RETAIL ENERGY CODE

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HIGH LEVEL SOLUTION OVERVIEW – v4.0

R0147 – PPM LEVELISATION SCHEME

1 BACKGROUND

Change Proposal R0147 seeks to introduce the necessary governance and charging arrangements into the Retail Energy Code (REC), to reconcile the impact upon Domestic Suppliers of levelling the cost of standing charges to Domestic Consumers paying by means of Prepayment Meter with those paying by direct debit.

This proposal is being raised on a contingent basis pending the decision of the Authority on whether or not to modify the Standard Conditions of the Gas and Electricity Supply Licences in order to introduce the requirement to levelise Standing Charges. That decision is expected in February 2024. This Change Proposal is being developed in anticipation of the reconciliation of levelisation costs being administered by the Retail Energy Code Company (RECCo) in accordance with the REC.

2 DESIGN PRINCIPLES

The solution for the Payment Method Levelisation scheme has been developed based on a set of principles, which align as far as practicable with those previously developed and still in use for the Market Stabilisation Charge:

PRINCIPLE	RATIONALE
Data	
Data requested to populate the model will be aggregated and not at individual site level.	The Payment Method levelisation scheme is intended to ensure that there are no adverse impacts upon competition arising from the policy of aligning the Standing Charges applicable to Domestic Consumers who pay through a Prepayment Meter with those who pay via Direct Debit. In the absence of such a scheme, the policy would have an adverse effect on those suppliers who have a greater that average proportion of PPM customers, and therefore unable to fully recover their costs, placing them at a disadvantage as compared to suppliers who have a lower than average number of PPM customers.

PRINCIPLE	RATIONALE
Statements	
The model to be developed by RECCo will calculate the liabilities and credits for each Domestic Supplier (Market Participant ID and Supplier Short Code level) for each calendar month. The model will use portfolio information from each supplier showing their aggregate Domestic Consumers and a breakdown between payment methods. The level of debit and credit between each consumer category required to achieve a level Standing Charge will be calculated and published by Ofgem.	
The model will issue to each Domestic Supplier a monthly statement of the total liabilities and credits under the REC.	A billing period is defined as being a calendar month. This approach will provide greater simplicity and transparency for Energy Suppliers, given that the unadjusted Standing Charge is expected to be revised each quarter as part of the Default Tariff Charge.
Where an Energy Supplier's liabilities exceed their credits, they will receive an invoice for the net value.	Net billing was previously determined as being the most appropriate method for settlement of MSC. The same rationale for selection of a net billing approach applies to levelisation. i.e., a gross billing approach would require even net recipients of a reconciliation value to initial pay credits into the scheme, only to receive a proportion of that money back at a later date. That would have a negative impact on cash flows and be an inefficient use of capital.
Where an Energy Supplier has a net loss (credits) in a billing period they will receive a credit advice for that period. Once monies are received the party will subsequently receive a payment, either in whole or in part dependent on the value of monies received for the relevant billing period.	

PRINCIPLE	RATIONALE
Payments	
Where an Energy Supplier receives an invoice for a billing period, they shall make full payment to RECCo for the invoice, within 10 Working Days of the invoice date	It is proposed to align with the existing payment terms and other requirements of the MSC scheme and ensure the timely redistribution of monies between suppliers.
Reconciliation and Cash Allocation	
The Scheme will operate on a "cash in / cash out" basis. RECCo will distribute an equivalent value of monies received from Suppliers for any one billing period to the Suppliers who are owed credits for that period.	
In the event of funds received from Energy Suppliers being less than the total liability expected for a billing period, RECCo will proportionally distribute credits to Energy Suppliers who are owed them for the same billing period. For example, if 90% of total liabilities due for a billing period are received, each Energy Supplier with aggregate net credits will receive 90% of their credits for that same billing period.	The Payment Method levelisation will be a cash neutral scheme, with the value of credits being equal and opposite to debits.
Upon receipt of additional monies for a billing period, Energy Suppliers will continue to be paid proportionally until the scheme is no longer required and/or all liabilities collected for an invoicing period.	Ofgem does not currently propose to insert an end date for the levelisation policy and reconciliation scheme into the licence. As such the new REC Schedule will be drafted to endure as long as the relevant licence condition is in effect. It is possible, that in due course Standing Charges will naturally align due to a convergence of cost drivers for each payment method, making the reconciliation of costs between suppliers unnecessary.
RECCo shall begin making payments to Energy Suppliers within 10 Working Days of the due date of the payments from Energy Suppliers.	

