RETAIL ENERGY CODE

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ANNUAL RATING DECISION

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FOR DECISION 	This paper provides an update following the Annual Rating consultation, as well as key decisions for PAB to make. The Code Manager recommends: • **APPROVE** implementing I&C specific targets, one of 4 identified options. • **APPROVE** the continuing use of a single rating. • **APPROVE** the annual rating criteria as set out in the consultation (subject to any decisions on energy theft).
APPENDIX 	• RECPAB_25_0624_02A - Consolidated Consultation Responses - Annual Rating consultation

1 BACKGROUND

From its inception the PAB has been committed to transparency, providing information in the public domain to help drive up Party performance. This started with providing information in the form of an annual report, with a gradual process of increased transparency through the sharing of an annual rating, initially to the relevant Parties, and then later to Parties and their peers. We expect to continue to share performance data, and this paper sets out the expected process for further development of this initiative.

2 ROLE OF THE PAB

The REC PAB has ultimate responsibility for the Risk Register and Performance Assurance Methodology, including the application of relevant techniques. The Annual Rating is an instance of the Performance Assurance Technique 'Peer Comparison', which establishes controls over its use that involve the PAB that are set out below:

1. *The criteria for comparison, and the timeframe the comparison will be active for, are approved by the PAB and published by the Code Manager. This will include what information is visible to Parties (e.g., they may be provided their performance against anonymised peers, have full visibility of peer group performance, or even have their performance published externally).*
2. *The format of the peer comparison is approved before use by the PAB.*
3. *Each peer comparison that the Code Manager designs and is intended to be published online will require PAB approval.*

3 PROGRESS TO DATE

The timeline the Code Manager is working to develop the Annual Rating is set out below:

	Months	Description
01	February / March	Reviewing criteria and approach from last year's Annual Rating.
02	May / June	Consultation on annual rating
03	June / July	Key decisions, publications and briefings
04	August	Query window – to ensure ratings are accurate
05	September	Provide market wide scores for Parties

4 REC BOARD UPDATE

The PAB is a subcommittee of the REC Board. The REC Board discussed the Annual Rating in May 2025. At this meeting, it was determined that the 2024/25 Annual Rating will continue to be shared as a peer comparison – i.e. there will be no increase in information sharing or approach.

5 CONSULTATING ON THE ANNUAL RATING

In May and June Parties were invited to respond to a consultation on the design of the Annual Rating. This contained 12 questions covering the following: which Parties should be rated, the subject matter and criteria assessed, any exclusions, the form of the output, with whom the ratings should be shared and the controls in place over the rating.

6 RESPONSES TO THE CONSULTATION

We received five responses to the consultation. We have summarised these by type of organisation below:

Party Type	Number
Distribution Network Operator	1
Large Supplier, who provide domestic, microbusiness and I&C services	1
Industrial and Commercial (I&C) Supplier	3

We have included each of the five responses as an appendix to this document.

We have summarised below the key observations from the consultation:

- Parties did not identify any topics missing from those assessed or any types of organisations which should be omitted (noting the challenges related to energy theft below).
- Parties supported the pre-existing exclusion relating to energy theft to exclude those with very small targets, and did not identify other similar exclusions required.
- Parties generally agreed with the controls in place, with some highlighting the importance of the query window, which provides an opportunity for a dispute based on the data used to derive the rating. One Party suggested a second dispute phase.
- Parties generally supported the current level of transparency, as well as developing this for other organisations (i.e. metering providers). Notably no metering providers responded to the consultation.
- Multiple organisations highlighted energy theft calculations as an area to review, or even to exclude altogether. Some organisations provided this response to multiple questions.
- One Supplier identified the need for care with data cleanse sprint targets, as the practical level *that can be achieved can sometimes only be identified after the fact.*
- *Two I&C Suppliers highlighted that the way the 'lowest score approach'; interacted with their theft target resulted in them attracting a low annual rating whilst all other areas of performance had no concerns.*
- Suppliers suggested alternative approaches to a single rating. One I&C suggested moving away from the pre-existing labels to a numbering system, as the language used could give an overly negative impression. Another Supplier suggested adopting an approach in line with the BSC, who provide a series of peer comparisons, whereas another suggested rating each performance area separately (sometimes referred to as a 'balanced scorecard approach').

