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16th November 2020

Dear Rachel

The Retail Energy Code – Proposals for V 1.1

We continue to support the development of and implementation of the Retail Energy Code (REC) that will govern the new faster and more reliable switching arrangements, in addition to Ofgem's broader ambitions to consolidate further code content into the REC to create a best in class code that will deliver excellent customer outcomes. We welcome the detail that Ofgem has set out within this consultation and the opportunity to respond.

REC Company and Code Governance

We support the proposal to allow the RECCo Board to decide the RECCo annual budget, subject to appeal by REC Parties. We encourage RECCo to ensure sufficient time is allowed to consult with Parties and take on board responses including, where required, organising additional forums to allow proposed budget items to be explained by RECCo and challenged by parties. This will ensure the new rights to appeal are only used as a last resort option where agreement of all parties cannot be obtained. Sufficient time is also required within the budget setting process to allow for appeals to be determined by the Authority prior to the commencement of the budget year.

Code Management

We do have concerns with the proposed change process for the REC including the establishment of a Change Panel. There are recognised weaknesses with the panel recommendation model as, with a large number of suppliers currently operating in the market, there are inherent difficulties ensuring that a single representative can effectively represent the views of all of its constituency.

A more straight-forward and transparent processes which is based upon existing voting models used by the Smart Energy Code and DCUSA is preferable.

Theft Arrangements

We do not consider it necessary to reduce the theft targets for the Theft Detection Incentive Schemes pending the replacement of the Theft Risk Assessment Service. As highlighted in the TRAS Performance Assurance Reports the TRAS contributes relatively small amounts of potential leads to the industry and therefore the absence of the TRAS will not materially impact on the ability of Suppliers to identify theft.

We believe theft targets should be increased for the scheme years commencing April 2021. Due to the suspension of the theft incentive schemes in June and July, and the truncation of the scheme years due to code consolidation, it is likely the level of theft detected will be reduced meaning a potentially increased level of theft detection when the scheme recommences.

We would be happy to discuss our response and thoughts with you in more detail. Should you have any immediate questions please contact myself or Kevin Woollard (kevin.woollard@centrica.com)

Yours faithfully

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Company and Code Governance

Q2.1 Do you have any comments on the process for appointing additional RECCo directors?

We support the proposals to establish a nominations committee to recommend future RECCo directors. We also support the proposals for Parties to be able to vote to approve the recommendation to appoint the recommended Directors.

It will be important to recruit Board members who have, as a minimum, relevant experience in, REC party constituencies and RECCo functions.

We also agree with the proposals for the ability of parties to remove directors where the director has lost the confidence of parties.

Q2.2 Do you agree that MEMs should be Party to the REC?

Yes, we agree that MEMs should be party to the REC with effect from V2.0. MEMs are responsible for the provision and quality of industry data and associated processes. Being party to the REC would help ensure that their rights, obligations and performance assurance management can be clearly set out and form a clear divide between the commercial role they undertake for Suppliers.

Q2.3 Do you agree in principle that the obligations currently placed upon metering agents by the BSC could be integrated with the REC performance assurance framework, subject to certain conditions being met?

We agree in principle that obligations currently placed upon metering agents by the BSC could be integrated with the REC performance assurance framework. Metering agent performance is critical to electricity settlement performance and therefore we would want to ensure that the move would not have a detrimental effect on settlement performance. Also, we are mindful of the additional audit requirements that may be placed on agents should the obligations move into the REC. We would not want to duplicate performance assurance activities unnecessarily simply as a result of moving the obligations.

Q2.4 Do you agree that the RECCo should be required to develop and maintain a Strategy for the REC, including but not limited to digital transformation of REC processes and data?

We agree that RECCo should be required to develop and maintain a Strategy for the REC. This will enable parties to validate the proposed annual budget against the published strategy.

Q2.5 Do you agree that RECCo should adopt zero based budgeting from 2021/22?

We support the proposal to adopt a zero based budgeting methodology for setting the annual REC budget.

Q2.6 Do you agree that future RECCo budgets should be decided upon by the RECCo Board, subject to appeal by REC Parties?