PRINCIPLE	RATIONALE
Late Payments	
Payments are associated to an individual invoicing period and will not be netted off against future or prior credits.	It is important that Energy Suppliers make payment to settle each billing period in full and do not withhold payment in anticipation of future credits which may or may not subsequently become due. In the event an Energy Supplier has not paid an invoice, and has a future credit due, RECCo will withhold this credit until the previous invoice has been paid in full. It is not a requirement of the service provider to reconcile credits based on previous non-payments.
If payment is not made following a non-payment notice, REC Performance Assurance Board (PAB) may instruct the CSS Provider to suspend the right of the Defaulting Party to make new Registrations, unless the REC PAB agrees that there are extenuating circumstances that would appropriately justify such action being deferred to a later date. If instructed to do so, the CSS Provider shall suspend right of the Defaulting Party to make new Registrations, with effect from the next following day.	This is in line with the options set out in the existing REC Main Body, Clause 16.4 (f).
In the event that a payment under the scheme remains outstanding after RECCo has exhausted all options available to it under the REC and through escalation to Ofgem, it may determine the amount owing to be a bad debt. If this occurs, RECCo shall recalculate the statements relating to the period in which the debt arose, by removing the relevant Supplier and its portfolio data from the calculations, and adjust them accordingly.	This ensures that any bad debt associated with the scheme will be borne by all Domestic suppliers, rather than only by those suppliers who would have been net recipients. It follows the same process as may be applied to the resolution of a dispute that is upheld by the REC PAB. It also ensures that such debts are kept entirely separate to any bad debts than may arise in relation to RECCo's own recoverable costs and the treatment of them in accordance with REC Clause 9.
Disputes	
Disputes can only be raised on a pay up front, dispute later basis.	This follows the same process as adopted for the Market Stabilisation Charge.
The value in dispute must exceed £1000 or the entire value of the invoice if lower.	As above, this is in line with the process adopted under the Market Stabilisation Charge and is intended to avoid RECCo and REC PAB members

PRINCIPLE	RATIONALE
	incurring a disproportionate administrative burden in resolving non-material disputes.
A dispute must relate to the monthly reconciliation at an MPID or SSC level.	The levelisation model will not hold supply point level data.
On the basis the Supplier has paid their invoice within the payment window, they have 10 Working Days following the invoice date to raise a dispute.	As above, this is in line with the process adopted under the Market Stabilisation Charge.

3 ROLES AND RESPONSIBILITIES

ROLE	RESPONSIBILITIES
RECCo	• Procurement of IT solution and data • Production of statements (invoice and credit advice) • Payment of credits to Energy Suppliers • Monitoring received payments and informing the IT solution Service Provider. • Monitoring of late payments and triggering of Events of Default • Investigation/review of disputes, to support REC PAB determination
IT Solution Service Provider	• Validate the data files (duplicates, format, header and footers etc.) • Validation of MPIDs and SSCs against Energy Supplier standing data • On a monthly basis the necessary adjustment calculation to achieve a levelisation of such Standing Charges between Domestic Consumers with different payment types based on the monthly submission of portfolio details • Ingest payment data from RECCo to determine monthly invoice period payments against liabilities % • Provision of data to RECCo for invoice/credit note provision and monies due to be paid

ROLE	RESPONSIBILITIES
Energy Suppliers	• Confirmation of contact details by 09 February 2024, for the purpose of invoice production and dissemination. Unless informed otherwise, RECCo will assume that the contact details will be the same as those provided for the MSC scheme. • Provision of Bank details by 09 February 2024 for the purpose of levelisation payments. Unless informed otherwise, RECCo will assume that the bank details will be the same as those provided for the MSC scheme. • Ongoing maintenance of contact and bank details for the life of the scheme • Submission of aggregated payment portfolio data as set out by the scheme
REC Code Manager	• The notification of requirement together with request for any revision to and subsequent collation of contact details and bank details from Energy Suppliers by 09 February 2024. • Management of the contact and bank detail changes being submitted by Energy Suppliers. • Gathering of latest contact and bank details to RECCo for the purposes of invoice/credit advice production, invoice/credit advice dissemination and levelisation payments to Energy Suppliers. • Performance Assurance of Supplier data submission
REC PAB	• The investigation and determination of Events of Default • Dispute determination
Ofgem	• The publication of unadjusted Standing Charge data on a quarterly basis as part of the Default Tariff Cap calculations; and, The adjusted values will be published by Ofgem on its website in advance of the charge being applied.
Ofgem appointed auditor	• Audit of the levelisation scheme, as may be directed by Ofgem

