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2024/25 ANNUAL RATING

BY ANTON MODEN, PERFORMANCE ASSURANCE LEAD

REVIEWED BY: WALTER CARLTON, PERFORMANCE ASSURANCE PARTNER, REC CODE MANAGER

FOR DECISION	We would like the PAB to approve the design decisions proposed by the Code Manager as part of consultation into the design of the rating: 1. Which types of Party the Annual Rating is in scope for. 2. Whether the overall rating continues to be the preferred approach versus a series of peer comparisons. 3. The subject matter focused upon. 4. The proposal for a reopener mechanism.
FOR DISCUSSION	We would like to discuss more complex areas of the design, to feed into consultation with Parties on the design of the rating: 5. The accruals basis for the Annual Rating. 6. The proposal to utilise the prior year criteria, with a commitment to not tighten this through the process but having the option to provide exemptions if relevant. 7. The approach to sharing of the Annual Rating.

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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 PREVIOUS PAB ACTIVITY

The REC PAB has completed significant work in this area, with discussion or commentary in papers in 12 of the 24 meetings in 2023 and 2024. Most notably:

1. Principles of publication document, approved by the interim PAB in April 2021. This sets out the PAB's principles of transparency.
2. 2021/22 annual rating decisions, which included reporting elements in the Annual Report issued in September 2022 based on risk driver threshold decisions.
3. 2022/23 annual ratings with details shared with PAB, with the criteria established in March 2023 which established 4 categories, with criteria based on PATs, theft performance and market entry.
4. The 2023/24 annual rating criteria were finalised in June 2024.

Ofgem has also conducted previous activity, including:

5. Describing when consulting on the establishment of the REC that it expected the PAB to identify performance techniques which include but are not limited to published performance tables[1].
6. Approving, in 2022, the publishing of risk and performance data under the BSC[2]. We note that the BSC is a Code with different Parties, obligations and assurance approach.

4 CLARIFYING CHANGE TO THE PERFORMANCE ASSURANCE SCHEDULE

In developing our approach, we have taken legal advice on the publishing of performance data. This highlighted the need to consider the proportionality of the publishing data, as well as the benefits of providing opportunities for Parties to have their views heard on the measure.

[1] See section 3.38 and then 3.40-3.43 in this consultation: 201001_recv1.1_condoc_final4.pdf
[2] BSC P439 Decision Letter

Specifically, it did note risks, but *'Such risks can be mitigated largely by taking steps to ensure that all relevant considerations have been addressed before the decision is finalised.'.* This provided the rationale for a change: '*Our suggested approach was therefore a high-level change which expressly identifies publication as a Performance Assurance Technique. The Change Proposal process can cross-refer to the proposed timeline and process which sits outside of the change process. It can be expressed as bringing the change to the Parties' attention so that they are aware of what is going on in that other process if they are not already aware*.

On this basis, the Code Manager considers it beneficial to raise a Change Proposal to provide clarity to Parties on the rights of the PAB to publish data, as well as provide an opportunity to raise specific objections.

We also consider it essential to consult with Parties on the approach taken each year, particularly as this could develop over time. We therefore wish to share our current position, including alternatives we have considered, so PAB can input into this process.

5 ANNUAL RATING DEVELOPMENT PROCESS

We anticipate taking several steps to engage with the industry to develop our annual rating process and criteria, as well as provide sufficient notice of the process. Some of these we expect to continue each year, with others specific due to the clarifying change. We expect to share the feedback from consultations with the PAB, as well as any suggested changes to the approach based on the feedback.

6 RECAP OF THE DESIGN OF THE ANNUAL RATING

We have set out several of the design decisions we have previously made, alongside some feedback that we have received and the proposed position for this year's rating.

