RETAIL ENERGY CODE

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# NON-CONFIDENTIAL CONSOLIDATED CONSULTATION RESPONSES

## R0037 PREPAYMENT CREDIT BALANCE & DEBT TRANSFER PROCESSES

On 09 February 2024 the Code Manager issued a Party Impact Assessment to industry to seek feedback for R0037 Prepayment Credit Balance & Debt Transfer Processes.

The purpose of this document is to consolidate the responses and for the Code Manager to answer any questions raised within those responses.

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| **RESPONSE TYPE** | NON-CONFIDENTIAL |
| **DATE ISSUED** | 08/04/2024 |
| **RESPONSIBLE COMMITTEE** | REC Change Panel |
| **LEAD ANALYST** | Caroline Freimuller |

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| **DATE CONSULTATION ISSUED** | 09/02/2024 |
| **RESPONSE DEADLINE** | 01/03/2024 |

| Question 1: | Do you have any comments on the proposed solution? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | While agree that this issue needs be addressed. We believe that there are massive gaps within reconciliation of the credit. The industry already has issues within the MDP space and the time and resource that is needed to recover monies is not very successfully. We need to ensure this does not going down the same route as DAP. Whereby some parties don't follow the correct process. | Thank you for your comment.<br><br>The Code Manager appreciates the issue being raised but it is outside the scope of this change. We would recommend an issue is raised at the REC Issues Group or with REC Performance Assurance if there are concerns industry parties are not following their obligations. |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE have concerns that the solution to a domestic credit/debit balance issue will have a significant impact on the Change of Supply process for non-domestic suppliers. As a non-domestic only supplier SSE has no infrastructure to support Smart meter customers in prepayment mode and we believe this will increase the risk of erroneously gaining such meters, which will ultimately increase the expense to rectify the issue. We are already experiencing this issue, over the last 12 months we have gained 8% (2,548) of meters in a prepayment mode, which has required us to send a service request to the meter to update the payment mode to credit. We therefore believe that the actual process needs to be reviewed to ensure the meters are being transferred to credit ahead of a change of supply event. | Thank you for your comment.<br><br>The Code Manager appreciates the issue being raised but it is outside the scope of this change. We would recommend an issue is raised at the REC Issues Group or with REC Performance Assurance if there are concerns industry parties are not following their obligations. |
| Utilita<br>(Energy Supplier) | Utilita support the implementation of this solution as it will have a positive impact on customers. Removing the wait for refunds, during which time financially vulnerable customers are not able to access their own money, will have a material positive impact. | Noted, thank you.<br><br>Further comments are provided regarding the debt figure in answer to question 8. |

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| | We would support a more incremental approach to setting the £500 debt value. This will allow industry to apply real world experience to determine the best debt value. We would like to see £150 as the maximum debt value initially with a review cycle. | |
| Scottish Power Energy Retail (Energy Supplier) | We have a number of comments on the proposed solution which are set out within this response. While we understand the problem and consider the solution could provide benefits to some customers, we consider there to be a number of challenges that could lead to unintended consequences for consumers and suppliers which create risks and require further consideration about the solution and the timing of implementation. These include:<br>- Potential challenges in establishing accurate estimates of credit and debt balances for customers at the date of change of supply in a manner that does not expose suppliers to financial risk<br>- Challenges in implementation at the same time as MHHS<br>- The potential complexities of having two processes for smart prepayment switches operating at the same time<br>- The manual approach to invoicing which we think could present challenges if significant numbers of customers were to use the process | Thank you for your comments.<br><br>The credit/debt for the Switch won't be estimated as a read should be taken by the Losing Supplier as close to midnight before the Switch as possible.<br><br>The estimate of credit/debt the Losing Supplier provides a few days before the Switch when confirming the meter can move down the process should be accurate as they will be able to read the meter then and should have an accurate use history from the Smart Meter, but the Code Manager will consider this point.<br><br>There are already 2 Smart Prepayment Switch processes, for when the Losing Supplier cannot move the meter to Credit Mode (detailed in Section 3 of Schedule 11 Prepayment Arrangements). However the Code Manager will consider that this introduces a third option for Suppliers to manage.<br><br>The Code Manager believes the invoicing has been designed in such a way that it could be automated by the Supplier if they chose. |

