

# Decision

## Way forward on the development of the Retail Energy Code and retail code consolidation

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In October 2018 we consulted on the introduction of a new industry code, the Retail Energy Code (REC). That consultation included a statutory consultation on new licence conditions requiring licensees to accede to the REC, and a number of policy questions covering the future development of the REC and consolidation of existing retail codes.

On 6 December 2018 we issued our decision on the statutory consultation, modifying the Gas Supplier, Electricity Supplier, Gas Transporter and Electricity Distribution licences. On 1 February 2019 these licence modifications take effect, and the Retail Energy Code v1.0 will be designated.

This document summarises responses and sets out our way forward on the policy questions we asked relating to v2.0 and v3.0 of the REC, and on consolidation of the existing retail codes.

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## Contents

<b>1. Introduction .....</b>	<b>3</b>
Context and related publications.....	3
Our decision making process .....	4
Your feedback .....	4
<b>2. Responses to questions on the enduring REC governance .....</b>	<b>5</b>
Summary of responses .....	5
Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first board... 6	6
<b>3. Responses to questions on the enduring switching arrangements.....</b>	<b>10</b>
Summary of responses .....	10
Question 5.8: Do you think that PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people? .....	12
Question 5.16: Do you agree that the REC should refer to existing security standards rather than develop separate and bespoke ones? .....	12
Question 5.17: Do you agree that a consolidated PPM Schedule should be developed and given effect as part of REC v2.0?.....	13
<b>4. Responses to questions on REC v3.0 and wider code consolidation ....</b>	<b>15</b>
Summary of responses .....	16
Question 6.1: What do you think are the pros and cons of Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC? ....	16
Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC? .....	17
Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation? .....	17
Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of? .....	18
Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?.....	18
Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?.....	18
Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance? .....	19
Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance? .....	19
Question 6.9: Do you consider that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?.....	19
<b>5. Responses to questions on delivery of retail code consolidation.....</b>	<b>20</b>
Summary of responses .....	20
Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production? .....	20
Question 8.2: Would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with, the Switching Programme SCR? .....	21
<b>6. Conclusion and next steps .....</b>	<b>22</b>
REC Drafting .....	22
Significant Code Reviews .....	22

## 1. Introduction

### Context and related publications

1.1. We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. We are doing this by designing and implementing a new switching process that is reliable, fast, cost-effective, and harmonises processes across gas and electricity. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

1.2. In February 2018, we published an Outline Business Case<sup>1</sup> setting out our decision to move forward with the introduction of a harmonised dual fuel Centralised Switching Service (CSS). In that document we also set out our plans to introduce a new Retail Energy Code (REC) to bring together the code requirements relating to retail energy activities and to govern the operation of the new switching arrangements.

1.3. In June 2018, we set out the three stages of development for the REC:

- REC v1.0 will provide the transitional requirements on parties to play their part in the design, build and test of the new systems and processes for faster, more reliable switching.
- REC v2.0 will supersede and replace the transitional requirements with the enduring requirements to make the new switching arrangements work and provide governance for the parties involved at the time of go-live of the new systems and processes (now planned for mid-2021).
- REC v3.0 will incorporate relevant provisions from the MRA and the SPAA, providing a significant opportunity for code consolidation and rationalisation.

1.4. In October we consulted on the way forward for delivering the Retail Energy Code, and undertook a statutory consultation on licence modifications to require accession to and compliance with the REC v1.0.<sup>2</sup> On 6 December 2018 we published our decision on the statutory consultation and issued the licence modifications.<sup>3</sup> We also published the non-confidential responses we received.

1.5. This document considers the way forward for the REC v2.0 and v3.0. It outlines the responses we received to our October consultation on these questions, and the next steps for delivering the REC and consolidating the existing retail codes. When reading alongside our October consultation, this document addresses chapters 4 to 6 and chapter 8.

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<sup>1</sup> Switching Programme: Outline Business Case and Blueprint phase decision, <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision>

<sup>2</sup> Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications, <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

<sup>3</sup> Decision and Notice of Licence Modifications, <https://www.ofgem.gov.uk/publications-and-updates/decision-and-notice-licence-modifications>

1.6. This document does not address the questions asked in chapter 7 of our October consultation, concerning the DCC’s margin and incentive regime. These questions will be addressed in a future publication in the spring.

