RETAIL ENERGY CODE

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01	Initial Assessment Report
02	Preliminary Change Report
03	Final Change Report

CHANGE REPORT

R0147 – PREPAYMENT LEVELISATION

CHANGE REPORT	PRELIMINARY
DOCUMENT VERSION	2.0
ISSUED DATE	22/11/2023
DOCUMENT APPROVAL STATUS	APPROVED

RESPONSIBLE COMMITTEE	CHANGE PANEL	CHANGE PATH	AUTHORITY DETERMINED
PRIORITY STATUS	CRITICAL	URGENCY	URGENT

DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS	17/11/2023

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CHANGE OVERVIEW

This Change Proposal seeks to introduce the necessary governance and charging arrangements into the Retail Energy Code, to reconcile the impact on Domestic Energy Suppliers of levelling the cost of standing charges to Domestic Consumers paying by means of a Prepayment Meter (PPM) with those paying by Direct Debit (DD).

This proposal is being raised on a contingent basis pending the decision of the Authority on whether to modify the standard conditions of the Gas and Electricity Supply Licences to levelise standing charges. That decision is expected in February 2024. This Change Proposal is being progressed in anticipation of the reconciliation of levelisation costs being administered by the Retail Energy Code Company (RECCo).

	High Impact: Suppliers RECCo
	Medium Impact: N/A
	Low Impact: N/A

CODE MANAGER'S RECOMMENDATION

The Code Manager recommends Change Proposal R0147 is **APPROVED** for implementation on 28 March 2024.

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RETAIL ENERGY CODE

BACKGROUND

1 SUMMARY

Energy Suppliers must charge their customers, who are on Standard Variable Tariffs, at or below a level determined by Ofgem in accordance with its Default Tariff Cap methodology. This is a legislative requirement, set out in the Domestic Gas and Electricity (Tariff Cap) Act 2018.

The Default Tariff Cap methodology is cost-reflective and, therefore, allows for a number of variables to an Energy Supplier's cost to serve, including regional variations, tariff type and payment method. This currently means that Consumers on PPM and standard credit (SC) payment methods, who are typically amongst those with the lowest incomes, are usually paying more than equivalent Consumers paying by (DD).

In the March 2023 budget, the Chancellor announced that the government would align the tariffs of PPM and DD Consumers, by making an additional allowance within the Energy Price Guarantee (EPG), effectively providing an additional subsidy to Energy Suppliers so that the costs of providing Prepayment Meters and associated services are not passed through to those Consumers. The EPG is currently scheduled to remain in place until the end of March 2024. The government has tasked Ofgem with developing an enduring approach to removing this 'PPM premium'.

1.1 OFGEM ACTIVITY

In April 2023, Ofgem issued a 'Call for Evidence' on the 'Levelisation of payment method cost differentials'. Ofgem were looking for views on the process of the adjustment of charges between Consumers using different payment methods, which is referred to as 'levelisation'. This was followed up on 25 August 2023 with an Ofgem policy consultation on 'Levelling the cost of standing charges on prepayment meters'.

The policy consultation set out options for adjusting standing charges for Consumers on PPM so that they are level with those applicable to other payment methods. The consultation also set out a number of options for delivering the scheme which will reconcile the costs of the levelisation policy between Domestic Suppliers, mitigating any adverse impacts upon competition between them. One of the options set out in the consultation is for delivery of the scheme by RECCo.

The options for the design of the levelisation scheme are expected to be set out with a Statutory Consultation on modifications to the Gas and Electricity Supply licence in November 2023. Subject to the outcome of that Statutory Consultation, the licence modifications are expected to come into effect 01 April 2024 to coincide with the end of the Energy Price Guarantee.

From that date, Energy Suppliers will be prohibited from applying a higher standing charge to PPM Consumers than DD Consumers. In the absence of a scheme, such as the one that will be delivered by this Change Proposal, Energy Suppliers will be unable to recover the full extent of their costs in relation to PPM Consumers. As each Energy Supplier has a different ratio of PPM and DD Consumers within their portfolio, it could have an adverse effect on competition in the extreme, meaning that Energy Suppliers with a high proportion of PPM Consumers may be unable to fully recover their operating costs. Having the prepayment levelisation scheme in

place together with the new licence conditions will ensure that there is a mechanism for the timely and accurate reconciliation of the cost of the levelisation policy. This will support maintaining cash flows and ensure that no Energy Supplier is placed at a competitive disadvantage.

