

Domestic Energy Suppliers

Date: 11th March 2024

Letter to suppliers on Levelisation reconciliation mechanism audit requirements

On the 23rd February 2024, Ofgem published our decision on adjusting the nil consumption price cap level for prepayment (PPM) and Direct Debit (DD) customers from 1st April 2024¹. This process – known as Levelisation – is supported by a reconciliation by difference mechanism. Alongside our decision we also approved REC modification R0147 which added Schedule 31 to the Retail Energy Code, setting out the reconciliation obligations on suppliers.

This letter details our expectations of suppliers in relation to the audit and assurance aspects of the Decision. We will require suppliers to provide the Authority with formal assurance on the customer account data which they submit to the reconciliation operator (RECCo), and general compliance with the reconciliation mechanism, via audit.

We require this reconciliation audit and assurance due to the scale of money flowing through the reconciliation mechanism, and the reliance which the system places upon supplier self-reporting of their customer portfolio data. A decision by His Majesty's Treasury (HMT) to classify reconciliation monies as 'tax and spend' has also placed additional assurance and reporting requirements on Ofgem.

Background

The reconciliation mechanism ensures current and future supplier stability, market diversity and that competition is not negatively impacted by the introduction of a Levelisation allowance within the price cap. We also consider that reconciliation provides greater certainty that specialist suppliers can recover efficient costs.

HMT notified Ofgem prior to publication of our decision on Levelisation that they have classified money flowing through the reconciliation system as Tax and Spend. This means it is counted as public money for which Ofgem is directly accountable to HMT and parliament. As a result, we will require suppliers to assure or audit their reconciliation data and processes, given the scale of monies being transferred through the reconciliation mechanism, the reliance on supplier self-reported data and the need to protect the integrity of the system.

The newly introduced REC Schedule 31 sets out the detailed code operation for the standing charge Levelisation reconciliation mechanism from 1st April 2024. Paragraph 9.1 of REC Schedule 31, states that "RECCo and Domestic Suppliers shall comply with any

¹ See the [Decision](#) on the Ofgem website

direction in writing by the Authority, or any person appointed by the Authority, in relation to any audit of the PML Reconciliation.” Additionally, paragraph 6.49 of the Levelisation Decision confirmed the requirement of assurance or audit from suppliers.²

This letter sets out the broad scope of the audit requirements which we will require for this scheme, which are similar to those required under the Supplier Of last Resort (SOLR) Levy claims process. We will provide further detailed guidance and direction to suppliers in due course.

Scope of Supplier Audits Requirements

We will expect suppliers to maintain a clear and comprehensive audit trail and commit to working transparently with Ofgem and RECCo. Suppliers will be responsible for performing formal assurance on their activities under the reconciliation mechanism including:

- The provision of timely and accurate customer portfolio data,
- The provision of other relevant data or information as required and requested,
- The making of Levelisation reconciliation payments as required by Schedule 31.

Suppliers are also responsible for ensuring adherence to relevant Retail Energy Code and Standard Licence Condition requirements.

We will require suppliers to perform an audit approximately four months prior to the end of the first scheme year (1st April 2024 - 31st March 2025). This audit will cover the first six months of reported data and associated activities. We will require suppliers to notify Ofgem of the outcome of that audit process. This audit can be conducted by suitably qualified personnel directly employed by the supplier, or by an external body which the supplier appoints for these purposes.

We would expect the internal audit to follow the Agreed Upon Procedures which we outline below. These set out the minimum standards we expect the audit to meet. The resulting audit outcome notification sent to Ofgem will need to be signed off by a statutory director of the company or the company board.

Agreed Upon Procedure	Detail
Application of ISRS4400	Auditors should have regard to International Standard on Related services 4400 (ISRS 4400) – Engagement to Perform Agreed-Upon Procedures Regarding Financial Information . While ISRS 4400 is directed toward engagements regarding financial information, in our view this standard will provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings. Auditors who do not apply ISRS 4400 should justify their decision and explain the alternative approach they used to demonstrate how the Agreed-Upon Procedures (AUPs) have been met.

² See the [Decision](#) on the Ofgem website

Internal/External Audit teams	We will not accept internal audits that have not been carried out with the necessary independence or in accordance with the appropriate standards.
Treatment of cost	We will only request an external, independent audit if we have serious concerns about any part(s) of a supplier's reconciliation data submission or payment schedule. We therefore consider the cost of an additional external audit, should it be requested by Ofgem, to be an avoidable cost. This means that the cost of the audit may not be claimed from Ofgem.
Timing of audit request	We first raised the possibility of an audit requirement in our letter ³ on Alignment of legal text on R0147 on 17 th January 2024 and therefore consider that Suppliers have had sufficient time to prepare for this requirement. We set out further information in chapter 6 of our decision. Ofgem will require a completed audit to be notified to Ofgem approximately four months prior to the scheme year end, covering the first six months of data. Ofgem will keep Suppliers updated about the specifics of audit requirements, as and when they have been agreed.

Next Steps

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.

Following the launch of the reconciliation mechanism on 1st April 2024, we will write again to suppliers further detailing our requirements for assurance. That letter will give more detailed guidance on where to submit audit data with more precise deadlines.

We are also happy to receive feedback from suppliers or arrange bilateral meetings to discuss any views you have on our requirements. Please contact Levelisation_Delivery@ofgem.gov.uk with your views or to arrange a meeting.

Yours sincerely,



Melissa Giordano
Deputy Director, Retail Systems and Processes

³ See [change proposal](#)