The consultation rightly points out the impact of the default tariff cap and the increased pressure on Suppliers to reduce costs. As it stands industry code costs that are allowable under the cap are included in "Headroom", have been set at the levels incurred in 2017/18 and have only been

increased by CPI. Analysis of the actual increase in code costs show that these have increased by around 74% since 2017/18. We strongly agree therefore that RECCo budgets decided upon by the RECCo Board should be appealable by REC parties subject to the conditions outlined in proposed clause 9.8.

Performance Assurance

Q3.1: Do you agree with the proposed composition of the PAB, as set out in the Terms of Reference published with this document (see Appendix 2).

We agree that the PAB should be made up of members who have direct and relevant knowledge of the challenges faced by REC Parties and that the PAB should contain representatives from Parties that are subject to the performance assurance regime.

Q3.2: Do you agree that any organisation undertaking an activity governed by the REC would be within scope of the performance assurance framework in respect of those activities?

We agree that organisations undertaking an activity governed by the REC should be within scope of the performance assurance framework in respect of those activities.

The PAB will need to ensure that appropriate performance metrics are agreed and that these metrics are capable of accurately monitoring the activities within scope.

We note that it is proposed that decisions by the PAB are directly appealable to the RECCo Board and that their decision is final. In view of the severity of the sanctions open to the PAB, and the complexities of the activities being assured under the REC, any decision made by the RECCo Board should also be appealable to the Authority.

Q3.3 Do you agree that at least one of the PAB's priorities should be determined by Citizen's Advice?

It is reasonable to use Citizen's Advice insight to drive performance improvements across the industry and therefore to allow Citizen's Advice to influence priorities, where there is a material and demonstrable consumer detriment.

Q3.4: Do you agree that the PAB should have discretion to escalate liabilities within a defined range if the earlier application of charges does not achieve the desired effect?

We agree with the proposals on the set-up and operation of the PAB to ensure that there are appropriate assurance procedures in place to support the effective operation of the REC. Failure to address poor performance and non-compliance with code obligations, particularly where performance materially impacts consumers and other suppliers, should be addressed through an array of sanctions available to the REC PAB.

Q3.5: Do you agree that suppliers with serious performance issues should face restrictions on their ability to acquire new customers until those issues are resolved?

We agree suppliers with serious performance issues should face restrictions on their ability to acquire new customers until those issues are resolved providing this is a proportionate response to

performance issues that remain unresolved, showing no signs of improvement following extensive REC PAB engagement.

This ultimate sanction would need careful consideration before being imposed as restricting a supplier's registration rights would prevent suppliers from repatriating erroneously transferred customers and customers wishing to exercise their cooling off rights. The PAB would need to consider unintended consequences of its sanctions prior to imposing them.

Another example discussed in the consultation, looks at restrictions on the use of enquiry services should parties be found to be abusing those services. However, with enquiry services being the only mechanism through which a supplier / PCW can access and validate Retail Energy Location (REL) data, preventing suppliers from utilising the services could have the adverse impact of driving an increase in ETs etc, and therefore introduce further consumer detriment.

Code Management

Q4.1: Do you support our proposals regarding the production of preliminary and detailed IA?

We agree with the proposals regarding the production of preliminary and detailed IAs to help inform decisions on whether proposed REC changes are cost effective and provide value for money to end consumers. When evaluating proposed changes, the Code Manager and Change Panel should consider both Service Provider and REC Parties costs of implementing the change.

Q4.2: Do you agree that the Change Panel should be appointed by the RECCo Board, following a process overseen by the nominations committee?

Insofar as the REC will require the establishment of a Change Panel, we agree that it should be constituted with the right blend of individuals to represent the interests of the wide array of REC stakeholders, including the introduction of independent members to represent the consumer. It remains critical however that code parties are sufficiently represented.

However, there are recognised weaknesses with the panel recommendation model as, with a large number of suppliers currently operating in the market, there are inherent difficulties ensuring that a single representative can effectively represent the views of all of its constituency.

As we have stated previously, for the purposes of the REC, we favour the introduction of a straight-forward, transparent process which is based upon the existing SEC modification and change board arrangements. This model enables code parties and independents to be consulted on all change proposals, encourages responding parties to provide reasoning for their responses by reference to the SEC Objectives and provides for a structured change board voting process which then determines, via a party category voting process, whether each change should be recommended to the Authority (where required) for approval. This allows every party an opportunity to have their say on proposed change and provides the constituency representative with an unambiguous view of the constituency support for a change.