1.2 CHANGE PROPOSAL SUMMARY

This change has been raised following confirmation on 19 September 2023, that the RECCo will be the delivery partner for the levelisation scheme. The work will be carried out on a contingent basis in facilitation of the 01 April 2024 delivery date and is without prejudice to any decision that the Authority may make following consideration of responses to both the consultation in August 2023 and the Statutory Consultation, expected to be issued in November 2023. This will introduce the requirements of the levelisation scheme into the Gas and Electricity Supply Licences.

A final decision on whether to direct the implementation of the licence modifications is expected to be taken by the Authority in February 2024.

A change is required to the RECREC in order to set out:

a) the requirements of RECCo in relation to the development and administration of the levelisation scheme;

b) the payment mechanism and terms, charging arrangements and invoicing schedule within the REC;

c) the application of remedies in the event of late payment;

d) the process for Energy Suppliers to follow in the event they wish to query or dispute a calculation of a charge made by RECCo;

e) the role of the Code Manager and or the Performance Assurance Board; and

f) the approach to auditing the calculations, payments and charges applicable through the scheme.

2 PROBLEM STATEMENT

Ofgem are working towards and consulting on, the design and implementation of a levelisation scheme to align the standing charges of Domestic Consumers who pay through a PPM with those who pay via DD. RECCo will be the delivery partner for this scheme, however, the requirements and arrangements for the scheme need to be established in the REC.

3 USER STORIES

REF.	USER STORIES
CONSUMER USER STORIES	
C1	As a Domestic Consumer, I want to be charged the same standing charges regardless of whether I pay by DD or have a PPM.
MARKET PARTICIPANT USER STORIES	
M1	As an Energy Supplier, I want my obligations regarding data provision to be clear so that I can provide accurate data.
M2	As an Energy Supplier, I want there to be a fair reconciliation mechanism which calculates, reports, invoices and credits my organisation with the outcome of applying the Payment Method Levelisation.
M3	As an Energy Supplier, I want the arrangements for the payment mechanism and terms, charging arrangements and invoicing to be clearly set out in the REC, so I can meet my obligations and have confidence in how the scheme operates.
M4	As RECCo, I want my responsibilities in relation to the development and administration of the levelisation scheme to be clearly set out in the REC so that I can successfully deliver the scheme for the industry.
M5	As the REC Code Manager, I want the levelisation scheme arrangements to be clearly set out in the REC, so that I can fulfil my role in administering and assuring the scheme.

PROPOSAL

4 PROPOSED SOLUTION

This Change Proposal seeks to give effect to the levelisation scheme, to be introduced via licence condition modifications, that will allow for the redistribution of funds across the Domestic retail market.

The solution is based on requirements developed in agreement between RECCo and Ofgem following Ofgem's policy consultation with industry. It has been developed based on a set of principles, which align as far as practicable with those previously developed and currently in use for the Market Stabilisation Charge (MSC).

The proposed solution is to introduce a new Payment Method Levelisation Charges Schedule, placing obligations on Energy Suppliers and on RECCo to govern and administer the reconciliation mechanism. Consequently, new definitions will need to be added to the Interpretations and Definitions Schedule.

Since the draft solution was shared with REC Parties for impact assessment a number of additions have been included, as well as clarifications that were required. The additions are as follows:

- A REC obligation on Energy Suppliers to provide the payment method data has been included
- Where data has not been submitted, the latest available data will be used for the purposes of that month's reconciliation
- Performance assurance approach to non-submission of data, including:
    - notifications of non-compliance
    - a new submission report to be added to the Performance Assurance Reporting Catalogue (PARC); and,
    - a new draft Retail Risk – 'Non-submission of Payment Portfolio Data impacts accuracy of redistribution of costs across the retail market'

In addition, since the Pre-Approval version of this report was published on 17 November 2023, the following has been added to the solution, and associated legal text changes included:

- Mutualisation - provision for determination of bad debt where payment is not received, and cannot expect to be received, and the subsequent recalculation for the reconciliation period in which the debt arose.

Details of the proposed solution and requirements can be found in the attached:

- Payment Method Levelisation - High level Solution Overview v4.0 For Consultation 22.11.2023
- Payment Method Levelisation Solution Requirements_13112023

5 DRAFT LEGAL TEXT

The legal text changes to deliver the proposed solution to R0147 can be found here.

The legal text changes are:

- The new Schedule XX – Payment Method Levelisation Charges
- Update to the PARC
- New definitions in Schedule 1 – Interpretations and Definitions

6 SUMMARY OF IMPACT ASSESSMENT ACTIVITY

6.1 SERVICE PROVIDER IMPACT ASSESSMENTS

A 15 Working Day (WD) Service Provider impact assessment was requested from the Code Managers on 13 October 2023.

