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Balancing and Settlement Code (BSC) P491: Amendment to the RTS Funding Mechanism (P491)

Decision	The Authority[1] directs that this modification be made[2]
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	12 September 2025
Implementation date:	12 October 2025

Background

Radio Teleswitch (RTS) was introduced in the 1980s to control load switching devices in consumer premises, typically for heating and or/hot water. RTS is reliant on radio signals broadcast by three transmitters located throughout Great Britain. This radio signal is being gradually phased out, in a careful and deliberate manner, as the transmission infrastructure that supports it nears the end of its operational life. Therefore, RTS meters reliant on this signal must be upgraded to another appropriate meter. By not upgrading these meters, consumers are at risk of experiencing interruption to their heating and/or hot water supply. As of 8 August 2025, there were approximately 208,000 RTS meters in need of replacement.

The operational costs of supporting RTS and the controlled phase-out are currently funded equally between Suppliers and Generators through the Balancing and Settlement Code (BSC) Funding Share mechanism. The mechanism is used to determine how the costs of operating the RTS infrastructure are distributed among BSC parties. These operational costs have increased from £5m per year to £9.7m per year following the announcement by the Department of Energy Security and Net Zero (DESNZ) that the phase-out will be prolonged across an extended period of time.[3][4][5]

Issue 113

[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.
[3] Issue 113 introduction of a radio Teleswitch system (RTS) elexon BSC, Available at: https://www.elexon.co.uk/bsc/smg-issue/issue113/.
[4] Announcement of the Phase-Out Process from DESNZ, Available at: https://www.elexon.co.uk/bsc/mod-proposal/p491/
[5] Government steps in to protect consumers with old energy meters, Available at: Government steps in to protect consumers with old energy meters - GOV.UK

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The RTS Funding Share mechanism has been re-evaluated several times prior to P491. Most notably, Issue 113 - 'Introduction of a Radio Teleswitch System (RTS) user charge' was raised by Elexon in April 2024,[6] following concerns regarding the slow pace of RTS meter replacements and the belief that this could serve as a potential incentive for Suppliers to improve their performance in RTS replacements. The Issue Group ultimately determined that the current cost recovery method continued to be appropriate, arguing that a change to the funding mechanism at that time would only impact a short period of the RTS phase-out (then expected to finish in June 2025), and that current incentives were sufficient for Suppliers to replace RTS devices.

The modification proposal

P491 was proposed by Centrica and submitted on 20 June 2025. Ofgem granted the proposal urgent status on 2 July 2025 due to its current and/or imminent commercial impact on parties and consumers, and the need for timely implementation.[7] The modification seeks to revise how the costs that underpin RTS are shared among energy market participants, following the government's decision to prolong the phase-out of RTS into 2026.

The modification proposal will seek to amend BSC Section D to modify the Funding Mechanism for RTS operational costs, given that the phase-out period has been extended, which will incur increased costs for BSC parties. The proposal intends to calculate each Supplier's RTS operational cost share based on the Supplier's remaining share of the overall RTS portfolio still to be replaced, against the total RTS additional operational cost. Generators' RTS operational costs share would be reduced to zero.

To implement this, RTS meter data will be provided by Ofgem, based on a snapshot taken on 27 June 2025. A manual process will be used by Elexon to calculate charges, avoiding costly system changes. The proposal also includes retrospective application to invoices issued from July 2025 onward, ensuring that the revised cost-sharing model applies to all relevant RTS-related charges during the extended phase-out period.

Benefits highlighted by the Proposer:

- Fairness and transparency: Costs are aligned with actual RTS usage, ensuring those who have meters still reliant on the RTS signal bear the appropriate share of costs.
- Incentivisation: Encourages Suppliers to complete RTS meter replacements quickly, potentially enabling earlier RTS signal switch-off.
- Consumer protection: Reduces the risk of heating and hot water disruption for RTS users.
- Efficiency: Avoids unnecessary system development and delays, using a straightforward manual process.

