RETAIL ENERGY CODE

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CONSOLIDATED CONSULTATION RESPONSES

R0147 – PREPAYMENT LEVELISATION

On 22 November 2023 the Code Manager issued a Consultation to industry to seek feedback on the Preliminary Change Report for R0147. We received five responses.

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	PUBLIC
DATE ISSUED	11/01/2024
RESPONSIBLE COMMITTEE	REC Change Panel
LEAD ANALYST	Harriet Truss

DATE CONSULTATION ISSUED	22/11/2023
RESPONSE DEADLINE	13/12/2023

Question 1:	Do you agree the proposed solution resolves the problem statement? If not, please provide rationale.	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
National Grid Electricity Distribution (Distribution Network Operator (DNO))	Yes, we agree that the proposed solution resolves the problem statement.	Noted – thank you.
Utilita Energy Ltd (Energy Supplier)	Yes, Utilita agree that the proposed solution resolves the problem statement.	Noted – thank you.
Octopus Energy (Energy Supplier)	While acknowledging that the proposed PPM levelisation solution technically addresses the issue of equalising PPM costs compared with Direct Debit domestic customers, we maintain reservations about the overall viability of PPM levelisation. We believe that the current proposal could be enhanced to be more cost-reflective and forward-thinking. Instead of compromising existing market requirements to introduce smart prepay, it has the potential to serve as an incentive. We have concerns that require consideration for a comprehensive decision-making process. These include but are not limited to the disproportionate effect on DD customers, the lack of consideration for how this would impact the vast majority of vulnerable customers who are non-PPM, and the lack of incentivising smart prepay.	The Code Manager acknowledges the response and will take this into consideration for the final assessment. However, primarily this response relates to the overall levelisation policy led by Ofgem, and on which industry are being consulted via the Statutory Consultation on Changes to prepayment meter standing charges and other debt costs | Ofgem, 23 November 2023. The response will be shared with the Ofgem levelisation leads.

Scottish Power (Energy Supplier)	Yes, please see our response to the impact assessment for further details.	Noted – thank you.

Question 2:	Do you agree with the proposed legal text? If not, please provide rationale.	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
National Grid Electricity Distribution (DNO)	Yes, we agree with the proposed legal text	Noted – thank you.
Utilita Energy Ltd (Energy Supplier)	Yes, Utilita agree with the proposed legal text. The proposed drafting of Payment Method Levelisation Charges Schedule XX and the accompanying definitions to be added to Schedule 1 are clear, concise, and unambiguous. The drafting makes it explicitly clear of our obligations as a market participant.	Noted – thank you.
Octopus Energy (Energy Supplier)	Agree.	Noted – thank you.
Scottish Power (Energy Supplier)	Yes	Noted – thank you.

Question 3:	Do you agree with the proposed implementation date and implementation techniques? If not, please provide rationale.	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
National Grid Electricity Distribution (DNO)	Yes, we agree with the proposed implementation date and techniques.	Noted – thank you.
Utilita Energy Ltd (Energy Supplier)	Yes, Utilita agree with both the implementation date and technique. Raising the change on a contingent basis to facilitate the delivery date provides market participants with maximum opportunity to ensure internal processes are aligned with industry requirements.	Noted – thank you.
Octopus Energy (Energy Supplier)	We would like to see Ofgem resolve issues in its approach to levelisation which mean non-prepay customers pay more than they need to, and which dampen the incentive on suppliers to install smart prepay meters. We believe it is important this issue is resolved sensibly, and timelines should reflect that. Whilst we agree with the high-level overview of the techniques, we do have some key areas of concern: **1. Forecasting**: How does this impact general and Fixed Rate Tariff (FRT) forecasting? We think it's an issue that this levy (unlike many other industry levies including MSC) is not easily forecastable over 12 months. We would like Ofgem and REC to consider setting the levy that DD customers pay towards levelisation on a rolling 12 month horizon, with a quarterly update. Without this, it could have unintended consequences for fixed rate tariffs including additional pricing.	Primarily this response relates to the overall levelisation policy led by Ofgem and points raised are addressed in the statutory consultation documentation. Code Manager comments are provided for the following concerns: **3.** Backing data will be provided on the invoice/credit advice date including in the circumstances where no invoice or credit note is raised. Details for the backing data, and an example (Tab G) can be found in the detailed requirements spreadsheet. These