REC Code Manager	• Overview of impacts
	  ○ activities to support implementation will be provided as part of standard change and release processes
	  ○ changes to the Performance Assurance Framework should be delivered under R0147 to support any new assurance and non-compliance provisions
	• No costs have been identified by the Code Manager
	• No specific concerns were raised in relation to the urgent timetable for implementation in time for the solution to be effective from 01 April 2024

6.2 REC PARTY IMPACT ASSESSMENTS

A Party Impact Assessment Request was published by the Code Manager on 13 October 2023, inviting Energy Suppliers to provide their responses by 03 November 2023. There were two responses received from Suppliers, one of which was confidential. The non-confidential response document has been published here.

A summary of the responses are provided in the table below:

ENERGY SUPPLIERS	• Suppliers supported the intent of the solution • Clarifications were requested on data requirements, customer communications, the dispute process, invoicing and backing data. • Impacts from R0147 were identified for reporting and operational resource and processes, but no system change • Cost impacts low; £9k for a single Supplier for implementation and £2k per annum ongoing operational costs • Confirmed they could meet the implementation approach and timeline, including the ability to submit data for testing purposes • Supported the intent of the solution and agreed that Prepayment Consumers would benefit from the levelisation scheme • Some feedback received on the overall levelisation policy which is out of scope of R0147 but has been acknowledged and shared with Ofgem

7 DELIVERY AGAINST CHANGE PROPOSAL PLAN

To date all activity has been completed within the planned timescales. The Change Proposal Plan can be found here.

8 KEY RISKS, ASSUMPTIONS, ISSUES AND DEPENDENCIES

8.1 RISKS AND ISSUES

No.	RISK	NOTES	MITIGATION
R0147.CR.R001	Final licence modification drafting may impact R0147 solution requirements	Drafting will not be available until after the Preliminary Change Report has been published. Low risk due to ongoing engagement between RECCo, Ofgem and Code Manager stakeholders	Continued engagement between RECCo, Code Manager and Ofgem
R0147.CR.R002	Proposed changes to levelisation requirements resulting from the Statutory Consultation will not be included in the Final Change Report (FCR)	The FCR is due to be published on 20 December 2023, presented to Change Panel on 16 January 2024, and submitted to the Authority on 17 January 2024.	Continued engagement with Ofgem stakeholders throughout and post consultations to understand potential impacts.
R0147.CR.R003	The inclusion of the requirement for mutualisation will not be confirmed in the technical solution delivery until it has been formally impact assessed	This is a new REC solution requirement and has not previously been assessed	Impact assessment will be completed at the earliest opportunity.

No issues have been identified.

8.2 ASSUMPTIONS AND DEPENDENCIES

	ASSUMPTION	NOTES	HOW/WHEN TO VALIDATE

R0147.CPP.A001	The proposed solution for this Change Proposal is being led and developed by RECCo	RECCo is engaging with the Code Manager and industry as part of the development of the proposed solution	Closed – engagement has started, an industry workshop was held on 10 October 2023
R0147.CPP.A002	The procurement and development of the IT solution will be managed by RECCo independently of this plan		Closed – confirmed by RECCo during initial assessment
R0147.CPP.A003	Accurate portfolio information will be available from Suppliers		Closed – No concerns raised during impact assessment
R0147.IA.A004	The detailed requirements specification will be baselined by RECCo on 16 October 2023	Minimal, if any, changes are expected to the draft version	Closed – The draft requirements shared for impact assessment were approved by RECCo on 16 October 2023. Following further refinement with Ofgem an updated RECCo approved version will be published with the PCR
R0147.CR.A005	Authority determination will not be received before Energy Suppliers will be asked to participate in testing	Testing is not expected to be required before the Final Change Report has been considered by the Change Panel on 16 January 2024	Open – The Authority determination is expected on 23 February 2024
R0147.CR.A006	There is no dependency on R0147 from Ofgem to be able to set the Default Tariff Cap values for the start of the levelisation scheme on 01 April 2024		Closed

R0147.CR.A007	Where 'the 1st of the month' is used this means the 1st calendar day of the month	This approach also applies to 'the 15th of the month'	Closed
R0147.CR.A008	Obligations that specify a particular day of the month must still be met regardless of whether that day falls on a weekend or bank holiday	Suppliers should note that the first data extraction date, 01 April 2024, is a Bank Holiday (Easter Monday)	Closed
R0147.CR.A009	Testing of the IT solution will be completed and solution accepted by RECCo prior to the start of Payment Method Levelisation on 01 April 2024.	Testing planned to complete on 15 March 2024	Closed
R0147.CR.A010	No implementation impact is expected on Energy Suppliers	The mechanism for mutualisation and recalculation sits within the RECCo operation, and therefore no further Party impact assessment is required	Closed