| Question 2: | Do you agree the proposed solution addresses the problem statement? If not, please provide details. | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | As above, this would need full industry buy in and parties would need to be monitored. Also what governance will the Code Manger have? We believe SDEP is the best form of escalation but given the lack of reporting in this space the change should be held back until this is fully addressed. | Thank you for your comment.<br><br>There is currently a Service Provider Impact Assessment with REC Performance Assurance to detail how the solution will be assured, and details will be in place for consultation.<br><br>The SDEP reform changes are on-going and we will review aligning implementation dates if possible. However because the Consumer detriment this change is addressing is so high, the Code Manager would likely proceed to implementation before SDEP changes go live if required. |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE agree the proposed solution addresses the problem statement however as noted within Q1, it will create additional issues to the Change of Supplier process. | Noted, thank you. |
| Utilita<br>(Energy Supplier) | Yes. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | While we agree that at a high level the proposed solution would address the problem statement for some customers, we are concerned that at this stage in the evolution of smart prepayment roll out, there remain too | Thank you for your comments. |

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| | many uncertainties on how the solution would work in practice in a manner that does not present risk to customers and suppliers. We do not think this solution should be implemented at this point, and further work should be undertaken to ensure the full impacts on consumers can be understood. | The Code Manager has consulted with SEC and RIG alongside the Proposer so we are confident the solution will work, especially alongside other processes such as UTRNs to minimise the risk to the Consumer going off supply.<br><br>The Code Manager would request more detail is provided on the Consumer impact/detriment alluded to here and what further work should be undertaken. |

| **Question 3:** | Are there any alternate solutions that would better meet the needs of the problem statement? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | N/A | N/A |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE feel the default solution should remain to switch Smart meters to credit mode and that remaining in prepayment mode should be an opt in process only. | Thank you for your comment.<br><br>This solution is opt-in only for the Gaining Supplier. It is only when the Gaining Supplier confirms that they are taking on the meter in Prepayment Mode, there is no Change of Occupier and the Consumer has consented to the balance transfer that the meter will remain in Prepayment Mode. In all other |

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| | | circumstances, the meter should still be changed to Credit Mode prior to the switch. |
| Utilita<br>(Energy Supplier) | We believe the best solution is to leave the balances on the meter and give the customer an uninterrupted prepay experience by minimising the risk of self-disconnection. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | We do not have any substantive alternate solutions at this point. As we have noted elsewhere, we think this solution merits further consideration including around the proposed implementation timescales to ensure potential risks are addressed. | Noted, thank you. |

| **Question 4:** | What lead time would be required for your business to implement the proposed solution? Please provide justification. | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | N/A | N/A |
| SSE Energy Supply Ltd<br>(Energy Supplier) | As with all system changes SSE require at least 6 months to implement from the date of approval. | Noted, thank you. |
| Utilita<br>(Energy Supplier) | We would need a 6 month lead time. The change requires system changes. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | As we note in other parts of this response, we do not think this solution should be implemented without further assessment on the impacts of the current proposed design on customers and suppliers and certainly not as early as February 2025. However regardless of implementation date we consider the lead time for a change this significant could be up | Noted, thank you. |

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| | to 12 months given the potential scale of change within our systems to facilitate this solution. | |

| **Question 5:** | Do you foresee any potential constraints (resource, systems etc) that could occur if this was implemented in the Feb-25 release, as this is close to MHHS go-live M8? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas (Energy Supplier) | Given MHHS is in flight we feel this date is far to early and needs pushing back till after go live. It's another big ask on the industry to factor this in. | Noted, thank you. |
| SSE Energy Supply Ltd (Energy Supplier) | SSE requires confirmation of the approval date before initiating the system changes, so we would require approval of REC0037 before the end of August 2024, should this change be approved. | Noted, thank you. |
| Utilita (Energy Supplier) | At this stage we do not have any known constraints. | Noted, thank you. |

| **Question 6:** | Would implementing the proposed solution incur any costs to your business? If so, please provide details. | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas (Energy Supplier) | Yes resource, system changes. | Noted, thank you. |

