

Domestic Energy Suppliers

Date: 27 June 2024

Levelisation_Delivery@ofgem.gov.uk

Letter to suppliers on Levelisation reconciliation mechanism audit requirements

On 23 February 2024, Ofgem published its decision to implement non-volumetric Levelisation from 1 April 2024 which included a reconciliation mechanism. In addition to that decision, Ofgem also approved the Retail Energy Code (REC) modification R0147 which added Schedule 31 to the Retail Energy Code; this set out the reconciliation obligations on suppliers.

On 11 March 2024, we wrote to suppliers setting our broad expectations of suppliers' audit requirements. We require suppliers to provide the Authority with formal assurance on the customer account data which is submitted to the Reconciliation Operator (RECCo), and general compliance with the reconciliation mechanism, via audit. This audit is required approximately four months prior to the end of the first scheme year (1 April 2024 - 31 March 2025) and will cover the first six months of reported data and associated activities. This previous letter is contained in **ANNEX A** below.

This letter builds on the letter of 11 March 2024 and sets out our detailed expectations of suppliers to audit the customer account data, which they submit to the reconciliation operator (RECCo) as part of the reconciliation process. The letter explains the Agreed Upon Procedures (AUP) and other requirements we will expect an audit to follow, gives details on how and when

a letter confirming the outcome of the audit should be submitted, and explains our requirements for sign-off for the audit.

Background

The end of the EPG on 31 March 2024 would mean PPM customers would no longer see a discount to their standing charges. Without a similar scheme in place, PPM customers' bills would have increased after the end of the discount. To prevent this, Ofgem implemented non-volumetric PPM levelisation which applied a discount to PPM standing charges to replicate the support previously provided by the EPG.

RECCo was selected by Ofgem as the reconciliation operator for the non-volumetric Levelisation. They were required to develop industry processes, as well as design, build, test, and deliver a practical system that will enable the assistance of payments between suppliers to allow for non-volumetric Levelisation.

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

This letter sets out the detailed 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.

Scope of Supplier Audits Requirements

We will require suppliers to conduct an audit before the end of this first scheme year (1 April 2024 - 31 March 2025). This audit will cover the first six months of reported data and associated activities.

Audits must follow the AUPs outlined in Table 1 below for the audit to be considered acceptable. We will require suppliers to notify Ofgem of the outcome of the audit process by sending a letter confirming this. The letter submitted to Ofgem should include the outcome of each process or data aspect audited, details of any recommendations and exceptions, the independence of the auditor, including whether it was conducted by suitably qualified personnel directly employed by the supplier, or by an external body which the supplier appoints for these purposes. Auditors should follow International Standard on Related Services 4400 (ISRS 4400) or explain what equivalent basis has been used and why. The resulting letter sent to Ofgem must be signed off by a statutory director of the company or the company board.

Agreed Upon Procedures

Table 1: Agreed Upon Procedures

Data Component	Agreed Upon Procedures (AUP)
Data completeness	Suppliers must demonstrate that required data has been submitted to RECCo and Ofgem. Your auditors must look at the data submitted and confirm that any discrepancies/disagreements surrounding the data have been resolved/reconciled.
Data Accuracy	Suppliers must demonstrate the payment portfolio data submitted accurately reflects: <ul style="list-style-type: none"> • The total number of meter points by payment type. • The total number of meter points by region. • Data returns have been submitted for each relevant MPID or SSC. • The data is inclusive of all the calendar days within each reporting month. • Each monthly data submission was submitted during the correct reporting month. • Each MPID and SSC with domestic meter points has been correctly declared to RECCo.
System Processes	Suppliers must demonstrate they have robust processes for managing the Payment Method Levelisation scheme which include: <ul style="list-style-type: none"> • Checking and verifying the data to ensure it is accurate before submitting to RECCo • Any data inaccuracies reported by RECCo or Ofgem are managed and rectified in a timely manner. • Suitable governance processes are in place to monitor the scheme.
Random sampling	Suppliers should make sure a random sample of an appropriate proportion of their submitted reconciliation data to RECCo is confirmed as accurate by the auditors. The auditors will be informed by their professional

	judgement as to what an appropriate sample size is based on coupled with a justification for the sample size.
Auditor Requirements	<p>The domestic suppliers are responsible for arranging an audit. The auditor must meet appropriate standards which are detailed below:</p> <ul style="list-style-type: none"> • The auditor does not need to be external to the business or hold a professional audit qualification but must be competent to perform such duties. • The International Standard on Related Services 4400 (ISRS 4400), or equivalent, must be applied. • The auditor must be able to demonstrate their independence of the suppliers Payment Method Levelisation (PML) processes and operational staff. • The audit report should include the outcome of each process or data aspect audited, details of any recommendations and exceptions, the independence and competence of the person(s) who did the audit and when it was completed. • The audit must be signed off by a statutory director of the company or the company board.

Ofgem will not accept audits that have been carried out without the necessary independence or in accordance with the appropriate standards as set out above.

Next Steps

The first audit is required to be completed by close of business on **Monday 16 December 2024**. Suppliers should submit this audit to the Levelisation_Delivery@ofgem.gov.uk mailbox by this date.

If you have any questions about the content of this letter, please contact my officials at the mailbox above and they will be happy to arrange a follow-up discussion.

Yours sincerely,

A handwritten signature in black ink that reads "Melissa Giordano". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Melissa Giordano

Deputy Director, Retail Systems and Processes



Making a positive difference
for energy consumers

Domestic Energy Suppliers

Date: 11 March 2024

Letter to suppliers on Levelisation reconciliation mechanism audit requirements

On the 23 February 2024, Ofgem published our decision on adjusting the nil consumption price cap level for prepayment (PPM) and Direct Debit (DD) customers from 1 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 non-volumetric Levelisation reconciliation mechanism from 1st April 2024. Paragraph 9.1 of REC Schedule 31, states that “RECCo and Domestic Suppliers shall comply with any 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 (1 April 2024 - 31 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	<p>Auditors should have regard to International Standard on Related services 4400 (ISRS 4400) – Engagement to Perform Agreed-Upon Procedures Regarding Financial Information.</p> <p>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.</p>
Internal/External Audit teams	<p>We will not accept internal audits that have not been carried out with the necessary independence or in accordance with the appropriate standards.</p>
Treatment of cost	<p>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.</p> <p>This means that the cost of the audit may not be claimed from Ofgem.</p>
Timing of audit request	<p>We first raised the possibility of an audit requirement in our letter³ on Alignment of legal text on R0147 on 17th 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</p>

	<p>year end, covering the first six months of data.</p> <p>Ofgem will keep Suppliers updated about the specifics of audit requirements, as and when they have been agreed.</p>
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Next Steps

RECCo is running a Levelisation webinar on 14 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 1 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