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PARTY ASSURANCE QUARTERLY UPDATE

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We invite RIG members to note the following updates:

- Current Activity in the Market
- Performance Assurance Activities
    - Areas of focus in relation to Retail Risks
    - Trends we see for Smart Meter Installation Surveys
- For Input: Calling all REC Parties- Performance Assurance Operating Plan

Discussion:

- Throughout the paper we have highlighted discussion points and key questions we would like to bring to RIG members. If you have any feedback prior to the RIG meeting please do share with us and we can provide an update accordingly.

1 CURRENT ACTIVITY IN THE MARKET

As in previous months switching volumes have been primarily driven by high volumes of internal migration activity. Overall, there has been increases in switching activity compared to prior month. Taking that perspective, the estimated total volumes of actual (non-internal migration) switches has increased from c.414,00 in February to c. 432,000 in March. Similarly, the estimated total of unsuccessful switches has increased from c.108,00 in February to c.154,000 in March. It was also noted that overall objections in switches had increased by 17% from previous month.

Domestic Supply:

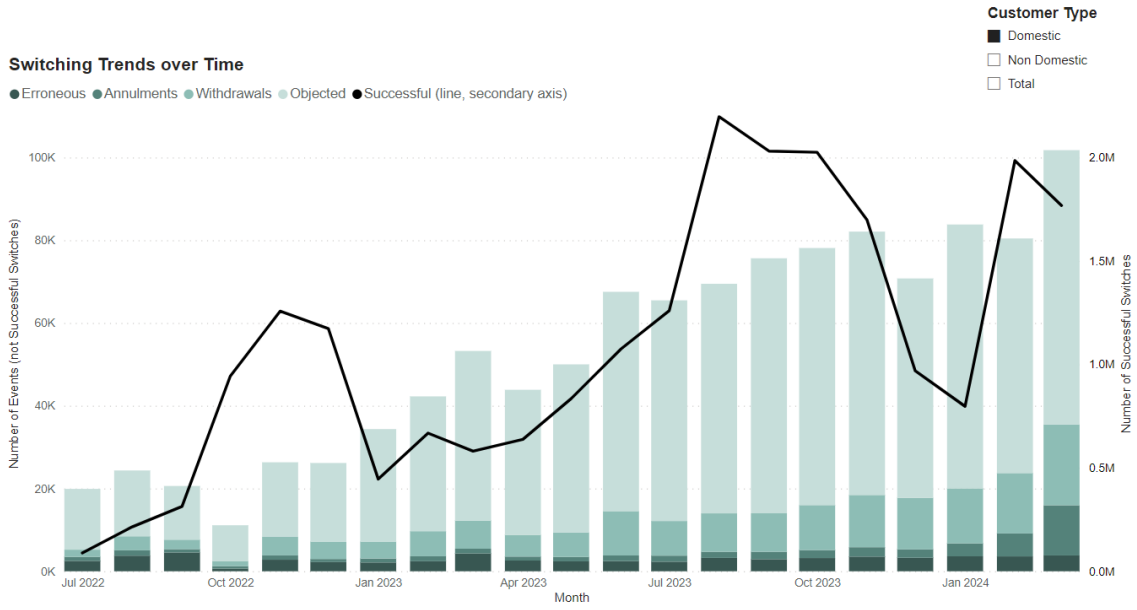


Figure 1 – Switching trends amongst domestic customers.

Out of the total successful switches, an estimate of c.1,372,000 domestic switch events were suspected to be made as part of internal migration activity.

In terms of the non-successful switching outcomes:

- The volume of objections has increased from c.57,000 to c.66,000 between February and March.
- The volume of annulments and withdrawals rose from the previous month, with an increase in volumes of 6,582 and 4,924 respectively.
- The number of erroneous switches remained consistent between February and March.