[6] Issue 113 introduction of a radio Teleswitch system (RTS) elexon BSC, Available at: https://www.elexon.co.uk/bsc/smg-issue/issue113/.
[7] BSC Modification Proposal P491 Amendment to the RTS Funding Mechanism Following the Announcement of the Phase-Out Process from DESNZ – decision on urgency, Available at: https://www.elexon.co.uk/bsc/documents/change/modifications/p451-p500/p491-ofgem-urgency-decision/

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BSC Panel[8] recommendation

At the BSC Panel meeting held on 6 August 2025, a majority of Panel members concluded that Modification Proposal P491 would better facilitate the Applicable BSC Objectives and therefore recommended its approval to the Authority.

The Panel specifically agreed that P491 would better support:

- **Objective (c)** – *Promoting effective competition in the generation and supply of electricity*.

  The Panel considered that the proposed change to the RTS Funding Mechanism would create a fairer and more proportionate cost allocation. The Panel noted that by basing RTS operational costs on each Supplier's remaining RTS meter portfolio, the modification rewards those who have proactively invested in RTS meter replacements and avoids penalising those with minimal involvement. The Panel also identified that the modification removes the cost burden from Generators, who no longer have a direct role in RTS supply, thereby enhancing competitive neutrality.

- **Objective (d)** – *Promoting efficiency in the implementation and administration of the balancing and settlement arrangements*.

  The Panel noted that the proposed manual process for calculating RTS charges avoids the need for costly and time-consuming system changes. This approach was seen as pragmatic and proportionate, especially given the temporary nature of the RTS phase-out period. It enables timely implementation and ensures that the increased costs are recovered in a way that reflects actual usage and responsibility.

While the majority supported the proposal, a minority of Panel members voted to reject the modification. They questioned whether the modification would genuinely incentivise Suppliers to accelerate RTS meter replacements, given that the apportionment is based on a fixed snapshot (as of 27 June 2025). They also raised concerns about fairness, noting that some Suppliers may have inherited RTS consumers through switching or Supplier of Last Resort appointments, and that consumer refusal to accept smart meters remains a barrier outside Suppliers' control. Additionally, the minority felt that introducing a new manual process could reduce administrative efficiency, which would not better facilitate Objective (d).

Despite these concerns, the Panel unanimously approved the associated legal text, confirmed that P491 does not impact the Electricity Balancing Guideline (EBGL) Article 18 terms and conditions, and agreed on an implementation date of +1 month following Authority approval, as part of a Stand-alone BSC Release.

Our decision

[8] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)[9] dated 5 August 2025. We have considered and taken account of the responses to the industry consultation on the modification proposal, which are attached to the FMR. We have concluded that:

- Implementation of the modification proposal will better facilitate the achievement of the applicable Objectives of the BSC;[10] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[11]

Reasons for our decision

We consider that this modification proposal will better facilitate BSC Objectives (c) and (d) and has a neutral impact on the other applicable Objectives. We also consider that this modification proposal has a positive impact on Ofgem's principal objective and statutory duty to protect the interests of existing and future consumers in the supply of electricity.

(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

As discussed above, the BSC Panel believed that P491 positively impacts BSC Objective (c). We further note that a majority of the Workgroup believes the modification positively affects competition by ensuring that RTS operational costs are reflective of Supplier performance in replacing RTS meters. The Workgroup believed this change would help to create a more equitable distribution of costs based on Supplier replacement performance, thereby enhancing competition. Several Workgroup members also highlighted that exempting Generators from RTS charges would positively impact competition, since Generators have no remit to accelerate RTS replacements.

A minority of the Workgroup expressed concerns that Proposal P491 could adversely affect market competition. Objections centred on several key issues: the modification was seen as failing to offer a meaningful incentive for replacing RTS meters; it raised potential risks in the non-domestic sector, where Suppliers might be encouraged to reject consumers with RTS meters; and the exclusion of Generators from RTS funding was viewed as having little competitive impact. Additionally, critics argued that the method for allocating RTS funding shares did not accurately reflect Supplier efforts, as it relied on a portfolio snapshot that was largely beyond Suppliers' control and failed to account for the total number of RTS meter exchanges undertaken by each Supplier.

Ofgem agrees with the BSC Panel and the majority of the Workgroup that P491 will have a positive impact on BSC Objective (c) by having a positive impact on competition. We are of the opinion that using Suppliers' RTS share to calculate RTS charges reflects Supplier

[9] BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk
[10] As set out in Condition E1 of the Electricity System Operator Licence.
[11] 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.

performance in replacing RTS meters so far, and that the potential for a rebate if the signal is shut off early should suffice as an incentive for the worst-performing Suppliers to ramp up replacement activity.