4 PROCUREMENT OF SERVICES

4.1 DATA PROVIDERS

This document is drafted in the expectation that all of the required Payment Portfolio data for the scheme (as described by Ofgem as its preferred Option 2 in the 25 August 2023 consultation document) will be provided by Energy Suppliers to both RECCo and Ofgem. In the event that Ofgem decides to implement a different option or to substantively change the

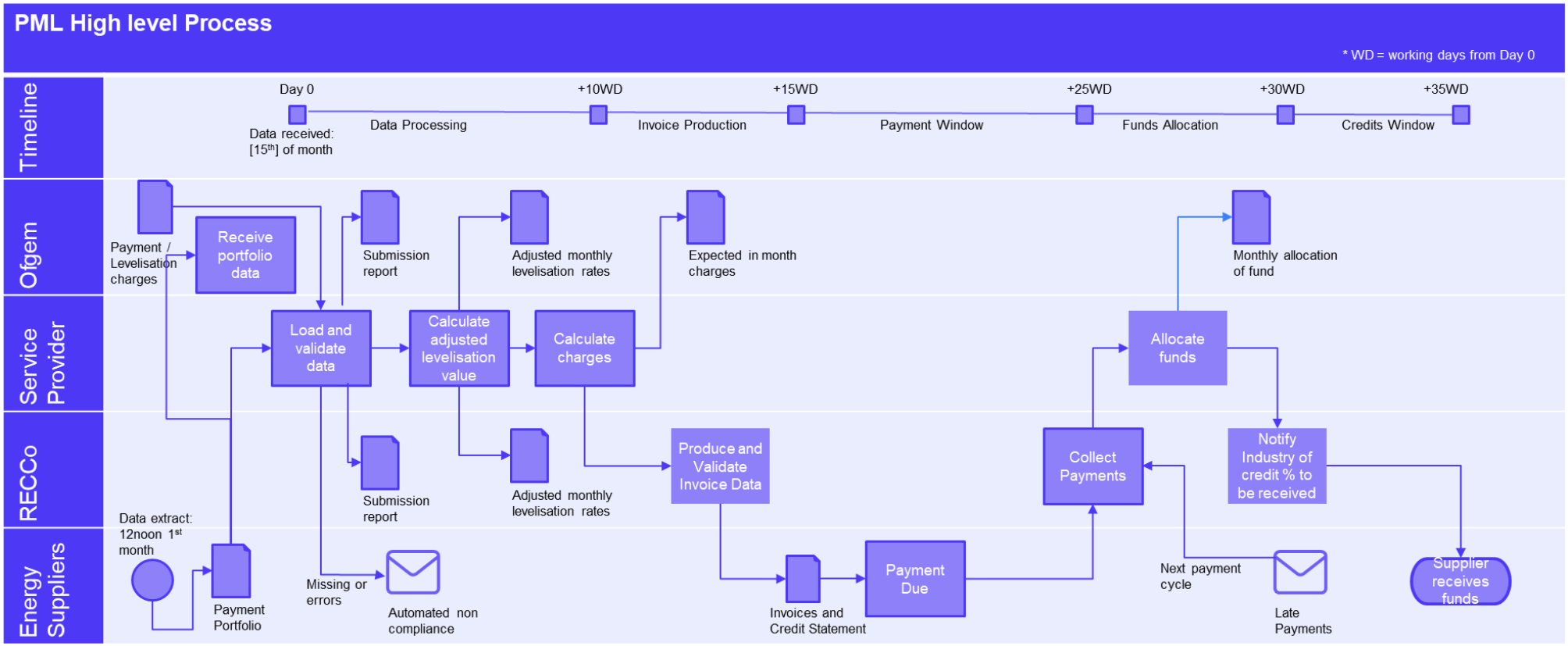
requirements of the levelisation scheme, RECCo may be required to procure additional data, and potentially from different data providers. Base levelisation rate data will be provided by Ofgem.

4.2 LEVELISATION SCHEME IT SOLUTION SERVICE PROVIDER

RECCo will seek to adopt and re-purpose as much of the MSC provisions and infrastructure as may be relevant and suitably applicable to the administration of the levelisation scheme. as such, RECCo expects to be able to deliver the scheme utilising current providers including the Code Manager, encompassing REC Technical Services, REC Professional Services and REC Performance Assurance Services.