1.7. This document is being published alongside the designation of the REC v1.0.

## Our decision making process

1.8. Our October consultation closed on 16 November 2018. We published the responses we received alongside our decision on the statutory consultation on 6 December 2018.

1.9. Our decision on the statutory consultation was followed by a 56-day standstill period, following which the licence modifications take effect and the REC v1.0 is designated.

**Figure 1: Decision-making stages**



## Your feedback

1.10. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

Please send any general feedback comments to [switching.programme@ofgem.gov.uk](mailto:switching.programme@ofgem.gov.uk).

## 2. Responses to questions on the enduring REC governance

### Chapter summary

In October we set out more developed thinking on the enduring governance arrangements for the REC. This included the main governance bodies, the RECCo Board, the REC Manager and the REC Panel, as well as the Performance Assurance Board and the change management process.

### Questions:

**Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first board.**

**Question 4.2: We would also welcome views on whether the REC parties should have a role in ratifying the first and/or subsequent boards.**

**Question 4.3: Do you agree that the REC should place less reliance on face to face industry meetings for modification development and instead empower the REC Manager to develop and analyse proposals, procuring expert support as and where required?**

**Question 4.4: Do you consider that a recommendation to the Authority should be made by the RECCo Change Panel, with reference to the REC relevant objectives, or based on a vote of REC parties?**

**Question 4.5: Do you, in principle, support the approach to performance assurance outlined?**

### Summary of responses

2.1. While most respondents to these questions supported our proposals, the degree of support varied across the questions.

2.2. For further detail on the proposals underlying these questions, refer to chapter 4 of the October consultation.<sup>4</sup>

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<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

**Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first board.**

2.3. Around two thirds of responses to this question were in favour of Ofgem having an ongoing role in appointments.

2.4. There were mixed views from existing code administrators. Some respondents qualified their support, with suggestions that Ofgem should only be involved until delivery of REC v3.0, or that Ofgem have a veto right or appeal route rather than a ratification role.

2.5. A number of respondents raised concerns about whether this proposal would be consistent with company law.

2.6. Way forward: Given the support for Ofgem to have some form of role in future RECCo Board appointments, we intend to develop detailed proposals for what this role might be. We will consult on these more detailed proposals later in the spring, including details of how this role would be given legal standing.

**Question 4.2: We would also welcome views on whether the REC parties should have a role in ratifying the first and/or subsequent boards.**

2.7. All but two responses to this question were at least partially supportive of REC parties having some role in the appointment of RECCo Board members.

2.8. Many who supported this proposal cited the need to ensure that the Board has the appropriate skills and expertise for their role in the retail market. One large supplier suggested that ratification by REC parties would enable parties to hold the REC Manager to account, via the Board. One code administrator suggested that REC parties should also be able to remove directors/Board members at any time.

2.9. Some suggested that while Ofgem has a role in appointments, there is no need for REC parties to also be involved. Some who did not support this proposal were concerned that this could give individual REC parties undue influence or the ability to frustrate the nominations process. One suggested a replication of the process used to appoint Board members for Xoserve, ie that industry trade bodies appoint Board members on behalf of the market. Small suppliers called for simplicity, clarity and low resource commitment for participation in any ratification process.

2.10. A number of respondents supported giving REC parties a voice in the nominations process, eg via having a designated seat on the nominations committee, even if they did not support the concept of 'ratification'.

2.11. Way forward: In line with our proposal in the June and October consultation documents and in the absence of a formal appointment process prior to the designation of

the REC, Ofgem has appointed the interim directors of RECCo. These appointments have been detailed in the document designating the REC on 1 February 2019.<sup>5</sup>

2.12. We will continue to develop proposals for the nomination and selection of directors to the enduring RECCo board. In doing so we will have regard to the recent developments in the governance of other industry boards such as that of the BSCCo and Xoserve Ltd. We would expect these proposals to include a role for REC parties both in the selection and possible removal of directors, and for the appointment of independent directors who may come from outside of the energy industry. We will consult on these proposals in the spring.