Some Suppliers expressed concern that the lack of a re-calculation of costs in the future would make the modification ineffective in incentivising industry and individual suppliers to accelerate RTS exchanges. Some believed that a re-calculation of the RTS share on pivotal points nearing a potential RTS extension would be more effective in incentivising suppliers to replace RTS meters. Ofgem disagrees with this perspective and consider that the P491 cost allocation is an improvement to the current cost allocation to incentivise Suppliers to exchange RTS meters. The current RTS costs of £9.7m reflect an extension of the signal until September 2026. If industry replaces meters quickly enough to be able to cut this extension short, Suppliers could be able to recuperate part of the RTS costs they incurred through P491.

Suppliers with the largest RTS shares (and therefore highest RTS cost shares under P491) would be the ones with the highest amounts of cash to recuperate. At the same time, effective action by these Suppliers to accelerate their own RTS replacements would have the highest impact on whether an extension will be required until September 2026 or if the signal could be switched off earlier. While the decision to extend the phase-out l is made by industry, we believe effective action by Suppliers with the largest RTS shares should also include effective industry cooperation to safeguard against a further extension to the RTS signal. In this way, P491 works to incentivise both industry as a whole and individual suppliers (especially the ones with the highest RTS shares) to accelerate replacements of RTS meters.

Some stakeholders expressed concern that under the P491 cost allocation method, which uses a fixed snapshot of each Supplier's RTS portfolio as of 27 June 2025. Suppliers might be incentivised to reject RTS consumers, particularly non-domestic ones, to reduce their financial exposure. The argument hinges on the idea that if RTS costs are tied to the number of RTS meters a Supplier is responsible for, then rejecting or 'shedding' RTS consumers could become a cost-saving strategy. This concern was especially focused on non-domestic consumers, where Suppliers have more discretion over whom they contract with. Critics feared that this could lead to market distortions or consumer detriment if Suppliers began avoiding RTS consumers purely for financial reasons.

While this concern is understandable, it does not hold under the mechanics of P491. Because the RTS cost allocation is based on a single snapshot of each Supplier's RTS portfolio as of 27 June 2025 — and not recalculated monthly, any subsequent decision to drop or reject RTS consumers would have no bearing on a Supplier's RTS cost liability. The charges are 'locked in' based on that fixed portfolio view. Therefore, we are satisfied that P491 does not create any meaningful incentive for non-domestic Suppliers to reject RTS consumers. The mechanism is designed to reflect each Supplier's reliance on the RTS signal at a specific point in time, not to reward or penalise future portfolio changes. This approach ensures fairness while avoiding unintended consequences such as strategic consumer rejection.

Historically, under the BSC, Generators were required to contribute to the cost recovery mechanism for RTS, despite having no direct involvement in its operations. They neither used RTS meters nor had any control over their deployment or replacement, yet were financially responsible for a share of RTS costs. This inclusion stemmed from a broad cost-sharing model

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across all BSC Parties, rather than any meaningful engagement with the RTS infrastructure. Over time, as RTS costs rose due to ageing technology and repeated extensions of the RTS signal, this arrangement was increasingly viewed as inequitable, particularly because the signal's prolongation occurred through no fault of Generators. Moreover, requiring Generators to bear financial penalties and price increases associated with the delayed phase-out diluted the incentive for Suppliers, who maintain control over meter replacements, to act swiftly. Exempting Generators from RTS cost recovery would help reallocate financial responsibility to the parties best positioned to influence RTS meter replacement, thereby restoring a more effective and fair incentive structure.

Ofgem also does not believe that P491 will have a distortive effect on competition. One Supplier in opposition to the modification noted that if P491 is implemented, gaining Suppliers would avoid paying a share of RTS costs if they gained a consumer with an RTS meter. Under current arrangements, a Supplier gaining an RTS consumer would have their RTS costs increased, as the current arrangements are based on a Supplier's monthly market share. After the implementation of P491, this cost increase would instead have been covered by the losing Supplier.

