RETAIL ENERGY CODE

This document is classified as **WHITE**.
Information is for public, unrestricted dissemination and publication.

REFERENCE	**RECPAB_25_1216_02A**
STATUS	**FOR DECISION**
PAGES	**5**

PAB DEROGATION REPORT – OVO ENERGY 2025/26 TDIS ADJUSTMENT

BY EVE MARRINER, OPERATIONAL ACCOUNT MANAGER, REC CODE MANAGER

REVIEWED BY ANDREW WAGHORN, PERFORMANCE ASSURANCE, REC CODE MANAGER

FOR DECISION 	This paper sets out a report to the Performance Assurance Board (PAB) on a Derogation Application received on 01 December 2025 from OVO Energy. The Derogation relates to a request to recalculate the 2025/26 Theft Detection Incentive Scheme (TDIS) year targets for OVO Energy by adjusting the consumer segment type within their portfolio as they did not submit an adjustment through the existing derogation (RECDER_22) that allowed for correction prior to the Theft Target calculation. The Code Manager requests the PAB to: • **APPROVE** the aspects of the Derogation Applications as set out below, including the timescales and recommended conditions.

1 BACKGROUND

The Energy Theft Detection Incentive Scheme (TDIS) calculates an Energy Supplier's Theft Target each year as per Schedule 7 – Energy Theft Reduction, Annex 3. This includes the requirement (paragraph 3.5) that each Energy Supplier's Targets are set based on market share data used by RECCo for the purposes of producing RECCo invoices.

The Theft Target Methodology (TTM) determines the split between consumer segments (Non-Domestic and Domestic), which is determined by market share data within each Supplier's portfolio. Each consumer segment has a different Theft Detection Value associated, which then determines the overall value of the TDIS.

It has previously been identified that the Domestic Premises Indicator (DPI) data within the Central Switching Service (CSS) is impacted by data quality issues, with historically limited ability for Suppliers to address these issues as DPI data (as per CSS) is not available for Suppliers to access except where a switch has occurred since CSS Go-Live.

The REC Code Manager had been progressing activity to gain access to this data in order to apply the Data Cleanse Sprint approach to correct it, however this has now been superseded by the fact the DPI has been populated in the enquiry service database through the MHHS programme. Previously RECDER_22 – Theft Target DPI Adjustment was raised in October 2024 to address that this data had not been made available prior to the calculation of the 2025/26 Theft Targets, and to correct the issue of Parties receiving targets in segments that they do not operate in, and hence are unable to meet, by allowing parties to submit an adjustment to the split of their portfolio (as reported by CSS) to the Code Manager prior to the Theft Target calculations which took place in February 2025.

1.1 OVO ENERGY DEROGATION APPLICATION

OVO Energy has a number of Domestic Premises associated with the incorrect consumer segment type of Non-Domestic within the TDIS calculation for their Theft Targets for Scheme Year 2025/26. This is mainly due to the incorrect initial setting of the DPI, which based the DPI on Measurement Class and Profile Class, and the inability of Suppliers to see that designation due to it only being shared with Suppliers on a Change of Supplier (CoS) event.

Now that the DPI has been added to the Electricity Enquiry Service (EES) (ECOES) for the Market-Wide Half Hourly Settlement (MHHS) Programme, OVO Energy has commenced the process of cleansing this Data Item, so this will not be an issue in future allocations.

OVO Energy has requested a Derogation to move all Domestic Premises (premises where the DPI is set to positive) from the incorrect consumer segment type as of the original determination date for the TDIS Scheme Year 2025/26.

A summary of the Derogation and recommendations for the PAB to consider are set out below.

1.2 DEROGATION SUMMARY

The below information has been compiled by the Code Manager in relation to the Derogation Application:

	DEROGATION DETAILS
Summary of the issue	A Derogation is requested by OVO Energy to require the Code Manager to recalculate the 2025/26 TDIS Scheme Year Theft Targets for OVO Energy based on an accurate view of how many Non-Domestic and Domestic premises are within