**Question 4.3: Do you agree that the REC should place less reliance on face to face industry meetings for modification development and instead empower the REC Manager to develop and analyse proposals, procuring expert support as and where required?**

2.13. Around half of respondents supported this proposal, with a further third being partially supportive.

2.14. There was widespread recognition that the existing reliance on workgroups is inefficient, resource intensive, and vulnerable to filibustering and delays. However, there was widespread concern that the change process should still be consultative and transparent.

2.15. A number of respondents were concerned that the Code Manager could procure additional skills, and incur costs for industry, without oversight or approval from RECCo or REC parties. Some questioned whether the REC Manager could objectively analyse a proposal that they had raised themselves.

2.16. Several respondents suggested the Change Panel should prioritise modifications, rather than the REC Manager. Some were concerned that industry change proposals could be side-lined in favour of Code Manager proposals, with a suggestion that parties should be able to appeal to Ofgem if their proposal is not progressed. Appeal rights more generally were raised in responses to both this question and 4.4, below. These are addressed under question 4.4 as the issue more closely relates to how change decisions are made.

2.17. In this chapter we proposed that it should not just be REC parties who can suggest changes, but also the REC Manager and other interested third parties. Respondents offered some support for 'authorised' third parties to be able to raise modifications, but there were concerns about allowing 'anybody' to raise changes, due to the resource required to assess and develop proposals which may have little chance of success.

2.18. Way forward: There is substantial recognition that the current arrangements place too high an emphasis on face to face meetings, with the impact of creating costs across the industry and excluding smaller parties. However, we recognise that in some cases industry parties hold knowledge that is beneficial to the change design process. We therefore will continue to develop a role for the REC Manager that includes reducing the reliance on face

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<sup>5</sup> Retail Energy Code Designation, <https://www.ofgem.gov.uk/publications-and-updates/retail-energy-code-designation>



to face meetings, while ensuring that there is an opportunity for REC parties and others to input to proposals where appropriate.

2.19. It is vital that the REC Manager can avail itself of the necessary skills to enable it to fulfil its role, including in change development, but we recognise industry's concern that the REC Manager must also be efficient and accountable for the costs it incurs. We consider that the RECCo Board, in procuring the REC Manager, is best placed to implement arrangements to monitor costs and the contractual performance of the REC Manager, though this does not preclude the PAB and/or change panel also having input into these assessments.

2.20. We continue to view the REC Manager as best placed to prioritise work in the first instance, based on their assessment of what is required, the relevant timetable and the expected aggregate benefits. However, it may be appropriate for the change panel to be able to settle disputes over the priority given to various proposals.

2.21. We remain supportive of allowing changes to be raised by individuals who may not be REC parties, including the REC Manager, consumer organisations and non-licensed industry participants who have a legitimate interest in the REC. We intend to develop full proposals for who this might cover, for further consultation in the spring.

**Question 4.4: Do you consider that a recommendation to the Authority should be made by the RECCo Change Panel, with reference to the REC relevant objectives, or based on a vote of REC parties?**

2.22. The majority of respondents felt that the RECCo Change Panel should make a recommendation with reference to the REC objectives, citing that this removes commercial bias and is in line with other industry codes.

2.23. A minority of responses suggested some combination of both approaches, ie that the Change Panel assesses how well the proposal meets the objectives, while parties vote to indicate the extent of industry support. Two respondents felt that the recommendation should solely be based on a vote of parties.

2.24. Several respondents sought clarity on the appeals process, should the Authority decision oppose the view of the Change Panel. One cited a particular need for a right of appeal if a change to the REC imposed consequential costs on other codes or non-supplier parties, for example a change to MPAS. Another respondent felt that Ofgem should not make a decision on individual changes if the Authority will also determine the outcome of appeals.

2.25. A number of respondents to this question commented on what the 'relevant objectives' for the REC should be. Suggestions included the need to adapt to external legal or regulatory change, and facilitating cross-code collaboration. One respondent suggested making the objectives consistent across all codes, and incorporating a mechanism to review the REC objectives periodically.

2.26. Way forward: We maintain our previously stated view that as far as practicable, for changes that require Authority approval, the decision making at each stage should be based on the same criteria, ie that the modification meets the relevant objectives of the REC. Therefore we intend to proceed on the basis that the Change Panel will make a recommendation to the Authority with reference to the REC objectives. For changes that

proceed through the self-governance route we believe a vote of parties may be suitable, as this is a less onerous method of engagement for smaller parties.