No.	DEPENDENCY	NOTES	STATUS
R0147.CPP.D001	The proposed solution will need to be provided to the Code Manager by 12 October 2023 in order to meet timetable set out in this plan	If the proposed solution is not available the impact assessments cannot be triggered, which will have a direct impact on the remainder of the plan.	Closed
R0147.CPP.D002	RECCO and the Code Manager will need to prioritise resource against this plan in	If the Change Proposal does not follow the required timetable, alignment with the	Open

	order to meet the required decision and implementation date.	Statutory Consultation on the licence condition modifications and decision dates will be put at risk.	
R0147.CPP.D003	RECCo to procure and provide the IT solution ahead of the start of the new scheme on 01 April 2024.		Open
R0147.IA.D004	The implementation of R0147 will only be required if the Authority decision is to go ahead with the payment levelisation policy and Licence Condition modifications		Open
R0147.IA.D005	The approval of the detailed requirements specification by RECCo on 16 October is dependent on Ofgem providing the final requirements to RECCo on 13 October 2023		Closed
R0147.CR.D006	Testing of the process is dependent on Energy Suppliers being able to provide test data submissions		Open
R0147.CR.D007	The Authority will make the case for the Payment Method Levelisation being required to achieve the adjustment of Prepayment standing charges to levelise them with those of DD Consumers		Open
R0147.CR.D010	REC solution and legal drafting is dependent on licence condition drafting	Alignment has been facilitated throughout development via ongoing engagement with Ofgem.	Open

9 PROPOSED IMPLEMENTATION DATE AND APPROACH

PROPOSED IMPLEMENTATION DATE	28 March 2024	PROPOSED IMPLEMENTATION APPROACH	BIG BANG

The Authority determination on R0147 is expected to be published on the same day as the Authority's direction on the licence modification changes, which is planned for 23 February 2024.

The Code Manager, following consideration with RECCo and Ofgem stakeholders, therefore proposes the implementation date should be aligned as far as possible to the proposed effective from date of Payment Method Levelisation on 01 April 2024. This date falls on a bank holiday, Easter Monday. The proposed implementation date is therefore 28 March 2024, which is the last Working Day before the effective from date.

There are no dependencies from either the Ofgem or RECCo levelisation projects on R0147 implementation prior to this date. All technical and operational testing is planned to be completed prior to implementation.

10 BUSINESS CASE ASSESSMENT

10.1 COSTS

	DESIGN/ DEVELOPMENT COSTS	IMPLEMENTATION COSTS	ONGOING OPERATIONAL COSTS
SUPPLIERS	£4000	£5000	£2000 PER ANNUM

Costs were provided by only one Supplier, who identified reporting and resource impacts only with relatively low costs. Another Supplier also confirmed that no system impacts are expected.

No implementation costs have been identified by the Code Manager as any implementation activities will be part of standard change and release operations.

RECCo has confirmed that the cost of procuring the IT solution will be drawn from its contingency budget for 2023/24 as agreed with the RECCo Board. The administrative cost of the scheme will be included in the RECCo operational budget for 2024/25, and for each successive year that the scheme is in effect. As such, and to avoid double counting, there are no REC Code Manager costs directly attributable to R0147 alone.

10.2 BENEFITS

The Code Manager anticipates there will be quantifiable benefits. A draft impact assessment can be found within the Ofgem policy consultation on 'Levelling the cost of standing charges on prepayment meters', published on 25 August 2023. In this assessment it is recognised that the benefits and costs of levelisation are finely balanced and the net effect of the impacts of levelisation on all Consumers, as a whole, is yet to be determined. A cost-benefit analysis will

be included in the final impact assessment published by Ofgem within the Statutory Consultation documentation on 23 November 2023.

The following intangible benefits have also been identified:

INTANGIBLE BENEFITS	BENEFITS DESCRIPTION
LEVELISATION	R0147 supports and facilitates the success of the levelisation scheme, therefore indirectly delivering positive outcomes for Prepayment Consumers through the levelisation of their standing charges.
SUPPLIERS	R0147 will introduce the necessary governance and charging arrangements into the REC, to reconcile the impact on Domestic Energy Suppliers of levelling the cost of standing charges to Domestic Consumers paying by means of a PPM with those paying by direct debit.

10.3 COST BENEFIT ANALYIS SUMMARY

The Authority will make the benefits case for the payment levelisation scheme being required to achieve the adjustment of Prepayment standing charges to levelise them with those of DD Consumers. This will be presented in the Statutory Consultation due to be published on 23 November 2023.