REC Parties in scope

We have previously only applied this rating to Supplier and DNOs, as these are the market participants with the most measurable performance information available. EMOs and AMIs already have an accreditation scheme where poor performers can have their accreditation removed, which has some features of a public rating. We are enhancing our approach for MOAs and MAMs so that measurable performance information is available based on the accuracy of metering data, but this needs to be further established before forming an annual rating. GTs have a smaller role in the REC than the other market participants, and therefore less information on their performance exists. We do not consider a rating of this nature would be meaningful for REC Service Providers such as DCC and RECCo, as many consumers are not aware of these organisations and setting criteria would be challenging. We therefore recommend:

1. In 2024/25 the Annual Rating applies to Suppliers and DNOs.
2. As work on metering data progresses, we consider if a rating for MEMs could be developed for 2026. This would follow a similar approach to the current rating, where it would initially be provided to an organisation first, then as a peer comparison, then more publicly, perhaps to Suppliers who purchase these services.

Please note that we will consider the decision on Parties in scope to represent a risk determination and therefore notify all relevant organisations of this in line with the REC.

PAB Decision

We recommend the PAB confirm that only Suppliers and DNOs should be within the scope of the 2024/25 annual rating.

Overall rating vs a series of peer comparisons

We have intentionally developed a single category rating, as it can quickly communicate an overall conclusion. This provides the 'worst rating' as the overall rating for the year. Aggregating conclusions obscure the cause of the finding. In many cases this would be less useful, however, we are keen to avoid directly advertising poor performers relating to theft, as it may encourage criminals to switch to these Suppliers. Aggregated conclusions however are more complex to explain, and some Parties have identified their rating as being linked to their worst category of performance as unrepresentative. We considered:

1. Retaining the 'overall rating'
2. Breaking this into two categories, one relating to compliance and another relating to Energy Theft performance.
3. Providing more detailed peer comparisons on objective measures that directly impact consumers, such as the rate of erroneous switches, data cleanse performance, erroneous switch resolution timeframes and debt assignment protocol completion rate.

We recommend that the overall rating is maintained, in part as Parties are not expecting other types of information to be published, but also because objective comparisons are not wholly within the control of Parties and therefore not fair.

PAB Decision

We recommend the PAB confirm that the approach with an overall rating should be maintained.

Accruals basis

We have developed our rating based previously on data from a year starting in April and ending in March, with the last Qualification cycle covered. Due to the importance of energy theft data, there are already significant safeguards in place to validate this data and give Parties an opportunity to correct any errors This means that energy theft data is first available in July. We have considered:

1. Retaining the timeframes where performance is measured between 1 April and 31 March.
2. Having different timeframes for different types of performance, so that the annual rating can be most accurate at the point of publishing. For example, we could report theft data as soon as it is available, and PAT and Qualification performance for the preceding 12 months at that point. This was previously disregarded as hard to explain.

Energy Suppliers have raised the legitimate concern that they are being measured on reported information that is approximately 6 months old at the point of reporting. Any change would however need a decision on how to treat the period of performance not assessed.

PAB Discussion

Discuss the appropriate accruals basis, either 1 April to 31 March as previously, or adjusted to reflect the delays in energy theft data.

Knowing the criteria throughout the year

In previous years, Suppliers have legitimately pointed out that the rating criteria was adjusted between years, and they haven't known about the criteria at the start of the performance period. We should note that the REC, upon which this is based, is available at all times. We consider it more important that the criteria is fair than consistent through the years. It is therefore important that there is a 'human in the loop' to adjust the criteria before publication if the results are unduly harsh, as could have happened during 2023/24. We, therefore, propose to share with the industry the draft criteria and commit that there is no tightening of criteria between now and finalisation. We have included the previous year's criteria in Appendix 1, upon which we propose to base the 2024/25 criteria.

PAB Discussion

We would like to discuss the proposal of utilising the prior year's criteria (excluding the data cleanse exemption) as the initial criteria and committing to not tightening it, but to provide exemptions if relevant.

Subject matter utilised.

Initially, we developed ratings based on risk driver scores, providing a score based on average performance across risk drivers. Whilst this was objective, we did not believe it was fair. This was because the risk driver data has regularly identified deficiencies in the REC that need addressing where it does not capture the whole process, is not clear or results in issues caused by one Party showing up in risk data at another Party. We have acted to close these gaps, but acknowledge that risk driver data is an essential source to identify compliance issues, but these need to be validated and confirmed before further action is taken.