2.27. We will continue to consider respondents' views on appeal rights and develop full proposals for consultation in the spring.

2.28. We set out our proposed mission statement and objectives for the REC in our June consultation.<sup>6</sup> We do not consider it to be within the scope of this programme to change the objectives of non-retail codes.

**Question 4.5: Do you, in principle, support the approach to performance assurance outlined?**

2.29. A vast majority of respondents agreed with our proposed approach. The details of this can be found in our October consultation.

2.30. Several respondents commented on the composition of the Performance Assurance Board (PAB), with many raising the risk of members of the PAB working in the interests of their company or constituency, if the PAB is formed of REC parties only. One suggested that Citizens Advice sits on the PAB. Multiple respondents proposed that the methodology for the PAB should be sufficiently prescriptive to require equal application of the rules.

2.31. Citizens Advice suggested that the PAB would have access to external data and could use this in evaluating performance and risk. An example of this would be suppliers' compliance with the new Guaranteed Standards.<sup>7</sup> However, other respondents felt that Ofgem should not 'devolve' monitoring compliance with licence conditions to the code.

2.32. Way forward: We intend to continue developing the approach we set out in October, including further consideration of the constitution of the PAB. The PAB may consider published metrics correlated to compliance with licence conditions as part of their wider performance monitoring.

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[https://www.ofgem.gov.uk/system/files/docs/2018/06/switching\\_programme\\_proposed\\_modifications\\_to\\_regulation\\_and\\_governance\\_3.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/06/switching_programme_proposed_modifications_to_regulation_and_governance_3.pdf)

<sup>7</sup> Supplier Guaranteed Standards of Performance: Decision on Switching Compensation, <https://www.ofgem.gov.uk/publications-and-updates/supplier-guaranteed-standards-performance-decision-switching-compensation>

### 3. Responses to questions on the enduring switching arrangements

#### Section summary

REC v2.0 will include the requirements for the enduring operation of the new switching arrangements. This chapter requested views on several draft REC v2.0 Schedules and on policy questions that will help us develop and baseline a full draft of REC v2.0 for March 2019.

#### Questions:

**Question 5.1: Would you support the development of a REC digitalisation strategy?**

**Question 5.7: Do you agree with our proposals that:**

- **PAB, as part of its role in mitigating risk to consumers and the market, should provide information to the REC Manager on the specific risks that it wants to be mitigated and assured against through Entry Assessment and Re-Qualification;**
- **The Code Manager should have clear obligations to support the Applicant and coordinate with other code managers; and**
- **Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?**

**Question 5.8: Do you think that PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people?**

**Question 5.16: Do you agree that the REC should refer to existing security standards rather than develop separate and bespoke ones?**

**Question 5.17: Do you agree that a consolidated PPM Schedule should be developed and given effect as part of REC v2.0?**

#### Summary of responses

3.1. We published a number of draft REC Schedules alongside the October consultation. We are in the process of updating these Schedules in light of the comments we received, and will progress changes under Switching Programme governance. Baselined Schedules will be published on the Ofgem website in due course. Therefore, questions directly related to the drafting of Schedules are not addressed here.

3.2. For further detail on the proposals underlying these questions, refer to chapter 5 of the October consultation.<sup>8</sup>

**Question 5.1: Would you support the development of a REC digitalisation strategy?**

3.3. Respondents offered almost unanimous support for the development of a REC digitalisation strategy. Several respondents linked this initiative to Ofgem’s ongoing work in digitalisation of regulatory reporting, and the recently established Energy Data Taskforce<sup>9</sup>.

3.4. Some suggested that the strategy should not be limited to the ‘presentation’ of the code, but should include the change process and participation in code governance. Similarly, a number were concerned that any digitalisation should be cost-effective, and be for the benefit of REC users.

3.5. Way forward: We will charge the REC Board with developing a REC digitalisation strategy, which is likely to form part of service description for the REC Manager.