- One Supplier identified that the maintenance of qualification component is based on whether the submission by Parties is on time rather than on the content. The Code Manager currently provides significant leeway for organisations that need support with these processes, but who engage positively in the process, focusing on those that are late and non-communicative.
- One Supplier highlighted challenges with further sharing, including the lag associated with using centrally provided data and the relevance of REC information to consumers.
- An I&C and a large Supplier also identified the linkage to work developing theft schemes, although drawing different conclusions. For a large Supplier this supported keeping theft targets consistent for simplicity, whereas for I&C Suppliers this supported revision of targets.
- Parties suggested engagement approaches for future development of the rating, including the inclusion of measures of performance that weren't directly related to REC Processes – specifically the timely submission of data to the Code Manager.

7 DECISIONS FOR THE PAB FOLLOWING THE CONSULTATION

Energy Theft

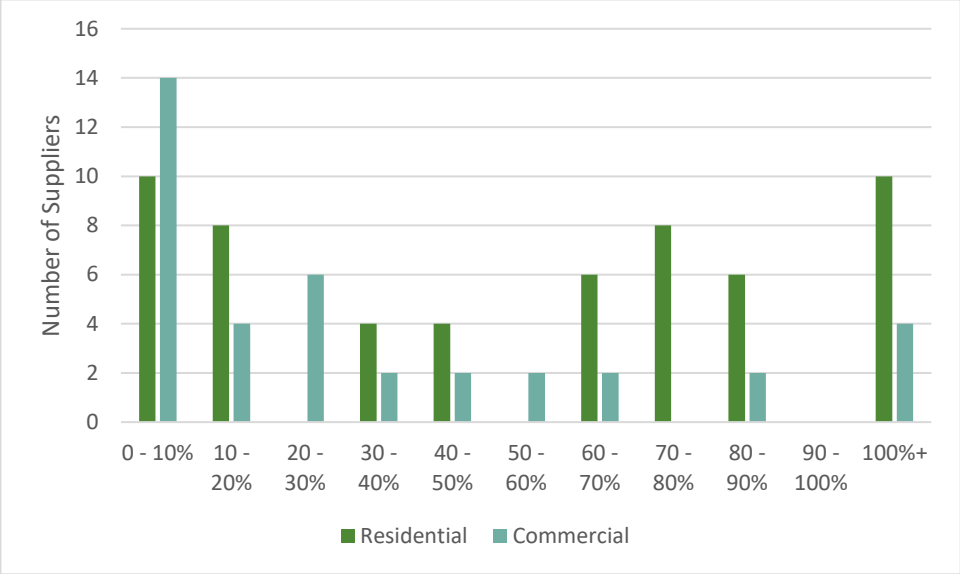
Energy Theft was included in the Annual Rating as it has a significant impact on consumers, both directly through higher bills, but also through site specific safety risks. TDIS provides incentive payments, however the inclusion of this in the rating was intended to provide an additional incentive to avoid organisations opting to pay out TDIS as a compliance cost, not an obligation to investigate. The inclusion of energy theft in the rating has an effect on the rating design. Energy theft is an area where advertising the Suppliers that perform poorly (either to the public or the industry) can be identified by theft perpetrators who may then switch to organisations with less active investigatory regimes. This incentive has seen changes in behaviour, with organisations who previously did not report investigated or confirmed thefts now doing so. To drive performance change the boundaries for energy were set based on real performance data – where the average performer was around 40% - on the boundary of minor and moderate weaknesses as set out below:

Criteria*	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Energy Theft Detection Scheme target met	60% +	40 – 60%	0 – 40%	0% and no engagement

Please refer to the Party Assurance Paper which demonstrates the year on year increase in confirmed thefts. Only part of this will be attributable to the incentive.

