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for energy consumers

Domestic Energy Suppliers

Date: 18th March 2024

Open letter on the calculation of electricity base levelisation rates

We are writing to explain how the electricity base levelisation rates will be calculated and reconciled from 1st April 2024.

As outlined in the Levelisation Policy decision document¹, payment type reconciliation system which supports the levelisation policy, has initially been designed to accommodate one set of levelisation rates per region and fuel type, to be used when calculating the daily differential rates and the reconciliation amounts. This means that the initial reconciliation system will not take full account of the levelisation charges associated with multi-rate electricity metering arrangements.

This letter sets out our interim solution which will derive a blended base levelisation rate, with the aim of fulfilling the policy aims set out in section 6.30 of the Levelisation Policy document. We are therefore requesting that suppliers preserve data on their multi rate/ single rate customer split so we can true-up any mismatch between the reconciliation payments made before a multi-rate differentiated system is put in place later this year.

Explanation

On 23rd February 2024, Ofgem published our decision to adjust (or 'levelise') the nil consumption price cap level for prepayment (PPM) and Direct Debit (DD) customers from 1st April 2024, supported by the implementation of a reconciliation by difference mechanism to reduce any market distortions the levelisation allowance could create. As set out in section 6.32 of the decision document, the levelised cap and levelisation rates will be calculated by Ofgem for each fuel, region and payment method and provided to the reconciliation operator and the industry on a quarterly basis, published alongside the cap level for that period.

The energy price cap (default tariff) calculates different maximum charges at nil consumption ('standing charges') for consumers on single-rate and multi-rate electricity metering arrangements in each region. As a result, different levelisation allowances have been calculated for both single-rate and multi-rate consumers within the price cap in each region. However, the reconciliation system operated by RECCo which supports the levelisation policy, has initially been designed to accommodate only one set of levelisation rates per region and fuel type to be used when calculating the daily differential rates and thus the reconciliation amounts.

We are working with RECCo to design and build the additional system requirements needed to process two sets of levelisation rates (i.e. both single-rate and multi-rate metering

¹ [Decision on adjusting standing charges for prepayment customers | Ofgem](#)

arrangements) as quickly as possible, but this will not be ready for the levelisation process coming into effect on 1st April 2024. We assessed delaying implementation until this is complete but have decided to proceed with an interim solution whilst the design updates are addressed in parallel. Ofgem has taken this decision due to the impact that not implementing levelisation by 1st April 2024 would have on PPM consumers, and the impact on suppliers of not implementing the reconciliation mechanism in conjunction with levelisation. The supplier impact analysis we have conducted also shows that the impact per customer per year for each supplier of using the below interim solution is minimal, compared to a differentiated system (which we describe in more detail in below).

The levelisation rates used as part of the interim solution until the multi-rate differentiated system is ready will be blended levelisation rates derived from the single rate levelisation allowances published in Annex 9 of the price cap methodology². They will be calculated using the same methodology RECCo use to calculate the annual differential rates, which is described below. This methodology has previously been consulted on by RECCo as part of the R0147 change proposal.

Once the multi-rate differentiated system is ready, RECCo will undertake a retrospective true-up process based on the individual levelisation rates for single-rate and multi-rate consumers and backdated to 1st April 2024 to settle any differences in the reconciliation payments made to/ from suppliers under the interim solution. This will be completed by the end of the 2024/25 financial year at the latest. Suppliers should note that Ofgem will request additional data through an RFI to complete the true-up process, so we are requesting that suppliers to preserve the data detailed in Section 4 below.

Calculation of the blended base levelisation rates and provision of data to RECCo

As set out in section 6.32 of the Levelisation Policy decision document, the levelised cap and levelisation rates will be calculated by Ofgem for each fuel, region and payment method and provided to the reconciliation operator and the industry on a quarterly basis, published alongside the cap level for that period. Data will be provided to RECCo and published on the Ofgem website in the template outlined in Annex A.