**Question 5.7: Do you agree with our proposals that:**

- a) PAB, as part of its role in mitigating risk to consumers and the market, should provide information to the REC Manager on the specific risks that it wants to be mitigated and assured against through Entry Assessment and Re-Qualification;**
- b) The Code Manager should have clear obligations to support the Applicant and coordinate with other code managers; and**
- c) Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?**

3.6. The vast majority of respondents supported these proposals.

3.7. Respondents were keen to have clarity on what risks are being monitored by the REC Manager. There was widespread support for the PAB to advise the REC Manager on risks, so long as PAB is representative of industry and has a broad knowledge of the industry. Some respondents thought that other interested parties should be able to suggest risks to be monitored if they wish.

3.8. All respondents to this question felt that the REC Manager should help new entrants and coordinate with other code managers to facilitate smooth market entry. Some expressed concern that this service could create excessive costs by expanding too far into consultancy services, but felt that this risk could be mitigated by being clear on scope of the service.

3.9. While most respondents supported re-qualification in principle, there were mixed views on how this should be implemented. Many respondents thought the definition of material change needs to be very prescriptive so that it is clear when a system change triggers re-qualification. Others felt that a prescriptive definition would encourage market

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<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

<sup>9</sup> Energy Data Taskforce, <https://www.gov.uk/government/groups/energy-data-taskforce>

participants to tailor changes to avoid the need for re-qualification, potentially to the detriment of consumers. Several suggested that system changes be assessed on a case by case basis.

3.10. Some respondents felt that suppliers have sufficient incentives to ensure their systems work, such that re-qualification is unnecessary. Where several market participants use the same third party systems, there were suggestions that the system itself could be accredited so that individual organisations would not have to participate in re-qualification. Alternatively, these organisations could be allowed to complete re-qualification together.

3.11. Way forward: We intend to proceed with all three of these proposals. The detail for these arrangements will be included in the Performance Assurance Schedule to the REC, which will be subject to further consultation in the spring.

3.12. We understand concern about the ambiguity of material change and will consider whether it is possible and appropriate to establish thresholds by reference to the impact of change.

3.13. Whilst we remain of the view that the REC Manager could fulfil a useful role in being a single (at least in the first instance) point of contact for any new entrants, assisting them with any on-boarding across code boundaries, this would need to be a reciprocal arrangement that has full regard for the role of other code bodies and administrators. We will continue to develop our thinking on how best to achieve such cross-code collaboration, where this would benefit common parties.

**Question 5.8: Do you think that PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people?**

3.14. The majority of respondents to this question were supportive of the proposal for the PAB and REC Manager to work with service providers. One suggested this could extend to inputting to a go/no-go decision on material changes to key central systems. Several others expressed concern about the cost and remit of the REC Manager in this role, but were nonetheless supportive of the principle.

3.15. Way forward: The REC Manager will have a role in supporting new parties through entry testing, and we consider that it is appropriate for this role to extend to material changes to systems of existing market participants.

**Question 5.16: Do you agree that the REC should refer to existing security standards rather than develop separate and bespoke ones?**

3.16. The majority of respondents to this question agree it is better to signpost to existing security standards, rather than develop bespoke requirements for the REC. The main reasons cited were that this reduces the burden on parties, and that there appears to be no consumer benefit from additional bespoke standards.

3.17. Some respondents noted that the CSS is not critical national infrastructure and therefore may not need as stringent security as is outlined in SEC. One respondent identified that controls such as audits and sanctions (in case of breach) would need to be extended to apply to the systems covered by the REC.

3.18. Of those who disagreed with this proposal, one suggested that if the REC is fully digitalised it may be inappropriate to signpost to an older style code, and instead the digitised code should outline all applicable security standards. Another felt that the REC should not include any security standards in the code itself, but that they should be decided by service providers, eg the switching network provider, and outlined in separate technical documents.

3.19. Way forward: We are continuing to develop the security standards and approaches for the CSS and related services, and are engaging with stakeholders through the Switching Programme governance framework. In principle we consider it is preferable to refer to existing security standards, where suitable standards exist.

3.20. We do not believe it is appropriate to leave security standards outside of the code entirely, as suggested by one respondent. One reason for this is that the standards must be subject to a change control and governance framework, as with other technical standards used across the industry.

**Question 5.17: Do you agree that a consolidated PPM Schedule should be developed and given effect as part of REC v2.0?**

3.21. The majority of respondents to this question supported a consolidated PPM Schedule being included in REC v2.0.

3.22. One respondent suggested that the DAP process should be included within the PPM Schedule so that all obligations relating to PPM customers are held in one document. Another raised a concern that the PPM processes involve non-code parties (eg PPMIPs<sup>10</sup>), and that any change to the process or governance should be sensitive to this.