Non-Domestic Supply:

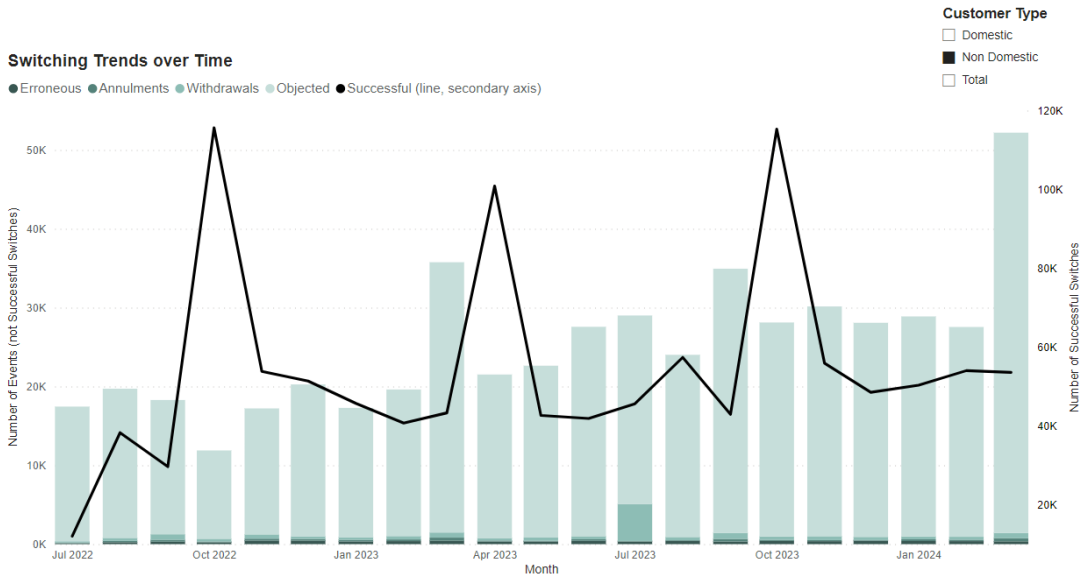


Figure 2 – Switching trends amongst non-domestic customers.

The chart depicted in Figure 2 shows the number of successful switching for non-domestic to be consistent with the previous month.

Out of the total successful switches, an estimate of c. 17,200 non domestic switch events were suspected to be made as part of internal migration activity.

In terms of non-successful switching outcomes:

- Objection volumes have shown an increase from 27,000 in February to 50,000 in March. This pattern appears to be consistent with prior years in the run-up to the biannual contracting round for non-domestic. This outlier will be monitored to observe if the number of Objections does not follow a similar trend for March 2023 and reduce.
- The volume of annulments, withdrawals and erroneous switches remain consistent with previous months.

2 PERFORMANCE ASSURANCE

The Code Manager monitors and assures the performance of organisations operating in the retail market. These organisations are referred to as Performance Assurance Framework Participants and include REC Parties, REC Service Providers and specific Non-Parties that use REC Services. This assurance process focuses on risks to retail energy consumer outcomes and the effectiveness of the retail market. This is provided through a Performance Assurance Framework (PAF) underpinned by a comprehensive Risk Register and associated interventions. The Performance Assurance Board (PAB) oversees the PAF.

We invite RIG members to note the following in this quarterly performance assurance update:

- Performance Assurance engagement approach with REC Parties.
- Update on performance in the last quarter for REC Parties.
- Application of Performance Assurance Techniques for REC Parties.

3 AREAS OF FOCUS IN RELATION TO RETAIL RISKS

1.1 SWITCH METER READS- RETAIL RISK 5

Through direct engagement with Parties, we identified issues with Switch Meter Read Disputes reporting where the process used by Suppliers does not match the one in the REC. We would like to take this opportunity to thank all Parties that provided us insight. In addition, we previously raised this at RIG and subsequently a REC change is going to be issued to ensure that in cases of Missing Reads, where a D0086 flow is received, it is recognised under the REC and included in REC reporting as a closing point for the Switch Meter Read Dispute. We will pause on reviewing data and reporting the performance of the impacted risk drivers to PAB. Instead, you will be able to hear about the progress of the REC change via the Change Issues Group.