5 LEVELISATION PROCESS

5.1 PAYMENTS AND RECONCILIATION



5.1.1 ENERGY SUPPLIERS' PORTFOLIO DATA

A REC obligation will be placed on Domestic Energy Suppliers to provide the required data, which is to be captured, and aggregated, on a monthly basis.

The data will be a snapshot of the Suppliers' aggregate Domestic portfolio at 12noon on the 1st calendar day of the month, broken down by region and payment method. That snapshot will be provided to RECCo for the purposes of calculating any adjusted Standing Charges and reconciling the impact of that adjustment between suppliers, in accordance with the levelisation scheme.

The data specification and file format will be prescribed within a document to be developed as part of this levelisation scheme. The 'Gas Data Format' and the 'Elec Data Format' tabs in the associated requirements document detail the specifications of the data to be provided by Energy Suppliers. This will be submitted on a monthly basis through a secure RECCo SharePoint site to a folder specifically set up for each MPID and SSC.

Where data has not been submitted, RECCo will use the latest available data for that Supplier. This could be latest data provided by the Supplier, or if RECCo has not received any data at all, then it would be data they have previously submitted to Ofgem.

Non-compliance with the submission of data will be managed under the existing performance assurance framework. To support this the following have been included in the solution:

- A new monthly report will be added to the Performance Assurance Catalogue on Energy Suppliers' submission performance
- A Retail Risk has been drafted, that will be delivered through a Category 3 Change Proposal to be implemented at the same time as R0147
- Non-submission of data will be notified to the relevant Supplier (automated email notification), the REC Performance Assurance team within the Code Manager and Ofgem.

Energy Suppliers should also expect that non-submission of data will be presented on the performance dashboard on the REC Portal and that the Code Manager will submit the report and recommended actions on non-compliance to the REC PAB.

Energy Suppliers who hold only a Non-Domestic licence will not be part of the levelisation scheme and will not be required to submit monthly data for the purposes of this scheme.

5.1.4 CALCULATING CHARGES

To ensure a net-zero levelisation within each month, there will be a refresh of the levelisation charges based on the latest submission of the portfolio data from suppliers. If this divergence exceeds an agreed tolerance, it will be alerted to Ofgem. The in-month figures will then be used. The exact calculation is to be agreed during the design phase. The values will be presented within the invoice and backing data provided to suppliers as well as being published in the REC portal.

The credits and liabilities for each MPID and Supplier Short Code (SSC) will be calculated for each reporting month.

- Electricity liabilities: Aggregated Domestic Primary Meter Points (paying by Direct Debit) multiplied by [Payment Type Levelisation Debit Value].
- Electricity credits: Aggregated Domestic Primary Meter Points (paying by Prepayment (Traditional and Smart)) multiplied by [Payment Type Levelisation Credit Value].
- Gas liabilities: Aggregated Domestic Meter Points (paying by Direct Debit) multiplied by [Payment Type Levelisation Debit Value].
- Gas credits: Aggregated Domestic Meter Points (paying by Prepayment (Traditional and Smart)) multiplied by [Payment Type Levelisation Credit Value].

The monthly credits and liabilities will be used to determine the Energy Supplier level credits or liabilities for each monthly invoicing period:

- Energy Supplier is due credits where: Electricity Credits + Gas Credits – Electricity Liabilities – Gas Liabilities > 0.00.
- Energy Supplier has liabilities where: Electricity Credits + Gas Credits – Electricity Liabilities – Gas Liabilities < 0.00.

5.1.5 STATEMENTS

Invoices will be produced for a net liability position and credit notes raised for a net credit position.

Invoices will be produced and credit notes raised each calendar month for each Supplier, broken down by MPID and/or SSC. Invoices will be checked by the RECCo finance team prior to being issued. Suppliers will receive a credit advice to let them know how much they are due to receive.

The scheme will have no de-minimis billing requirements, any invoice/credit note amount above £0.00 will be issued to an Energy Supplier.

Suppliers will be required to make payment 10 Working Days after an invoice has been issued.

5.1.6 RECONCILIATION

The RECCo finance team will track and monitor received funds against invoiced data. When payments are received these will be assigned to the relevant reconciliation period.