	2. Incentivising SPAYG: We are concerned about the lack of smart prepay incentivisation as we view this change as an opportunity to do so. We are designing specific alternative approaches to levelisation for Ofgem that we think Ofgem and REC should consider. **3. MSC Framework Reliability**: Given past inaccuracies with invoicing from MSC, we stress the importance of transparency and clarity with regards to calculations so that we are able to reconcile. A key concern of ours was the need to repeatedly query where inputs were coming from and ask for methodology examples. **4. Dispute Process**: We kindly request SLAs for REC as well as suppliers to avoid prolonged disputes. **5. Payment Exchange**: Clarification needed on practicalities, including whether there is need for separate bank accounts. **6. Data Reporting**: We request an early draft of the RFI for review. We would also like to see this report reflect smart v legacy prepay. **7. Data Accuracy**: If you are going to heavily rely on Customer Tariff RFI, it's important to note that it splits out tariffs, not meterpoints—meaning there is less accuracy. We would also like to see this report reflect smart v legacy prepay.	include the calculation information and will provide the confirmation where zero amount is payable. **4.** Disputes will ordinarily be tabled at the next scheduled meeting of the Performance Assurance Board. Such disputes will be determined in accordance with prevailing dispute resolution procedures and the Terms of Reference of the PAB. While those documents set out the process and timelines that Disputes are generally expected to follow, ensuring a timely resolution, the PAB itself may by exception opt to defer a determination pending receipt of further information, etc. We therefore consider that the intent of this comment can be met through sharing and if necessary, clarifying the applicable procedures, without placing additional constraints on the PAB that may require it to deviate from its standard process for handling Disputes. **5.** Suppliers will be asked in January 2024 to confirm contact and bank details by 09 February 2024
Scottish Power (Energy Supplier)	Yes	Noted – thank you.

Question 4:	Based on the Business Case Assessment and Case for Change, do you agree with the Code Manager's recommendation that this Change Proposal should be approved for implementation on 28 March 2024.	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
National Grid Electricity Distribution (DNO)	Yes, we agree that this Change Proposal should be approved.	Noted – thank you.
Utilita Energy Ltd (Energy Supplier)	Yes, agreed.	Noted – thank you.
Octopus Energy (Energy Supplier)	No, per the answer to question 3.	Noted – thank you.
Scottish Power (Energy Supplier)	Yes	Noted – thank you.

Question 5:	Do you have any other comments relating to this Change Proposal?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
National Grid Electricity Distribution (DNO)	No response provided	-
Utilita Energy Ltd (Energy Supplier)	No.	-

Octopus Energy (Energy Supplier)	In our view, the “prepay premium” that levelisation is trying to solve is really just a legacy prepay premium: legacy prepay costs more to serve than smart prepay (we estimate ~30-40% more based on infrastructure costs) and Ofgem agrees with this in their levelisation stat con (para 5.12). To address this, we would like to see Ofgem approach reconciliation differently to ensure it is more cost-reflective and does not dull existing market requirements for suppliers to introduce smart prepay. **We’ve pulled together a simple model on how Ofgem could do this. To see the model, please reach out to us via email and we'll be happy to share a copy.** This has no changes to how Ofgem measures the price differential between different payment methods so doesn’t require new complex price cap methodologies. Rather, what changes is how that price differential is spread between customers. By treating smart prepay customers as the same as DD/SC (i.e. “non-prepay” in Ofgem’s mind), you can spread the price differential across a larger group of customers. This means that the cost increase for those customers is proportionally less. You would not even need to do this on supplier actual splits of smart/legacy (which could be cumbersome to collect and audit etc). Rather you could just do either based on market averages of smart v legacy prepay or some other percentage that trends down over time in line with the smart meter rollout. If you used smart meter market penetration (as in option 1a model attached) bills would go up for non-prepay customers by £5/year rather than the £11/year proposed by Ofgem (which is an increase of ~£150m/year in bills for DD billpayers) This kind of increase is obviously better for those customers, and is also in line with customers’	The Code Manager acknowledges the response and will take this into consideration for the final assessment. However, primarily this response relates to the overall levelisation policy led by Ofgem, and on which industry are being consulted via the Statutory Consultation on Changes to prepayment meter standing charges and other debt costs | Ofgem, 23 November 2023. The response will be shared with the Ofgem levelisation leads.

	expectations - Ofgem's consumer research from April 2023 found that customers are willing to pay an extra £5/year to protect vulnerable groups.	
Scottish Power (Energy Supplier)	Please note our comments in the impact assessment	Noted – thank you.