The reconciliation system will pick up this data file alongside suppliers' payment portfolio data (to be submitted as per the requirements of Schedule 31 of the Retail Energy Code (as created by R0147)), and will undertake the following calculations to determine the daily differential rates and reconciliation amounts on a monthly basis:

- Calculate the charges expected by region and payment method by multiplying the total count of meters across all domestic suppliers by region and by payment method (supplier-provided data) by the annual non-levelised standing charge for region and payment method (Ofgem-provided data).
- Calculate the annual adjusted levelised standing charge by region by dividing the sum of the charges expected by region for both payment methods by the sum count of meters by region for both payment methods.
- Calculate the annual differential rate by subtracting the annual adjusted levelised standing charge by region from the annual non-levelised standing charge for region and payment method.
- Calculate the daily differential rate by dividing the annual differential rate by region and payment method by the count of calendar days in the upcoming year (from the date of the standing charge period).
- Calculate the levelisation credits and liabilities across each supplier's portfolio by multiplying the count of meters within MPID/ SSC by region and payment method

² [Annex 9 - Levelisation allowance methodology and levelised cap levels v1.xlsx \(live.com\)](#)

by the daily differential rate by region and payment method and multiplied by the number of calendar days in the applicable month.

In a differentiated system, this process would be replicated for each metering arrangement, but until this is ready, Ofgem is only able to notify one rate per fuel, per region per payment type to RECCo due to the design of the system (i.e. a “blended” rate).

Having explored a number of methods to provide the required data in a blended form and to calculate a blended levelisation rate which includes data for both metering arrangements, Ofgem has taken the decision to use the methodology outlined above to derive the blended base levelisation rate that we will supply to RECCo alongside the single-rate standing charge data from Annex 9 of the price cap methodology. This is because:

1. The overwhelming majority of metering systems are single rate (c. 88%) and therefore the single rate standing charges reflect the charges associated with the majority of consumers.
2. The system has an intrinsic ability to derive an adjusted levelisation rate from market-wide payment portfolio data, and this is the most efficient and effective way of producing a blended rate that most closely aligns to the intended policy outcomes set out in section 6.30 of the Levelisation Policy decision.
3. The process above was consulted on and had the benefit of stakeholder input in the adoption of R0147, and
4. Alternative methodologies for blending a reconciliation rate based on weighted averages of consumer types by regions are marginally less precise and produce a net outcome for suppliers further away from the net position achieved by a multi-rate differentiated system.

As such, we have calculated the blended base levelisation rates for electricity for each region, in line with the RECCo methodology consulted on in R0147³ as follows:

- Calculate the nil consumption charges expected by payment method (DD/ PPM) by multiplying the pre-levelised nil-consumption data by the total customer account numbers (i.e. both single and multi-rate accounts)
- Calculate the total nil consumption charges by adding together the nil consumption charges for both DD and PPM
- Calculate the total number of customer accounts by adding together the customer account numbers for both DD and PPM
- Calculate the base levelisation rate by dividing the total nil consumption charges by the total customer account numbers.

A regional breakdown of the calculated blended baseline levelisation rates and supporting methodology are set out in Annex B, alongside the single and multi-rate levelisation allowances which are included for comparison. These will also be published on our website.

Inputs are sourced from Annex 9 – Levelisation model of the Default Tariff Cap for Price Cap Period 12A⁴:

- a. Customer number data for DD and PPM payment types (for electricity only) is sourced from tab 3d Customer accounts in Annex 9 for the applicable cap period.
- b. Pre-levelised nil values for DD and PPM payment types (for electricity only) are sourced from tab 3a DTC Other for DD customers and 3c DTC PPM for PPM customers. The nil consumption values for single-rate metering arrangements should be used (rows 12-25 of both sheets) for the applicable cap period.

³ [Prepayment Levelisation - REC Portal](#)

⁴ [Annex 9 - Levelisation allowance methodology and levelised cap levels v1.xlsx \(live.com\)](#)

All calculations and data detailed in this letter have been quality assured by Ofgem's Office of Research and Economics.

Impact on suppliers

We considered several possible options to mitigate the impact of a non-differentiated reconciliation system as far as possible both against the policy aims set out in the Levelisation Policy decision document and two further key aims:

1. To minimise the overall net annual impact and annual per customer impact on any given supplier, and
2. To reduce the range of the above impact between suppliers to ensure the mitigation is as fair as possible.