Under the P491 arrangements, the cost for gaining Suppliers to acquire RTS consumers is reduced compared to the current framework. Ofgem does not consider this reduction in RTS-related costs to be a material distortion of competition. On the contrary, lowering the costs associated with switching Suppliers is expected to enhance competition in the electricity market. Importantly, P491 supports broader competitive behaviour by facilitating the transition from RTS to smart meters. This transition helps overcome longstanding barriers that RTS consumers have faced when trying to switch Suppliers. By making it easier and less costly to serve RTS consumers, P491 encourages Suppliers to accept these customers on a switch, rather than being disincentivised by complexity or cost. This opens up the market to a group of consumers who have historically struggled to participate fully in competitive switching, thereby promoting a more inclusive and dynamic market.

In relation to retrospectivity, P491 will apply to RTS costs invoiced from July 2025 onwards. The Panel supported this approach, noting it is essential to fairly allocate the full £9.7m under the new methodology. While one Supplier opposed it, citing fairness and Ofgem's general stance on retrospectivity, the Panel and Workgroup agreed it was justified due to the urgent, one-off nature of the proposal and prior industry support for using the June 2025 snapshot to underpin cost recovery. We support the decision to apply P491 retrospectively from July 2025, recognising that this approach ensures equitable cost allocation and reflects the exceptional circumstances surrounding the proposal.

(d) promoting efficiency in the implementation and administration of the Balancing and Settlement Arrangements

The BSC Panel considers that Modification P491 better facilitates BSC Objective (d), as supported by the rationale provided by the Workgroup. A majority of Workgroup members agreed that the proposal enhances operational efficiency by introducing a funding mechanism that more accurately aligns costs with individual Supplier performance in relation to RTS replacements. A minority of the Workgroup believed that P491 would be detrimental to the efficient administration of the BSC. The main objection was that introducing new manual

processes in the operation of the BSC would be inefficient and burdensome, even if the costs to do so are relatively minor.

Ofgem agrees with the BSC Panel and the majority of the Workgroup and believes that P491 will have a positive impact on BSC Objective (d) by promoting efficiency in the administration of balancing and settlement arrangements. The most relevant risk to the efficient operation of the BSC is a further extension of the RTS signal. Although the introduction of a new manual process for invoicing RTS charges would be slightly more burdensome, P491's long-term benefits to efficiency by implementing a potential safeguard against another RTS extension far outweigh any small short-term complications to BSC processes.

We also consider that exempting Generators from paying RTS costs will promote efficiency in the administration of balancing and settlement arrangements. Charging Generators with RTS costs leads to misplaced incentives, as they have no remit to accelerate RTS replacements and cannot influence whether an RTS extension happens. By removing Generators from RTS charges, we ensure that the incentives to avoid an extension to the RTS signal are correctly placed on Suppliers.

Ofgem's principal objective

The Authority's principal objective is to protect the interests of existing and future electricity consumers, including those connected via distribution or transmission systems, by promoting effective competition wherever appropriate. In addition, the Authority recognises the importance of safeguarding vulnerable consumers, particularly those reliant on legacy RTS meters. Swift replacement of these meters is essential to ensure continued access to affordable and reliable energy, prevent disruption to heating and hot water systems, and uphold consumer protection standards during the transition to modern metering infrastructure.

In performing our duty, we are also expected to consider the interests of existing and future consumers holistically, including their interests in the security of the supply of electricity to them.[12] As is evident to us from the number of consumers and parliamentarians who write to Ofgem on a weekly basis, the RTS phase-out is of utmost concern to consumers, especially regarding the security of their supply of electricity to facilitate heating and/or hot water. P491's goal to incentivise Suppliers to accelerate the phasing out of RTS meters directly contributes to addressing consumers' concerns with the security of their heating and or/hot water arrangements. By working to avoid further delays and extensions to the RTS signal, P491 also contributes to minimising any future costs associated with the RTS infrastructure, which would affect consumers' bills across Great Britain.

Thus, we consider that approval of P491 is in line with Ofgem's principal objective of protecting the interests of electricity consumers.

Decision Notice

[12] Appendix 10.1 - Ofgem principal objective and duties.pdf, p4

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that the modification proposal BSC P491: Amendment to the RTS Funding Mechanism be made.

Charlotte Friel

Director – Retail Markets

Signed on behalf of the Authority and authorised for that purpose

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