

Industry workshop on proposed levelisation modelling changes

Ofgem Price Protection Team

Date: 12/12/2023

Time: 14:00pm

Location: Teams

1. Purpose of note

1.1. This note sets out a summary of views and representations made during an industry workshop on proposed 'levelisation' modelling changes. The purpose of the workshop was to allow feedback specifically on the proposed modelling changes which would give effect to the levelisation policy proposals set out in the November 2023 statutory consultation¹. Ofgem were keen to ensure the modelling proposals did not pose any operational issues with relevant industry stakeholders.

1.2. In attendance were Ofgem Price Protection representatives (covering those involved in the policy development for the levelisation workstream and delivering the price cap) and relevant modelling experts from industry.

1.3. This note outlines a summary of anonymous industry representations raised during this workshop, which Ofgem have had regard to, along with other representations received, in deciding the final modelling approach.

2. Summary of proposed modelling changes with respect to levelisation

2.1. Ofgem outlined the scope of the workshop was specific to the modelling changes required to deliver the first phase of statutory consultation proposals ie to levelise the standing charge for PPM and Direct Debit (DD) from April 2024.

¹ Ofgem (2023), Changes to prepayment meter standing charges and other debt costs
(<https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs>)

- 2.2. Ofgem noted the second phase of the levelisation proposals, to levelise other debt costs between DD and Standard Credit (SC) on standing charge and unit rate, would require further engagement with industry through in 2024.
- 2.3. The introduction of levelisation requires changes to the price cap modelling suite. Ofgem consulted on the modelling changes alongside the statutory consultation, including a new draft model 'Annex 9' which included the Levelisation Cost Allowance and the subsequent Benchmark maximum charges for each fuel, payment type, metering arrangement and region.
- 2.4. Ofgem emphasised that Annex 9 will represent the 'final' levels of the price cap which suppliers must comply with (aligned to the benchmark maximum charges published in the PDF tables). However, Ofgem will continue to publish the previous 'overview' model which sets out the total of individual cost allowances. This will be an input into the new Annex 9. The legacy overview model can therefore be considered as 'pre-levelised' price cap levels, with Annex 9 reflecting the final 'post-levelised price cap levels which suppliers must comply with. Ofgem will provide adequate signposting to and appropriate wording within both the pre-levelised (overview) model and the post-levelised (Annex 9) model, to make the purpose of each model clear to stakeholders.

3. Industry representations provided on modelling approach

- 3.1. Stakeholders did not raise any concerns or alternative suggestions with respect to the modelling approach outlined. However, several stakeholders asked clarification questions.
- 3.2. One stakeholder asked how the customer account inputs are weighted. Ofgem responded that relevant data from an existing industry Request for Information (RFI), known as the Tariff & Customer Account RFI, would be summed up to determine customer numbers for each fuel type, metering arrangement, region and payment

type. Phase 1 levelisation is achieved using a weighted average across PPM and 'Other' payment types.

- 3.3. One stakeholder asked whether Ofgem will not know the amount to be levelised until they receive the quarterly RFI. Ofgem responded that as the Customer & Tariff Account RFI will be an input to the final cap levels, we will not know the exact amount to be levelised until that has been received and processed. Ofgem further clarified that due to timings, receiving and processing the RFI would require industry submissions to be submitted on time, and in an accurate format. Ofgem would include the relevant customer account inputs as part of the Industry Review of inputs that is sent to suppliers in advance of the final cap publication, though depending on the timeliness and accuracy of responses submitted, this may not necessarily reflect the final customer numbers which will inform the final cap level figures for a given period.
- 3.4. Another stakeholder posed the question as to whether any thought has been given to using customer account RFI to use traditional PPM instead of PPM total. Ofgem's response to this was it is out of scope for the levelisation workstream. This is because differences in smart PPM and traditional PPM costs are being reviewed as part of the Operating Costs review workstream being undertaken in parallel to this.
- 3.5. Ofgem were asked whether there will be an over or under recovery through reconciliation each quarter and how that will work. This will be covered through the Retail Energy Code Company (RECCo) process and additional information can be found in the [Webinar on REC change proposal R0147](#): Implementing the pre-payment levelisation progress held on 30 November 2023.