Although we cannot publish our full analysis due to commercial sensitivities, our interim solution of calculating a blended rate best fulfils both aims above. Our analysis shows that the potential financial impacts of this issue are marginal for the majority of suppliers. For most suppliers the temporary cashflow impact is +/-£0.01 per customer per year. The cashflow impact range for all suppliers is between +£0.09 and -£0.12 per customer per year compared to a multi-rate differentiated reconciliation system. We would be happy to discuss the individual impact on any supplier on a bilateral basis.

The aggregate impact of this approach is a temporary net annual under-recovery compared to a multi-rate differentiated system of approximately £460,000 across all suppliers. Alternative methodologies produce an impact closer to or above £500,000.

'True-up' and data requirements

Once the multi-rate differentiated system is ready, RECCo will undertake a retrospective true-up process based on the individual levelisation rates for single-rate and multi-rate consumers and backdated to 1st April 2024 to settle any differences in the reconciliation payments made to/ from suppliers under the interim solution.

To do this, we will request additional data from suppliers through an RFI by the end of the year regarding the number of customers on single-rate and multi-rate tariffs for each payment type and each region on the 1st of each month, backdated to 1st April 2024. As such, we are requesting that that suppliers preserve this data so it will be available for the RFI.

We will work with suppliers to design the templates and file formats for the true-up RFI and for the multi-rate differentiated system, which we anticipate will consist of simple monthly snapshots.

Further information

RECCo is running a levelisation webinar on 14th March 2024 at which Ofgem officials will discuss the content of this letter in more detail. Interested parties can register for the webinar via the REC portal. The Ofgem officials in attendance will be happy to address any questions or clarifications you require.

My officials are also happy to discuss or receive comments on the content of this letter bilaterally. Please contact victoria.wykeham@ofgem.gov.uk.

Yours sincerely,

A handwritten signature in black ink that reads "Melissa Giordano". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Melissa Giordano
Deputy Director, Retail Systems and Processes

Annex B – Blended Electricity Levelisation Reconciliation Rates Calculations

Direct Debit							
A	B	C	D	E	F	G	H
<i>Source:</i>	<i>Source Annex 9</i>	<i>B[PPM] + B[DD]</i>	<i>Source Annex 9</i>	<i>[BxD]</i>	<i>E[PPM] + E[DD]</i>	<i>F / C</i>	<i>D - G</i>
Region	Total Elec DD Meters (Single + Multi)	Total Elec Meters (DD + PPM)	DD Non-Levelised Nil Consumption (single rate) (£/cust/year)	Total Nil Consumption Allowance (£/year)	Total Nil Consumption (DD+PPM) (£/year)	Levelised Nil Consumption Rate (£/cust/year)	Annual Differential Rate (£/cust/year)
North West	1,576,747	1,926,585	173.37	273,360,627.39	342,733,502.79	177.90	-4.53
Northern	1,089,238	1317405	243.22	264,924,466.36	326,027,588.96	247.48	-4.26
Yorkshire	1,507,160	1834790	230.02	346,676,943.20	430,114,475.30	234.42	-4.40
Northern Scotland	474,391	600384	207.80	98,578,449.80	127,878,121.95	212.99	-5.19
Southern	2,231,755	2527097	217.39	485,161,219.45	556,660,564.23	220.28	-2.89
Southern Scotland	1,277,403	1643458	214.93	274,552,226.79	362,277,307.54	220.44	-5.51
N Wales and Mersey	958,616	1234321	227.53	218,113,898.48	287,641,185.38	233.04	-5.51
London	1,283,765	1671560	135.95	174,527,851.75	236,989,992.40	141.78	-5.83
South East	1,643,249	1877955	194.98	320,400,690.02	371,989,068.82	198.08	-3.10
Eastern	2,593,519	2985389	170.59	442,428,406.21	519,054,666.01	173.87	-3.28
East Midlands	1,915,666	2227504	191.00	365,892,206.00	433,202,438.30	194.48	-3.48
Midlands	1,672,202	2025705	213.77	357,466,621.54	441,777,087.04	218.09	-4.32
Southern Western	1,125,309	1309082	230.40	259,271,193.60	306,140,659.52	233.86	-3.46
South Wales	722,343	897542	215.00	155,303,745.00	197,300,697.29	219.82	-4.82

