



Making a positive difference
for energy consumers

Elizabeth Lawlor
Retail Energy Code Company Ltd
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London
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Email: priceprotectionpolicy@ofgem.gov.uk

Date: 10 October 2023

Dear Elizabeth,

We are writing to confirm that, subject to your agreement to the terms below, the Retail Energy Code Company (RECCo) is Ofgem's selected external reconciliation operator for the non-volumetric payment type Levelisation programme. Please see below for the details of this selection.

What does this selection mean?

Ofgem is developing policy and operational capacity for the potential introduction of a 'Levelisation' process across payment methods (possibly to include prepayment (PPM), standard credit and direct debit). We published a policy consultation on 25 August 2023 that explains the options we are considering.¹ Policy work is ongoing, and no final decision has been made to implement payment method Levelisation.

We have identified that payment Levelisation could take place on a daily charge basis, a volumetric basis or both. We are still considering to what extent Levelisation should include volumetric Levelisation. We are mindful that, if implemented, a volumetric approach would be much more complex, require wider industry data and engagement and could not be delivered by 1 April 2024. As a result, we consider it prudent at this time to limit the scope of work for the reconciliation operator to the development of a non-volumetric solution pending the outcome of policy decisions. As such we would ask you to operate as the non-volumetric reconciliation operator. If the policy decision is to implement volumetric Levelisation at a later date, we will work with industry to determine which body or bodies could operate as volumetric reconciliation operator alongside the non-volumetric system.

As the non-volumetric reconciliation operator, you will be required to develop industry processes, as well as design, build, test, and deliver a functional system that will enable the facilitation of payments between suppliers to allow for non-volumetric Levelisation. In addition to this, you will be expected to engage with industry over the course of the programme to ensure that they are contributing to the design of the solution you build,

¹ Available here: <https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters>

and that they are aware of the requirements to provide timely data for this form of Levelisation to work.

The work described will be undertaken 'at risk', as it is to be carried out before GEMA give a decision on Levelisation. We expect to make a decision in early 2024 after consideration of our minded to position, including our assessment of feedback from a statutory consultation envisaged to begin in late November 2023, by GEMA.

Why is a reconciliation operator being selected before a decision on Levelisation?

Following a request by the Chancellor, we have been considering options to levelise PPM charges in time for the ending of Energy Price Guarantee (EPG) at the end of March 2024. If industry is to deliver an effective scheme by 1 April 2024, then it is accepted that work needs to commence on this imminently, to allow for the solution to be built and tested, as well as co-designed with industry to fulfil Levelisation requirements in time. Ofgem is selecting RECCo to deliver standing charge Levelisation only, and the solution being designed needs to be configured in a way that can implement the standing charge element of any policy option presented in the above-mentioned policy consultation, should Levelisation proceed.

The scheme must be progressed 'at risk' imminently in order to allow for any positive GEMA decision to be implemented in a timely and effective manner, in particular so that there is no gap in Levelisation following the end of the EPG at the end of March 2024.

It is important for PPM consumers that there is no gap in the Levelisation of PPM tariffs against direct debit tariffs as currently implemented through the EPG. If a solution is not in place from 1 April 2024, then PPM consumers would incur higher charges.

How will the activities of reconciliation operator be funded?

This entire programme of work will be funded through the RECCo budget, and not paid for by Ofgem. You have indicated to us that undertaking the work for this programme is within your remit and are reminded that you will be working at risk as a decision to continue with Levelisation will be taken in early 2024.

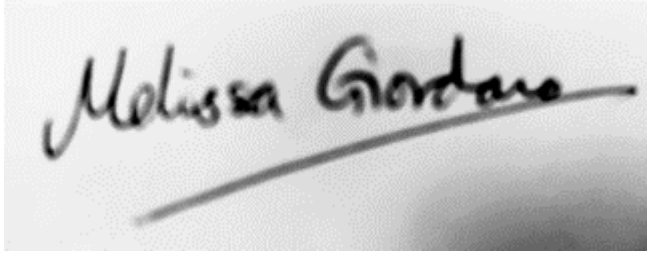
As with all industry change, which is ultimately funded by consumers, we would encourage RECCo to work with Ofgem and industry to keep project costs as low as reasonably practicable. I am very grateful for your support in doing that.

My officials are in regular contact with you about the Levelisation programme. We will update you at these meetings on relevant policy decisions and look forward to continued engagement on the code and systems modifications.

Next steps

Based on the above conditions, please could you formally notify us of your agreement to the terms, indicating your acceptance of the role of non-volumetric Levelisation reconciliation operator?

Yours sincerely,

A black and white photograph of a handwritten signature in cursive script. The signature reads "Melissa Giordano" and is underlined with a single horizontal stroke.

Melissa Giordano
Deputy Director, Retail Systems and Processes