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| SSE Energy Supply Ltd (Energy Supplier) | Yes, however we are unaware of the costs at this time. | Noted, thank you. |
| Utilita (Energy Supplier) | System development costs likely to range from £100k-£300k. | Noted, thank you. |
| Scottish Power Energy Retail (Energy Supplier) | Yes, we consider the scale of change required for this solution would require material cost, however at this point we are unable to provide an estimate. | Noted, thank you. |

| **Question 7:** | Do you identify any benefits to your business through the implementation of the proposed solution? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas (Energy Supplier) | N/A | N/A |
| SSE Energy Supply Ltd (Energy Supplier) | As a non-prepayment supplier SSE will not benefit from this solution and can only see potential problems if the losing supplier does not switch the meter to credit prior to Change of Supply. | Noted, thank you. |
| Utilita (Energy Supplier) | Keeping credit on the meter reduces the likelihood of customers disconnecting, which should reduce customer contact after a switch. This modification should also facilitate more change of supplier activity by removing DAP from smart switches. However, the main benefits of this changes are with the customer. | Noted, thank you. |
| Scottish Power Energy Retail (Energy Supplier) | While the proposed solution could provide a benefit to some customers in supporting a smoother change of supplier for prepayment customers, we are concerned that without further consideration, there are potential risks both to customers and suppliers as we have set out in our response to Question 1. | Noted, thank you. |

| Question 8: | Do you believe the DAP Licence condition threshold is an appropriate threshold for debt and credit transfers (currently £500)? If no, please provide details and an alternate threshold suggestion with reasoning. | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| **CONFIDENTIAL**<br>E.ON Next<br>(Energy Supplier) | Yes £500 seems a reasonable figure. | Thank you, noted.<br><br>The Code Manager would like to highlight that the £500 is not a set amount and if the DAP threshold were ever to change, credit/debt limit for this process would change automatically to be the new DAP figure. |
| British Gas<br>(Energy Supplier) | Yes. | Noted, thank you. |
| SSE Energy Supply Ltd<br>(Energy Supplier) | As non-domestic supplier SSE has no view on this threshold proposal. | Noted, thank you. |
| Utilita<br>(Energy Supplier) | Utilita encourage a lower initial value for debt values. Whilst we appreciate the rationale for choosing £500 debt to completely replacing DAP; there are two factors that lead us to propose a lower value:<br><br>1. The DAP process makes use of the Factored Total Payment process to create a 10% reduction in the debt value to both encourage transfer and reduce the debt risk on the gaining supplier.<br>2. A higher maximum debt threshold results in increased risk for gaining suppliers. The DAP threshold of £500 has not been | Thank you for your comments.<br><br>The Code Manager will take this feedback on board but would like to note that if we are using a figure that is not linked to DAP and instead was written into the REC schedule, a change would need to be raised each time it was wanted to be reviewed/changed. |

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| | reviewed in the context of next day switching. Shorter switching time frames combined with this process mean that gaining supplier could take on significant levels of debt very quickly.<br><br>Utilita suggest a starting value of £150 and would support the flexibility to increase that value once real-life experience of the process is available for analysis. We propose this value as it will cover the vast majority of prepay customers and limits the exposure on the gaining supplier in the initial implementation. | |
| Scottish Power Energy Retail (Energy Supplier) | While we do not consider this solution should be implemented at this stage, if it were to move forward in the future, we consider £500 to be an appropriate maximum threshold for both debit and credit transfers. This would align the debt transfer maximum with the DAP process which would still remain for non-smart prepayment meters, and we consider it unlikely that many customers would have a credit of levels above £500.<br><br>We note however the absence of a minimum threshold for either debt or credit transfer. The current DAP process has a minimum threshold of £20, and it's not clear whether any assessment has been made prior to proposing there to be no minimum threshold for this solution. For credits, we think a minimum is likely to be necessary, as retaining a smart meter in prepayment mode with a very small credit being transferred at change of supply could lead to customers self-disconnecting. | Thank you for your comments.<br><br>The Code Manager has purposefully decided there is no minimum debt threshold. As this process also allows credits to transfer, we feel <£20 debt is also appropriate to transfer.<br><br>It is also felt that no minimum credit value is required as Consumers should be able to top up immediately with their new Supplier and the UTRN process remains in place if required. |