3.23. One respondent noted that the industry Prepayment Metering Forum is reviewing prepayment processes, and that the consolidated PPM Schedule should take into account the outcomes of their review.

3.24. Way forward: Given the strong support from respondents, we intend to proceed with giving the PPM Schedule effect as part of REC v2.0. We would note that, as discussed in chapter 4 of this document, we are progressing REC v2.0 and v3.0 on the same timelines so the materiality of this decision is nominal.

3.25. We are minded to maintain the DAP process as a separate Schedule to the PPM provisions. While we appreciate that the DAP process is currently contingent upon a customer having a prepayment meter, we consider that this is a function of the supply licence, rather than a technical constraint. Therefore, maintaining the Schedules separately keeps the DAP process open to improvement and potentially extension in the future retail market.

3.26. While Ofgem can stop changes to code provisions that are subject to an SCR, it is not our intention to stifle progress and innovation across the whole retail market until the go-live of the CSS and REC. Therefore, if industry identify near-term improvements to PPM processes, these could be pursued under the MRA and SPAA if they deliver immediate

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<sup>10</sup> Prepayment Meter Infrastructure Providers

benefit. The REC Manager, once appointed, will have the role of maintaining the baselined Schedules and ensuring they are consistent with any subsequent changes to the existing codes, where this is appropriate.

## 4. Responses to questions on REC v3.0 and wider code consolidation

### Chapter summary

We have been clear that our aim is to reduce retail governance complexity, and therefore we intend that the REC will replace the existing retail codes rather than simply add to their number. We proposed to take the lead on this consolidation work, beyond the scope of only switching, and to progress this alongside the Switching Programme so long as it does not endanger delivery of faster and more reliable switching.

We consulted on a number of areas that are currently covered by the existing codes, MRA and SPAA, and could be transitioned to the REC. We also consulted on whether this code consolidation should be progressed through a Significant Code Review.

### Questions:

**Question 6.1: What do you think are the pros and cons of Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC?**

**Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC?**

**Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation?**

**Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of?**

**Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?**

**Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?**

**Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance?**

**Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance?**

**Question 6.9: Do you consider that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?**



## Summary of responses

4.1. Overall respondents supported our proposals to consolidate the existing retail codes under the REC.

4.2. For further detail on the proposals underlying these questions, refer to chapter 6 of the October consultation.<sup>11</sup>

### **Question 6.1: What do you think are the pros and cons of Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC?**

4.3. The majority of respondents supported Model B and the use of prescriptive rules and interoperability requirements for suppliers to resolve consumer issues such as erroneous switches or inaccurate opening and closing meter reads. Several noted that further work may be needed to make sure that the minimum standards were appropriate to meet consumer expectations in a modern retail market. One respondent suggested that PAB should keep the standards under review and improve them where necessary.

4.4. Many respondents recognised the benefits of a more principles based approach outlined in Model A but considered that competing suppliers may have different views on what an acceptable resolution plan might look like which could delay or prevent delivering a satisfactory outcome for consumers. There was also concern that the lack of prescription may require significant intervention by PAB to step in and resolve disputes between suppliers rather than allowing it to focus on improving overall performance.

4.5. Way forward: We propose to develop single REC Exceptions Schedule covering areas where consumers are being let down by the retail energy market processes for switching and associated billing. We agree that having a clear set of minimum standards for interoperability between suppliers is beneficial. However, we also expect suppliers to try hard to provide the best outcome for consumers and to tailor their approach, for example with consumer communications, as necessary. We also want to give suppliers the freedom to go further than the minimum standards.

4.6. We propose that the REC Exceptions Schedule will have:

- a common set of consumer focused principles covering all exception areas;
- specific principles, where appropriate, for each exception area; and
- where appropriate, minimum standards and interoperability requirements for each exception area.

4.7. We agree that standards should be improved if they are no longer fit for purpose. We do not think that the market should wait for the introduction of the REC to do this and any necessary changes should be made as soon as practicable. Where improvements are made to the current arrangements we will look to bring these into the REC. We will also

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<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

consider giving PAB a role to review these exception processes and tighten or otherwise improve the minimum requirements where this would be beneficial for consumers when taken in the round.

