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ANNUAL RATING APPROACH

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FOR DECISION	Section 1 of this paper covers feedback from the Annual Rating consultation and is divided into subsections based on the areas where the Code Manager proposes changes. Key decisions for PAB's considerations in this paper are: • Labels: including the proposal to update the names associated with various categories in accordance with Party feedback. • MEM Annual Rating: including proposal to go ahead with Annual Rating for Metering Agents. • Retaining current approach to Annual Rating (where lowest category determines the overall score) vs adopting an alternative approach based on points allocation. This is further described in the paper and illustrated in Appendix B. Section 2 covers the next steps which include PAB approval of individual ratings in June and publication of the draft ratings in July. The Code Manager recommends PAB to: • **APPROVE** the updated labels associated with the Annual Rating categories • **APPROVE** the inclusion of Metering Agents in the Annual Rating 2025-2026 • **APPROVE** the retention of the current approach for 2025-2026 Annual Rating.
APPENDICES	**RECPAB_26_0428_08A – Consultation: Non-confidential responses** **RECPAB_26_0428_08B – Points Based Scoring solution**

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1 ANNUAL RATING - PARTY FEEDBACK

As set out in *RECPAB_26_0224_12 – Annual Rating Approach*, we formally consulted on the 2025-2026 approach to Annual Rating. Please see Appendix A for the published non-confidential responses. Based on Party views and feedback received, we propose the below changes in the approach to Annual Rating:

1.1 LABELS

Stakeholder feedback gathered through the recent consultation process has highlighted concerns regarding the perceived negative connotations of the existing labels applied to the Annual Rating. In response, several Parties have submitted alternative labelling and scoring proposals for the Code Manager's review. A change in these labels would not compromise the fundamental principles or operational effectiveness of the performance assurance regime, thereby supporting the adoption of this feedback. We recommend that these suggestions are adopted as it would align with the PAB's commitment to collaborative stakeholder engagement.

The proposed amendment of the labels associated with the various classifications is set out in the table below:

Previous Label	Proposed New Label
No Material Weakness	**Performing**
Minor Weakness	**Performing with Minor Concerns**
Moderate Weakness	**Improvement Required**
Severe Weakness	**Severe Concerns**

1.2 MEM ANNUAL RATINGS

The performance of Parties against COMCOP is a critical element of the proposed MEM rating approach. Whilst COMCOP requirements have been relatively consistent, in mid-November 2025, R0152 resolved errors in the drafting and significantly improved the approach of the metering auditor.

Based on the consultation outcome and wider engagement with the Metering community, we note key points of feedback received on this:

- Parties are generally supportive of the inclusion of Metering Agents in the Annual Rating.
- Among the opponents of the idea, the main concern is the consistency of the COMCOP audit. This lack of consistency in approach means that any peer comparison produced this year (2025-2026) could be misleading, as differences in scoring may partly be attributable to the audit approach. Accurate comparative data will become available once all Parties have been audited under the new regime.
- Metering Agents point out the commercial impacts of any ratings being shared with Suppliers or other REC Parties. The Code Manager acknowledges those and reiterated the commitment to consult on any changes in transparency of the rating.

In considering this we identified the following options:

1. Press ahead with rating organisations as planned.

2. Change the date that the ratings cover, for example to run from 1 January to 31 December. This however will make the process more expensive to operate in future, as communications, engagement and reporting will be needed for ratings published in August as well as in April. This will also commit the future Party Assurance provider to deliver this process in the first year.

We consider that MEMs have raised a relevant concern that these ratings will not be directly comparable. We do however recommend that Metering Agents are included in the 2025-2026 Annual Rating, using the same period (1 April 2025 – 31 March 2026) as Suppliers and DNOs.

To address the concern of inconsistency, the Code Manager will only share the rating with Parties themselves, and no peer comparison will be published for Metering Agents in 2025/26. This is motivated by the fact that this is the first time Metering Agents will be subject to the rating system. This will allow organisations the opportunity to familiarise themselves with the process and mean that before any peer comparison or wider reporting, the information used is well understood. This will also give the Code Manager the opportunity to review whether the criteria that has been selected for MEMs is achieving the desired results.

In the report to the PAB on the allocation of ratings, we will clearly identify which Parties were audited under pre- and post- R0152 audit regime. Our approach involves a review of rating distribution before publishing to resolve any unforeseen consequences. Should this suggest that this does create undue bias we will change our approach.

1.3 INCLUSION OF M10 CRITERIA

In 'Directions to Market-wide Half Hourly Settlement Participants', Ofgem has outlined the requirement for any Participants to submit MHHS (Market Half Hourly Settlement) Programme milestones on time and respond promptly to any queries and follow up received from Code bodies. Any escalations for the Programme are managed jointly by the REC and BSC.

M10 was of particular importance given the fact it secured the readiness for the Programme to move forward by ensuring DNOs are ready to assist with the transition. As a result, through feedback sessions with various stakeholders it was suggested that meeting this deadline should be included as a criterion in the Annual Rating.

Some of the respondents to the consultation outlined that this deadline has now passed and there is no reason to include it in the rating. However, we believe it will signal the PAB's focus on the issue and prove to be a helpful tool in motivating Parties to maintain compliance with MHHS Programme deadlines going forward. Therefore, the Code Manager recommends retaining this criterion.

