
Retail Energy Code (REC) Change Proposal R0182: Levelisation Reconciliation Electricity Single-rate/Multi-register Split

Decision: The Authority¹ has decided to approve² this change proposal³

Target audience: REC Board, REC Parties, Domestic Energy Suppliers and other interested parties

Date of publication: 15 November 2024

Implementation date: To be confirmed by the Code Manager, but no later than 31 December 2024

Background

The Decision on Adjusting Standing Charges for Prepayment Customers,⁴ published 23 February 2024, assessed the need for a reconciliation mechanism to support the introduction of the Payment Method Levelisation (PML) policy.⁵ Analysis from the impact assessment within the decision showed that implementing PML reconciliation⁶ would ensure the PML policy does not unduly distort current market competition, helping to preserve specialism for domestic prepayment suppliers to recover notionally efficient operating costs as calculated in the default tariff cap. On 23 February 2024, Ofgem also published its decision to approve REC change proposal R0147 - Prepayment Levelisation.⁷ This decision led to the creation of REC Schedule 31 'Prepayment Method Levelisation Reconciliation',⁸ which allowed RECCo to operate the reconciliation mechanism from the 1 April 2024 onwards.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ See [Levelisation Decision](#) for statutory basis on Levelisation.

⁵ The process of adjusting specific costs between Direct Debit and Pre-payment payment methods to make the charges at nil consumption set in the default tariff cap ('standing charges') more equal or equitable, but less cost reflective.

⁶ A reconciliation by difference mechanism applicable to all scheme participants for the reconciliation of PML costs, to avoid distorting competition for specialist payment type suppliers and to provide greater certainty of suppliers recovering efficient costs following the implementation of the PML policy.

⁷ See [Decision](#) on REC change proposal R0147

⁸ See [Schedule 31](#) - Prepayment Method Levelisation Reconciliation

On 11 March 2024, Ofgem published an open letter on the calculation of electricity base levelisation rates.⁹ The letter outlined that the default tariff cap calculates different maximum charges at nil consumption ('standing charges') for consumers with single-rate and multi-register electricity metering arrangements in each region. As a result, different levelisation allowances have been calculated for both single-rate and multi-register consumers in each region within the price cap. However, the current PML reconciliation system operated by RECCo was initially designed to accommodate only one set of levelisation rates per region when calculating the reconciliation amounts, creating a discrepancy between the price cap methodology and reconciliation calculations and thus in the invoicing of, and payments to, suppliers.

After assessing the impacts of delaying implementation, Ofgem decided to proceed with an interim reconciliation solution whilst working with RECCo to design and develop a complete multi-register differentiated PML reconciliation solution in parallel. In the letter, suppliers were informed that it was decided that a blended levelisation allowance would best account for the difference in single-rate and multi-register standing charges, whilst minimising the impact to suppliers. We also informed suppliers we would be requesting data in an upcoming temporary Request for Information (RFI) to analyse and store the multi-register differentiated data ahead of any upcoming design changes. The letter outlined that once the new system was live, RECCo would undertake a retrospective recalculation and 'true-up' in future based on differentiated levelisation rates for single-rate and multi-register consumers, backdating this to 01 April 2024, with the intention of settling any differences in the reconciliation payments made to/from suppliers under the interim solution.

R0182 brings about the necessary changes to Schedule 31 of the REC which will allow RECCo to implement a PML reconciliation system which differentiates between single-rate and multi-register levelisation rates, and to undertake a one-off retrospective recalculation and 'true-up' as detailed above. Although Ofgem analysis published in Ofgem's open letter on the calculation of electricity base levelisation rates¹⁰ shows that the supplier impact is minimal with the current interim solution (with the aggregate impact of this approach a temporary net annual under-recovery compared to a multi-register differentiated system of approximately £460,000 across all domestic suppliers), the change proposed in R0182 will bring greater accuracy to the

⁹ See [Open letter](#) to domestic energy suppliers on the calculation of electricity base levelisation rates.

¹⁰ See [Open letter](#) to domestic energy suppliers on the calculation of electricity base levelisation rates.

reconciliation mechanism and ensure suppliers are not gaining/losing as a result of the PML policy, fulfilling the objective of establishing a mechanism for timely and accurate reconciliation with minimal cash flow impacts on suppliers.

The change proposal

R0182 was raised by RECCo on 20 June 2024 to introduce and implement the necessary governance and charging amendments to distinguish between single-rate and multi-register electricity metering assets within the existing PML reconciliation arrangements (as introduced in R0147 and set out in Schedule 31 of the REC). This will allow for multi-register differentiated reconciliation and for the timely and accurate invoicing of, or payment to, suppliers. The amendments will allow for:

- Ongoing PML reconciliation that accounts for the split in both single-rate and multi-register metering assets, and
- A one-off retrospective recalculation and 'true-up' for the period dating from the proposed effective implementation date of 01 January 2025, back to the implementation of the original PML reconciliation mechanism on 01 April 2024.

REC Change Panel¹¹ recommendation

At the REC Change Panel meeting on 15 October 2024, the REC Change Panel unanimously considered that R0182 would better facilitate the above REC Objectives;¹² and the REC Change Panel therefore recommended its approval.

¹¹ The REC Change Panel is established and constituted pursuant to and in accordance with [Standard Condition 11B.8\(a\) of the Electricity Supply Licence](#) and [Standard Condition 11.8\(a\) of the Gas Supply Licence](#).

