e. generate final bill showing outstanding electricity and GD balances.
- Follow up as per BAU process:
  - If electricity / GD balance positive (i.e. customer in credit) - refund net balance
    - Pay GD Fin any outstanding GD charges.
  - If electricity / GD balance negative, demand payment.
    - Full payment - pay GD component of debt to GD Financier.

- Part payment - apportion to electricity / GD accounts pro rata to relative account balances.
- No payment - follow BAU Debt payment journey.

#### **9. Change Of Supplier**

- BAU process followed, similar in principle to Change of Occupier, i.e. produce final bill showing outstanding electricity and GD balances, but with potential ability to block transfer if electricity **or** GD debt outstanding.

#### **10. Other Scenarios**

- **Part payment** - not feasible under DD. (full payment or nothing) Part payment relating to Payments On Demand is covered above.
- **Meter Read Different to Estimated Profile** - covered above.
- **No Meter Read** - if no actual / customer read, estimated read always made.
- **Missed Single Payment** - covered above.
- **Missed Monthly Payment** - as above. ("reconciliation" equates to DD "Re-assessment")

### **Benefits of Proposed Approach**

- Customer transparency and consistency with their understanding of GD payment and CCA Statement. (reducing likelihood of calls)
- Straightforward and consistent with approach to energy DD.
- Simple to understand from service agent and customer standpoints, therefore fewer (and shorter) customer calls.
- Consistent with pari passu principle, i.e. split of DD payment reflects energy supplier view of charges (electricity and GD)
- Provides flexibility when GD rate changes.
- If on GD daily rate change, MDD payment not amended until next regular DD re-assessment, GD Financier could be in positive or negative cash flow, dependent on whether GD unit rate goes up or down, but only for limited period. (to end of DD assessment year)
- Consistent with ERA Group principle that credit balances on electricity are not used to pay GD charges.
- Not dependent on consumption re-assessment/charge calculation between MDD Statements.
- IT implications will depend on Supplier system capabilities, but likely to be far less onerous than monthly/quarterly "charge" based reconciliation.