Limited cost information was provided during the development of this Change Proposal, however from the information provided, the Code Manager believes that costs to Suppliers for the implementation and operation of reconciliation will be low.

There are no RECCo costs specific to R0147.

The approval and implementation of this change will ensure the obligations on Energy Suppliers, and on RECCo to implement, govern and administer the reconciliation mechanism that support payment levelisation, are reflected within the REC.

11 CASE FOR CHANGE

11.1 AUTHORITY DETERMINATION

The Code Manager considers that R0147 has the following impacts against the REC Objectives:

OBJECTIVE	IMPACT TYPE	DESCRIPTION AND JUSTIFICATION
To ensure the REC operates and evolves in a manner that facilitates	Positive	Ensures the REC can operate a reconciliation mechanism for the timely and accurate invoicing of, or payment to, Energy Suppliers. This will support the REC Mission statement to

the achievement of its mission statement[1]		deliver positive Consumer outcomes, and will fulfil the requirements of Ofgem's levelisation policy, details of which will be set out in the Statutory Consultation on 23 November 2023
To ensure Customers interests and data is protected in the operation of the REC	Positive	The solution requires the minimum of information to be provided by Suppliers to calculate the invoices or credits due to them. The proposed solution also motivates parties to provide their data in a timely manner, to ensure the accuracy of the reconciliation activity
To drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs	Positive	The solution development and IT procurement approach have enabled efficiencies in the operation for the new governance and charging arrangements by: • developing the solution based on a set of principles which align with those previously developed and still in use for the Market Stabilisation Charge; and • optimising the existing technical and performance assurance service arrangements provided by the Code Manager. R0147 will realise these efficiencies

12 CODE MANAGER'S RECOMMENDATION

Based on the assessment in section 10 and 11 of this report, the Code Manager considers a positive business case can be made for implementing this solution.

The Code Manager recommends that the REC Change Panel recommends that the Authority:

- **APPROVE** the proposed change solution;
- **APPROVE** the proposed implementation approach; and
- **APPROVE** the proposed implementation date of 28 March 2024.

13 CONSULTATION PLAN AND NEXT STEPS

The consultation on this Preliminary Change Report for R0147 will be published on the REC Portal on **22 November 2023** and closes on **13 December 2023.**

Following consultation, the Code Manager will produce an updated version of this Preliminary Change Report (referred to as the Final Change Report). This will include the outcome of the

[1] REC Mission Statement

consultation, setting out a summary of the consultation submissions and the Code Manager's response.

The Final Change Report will be issued to the Change Panel to make its determination.

14 APPENDIX

CHANGE PROPOSAL	Link
LEGAL DRAFTING	Link
SOLUTION	High Level Solution Overview v4.0 Payment Method Levelisation Solution Requirements
CONSOLIDATED IMPACT ASSESSMENT RESPONSES	Link
ANY OTHER DOCUMENTS / LINKS	Ofgem 'Call for Evidence' on the 'Levelisation of payment method cost differentials' Ofgem policy consultation on 'Levelling the cost of standing charges on prepayment meters', 25 August 2023.

15 GLOSSARY

TERM	DEFINITION
Call for Evidence	A call for evidence is an information-gathering exercise that seeks expertise from stakeholders with knowledge of a particular issue.
Cost to Serve	The full cost of meeting a customer's needs.
Default Tariff Cap	Further information can be found in Ofgem's Decision – Default tariff cap – Overview document.
Domestic Consumer	means a Consumer at Domestic Premises.
Energy Supplier	means a person which is either or both an Electricity Supplier and/or a Gas Supplier.

TERM	DEFINITION
Market Stabilisation Charge	means, in respect of a Domestic Consumer who has Switched, the amount (in £, if any) payable by the Gaining Supplier in accordance with Condition 24A of the Gas Supply Licence or Condition 24A of the Electricity Supply Licence (or, if such an amount is payable under both the Gas Supply Licence and the Electricity Supply Licence, the aggregate of such amounts). In the case of gas and/or electricity (as applicable) such amount is calculated as the product of: the Gas Market Stabilisation Charge Value and the Domestic Consumer's Annual Quantity; or the Electricity Market Stabilisation Charge Value and the Domestic Consumer's Estimated Annual Consumption.
Performance Assurance Reporting Catalogue (PARC)	The REC Performance Assurance Report Catalogue (PARC) details a range of data and reports collected by the Code Manager from REC Parties and other industry participants to support Performance Assurance activities across the Retail Energy Code (REC), as approved by the Performance Assurance Board (PAB).
Prepayment Meter	has the meaning given in the Energy Supply Licences.