¹² As set out in [Standard Condition 11B.6 of the Electricity Supply Licence](#) and [Standard Condition 11.6 of the Gas Supply Licence](#).

Our decision

We have considered the issues raised by the change proposal and the Final Change Report¹³ (FCR) dated 15 October 2024 and the responses to the industry consultation(s) which are attached to the FCR. We have concluded that:

- Implementation of R0182 will better facilitate the achievement of the applicable Objectives of the REC, and
- Approving R0182 is consistent with our principal objective and statutory duties, namely to protect the interest of existing and future energy consumers and to promote effective competition between suppliers.¹⁴ This reflects the assessment against the Authority's Principal Objectives and Statutory Duties detailed in the Decision on Adjusting Standing Charges for Prepayment Customers and the Decision on REC modification proposal R0147 - Prepayment Levelisation, published 23 February 2024.¹⁵

Reasons for our decision

We consider this change proposal will better facilitate REC Objectives (a), (b) and (c) as explained below.

(a) to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement

The REC mission statement states that *"The REC will facilitate the efficient and effective running of the retail energy market, including its systems and processes. It will promote innovation, competition, and positive customer outcomes"*. R0182 will facilitate this objective by fulfilling the requirements of the reconciliation mechanism which underpins Ofgem's PML policy in the way it was originally intended, and ensuring the accurate invoicing of, or payments to, suppliers. It will do this by implementing a new system which differentiates between single-rate and multi-register levelisation rates and allowing for a retrospective recalculation and 'true up' back to the implementation of the original PML reconciliation mechanism on 01 April 2024. This will enable

¹³ REC change proposals, change reports and representations can be viewed on the [REC Portal](#).

¹⁴ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 and the Gas Act 1986.

¹⁵ For more information see section "Assessment against the Authority's Principal Objectives and Statutory Duties" of [Decision](#) on REC change proposal R0147.

PML reconciliation to operate more effectively and more accurately in line with the price cap methodology.

Although analysis published in Ofgem's open letter on the calculation of electricity base levelisation rates¹⁶ showed that the overall supplier impact of changing from a blended to a multi-register differentiated reconciliation system is minimal (with a cashflow impact range for all domestic suppliers of +£0.09 to -£0.12 per customer per year), this change ensures that suppliers with differing metering and payment portfolios do not unduly incur revenue impacts from the scheme which could result in distortion of current market competition. This will minimise any detriment to current and future supplier stability, market diversity and competition by providing greater certainty that specialist suppliers can recover efficient costs. This in turn will promote innovation, competition, and positive consumer outcomes.

(b) to ensure customers interests and data is protected in the operation of the REC

The PML reconciliation mechanism has been in operation since 01 April 2024, and suppliers have been submitting monthly Payment Portfolio data (a breakdown of meter points by region and meter type) extracts to RECCo since this date. The proposed amendments in R0182 only requires the minimum of additional information to be provided by suppliers to calculate the multi-register differentiation reconciliation amounts, and thus invoices or credits due to them, on a monthly basis in addition to the information required to be provided by under the current PML reconciliation mechanism, via minor amendments to the existing reporting templates.

R0182 also implements a supplier's request for the data provision process for the retrospective recalculation and 'true-up' to be streamlined by enabling Ofgem to share the data collected as part of the 'Prepayment Meter Levelisation Single and Multi-Metering Arrangements' RFI directly with RECCo following implementation of R0182. It facilitates RECCo to use the RFI data provided by Ofgem for the retrospective recalculation where available, removing the need for suppliers to 're-submit' the required data unless RECCo has been unable to obtain it from Ofgem. The RFI data will be ringfenced and transferred securely with restricted access, to ensure that customer data is protected. This will streamline the reporting requirements on suppliers, reducing the submission burden on them where possible, and motivates parties to provide their data in a

¹⁶ See [Open letter](#) to domestic energy suppliers on the calculation of electricity base levelisation rates.

timely manner, to ensure the accuracy of the reconciliation activity, including the retrospective recalculation and 'true-up'.

To date the data submission process for the PML reconciliation mechanism has been working as intended and enabled suppliers to participate in achieving the aims of the PML policy without unduly incurring revenue impacts from the scheme which could result in distortion of current market competition. R0182 will ensure this mechanism is more accurate and streamlined and is therefore better for suppliers (and ultimately customers).

(c) to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructure it governs

R0182 represents an improvement in an existing mechanism, namely the original PML reconciliation mechanism delivered in R0147, and represents the realisation of the original design intent of Ofgem's PML policy. Specifically, in that the PML reconciliation mechanism should enable suppliers to recover notionally efficient operating costs as calculated in the default tariff cap and therefore be inclusive of a distinction between single-rate and multi-register metering assets. By adding this distinction, it improves on the existing reconciliation mechanism by enabling suppliers to submit data with more granularity, and therefore enabling PML reconciliation to more accurately reflect suppliers' customer payment portfolios.

Decision notice

In accordance with Standard Condition 11B of the Electricity Supply Licence and Standard Condition 11 of the Gas Supply Licence, the Authority hereby approves REC Change Proposal R0182: Levelisation Reconciliation Electricity Single-rate/Multi-register Split.

Melissa Giordano

Deputy Director, Retail Systems and Processes

Signed on behalf of the Authority and authorised for that purpose