1.2 OBJECTIONS PROCESS- RETAIL RISK 8 DELAYED SWITCHES PROVIDES A NEGATIVE CONSUMER EXPERIENCE OF THE ENERGY MARKET (OUTCOME MEASURE):

We have monitored the use of objections, withdrawals and annulments since CSS go live. This has been really valuable, identifying the following:

- Confusion between annulments and withdrawals process, that we ascribe to misunderstanding which process to use in various scenarios. To support Parties we issued better guidance on this and are in the process of changing the Code, so it includes clear descriptions of when to use each.
- Investigation into organisations with higher rates of objections, which identified an organisation with system issues that automatically objected to all switches, as well as an organisation that appeared to be using ambiguities in the Change of Occupier process to block valid switches or hold customers on deemed tariffs. We have acted against these organisations, to prevent the impact on both customers and suppliers behaving legitimately.

We do acknowledge that in the process of understanding the above we also requested information and support from organisations that are following appropriate processes and would like to thank all those that helped us.

We have summarised below how the market is performing for the risk drivers.

1.2.1 **RISK DRIVER 8.9** – THE SUPPLIER OBJECTS TO A SWITCH WITH CHANGE OF OCCUPIER (COO).

This Risk Driver was introduced as the Code Manager received various disclosures from Third Party Intermediaries flagging potential misuse of objections. As a result, the Code Manager is also progressing REC Change Proposal R0155 - Change of Tenancy: Evidentiary Standards and Timescales to clarify the Code requirements. Whilst this change is under development, we continue to monitor this Risk Driver to improve performance across the industry.

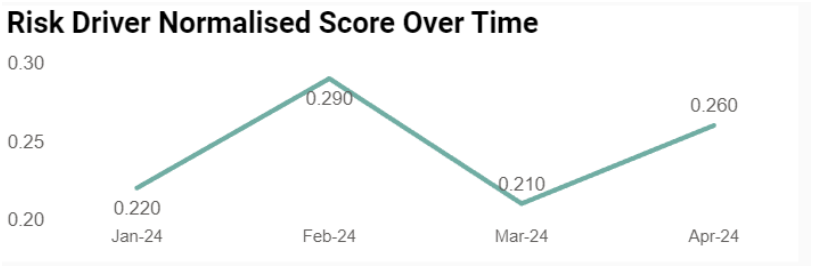


Figure 1 Rates appear within a consistent band, and it appears reasonable to look into outliers, but we are not proposing any specific investigation at this time.

1.2.2 **RISK DRIVER 8.10** – A HIGH-PERCENTAGE OF OBJECTIONS USE BY A SUPPLIER FOR SWITCH REQUESTS RELATED TO DOMESTIC CONSUMERS INDICATES POTENTIAL INAPPROPRIATE USE.

The risk score has been at consistent levels across the quarter and primarily driven by Suppliers who do not breach the threshold but have a higher risk score. This is due to having a very low volume of switches but a higher proportion of objections which may be due to having domestic sites as part of larger I&C portfolio under a single customer contract.

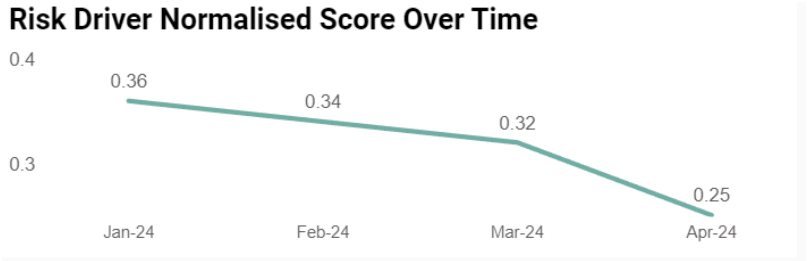


Figure 2 Market rates are also low, with the highest rates only relating to suppliers with very low switch rates. We do see organisations with higher rates of prepayment meters having higher rates of objections, as you would expect. We want those with higher rates to be aware of this but are not proposing any elevated PATs.