Within 5 Working Days following invoice payment being due, the money received for a reconciliation period will be calculated as a percentage of the total liabilities across all Energy Suppliers. For example, if total liabilities are £1,000,000 and payments received = £900k, the funds received percentage would be 90%.

All Energy Suppliers who are in credit for a reconciliation period will be due their total credits multiplied by funds received percentage. For example, Supplier Credits due = £50,000, Money received percentage = 90%, Supplier is credited £45,000.

The RECCo finance team will make the payments due to Energy Suppliers based on the percentage of payments received per invoice period.

Any late payments received for a previous invoicing period will be paid out against the credits for the associated invoicing period. This may result in a Supplier receiving multiple credits for the same month. Each credit will be itemised.

5.2 LATE PAYMENTS / EVENTS OF DEFAULT

Where late payments are made, the total funds received for an invoicing period will be updated as part of the next invoice and payments cycle. The funds received percentage will be recalculated for the earlier invoice period(s) and any additional funds distributed at the next payments cycle.

For each invoicing period RECCo will publish, on the REC Portal, the percentage of funds received against liabilities, as each invoice and payments cycle is completed, the percentage will be revised where necessary for historic invoicing periods.

Upon the closure of the 10 Working Days payment window, RECCo will identify all non-paying Energy Suppliers and inform the REC PAB who will in turn inform any affected Energy Suppliers they have entered into an Event of Default. This is in accordance with the process defined in Clause 16 of the REC Main Body.

Suppliers will then have 20 Working Days to make payment.

- If no payment is made by this point, as set out in Clause 16.4(f) of the Main Body, RECPAB may instruct the CSS Provider to suspend the right of the defaulting Energy Supplier(s) to make new Registrations until payment is received in full.

  The defaulting Energy Supplier has the right to appeal to the Authority, as set out in the REC Main Body, Clause 16.7.

- If payment is made within the next 20 Working Days, RECCo will notify the Service Provider, and the payments will be reconciled by the Service Provider in the next payment cycle.

Payments are associated with an individual monthly invoicing period and cannot be netted off against future or prior credits.

In the event that an Energy Supplier has not paid an invoice, and has a future credit due, RECCo will withhold this credit until the previous invoice has been paid in full. Withheld credits will not be issued to other Energy Suppliers and will be issued to the owed Energy Supplier once any outstanding invoices have been paid in full.

Where a bad debt has been determined by RECCo, they will recalculate the statements relating to the period in which the debt arose. The relevant Supplier and its portfolio data will not be included in the recalculation.

5.3 DISPUTES

All Energy Suppliers will have the ability to query their invoices with RECCo prior to raising a dispute, to confirm the invoice or credit note has been issued as expected.

Any Energy Supplier wishing to raise a dispute shall do so in accordance with Clause 22 of the REC Main Body. The Energy Supplier must pay the Payment Type Levelisation Charge by the due date before lodging a dispute and any dispute must be raised within 10 Working Days of the invoice date for any invoice being disputed.

Grounds for raising a dispute resolution must meet the following criteria:

- The issue relates to the monthly Payment Type Levelisation Charge invoice at an aggregate level and not individual Consumer or supply point.
- There is a manifest miscalculation of the Payment Type Levelisation Charge in relation to the invoice issued and the disputed amount is for the whole invoice, or the value of dispute is greater than £1000
- There is evidence to support the Energy Supplier's claim of a miscalculation. For instances there is a mismatch between the portfolio data used by RECCo to calculate the Payment Type Levelisation Charge and the data which the Energy Supplier can demonstrate it submitted to Ofgem and RECCo for the purposes of calculating the value of Standing Charge adjustment and Payment Type Levelisation Charge for the relevant month.
- Disputes cannot be made against data that the scheme would not have available at the time the calculations were made. For clarity this includes that where a supplier fails to submit, they cannot dispute their invoice / credit note on the basis of incorrect data used.

When reviewing a dispute, RECCo can reasonably be expected to track data back to source and validate:

- Aggregated values were correct.
- Any calculations made were correct.
- Values were produced against the correct dates or reporting periods.

In accordance with the REC Main Body Clause 22, the REC PAB will ensure any dispute is settled within a reasonable period of time following referral. The REC PAB's determination is final and binding.

6 ASSURANCE

RECCo are responsible for contracting with the IT solution provider including the creation of appropriate service levels.

Ofgem reserves the right to appoint an independent auditor, who may assure the IT Solution Service Provider and RECCo activity.