

Rachel Clark  
Ofgem  
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London, E14 4PU

16 November 2020

Dear Rachel

## **The Retail Energy Code – Proposals for version 1.1**

Thank you for the opportunity to respond to your consultation.

As you know, the Retail Energy Code Company Limited (RECCo) was established to ensure the proper, effective, and efficient implementation and ongoing management of the Retail Energy Code (REC). The REC itself will facilitate the efficient and effective running of the retail energy market, including its systems and processes, in order to promote innovation, competition and positive customer outcomes.

We consider that questions relating to the content of the REC are appropriately a policy matter for REC Parties and other stakeholders to comment on rather than the RECCo Board. We have therefore limited our detailed response as appended, to those questions relating to company and code governance from Chapter 2 of the consultation document. However, I can confirm that we are comfortable with all the proposals contained within the REC v1.1 drafting and have in many cases captured those requirements within our Code Manager contracts and/or transitional planning. This includes the commencement of theft arrangements under the REC from 1 April 2021. This work has been facilitated by the early and welcome transparency of Ofgem's thinking on the scope of REC requirements, which we hope will continue for the remainder of the Retail Code Consolidation and Switching Programmes and beyond.

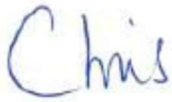
As noted above, RECCo has now awarded contracts relating to Code Management and other services, with mobilisation ramping up towards the full delivery of services with effect 1 September 2021 in accordance with the Retail Code Consolidation and Switching Programme re-plan. However, this also means that it will become increasingly difficult and potentially require expensive change to contracts if the requirements placed upon RECCo deviate from the designated and/or baselined REC text. We therefore request that the assessment of any Change Request or other relevant decisions to be progressed through Ofgem's programme governance take full account of the impact on RECCo and REC Parties as part of its decision-making. We therefore consider that it would be helpful to both ourselves and the switching programme if the potential impact of Change Requests on REC and wider industry governance could be added to the Change Request form and subsequent triage process. With the support of our newly appointed Code Managers we will be able to more fully engage with the programme and assist in the completion of these impact assessments, where relevant. We look forward to discussing with you how these resources could be most effectively deployed.

We also recognise that as the programme progresses, the need for stability of the design and certainty for parties may mean that some Changes Requests and/or the resolution

of some minor defects may not pass the triage process and could instead be carried over into the post-implementation live switching environment. It will be important to ensure that these unresolved issues are accurately and transparently captured, together with their potential impact on Switching Service Management and Central Switching Service governance more generally.

Finally, I would like to thank Ofgem for the collaborative approach it has taken in the development of the REC and look forward to this continuing through the remainder of the Retail Code Consolidation and Switching Programme.

Yours sincerely



**Dr Chris Anastasi**  
**Chair, RECCo**

On behalf of the RECCo Board

## **Annex: RECCo responses to individual questions**

### Chapter 2: Company and Code Governance

#### **1) Do you have any comments on the process for appointing additional RECCo directors?**

We agree with the proposal that directors of RECCo should be recruited through a nominations committee process in keeping with the principles of good corporate governance. While the current Board holds a wealth of energy industry experience, we recognise that the nature of industry governance is changing, and the skill set and knowledge of the RECCo Board must adapt accordingly. We have started the process of recruiting two further non-executive directors with specific strengths in the fields of consumer advocacy and digital transformation, and would expect to recruit further independent non-executive directors ahead of the REC version 2.0 being implemented on 1 September 2021.

#### **2) Do you agree that MEMs should be Party to the REC?**

We agree that the active participation of Meter Equipment Managers (MEMs) in the REC should improve the governance of gas and electricity retail metering arrangements, both in terms of change control of metering provisions, and assuring compliance with them. It seems appropriate that the parties who are subject to the metering obligations that will be imposed by the REC should be fully enfranchised in the decision-making processes that relate to them. As Ofgem has previously signalled its intention to include MEMs as REC Parties we have included this in the design principles for the Code Manager services and have been engaging with metering bodies as part of their mobilisation.

#### **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 consider that this is largely a policy matter for Ofgem to determine. However, should the scope of electricity metering arrangements provided by the REC extend to some of those areas currently provided through the BSC, RECCo would expect to work collaboratively with Elexon and BSC Parties to ensure that any settlement risks associated with metering continue to be mitigated by the REC performance assurance framework.

We welcome the proposal to include a representative of Elexon on the REC Performance Assurance Board and can confirm that steps have already been taken by our respective organisations to ensure that we can in partnership provide effective and holistic assurance of the electricity metering arrangements. Whilst these cross-code issues do not arise to the same extent in gas, we would similarly expect to work with the UNC Performance Assurance Committee to ensure effective collaboration on any areas of mutual interest.

#### **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 the production of the strategy will help not only in aligning RECCo's goals and direction of travel with that of the energy retail market, but also provide guiderails for operational decisions such as the prioritisation of change. Although the production of such a strategy would have been an implicit expectation of RECCo, we consider that codifying this requirement and explicitly linking it with the budget setting process will provide greater clarity to stakeholders and help to establish the cadence of these processes. Whilst the focus of the RECCo strategy may evolve over time, we agree that the digitalisation of retail processes and better use of data for the consumers benefit are particularly timely. As noted above, this has been recognised in our priority recruitment of non-executive directors to the Board and in our appointment of a service provider to deliver a REC digitalisation strategy amongst other things.

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

Yes. We recognise that financial constraints that many industry parties face and we are committed to maintaining prudent financial management of RECCo and REC services, ensuring that they deliver good value for REC Parties and ultimately consumers. We consider that the adoption of zero-based budgeting principles will instil appropriate disciplines within the organisation and help us demonstrate to REC Parties that we are meeting our commitments on this.

Aside from the necessary and appropriate increase in effort that the budget setting process may take each year, the challenge will be to ensure that this approach does not result in short-term thinking or otherwise hinder the strategic objectives of the REC, which were in part the reason for its creation. We anticipate being able to strike the appropriate balance between cost-efficiency and delivering long-term benefits by being transparent with REC Parties and other stakeholders and where appropriate involving them in our decision-making gateways. Such gateways are already envisaged for the REC Change Management process and could also be applied to the significant project and/or changes we wish to undertake as a company, and to the continuation of those already initiated.

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

Yes, we consider that budget setting is appropriately a matter for the RECCo Board. Notwithstanding the stakeholder involvement in certain decision making mentioned above, there will be matters or details that remain known only to the RECCo Board, or must be determined by it alone. This would appropriately include the details of contracts and other commercially sensitive matters. The RECCo budget should always be directly traceable to the agreed strategy and/or lower level business plan. However, as Parties' contribution to RECCo funding is obligatory it is appropriate that the RECCo Board remain accountable to those Parties for the level of those costs. The proposed appeal mechanism will provide such accountability. We agree that appeals should be focused on individual cost items rather than the budget as a whole, and note that the text makes the necessary distinction between those costs that RECCo is required to pass through in order to comply with its own obligations and those which are discretionary, and therefore subject to challenge. We further agree that the criteria for bringing an appeal appear to be appropriate.