We have stratified below the performance of Suppliers[1] with large enough theft targets so the de minimis would not apply:

[1] This is year to date reported performance, typically performance improves slightly through the TDIS query window as organisations resolve queries, although this is not typically significant across the market.



I&C Suppliers meet around 25% of their target, whereas domestic Suppliers around 75%. Only two I&C Suppliers failed to identify a single energy theft in either their gas or electricity portfolio. Whilst we do acknowledge it can be much harder to identify thefts on these portfolios, we continue to consider countering energy theft a critical activity.

The three I&C respondents confirmed between 0 and 33% of their target, and two of which would be below the de minimis.

Options

1. Retain the theft rating, consistent with previous years, but look to review theft targets for I&C during the next cycle (2026/27).
2. Retain the theft rating, but provide the following relaxation for I&C Suppliers as follows:

Criteria*	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Energy Theft Detection Scheme – I&C only	25% +	10 - 25%	0 – 10%	0% and no engagement

3. Remove I&C theft ratings from the Annual Rating, perhaps taking other action to encourage participation.
4. Remove the theft rating, which in turn can enable more nuanced reporting (e.g. a peer comparisons based on themes of reporting).

PAB DECISION

The Code Manager recommends PAB to:

- **APPROVE** option 2, I&C specific targets.

Whilst this does increase complexity, we consider it reflects the increased challenge that I&C Suppliers have identifying theft, and the likelihood they will find fewer, larger thefts.

Other areas consulted upon where there is no evidence for change

In many of the other areas we consulted on there is no clear evidence for a change of approach. These include:

1. The controls in place around the scheme.
2. The scope of participants covered.
3. The wording used in the labels themselves.
4. The design of the scheme which provides a single rating.

There were single voices identifying options relating to the language used, or different forms of rating.

In some cases there was support from all respondents, whereas views were divided in other areas.

Rating design

Subject to the decision on theft ratings above, we consider it appropriate to continue the single rating approach. We have considered:

1. Providing a rating in each category on assessed. We would also provide a 'Not Applicable' rating where relevant.
2. Providing a single rating.

PAB DECISION

The Code Manager recommends PAB to:

- **APPROVE** the continuing use of a single rating.

We recommend providing a single rating, on the basis this has the least change participants, and provides a more effective incentive to act. We also think that this reflects the nature of a Regulatory Code, where underperforming in any area is significant and should not be offset by better performance elsewhere.

Criteria Used

Consulting with industry identified important views on energy theft, but broad support for the other subject matter. We note above the single suggestion related to maintenance of qualification. On that basis we propose to the PAB that, other than the decision on Energy Theft, the rating subject matter and criteria are in line with that consulted on, specifically:

Related to Performance Assurance Techniques issued when below market standards

Criteria	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Action Plan PAT issued		✓	Multiple action plans	
Management Assertion PAT Issued			✓	
Specific Condition PAT Issued				✓
Referral to Ofgem				✓
Event of Default				✓

Related to maintaining REC Qualification

Criteria	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Maintenance of Qualification Delay of 1 month or more			✓	
CME Condition Breach			By up to 10% of CME cap	By more than 10% of CME cap

Specific to Energy Theft

Criteria	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Energy Theft Detection Scheme target met	60% +	40 – 60%	0 – 40%	0% and no engagement

For energy theft targets a de minimis of 0.5% of the theft pot was also applied, so that organisations with very small targets are not scored using this criteria.

PAB DECISION

The Code Manager recommends PAB to:

- **APPROVE** the criteria as set out above (subject to any decisions on energy theft).

8 NEXT STEPS

Subject to the decisions set out below, we will complete the following:

1. Publish this paper, anonymising consultation responses where appropriate.
2. Communicate the PAB's decisions and the next steps to industry in the PA webinar.
3. In the July PAB complete a 'dry run' of the rating, which will provide PAB a final opportunity to confirm that there are no unexpected distribution that needs to be considered.
4. Operate a query period, for that organisations to challenge the underlying data if required. In addition to discussing this with participants this year we will also write to Parties using this process the conclusion and the rationale.
5. Issue ratings in line with the timeline.