4.8. We want to introduce a common escalation mechanism in an attempt to simplify and harmonise the current arrangements, which differ between fuels and between exception areas. We also want to ensure that issues that are not resolved through escalation are flagged to the REC Manager and potentially to PAB so that they can be resolved. We will test our proposals on escalation further through the Switching Programme regulatory working group.

**Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC?**

4.9. Respondents offered almost unanimous support for housing theft provisions in the REC.

4.10. Two DNOs suggested leaving theft arrangements in DCUSA to minimise change faced by the industry, with one suggesting that the theft arrangements are split into the requirements for suppliers (housed in REC) and the requirements for DNOs (housed in DCUSA).

4.11. Way forward: We remain of the view that the REC would provide a more effective home for the theft arrangements. Whilst we recognise that the DNOs and GTs will each retain obligations in relation to upstream theft (ie theft from the network) they will also be signatories to the REC. We consider that housing all relevant theft provisions under one code will facilitate a more holistic and complementary theft reduction strategy than has been possible thus far. We will therefore proceed with reviewing the existing theft provisions for inclusion in the REC.

4.12. We are aware that some of the current arrangements such as those relating to the Theft Risk Assessment Service are due for re-procurement prior to the go-live of the Switching Programme and the enduring REC. With this in mind, we intend to review each of the current theft obligations and associated services to ensure that they are consistent with the new switching and governance arrangements.

**Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation?**

4.13. This proposal received unanimous support in principle.

4.14. A small number of respondents sought clarity on who the contracts for such services would be with (ie the REC Manager or the RECCo Board).

4.15. Way forward: We will proceed on the basis that the REC Manager will run the procurement of any centrally procured theft related services that will commence after the implementation of REC v2.0. We will also consider which services could appropriately commence under the existing regime and novate to be managed by the REC Manager. We recognise that the RECCo Board, and potentially the MRASCo Ltd and SPAA Ltd Boards, will have an important role in determining the appropriate way forward on such contractual matters.

**Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of?**

**Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?**

**Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?**

4.16. Overall, respondents had qualified support for the proposals covered by 6.4 and 6.5. A key concern raised was that a single data catalogue would not negate the need for improvements in data quality and assessment of whether particular data flows are still needed or can be combined. Where respondents supported the creation of a single catalogue, the vast majority supported this being housed in the REC.

4.17. Respondents recognised that a 'single version of the truth' with regard to data flows would be beneficial, but that the scope of this could be extended, for example to offer a shared view of what is 'valid' data.

4.18. There was also concern that work in this area does not overlap or conflict with the outcomes of the Energy Data Taskforce.

4.19. Where respondents expressed a preference, most stated that inclusion in REC v3.0 would be most appropriate. The main reasons cited were to de-risk delivery of faster and more reliable switching, and that the data catalogue fits the scope of a wider code consolidation SCR more closely than the switching SCR.

4.20. Way forward: We recognise that creation of a single data catalogue is a complex task, with the potential to need more time than other aspects of retail code consolidation. We continue to believe that a single data catalogue would be beneficial for the industry, and that the REC, with an empowered REC Manager, may be the appropriate repository for such a catalogue. We agree that development of a single data catalogue should not put delivery of the new switching arrangements at risk, and should not therefore form part of REC v2.0. We will keenly follow the outcomes of the Energy Data Taskforce in this area, and support ongoing work by the current code bodies to pave the way for a single data catalogue. If it is considered appropriate for a single data catalogue to sit within the REC we will consider whether it should form part of REC v3.0 or whether it would need to be pursued on a different timescale.

**Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance?**

**Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance?**

**Question 6.9: Do you consider that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?**

4.21. Overall respondents offered qualified support for the alignment of the metering codes of practice (CoPs). Several responses highlighted the technical differences between electricity and gas meters, while recognising metering CoPs also have a consumer element that could be harmonised.

4.22. Around two thirds of respondents to question 6.8 felt that the CoPs should sit under the REC. Three quarters considered that SMICoP should be incorporated into the REC.

4.23. A significant minority of respondents raised concerns that the governance of the REC may be incompatible with housing the technical elements of the CoPs, as these require engagement from organisations who will not be REC parties (ie metering agents).