1.2.3 RISK DRIVER 8.11 – A HIGH-PERCENTAGE OF OBJECTIONS USE BY A SUPPLIER FOR SWITCH REQUESTS RELATED TO NON-DOMESTIC CONSUMERS INDICATES POTENTIAL INAPPROPRIATE USE.

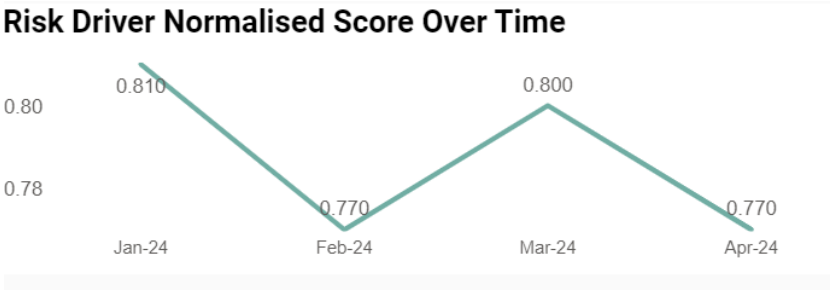


Figure 3 In March data there was a much higher volume of non-domestic objections. Due to proximity to the cyclic contract renewal cycle, we are focusing on Parties who have consistently breached the threshold this quarter, whilst notifying those who are over threshold for the first time.

We will apply the Enquiry PAT to Parties to understand the split of objections for this quarter by objection code, their process for identifying the need for and initiating objections, and any insights which explain why they have had a higher rate of objection use compared to their peers.

RIG Discussion Point

Are there any instances areas where higher rates of objections cause your organisation issues?

Retail Risk 6: Issues updating address records when required.

We have identified small instances of address management delays. Whilst the rates are low there are organisations who have persistently breached threshold having received notifications. We expect high performance maintaining addresses, in part because obligations should be simple to achieve.

We will apply Enquiry PATs to the Parties which are above threshold, given that we have previously notified them.

1.3 RETAIL RISK 12: ERRONEOUS SWITCH RESOLUTION AND MISCELLANEOUS ISSUES

1.3.1 ERRONEOUS SWITCH RESOLUTION

Two Risk Drivers relate to Erroneous Switch processes. Through engagement with Parties, we have identified a potential issue in the data reported by CSS, which is used for risk monitoring, where the Parties have informed the Code Manager that the reported Erroneous Switch instances were not found within their portfolio thus indicating they may have been attributed to the incorrect Supplier.

We queried this with the CSS team on 10 April and awaiting an update. Until we are able to confirm the validity of the information received from CSS, we will continue to monitoring these Risk Drivers and reach out to any Parties where we see a spike in performance. We will provide RIG updates on the investigation that CSS team are conducting and track this through to resolution.

We intentionally seek to use central data wherever possible, this is with the aim to reduce the impact on Parties. However when issues arise with central data it will have an impact on our reporting.

1.3.2 SWITCH REQUEST WITHDRAWALS

Through previous PATs and engagement with Parties, we understand they use withdrawals as part of their internal quality checks to prevent the occurrence of Erroneous Switches. Due to having large domestic portfolios, Parties have informed the Code Manager that they expect their withdrawal rate to be at the level we note. Therefore, we have no reason to suggest that this represents a serious impact on multiple customers thus are not proposing any action.

The Code Manager will review the threshold levels and propose revision if only these Parties continue to breach over the next quarter.

4 FOR YOUR INPUT: PERFORMANCE ASSURANCE OPERATING PLAN

Lastly, thanks to all who joined us and had their say at the Performance Assurance webinar this week! It was great to hear directly from so many of you where you think we should prioritise and why. If you didn't manage to attend our Performance Assurance Webinar you can still have your voice heard by filling in the survey here. The output from this will help us understand where the Code Manager should focus. We will take these views on board as we develop our operating plan with the PAB, and feedback the outputs of this process directly to you.



Please complete and return by COP 14 June 2024. If you have any questions, please do reach out to enquiries@recmanger.co.uk and we are happy to help. Thank you in advance for spending the time to complete this form, we really do appreciate it!