1.4 INCLUSION OF THEFT DATA

In response to the Annual Rating consultation, non-domestic Suppliers continue to voice their feedback on the appropriateness of the inclusion of Theft performance in the Annual Rating. They point out two key areas of concern:

1. Under the current Annual Rating approach, the overall rating is determined by the lowest score out of any category. As a result, it is possible for a Supplier to perform very well across all monitored areas but receive a poor overall rating due to lack of identified thefts or active investigations.
2. Suppliers perceive this to be an unfair criterion given the fact that Theft performance is largely influenced by the type of client portfolio a given Supplier has.

Based on the continued feedback from the industry on this, the Code Manager determined 3 potential solutions which we lay out below in more detail:

1. Retaining a lowest rating approach.
2. Excluding theft from the rating.
3. Implementing a 'points based' rating, similar to a balanced scorecard, but which still calls out significant issues in one area.

1.4.1 RETAINING THE LOWEST RATING APPROACH

The current approach allows the Code Manager to arrive at a single rating from a number of categories.

To address the feedback provided in previous years, the Code Manager has previously implemented the below adjustments:

- A de minimus, so that organisations with very small portfolios aren't affected by the natural variation in theft detection.
- Different thresholds for domestic and non-domestic Suppliers

Feedback from this year's consultation suggests that while the measures addressed some of the unfairness stemming from portfolio variation across Suppliers, the respondents continue to call for a more fundamental change in the approach.

Maintaining the approach has a key benefit of simplicity – particularly as Party Assurance processes are expected to evolve in 2026-28, it may be more appropriate to make changes to the approach when the changes to the underlying information used to assess Parties have been made.

1.4.2 EXCLUDING THEFT FROM THE RATING

In their feedback, Parties have indicated that they would like to exclude theft from the Annual Rating and the Code Manager committed to presenting this as an option to the PAB.

In performance year 2024-2025, out of 31 moderate/severe ratings, 11 were due to poor theft engagement or no engagement at all making it one of the primary reasons Parties received a critical rating. Therefore, exclusion of this criterion would result in a significant shift in the score distribution, reducing the incentive for Parties to prioritise theft performance.

An alternative for this was also proposed whereby Parties would receive 2 separate ratings; one relating to their performance on Theft, and one relating to compliance with other criteria. However, since its inception the Annual Rating was meant to reflect the overall compliance with the REC with a single score. The engagement in TDIS remains a critical mechanism by which REC supports Parties in complying with their Energy Supply Licence obligation to detect, investigate and deter Energy Theft.

Considering the importance of this requirement, the Code Manager recommends retaining a single rating approach which includes Energy Theft as one of the key criteria.

1.4.3 A POINTS BASED RATING

We take the feedback seriously and have worked to develop an alternative to the lowest score approach. This intends on striking a balance between the feedback received from the industry and the need to maintain robust assurance standards, we have developed a points-based approach that could replace the lowest score approach.

This would involve a Party's performance against a set of criteria being scored using points (the exact number would be determined based on the severity of the failure and the importance of the criterion). The

points would then be summed up across all criteria, and the final number would determine their rating. The more points, the less favourable the rating would be as it signifies failure to meet particular criteria.

To help visualise what this would look like, please see Appendix B.

We anticipate the new scoring system would have the following impact:

- Parties would have a more granular view of their own performance and that of their peers – additional considerations would have to be given to any potential sharing of that data with other participants and / or the general public.
- Changes in Party performance would be more easily identifiable (including smaller variations that would not result in compliance category change but may be indicative of persistent trends). We anticipate this would enable the Performance Assurance team to better focus their conversations with Parties and visualise their progress year on year.
- While Energy Theft investigation would continue to form part of the rating, performance against this target would not be a decisive factor in how a Party is rated. Contrary to the current regime 'lowest score of any category determines the overall score' - the points-based system offers an aggregate view where poor performance in one area does not automatically lock a party in a specific category. We do consider it appropriate that some failings should automatically put Parties in 'Severe non-compliance' category, but these will be rare occasions where Parties fundamentally fail in their obligations or refuse to engage with the Performance Assurance team constructively.

Whilst we have proposed a design within the appendix, the weightings of the criteria may require further work with PAB, for example to determine the relative importance of theft criteria.

2 RECOMMENDATION

This paper sets out three key judgements in relation to the annual rating. We propose to:

1. Update the Annual Rating categories as set out above
2. Approve the inclusion of Metering Agents in the annual rating 2025-26, on the basis of the 1 April – 31 March timeframe; and
3. Retaining the lowest score approach, on the basis of reducing the level of change, given the likely changes to approach in the coming years.

We recognise that these are subtle judgements, and should PAB require further development, or options, we can provide these in later meetings. Formal approval of the final criteria needs to be completed before the end of June, so that we can publish draft ratings from July.

PAB DECISION

The Code Manager recommends PAB to

- **APPROVE** the updated labels associated with the Annual Rating categories
- **APPROVE** the inclusion of Metering Agents in the Annual Rating 2025-2026
- **APPROVE** the retention of the current approach for 2025-2026 Annual Rating.