RETAIL ENERGY CODE

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

INITIAL ASSESSMENT REPORT

R0147 – PREPAYMENT LEVELISATION

DOCUMENT VERSION	V1.0
DATE ISSUED	28/09/2023
DOCUMENT APPROVAL STATUS	NOT YET APPROVED

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

DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS	14/11/2023

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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 with those paying by Direct Debit.

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 January 2024. This Change Proposal is being progressed in anticipation of the reconciliation of levelisation costs being administered by the Retail Energy Code Company.

	High Impact: Suppliers RECCo
	Medium Impact: REC Code Manager
	Low Impact: N/A

RETAIL ENERGY CODE

1 BACKGROUND

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 (DTC) methodology. This is a legislative requirement, set out in the Domestic Gas and Electricity (Tariff Cap) Act 2018.

The DTC 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 Prepayment Meters (PPM) and standard credit (SC) payment methods, who are typically amongst the lowest income, are usually paying more than equivalent Consumers paying by direct debit (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 effect 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 sets 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 sets 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 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 1 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, but will mean 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 alongside the new licence conditions will ensure that there is a mechanism for the timely

and accurate invoicing of Energy Suppliers to reconcile the cost of the levelisation policy to maintain 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 Retail Energy Code Company (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, to 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 January 2024.

A change is required to the Retail Energy Code (REC) in order to set out:

a) the requirements of RECCo in relation to the development and (subject to final decision) 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;

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

1.3 DRAFT SOLUTION

The draft solution is being developed by RECCo and will be made available shortly via the Change Proposal page on the REC Portal.

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 Prepayment Meter 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 Prepayment Meter.
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 calculates, reports, invoices and credits my organisation with the outcome of applying the payment levelisation methodology.
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.

4 IMPACTS

RECCO / REC CODE MANAGER
RECCo
REC Code Manager – Performance Assurance
REC Code Manager – Technical Services

REC PARTIES AND SERVICE USERS
Energy Suppliers

REC DOCUMENTS / PRODUCTS
Schedule 1 – Interpretations and Definitions
New schedule on payment levelisation

This Change Proposal looks to deliver the reconciliation mechanism for the new payment levelisation to be introduced by the Authority under modified supply licence conditions. Electricity and Gas Suppliers will be the main directly impacted parties, with Consumers seeing an indirect impact through changes to their standing charges.

RECCo will be responsible for the procurement and management of the IT service provider as well as the ongoing financial administration and dispute resolution for the scheme.

The Code Manager will have new ongoing operational responsibilities predominantly impacting the Technical Services and Performance Assurance providers.

A new schedule will be required that will set out the new arrangements required by the new supply licence conditions. The new schedule will be supported by new definitions that will need to be included in Schedule 1 – Interpretations and Definitions.

A Category 3 Change Proposal will be raised to add the new schedule to the REC Baseline Statement. It may also need to include the introduction of a new Category 3 document that will prescribe the required data submission formats.

5 CROSS CODE IMPACTS

There are no cross-code impacts associated with this Change Proposal.

6 CHANGE PATH AND RESPONSIBLE COMMITTEE

CHANGE PATH	AUTHORITY DETERMINED	RESPONSIBLE COMMITTEE	CHANGE PANEL

The Change Proposal will be Authority Determined as it has been raised as a result of a direction by the Authority to RECCo to progress the necessary changes to implement the operation of the payment method levelisation reconciliation mechanism.

The Responsible Committee will be the Change Panel because the change will introduce a new schedule into the REC, potentially a new Category 3 document and add new definitions to Schedule 1. All of these changes fall under the responsibility of the Change Panel.

7 PRIORITY STATUS AND URGENCY

Category	Significance / Resource impacts / Urgency	Further selection / breakdown	Score (0-3)	Weighting	Weighted Score
Impacts	Consumer Impact	Indirect	2	25	50
	Retail Markets Impact	Innovation and Market Arrangements	1	15	15
	RECCo / REC Party / REC Service Provider Impact	Operational Effectiveness and Efficiencies	2	5	10
		Legal and Regulatory Compliance	1	13	13
Resource	Complexity / Effort / Duration		3	8	23
Strategic Alignment	Contribution to/ Alignment with the objectives of the REC		2	15	15
	Contribution to/ Alignment with RECCo's Forward Work Plan		1		8
Urgency *(The need to progress a change to meet a targeted date)*		Licence Modification (Excluding SCRs)	3	20	60
				Overall Priority Score (rounded)	193

Priority Status	CRITICAL
Change Proposal Type	URGENT

The priority status for this Change Proposal is 'Critical' based on a weighted prioritisation score of 193 and has been assessed as an urgent change. This is broken down as below:

Impact:

- Indirect Consumer Impact – a score of 2 to reflect the moderate impact to Consumers of this change which enables the overall arrangements for payment levelisation and removes the price difference between PPM and DD Consumers.
- Retail Markets Impact – a score of 1 to reflect the minimal impact of RECCo's delivery of the new market arrangements that will support payment levelisation and mitigate any adverse impacts upon competition.
- REC Operational Effectiveness – a score of 2 to reflect the moderate impact the change will have on RECCo's ability to deliver the new market arrangements that will support the payment levelisation scheme.
- Legal & Regulatory - a score of 1 to reflect the minimal support the change will provide, enabling Energy Suppliers to meet their Supply Licence obligations through the provision of reconciliation arrangements to avoid detriment to market competition.

Resource:

- A score of 3 – this is a change where a fully-formed solution will be provided by RECCo, which will be reviewed by the Code Manager, and progressed to impact assessment without further solution development.

Strategic alignment:

- Objectives of the REC – a score of 2 due to the moderate impact to ensuring the REC operates and evolves to support its mission statement and continuously improves operation of the REC and the central systems it governs.
- RECCo Forward Workplan – a score of 1 to reflect the contribution to RECCo's commitment to the delivery of Consumer benefits through the operation of the new arrangements to support the payment levelisation scheme.

Urgency:

- This Change Proposal has been given an urgency score of 3, against an expected licence modification, to reflect the need for it to be progressed immediately. This is required so that it can align with the Ofgem timetable which targets the licence condition modification to be approved in January 2023 and implementation of the new levelisation scheme on 01 April 2024.

8 SUMMARY OF CHANGE PROPOSAL PLAN

The draft solution for the Change Proposal is being finalised by RECCo at a similar time to the publication of this Initial Assessment Report and the Change Proposal Plan. The confirmed proposed solution will be provided following an industry workshop hosted by RECCo on 10 October 2023. The Change Proposal Plan has been developed to include time for impact and preliminary assessments and a standard 15 Working Day industry consultation.

Due to the urgent nature of the change, the plan has been expedited, with Party and Service Provider impact assessments being progressed concurrently and Code Manager assessment and collaboration activity following shorter than standard timescales.

	FROM	TO
SOLUTION DEVELOPMENT COMPLETED	In progress	12/10/2023
IMPACT ASSESSMENT PERIOD	13/10/2023	08/11/2023
PRELIMINARY CHANGE REPORT ISSUED	14/11/2023	14/11/2023
RESPONSIBLE COMMITTEE REVIEW	21/11/2023	21/11/2023
CONSULTATION	22/11/2023	13/12/2023
FINAL CHANGE REPORT ISSUED	20/12/2023	20/12/2023
RESPONSIBLE COMMITTEE DECISION	16/01/2024	16/01/2024
AUTHORITY DETERMINATION REQUESTED	17/01/2024	17/01/2024

9 GLOSSARY

TERM	DEFINITION
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.
Prepayment Meter	has the meaning given in the Energy Supply Licences.