This results in a proposed approach that focuses primarily on validated performance issues, and therefore leads to a 'worst score' approach. On this basis, we have ruled out a 'net risk' basis, where the overall score is averaged over the performance areas. This would require direct measurement of performance that did not need validation – i.e. to achieve this we would need a significant change in the Code to provide this information, which is disproportionate.

We therefore consider the following sources to be relevant:

1. Evidence of counter - energy theft activity and confirmed energy thefts. Whilst there are risks of publicising those that are inactive in this space we consider failure to act on energy theft risks public safety and should be of the highest priority to the PAB.
2. Validated performance issues that result in more significant PATs. As the PAB is involved in all decision-making on more significant PATs (i.e. not Enquiries) we consider this an appropriate way to oversee their application and therefore that they are being applied fairly. This also has the benefit of adapting with the Code, as new schedules are created we do not need to add new criteria.
3. Qualification statistics, particularly maintaining qualification in line with deadlines as well as not exceeding agreed Controlled Market Entry caps until satisfactory performance has been

demonstrated. For both of these, we propose a tolerance, so that simple errors that are quickly addressed in good faith are not treated unduly harshly.

PAB Decision

We recommend the PAB maintain the subject matter focused on.

Proposals for 'reopeners'

We have been provided feedback that organisations will not be able to affect the rating once it is published. We have considered how best to address this considering:

1. Having organisations able to provide evidence of remediation and therefore an improvement in rating.
2. Moving from an annual rating to a more frequent quarterly rating. This would be sensitive to annual events, such as annual qualification and theft targets where an organisation could be scored more severely in those months.
3. Moving to a quarterly rolling rating. This addresses the sensitivity to annual events, and would require both more administration and communication from both Parties and the Code Manager. We assume that this would increase the focus on the rating, and the timeliness of feedback. We consider the additional work for the Code Manager, PAB and Parties, including the possibility for frequent consultation, are not worth the additional benefits that it would generate.
4. Maintaining an annual approach.

We propose maintaining an annual approach, and considering moving to a quarterly rolling rating next year, to give Suppliers time to get used to this reporting approach. We do not consider an approach with reopeners appropriate, especially as we provide the opportunity for a validation window to ensure the rating is based on agreed information.

PAB Decision

We recommend the PAB confirm the approach to maintaining an annual cadence without reopeners.

Sharing of the Annual Rating

In previous years the Annual Rating has been shared directly or as a peer comparison within the Party Category. We do not consider it appropriate to reduce the level of sharing. We consider the following options:

1. Maintaining the sharing within the Party Category (i.e. Suppliers can see other Suppliers' ratings).
2. Sharing the rating with all Parties to the Code.
3. Publishing the rating on a publicly accessible part of the REC Portal.

The legal advice received focused on the importance of proportionality.

The aim of the proposal should not be considered achievable by a less intrusive measure. So, as part of the above considerations, RECCo should consider the proportionality of the proposal e.g. how relevant is this data to consumers? Given the potential impact on the reputation of businesses amongst consumers,

to what extent is it really relevant or necessary to share with consumers? Does the benefit to the public interest outweigh the risk to the businesses?

We consider that the advice above is not solely relevant to the change proposal, but relevant in each instance the PAB chooses to share data. We would like to discuss this topic with the PAB.

PAB Discussion

We would like to discuss the appropriate extent of the three options to sharing Annual Ratings for 2024-25.

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APPENDIX 1 PREVIOUSLY AGREED CRITERIA

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 (except those relating to data cleanse)			✓	
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 deminimus was also applied, so that organisations with very small targets are not scored using this criteria.

2023/24 specific reduction, as data cleanse was a new area

Criteria	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Management Assertion PAT relating to data cleanse		✓		

This specific reduction is not expected to be repeated, as organisations have had many opportunities to understand their obligations and meet data cleanse targets.

Proposed ratings for Performance Assurance Techniques first issued in 2024/25

Criteria*	No Material Weakness	Minor Weakness	Moderate Weakness	Severe Weakness
Periodic Monitoring				✓
Code Manager / Independent Validation				✓