PPM

A	B	C	D	E	F	G	H
<i>Source:</i>	<i>Annex 9</i>	<i>B[PPM] + B[DD]</i>	<i>Annex 9</i>	<i>[BxD]</i>	<i>E[PPM] + E[DD]</i>	<i>F / C</i>	<i>D - G</i>
Region	Total Elec PPM Meters (Single + Multi)	Total Elec Meters (DD + PPM)	PPM Non-Levelised Nil Consumption (single rate) (£/cust/year)	Total Nil Consumption Allowance (£/year)	Total Nil Consumption (DD+PPM) (£/year)	Levelised Nil Consumption Rate (£/cust/year)	Annual Differential Rate (£/cust/year)
North West	349,838	1,926,585	198.30	69,372,875.40	342,733,502.79	177.90	20.40
Northern	228,167	1,317,405	267.80	61,103,122.60	326,027,588.96	247.48	20.32
Yorkshire	327,630	1,834,790	254.67	83,437,532.10	430,114,475.30	234.42	20.25
Northern Scotland	125,993	600,384	232.55	29,299,672.15	127,878,121.95	212.99	19.56
Southern	295,342	2,527,097	242.09	71,499,344.78	556,660,564.23	220.28	21.81
Southern Scotland	366,055	1,643,458	239.65	87,725,080.75	362,277,307.54	220.44	19.21
N Wales and Mersey	275,705	1,234,321	252.18	69,527,286.90	287,641,185.38	233.04	19.14
London	387,795	1,671,560	161.07	62,462,140.65	236,989,992.40	141.78	19.29
South East	234,706	1,877,955	219.80	51,588,378.80	371,989,068.82	198.08	21.72
Eastern	391,870	2,985,389	195.54	76,626,259.80	519,054,666.01	173.87	21.67
East Midlands	311,838	2,227,504	215.85	67,310,232.30	433,202,438.30	194.48	21.37
Midlands	353,503	2,025,705	238.50	84,310,465.50	441,777,087.04	218.09	20.41
Southern Western	183,773	1,309,082	255.04	46,869,465.92	306,140,659.52	233.86	21.18
South Wales	175,199	897,542	239.71	41,996,952.29	197,300,697.29	219.82	19.89

Annex C – Blended Base Electricity Levelisation Rates compared to single-rate and multi-rate nil consumption levelisation allowances as set out in Annex 9 of the Price Cap methodology (£/customer/year)

Region	Prepayment Meter			Other Payment Method		
	Single rate	Multi rate	Blended rate	Single rate	Multi rate	Blended rate
North West	-£20.37	-£20.93	-£20.40	£4.56	£3.96	£4.53
Northern	-£20.28	-£21.05	-£20.32	£4.30	£3.50	£4.26
Yorkshire	-£20.25	-£20.24	-£20.25	£4.40	£4.38	£4.40
Northern Scotland	-£20.17	-£16.07	-£19.56	£4.58	£8.64	£5.19
Southern	-£21.94	-£20.48	-£21.81	£2.76	£4.19	£2.89
Southern Scotland	-£19.58	-£15.09	-£19.21	£5.14	£9.60	£5.51
North Wales and Mersey	-£19.13	-£19.36	-£19.14	£5.52	£5.26	£5.51
London	-£19.28	-£19.42	-£19.29	£5.84	£5.66	£5.83
South East	-£22.00	-£20.20	-£21.72	£2.82	£4.58	£3.10
Eastern	-£22.02	-£20.09	-£21.67	£2.93	£4.81	£3.28
East Midlands	-£21.18	-£22.07	-£21.37	£3.67	£2.74	£3.48
Midlands	-£20.45	-£20.00	-£20.41	£4.28	£4.70	£4.32
Southern Western	-£21.49	-£18.77	-£21.18	£3.15	£5.84	£3.46
South Wales	-£19.82	-£21.32	-£19.89	£4.89	£3.37	£4.82