4.24. Specifically regarding SMICoP, the key supporting arguments were the similarities between REC and SMICoP (applying to both gas and electricity, and focussed on consumers) and the potential to secure efficiencies in funding arrangements. Respondents who were not supportive pointed to the expectation that SMICoP will have a finite life, a view that SMICoP might sit better with metering agents, and a view that further consideration should be given as to whether SMICoP should sit with REC or SEC.

4.25. Way forward: We recognise that technical content of the existing codes may not be suitable for harmonisation, but think there is an opportunity to harmonise what is covered by the codes of practice and their governance arrangements. We will work with code bodies and industry to develop governance arrangements for the CoPs to ensure that affected parties are able to participate in the ongoing management of these provisions if they are held within the enduring REC. On SMICoP specifically, we are considering responses and will expand on our minded to position in spring.

## 5. Responses to questions on delivery of retail code consolidation

### Section summary

We outlined how we intend to deliver the REC v2.0 and v3.0, working on both areas in parallel along with the consequential modifications to current industry codes.

We are already delivering REC v2.0 through the Switching Programme's SCR. We consulted in October on whether we should launch a second SCR to consolidate the retail codes.

### Questions:

**Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production?**

**Question 8.2: Would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with, the Switching Programme SCR?**

## Summary of responses

5.1. Respondents overwhelmingly agreed with our proposals for delivering the REC and retail code consolidation.

5.2. For further detail on the proposals underlying these questions, refer to chapter 8 of the October consultation.<sup>12</sup>

**Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production?**

5.3. All respondents agreed with our proposed collaborative approach to consultation on the consequential changes to other codes as a result of implementing the REC v2.0 and v3.0.

5.4. Respondents particularly recognised the reduced burden this would place on industry in engaging with the consultation and modification processes. Some expressed concern that

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<sup>12</sup> <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications>

the time allowed for the consultation should be reflective of the broad and detailed nature of the topics covered.

5.5. Way forward: We will proceed with the approach we proposed in October.

**Question 8.2: Would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with, the Switching Programme SCR?**

5.6. All respondents to this question agreed that the REC v3.0 should be delivered through Ofgem’s SCR powers.

5.7. One respondent felt that the Switching Programme’s SCR should be extended to cover the scope of REC v3.0, but most others supported keeping the SCRs separate in order to de-risk timely delivery of faster and more reliable switching.

5.8. Way forward: We will proceed on the basis that we will launch an SCR to deliver retail code consolidation. We will look to launch the SCR in the spring, once the full scope of the code consolidation is more certain. As detailed in our guidance on SCRs<sup>13</sup>, we will continue to engage actively with industry in developing the REC and related changes to other codes.

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<sup>13</sup> Ofgem guidance on the launch and conduct of Significant Code Reviews, <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-launch-and-conduct-significant-code-reviews>

## 6. Conclusion and next steps

### REC Drafting

6.1. We continue to work with the existing code administrators and industry on the drafting of the Schedules for the REC v2.0. We have initiated a further project to develop schedules for REC v3.0, as outlined in our October consultation.

6.2. Throughout the development process, Schedules will be considered by the Switching Programme regulatory working group. A complete package of Schedules will be subject to a further consultation in the spring. This consultation will be published on the Ofgem website.

6.3. Subject to the outcome of the spring 2019 consultation, we will publish a baselined version of the REC, incorporating all of v2.0 and, as far as is possible, v3.0.

6.4. This text will remain subject to revision as part of the SCR process, with any parts that impact on the Switching Programme being subject to programme governance. The Switching Programme change control process requires impact assessment for any proposed change, and allows all market participants (including REC parties) the opportunity to raise and comment on change proposals.

### Significant Code Reviews

6.5. We set out in detail our vision for delivering the Switching Programme SCR in our October consultation (chapter 8), and do not intend to replicate that detail here.

6.6. However, we would reiterate that we will not issue our SCR conclusions following consultation on the text for the REC. Instead, we will initiate a phase of maintenance of the REC Schedules, to continue through to the point at which we have successfully exited systems testing and a go-live decision has been made, and the date of that go-live is known.

6.7. We expect to consult fully on the scope for a further retail code consolidation SCR in the spring.