Parties should have the ability to appeal change decisions to a suitable authority, such as the Competition and Markets Authority.

Q4.3: Do you agree that the REC should encourage shorter and more frequent Change Panels, to be held remotely where possible?

We agree that shorter more frequent Change Panels that are held remotely may encourage smaller parties to engage with the code governance process.

Q4.4: Do you agree with the proposed categorisation of REC documents and associated change paths?

We agree with the proposed categorisation of REC documents and associated change paths. Technical and operational documentation that has no impact on industry parties should be approved by the appropriate REC Committee, Code Manager or Code Service Provider.

As per our answer to question 4.2 we believe REC parties should have the ability to appeal Category 1 change decisions to a suitable authority such as the Competition and Markets Authority where the decision has been made by the Authority. Likewise, REC parties should have the ability to appeal Category 1 change decisions to the Authority which have been made by the Change Panel and Change Manager subject to the conditions in clause 22.8 of the main REC Agreement.

Q4.5 Do you agree that code administrators and managers should be able to raise any changes identified as necessary by the CCSG?

We agree that by allowing code administrators and managers to raise changes identified by the CCSG this will reduce the burden on individual code parties to raise changes and will enable a more effective and efficient change process.

Theft Arrangements

Q 5.1: Do you agree that we should extend the valid reasons for an objection to include ongoing and time-bound theft investigations, and subject to monitoring by the PAB? Do you have any suggestions for the period of time during which it should be possible to maintain investigations as a reason for an objection and what should trigger the start of that period of time?

We agree in principle with the proposal to extend the valid reasons for objection to include ongoing and time-bound theft investigations. These objections should be monitored by PAB to highlight potential abuses of the objection process.

The implementation of this in practice will need careful consideration including the messaging to customers who have been prevented from switching and the practical ability of the PAB to monitor these objections. The new switching arrangements will need to capture objection reasons to enable PAB to monitor and highlight potential abuse.

Suppliers should be only able to object to a transfer where a customer has already been flagged within their systems as follows:

- Category A plus 5 working days of Category A investigation timescales
- Category B plus 5 working days of Category B investigation timescales
- Category C only where customer has refused access and Supplier has other indications of theft including
 - Unexplained drops in consumption and/or
 - Periods of non-purchase and/or
 - Where the source of a tip off is an expert who has seen a tamper in situ

- Where the source of the tip-off is from the ETTOS

Q5.2: Do you consider that the RECCo should be required to periodically review the effectiveness of the incentive scheme(s)?

We agree that RECCo should be required to periodically review the effectiveness of the incentive schemes. This review should include peer comparison of Suppliers with similar portfolio make up and their relative performance under the respective incentive schemes.

Q5.3: To what extent, if any, do you consider that the Theft Target should be reduced pending the replacement of the Theft Risk Assessment Service?

As evidenced within the published TRAS Performance Assurance Report for 2018/19 the percentage of confirmed thefts purely attributable to the TRAS is only 2.57%. The absence of the TRAS will therefore not materially impact on the ability of Suppliers to identify theft and therefore the Theft Target should not be reduced.

We note that due to the Covid Pandemic and the subsequent incentive schemes derogation there has been a decline in the number of reported confirmed thefts during 2020. In addition, in order to allow the orderly transition of the incentive schemes to the REC the schemes have been truncated to 6 months with a plan to recommence from 1st April 2021. It is our view therefore that the Theft Targets for the schemes starting in April 2021 should be increased to take account of potentially higher levels of theft, arising from the lower levels of theft detection activity due to Covid and the truncated scheme periods ending January 2021.

Q5.4: Do you agree that the RECCo should procure a theft methodology, and use that to assess the effectiveness of a Theft Reduction Strategy, which it should also develop?

As stated in the consultation the value of energy theft could be as much as £400 m per year. It is therefore imperative that the industry focusses more resources on detecting energy theft. We agree that RECCo should procure a theft methodology and use that to assess the effectiveness of the Theft Reduction Strategy.