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| **Question 9:** | Do you think it is appropriate for the new data items within the CSS flows to be mandatory? If no, please provide details |

| RESPONDENT DETAILS | RESPONSE | CODE MANAGER COMMENTS |
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| British Gas<br>(Energy Supplier) | Yes. | Noted, thank you. |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE agree that if included the data items must be mandatory. As mentioned previously SSE would prefer an opt in solution which would not be mandatory. | Thank you for your comment.<br><br>After a follow-up call with SSE, it is noted that the preference is for the data items to be optional so they can be left blank (as opposed to be populated with false). This will be considered along with the other responses. |
| Utilita<br>(Energy Supplier) | Yes. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | We believe others may be better placed to comment on this. | Noted, thank you. |

| **Question 10:** | Do you think it is appropriate to invoice monthly at a netted aggregate level between MPIDs rather than at an MPxN level, noting that MPxN level backing data will be available? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | We believe this should be at MPXN level this will give suppliers' full sight and support in reconciliation. | Noted, thank you. |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE will not be gaining meters in prepayment mode by choice; therefore, we have no view on the invoice process. | Noted, thank you. |

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| Utilita<br>(Energy Supplier) | Yes. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | We can see the benefits in invoicing monthly at a netted aggregate level between MPIDs.<br>We note that as this netting occurs between credits and debits, and gains and losses, there is significantly more complexity than in other similar processes and we consider this could present an increased risk of incorrect invoicing despite the availability of backing data. The manual approach to invoicing also creates potential for increased error, particularly as the process becomes used more regularly by customers. | Thank you for your comments.<br><br>The Code Manager takes the feedback about the more complex nature of the invoicing, but feels it is possible for this to be automated rather than manual (although understands this would be a business decision taken by the Supplier). |

| **Question 11:** | Do you think the debt should be settled using the Factored Total Payment (as currently defined in Schedule 1) or that the full amount should be settled between Suppliers? Please provide reasoning for your preferred option. | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | N/A | N/A |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE will not be gaining meters in prepayment mode by choice; therefore, we have no view on the settlement process. | Noted, thank you. |
| Utilita<br>(Energy Supplier) | We support the use of Factored Total Payment – this supports a reduction of risk for the gaining supplier when there is debt on the account. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | We consider that further work should be done to establish the need for any reduction in the debt value settled between suppliers. The approach to use a Factored amount in the DAP was established some time ago, and the market has evolved significantly since it was implemented. We consider there is a reasonable argument that the full | Noted, thank you. |

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| | amount should be settled now, but further work should be done to assess this. | |

| **Question 12:** | Do you have any other comments relating to this Change Proposal? | |
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| **RESPONDENT DETAILS** | **RESPONSE** | **CODE MANAGER COMMENTS** |
| British Gas<br>(Energy Supplier) | N/A | N/A |
| SSE Energy Supply Ltd<br>(Energy Supplier) | SSE believe that the new proposed flows should only be sent where the smart meter is remaining in prepayment mode, we do not believe that we should need to develop our systems to accept these flows where we do not support prepayment or domestic customers. We also believe that the Assignment of Prepayment or Credit Mode at Switch message is an un-necessary flow where the customer is switched to credit mode. | Thank you for your comment.<br><br>The process is already opt-in for the Gaining Supplier, as detailed in answers to previous comments. The Code Manager will review how this works for the Losing Supplier if they receive a request from a Gaining Supplier who is Domestic, as it was anticipated a rejection DTN flow would need to be sent. |
| Utilita<br>(Energy Supplier) | No. | Noted, thank you. |
| Scottish Power Energy Retail<br>(Energy Supplier) | We have no other comments at this point. | Noted, thank you. |