	the portfolio. The Derogation requested by OVO Energy would result in a small change to the overall total of the customer segment types, which it is proposed would then be reallocated to all Energy Suppliers.
Summary of the proposed Derogation and impacted REC obligations	This Derogation seeks to correct the calculation within Schedule 7 (below) for OVO Energy. Schedule 7 – Energy Theft Reduction, Annex 3: 3.5 Each Energy Supplier's individual Theft Target will be based on its market share figures, using the portfolio data made available to RECCo for the purposes of producing its invoices under this Code for the final Quarter prior to the start of the TDIS Reporting Year, and such other data as may reasonably be available to the Code Manager to facilitate Consumer segmentation in accordance with the Theft Target Methodology. The adjustment would also need to apply to the market share data used for the calculations in paragraph 8.3: 8.3 Debits and credits resulting from the TDIS will be calculated for each consumer segment within the scheme using the following formula: $$X * \left(\frac{STD}{TTD}\right) - (X * FMPS) + V_S * MS * TDV + D_S * MD * TDV - \left(\sum_S (V_S * MS * TDV + D_S * MD * TDV)\right) * FMPS$$ except where FMPS equals zero when expressed to five decimal places, in which case no credit or debit will be applied, or in the case of a TDIS Qualifying Supplier whose Theft Target for such segment was zero, in which case no debit may be applied but a credit may be. Where: X is the total incentive pot value of the relevant consumer segment of the TDIS, amended in line with the percentage change in the 'Consumer Price Index' between the index published for the start and the end of the TDIS Regulatory Year. STD is the number of Confirmed Energy Thefts recorded by the Energy Supplier in the relevant consumer segment. TTD is the total number of Confirmed Energy Thefts recorded in the TDIS Reporting Year for the relevant consumer segment. FMPS is the final Metering/Supply Meter Point market share of the TDIS Qualifying Supplier in the TDIS Reporting Year for the relevant consumer segment (being the TDIS Qualifying Supplier's market share as a percentage of the Metering/Supply Meter Points of all the TDIS Qualifying Suppliers based on the figures used at the start of the TDIS Reporting Year). Vs is the number of Completed but Unconfirmed Theft Investigations that were concluded as an Energy Theft Site Visit Investigation for Energy Supplier S.

	Ds is the number of Completed but Unconfirmed Theft Investigations that were concluded as an Energy Theft Desktop Investigation for Energy Supplier S. MS is the applicable percentage referred to in Paragraph 4.2 for Completed but Unconfirmed Theft Investigations that were concluded as an Energy Theft Site Visit Investigation. MD is the applicable percentage referred to in Paragraph 4.2 for Completed but Unconfirmed Theft Investigations that were concluded as an Energy Theft Desktop Investigation.
Related Derogations or applications	RECDER_22 – Theft Target DPI Adjustment was approved by PAB to cover the 2025/26 TDIS year from the setting of targets in February 2025 to the calculation of Credits/Debits in July 2026. This Application sought to replicate RECDER_20 – Non-Domestic Theft Target Calculation Note that all REC Suppliers were requested to notify the Code Manager of any adjustments required prior to setting targets under RECDER_22. Ten Suppliers submitted adjustment through this mechanism. OVO Energy, having previously been instrumental in identifying this issue and having submitted adjustments to the previous TDIS Scheme Year were contacted multiple times by the Code Manager when no submission was initially received, however no adjustment submission was forthcoming.
Impacted REC Parties and Service Providers	All TDIS Qualifying Suppliers operating in the impacted segments (which is likely to be restricted to electricity segments) will be impacted due to the impact on market share of shifting a fixed number of meters from the Non-Domestic to the Domestic pot. A reduction in the number of meters in the affected Non-Domestic pot would, inter alia, cause a higher target to be calculated for the other suppliers with market share in the affected pot and a higher Debit value/lower Credit value to be calculated in the year-end processes. Conversely, due to an increase in the market share for OVO Energy in the Domestic pot, they would receive a higher target, with reduction for all other Suppliers with market share in the affected pot and a lower Debit value/higher Credit value in the year-end processes. Given the relative Theft Detection Value (TDV) values and market sizes, the impact of the adjustment on the Non-Domestic pot would be larger than on the Domestic pot. Ultimately this would result in a net benefit to OVO Energy and a net cost to all other Qualifying Suppliers – although would result in a position that would have been achieved and accepted had a timely submission been made by OVO Energy under RECDER_22.
Impacts on Retail Risks	None expected – given this would not remove Theft Targets from any other Supplier, it is not expected to have any impact on the applicable Retail Risks (relating to the detection of Energy Theft).

Legal advice obtained in relation to the application	N/A
Technical advice obtained in relation to the application	This will not have any impact on REC systems.
Length of the Derogation	2025/26 TDIS Year (impacting period from February 2025 when Targets are calculated to July 2026 when Credits/Debits are determined).
Conditions to any Derogation	
Ofgem consent	N/A

2 RECOMMENDATIONS

The Code Manager recommends:

- The proposed amendments to the existing published Theft Targets are NOT approved. This would require recalculation and recommunication of targets to all Parties, with relatively limited impact on the Target values themselves for each individual Qualifying Supplier. This creates unnecessary administration and confusion without changing the fundamental principles of the TDIS arrangements.
- PAB approves that the data for OVO Energy be adjusted as though they had provided an adjustment under RECDER_22 for the purposes of calculating year-end Debit/Credit values (performed in July 2026) in particular when calculating the value of FMPS as per paragraph 8.3 of Annex 3 of Schedule 7. This would have the effect of adjusted Debit/Credit values to reflect OVO Energy's actual exposure to the Domestic and Non-Domestic segments without requiring recalculation of targets as above.
- PAB approves that for the purposes of any other use of Theft Targets for Performance Assurance activity (e.g. use in the Annual Rating, Reporting to Ofgem), OVO Energy is treated as not having a Non-Domestic target, and their Domestic target is adjusted upwards based on the increased market share resulting from the reclassification of meters between the customer segments.

3 PAB ACTIONS

PAB DECISION

The Code Manager recommends the PAB to **APPROVE** the aspects of the Derogation Application as set out above, including the timescales and recommended conditions.