

Retail Energy Code Company Annual Review

2022 - 23



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Introduction

The Retail Energy Code Company (RECCo) Board is delighted to publish its Annual Review for the 2022/23 financial period. This report, focussing on our operational activities over the period, is in addition to our statutory Annual Report and Accounts which will be published separately in August.

RECCo is an independent, not-for-profit organisation that manages the Retail Energy Code (REC) on behalf of its stakeholders which includes the Parties to the Code and other market participants, and consumers. It is responsible for administering the REC and procuring the services needed to support the smooth and efficient functioning of the retail energy market.

Our organisation was established in 2019 working on behalf of the retail energy sector. We deliver REC Services to meet current retail market needs while preparing for what may be needed in the future. The RECCo Board, and its committees, consist of Non-Executive Directors (NEDs) with a blend of knowledge and experience. Our role is to support the organisation in delivering its mission, and to oversee the development of the annual strategy, workplan and budget in an open and transparent manner. Our excellent Executive Team manages the day-to-day operation of the organisation, ensuring that REC Services meet the requirements set out in the Code, and that it fulfils all its legal, regulatory, and corporate governance obligations.

The Annual Review provides a summary of the operational performance delivered by RECCo and its Code Manager and other service providers. Our primary focus is the stability, improvement, and evolution of the core REC services to ensure they remain relevant for all our stakeholders. The industry funds us to procure and deliver current and future REC Service requirements, and it is incumbent on us to manage and invest those funds prudently. We are also charged with ensuring best practice and to be innovative whenever possible in an evolving retail energy market.

As we all know, this past year was extremely challenging for our industry and its customers. I would like to take this opportunity to record our thanks to all our Service Providers and their teams who have worked very hard to deliver the REC Services as efficiently as possible for both market participants and consumers. Looking ahead there is a real desire by all concerned to continue to improve the services needed for the smooth and effective running of the retail energy market.

We are keen that REC services continue to meet the needs of its users and to ensure this we will be holding a series of events across the UK this summer – in Glasgow, Birmingham, and London – so that our stakeholders can help us shape the future of these services.

I very much hope you enjoy reading this report. As always, we would be delighted to hear your feedback on this Report at communications@retailenergycode.co.uk.

Dr Chris Anastasi

REC Board Chair

June 2023



Chris Anastasi

REC Board Chair

As required by Clause 9.21 of the REC, the report below sets a summary of the operational achievements delivered by RECCo and the Code Manager in its core service delivery areas.

I would also like to take this opportunity to record our thanks to the Service Providers and their teams who work tirelessly to deliver the REC Services as efficiently as possible to enable the energy retail markets to operate effectively for consumers.



CEO Introduction



Sid Cox - CEO

On behalf of the RECCo Executive and professional team, I am pleased to present the key highlights from our operational performance over the course of the 2022-23 year. As has been noted, it was a transitional and at times challenging year for RECCo, as we continued to establish our enduring organisation and sought to cement our position

within the GB energy industry landscape as well as onboard several key services, all against the backdrop of continued recovery from the COVID-19 pandemic and the subsequent cost-of-living crisis fuelled by energy prices.

There is much that RECCo can rightly be proud of which is detailed within this Annual Review. Across the key areas of Code Manager Performance, Change Management, Performance Assurance and Operational Issues improvement, RECCo and our Service Providers delivered a high quality service for industry and consumers which, on the whole, was recognised by the feedback we received from Parties through our annual performance survey. There were also areas which were identified for improvement which will be our focus for the coming year including improving the efficacy of the Change Management Process and demonstrating the value of Performance Assurance regime. All of this was achieved against the backdrop of the full implementation of the REC v3.0, the transfer of governance for the Central Switching Service from Ofgem to RECCo, and the design and delivery of a new RECCo service at fast pace following instruction from Ofgem as the administrator of the Market Stabilisation Charge. A further key area of progress for us came in our strategic work on combatting energy theft with the publication of the Theft Estimation Methodology; we anticipate further progress will be made in this area in the current year.

I am also pleased this report affords us the opportunity to explain in greater detail the operational changes and enhancements that have been made to the REC as well as a summary of RECCo's financial management during 2022-23. As set out in the report, we expect to be able to confirm

a rebate of c.£9m against 2023/24 charges, confirmation of which will be provided following the conclusion of our audit and accounts publication later in the summer.

Given this report is a retrospective review of our operations in 2022/23, it seems appropriate to touch on the development of RECCo as an organisation. In broad terms, based on RECCo's current remit, we enhanced the capacity and capability of the organisation with the appointment of a Director of Data, Technology and Transformation. We now have executive directors in place covering our life cycle of delivery from evolving Strategy through implementing Transformation and delivering core Operations supported by Finance & Commercial and Corporate Affairs. Whilst the structure may vary in the short term to accommodate periods of extended leave, this structure provides the foundation around which to build our core team which is intentionally lean to deliver an efficient service for industry and consumers.

Finally, it would be remiss of me not to recognise the support that RECCo enjoys from other stakeholders in the GB energy industry in delivering our services and objectives. All of our service providers work tirelessly to deliver a high quality service for all REC Parties and Users, and I would like to particularly recognise the efforts of the teams at Gemserv, Capgemini, Deloitte, the Data Communications Company, C&C Group, Crimestoppers and Corella/Xoserve in this report. We are also supported greatly by Ofgem and the Department for Energy Security and Net Zero in being able to ensure the our strategic work looking to deliver the best outcomes for energy retail consumers is consistent with the overall regulatory and policy aims that they hold. Lastly, I would like to thank all those industry parties and their representatives who are involved in the Change Panel, Performance Assurance Board, and other REC consultation bodies or simply in providing us with actionable feedback. Without your interest and commitment, we would not be able to deliver and improve a better retail energy market for the benefit of all stakeholders.

Please do take the time to digest and read this report, I hope that you enjoy reading it, and if you have any comments or questions get in touch via:

communications@retailenergycode.co.uk.

Sid Cox
CEO
June 2023



Section 1: Code Manager Performance Review

The REC Code Manager provides a critical role in the delivery of the REC and is the day-to-day point of operational engagement for industry parties. It is responsible for functions including Change Management, the REC Portal and Digital REC (including the Energy Market Architecture Repository, EMAR and Digital Navigator), REC Service Desk, Stakeholder Engagement, Education and Training, Party Management, Market Entry and Exit, Qualification and Maintenance and the Performance Assurance of all REC Parties, REC Service Providers and RECCo itself.

RECCo has commercial contracts in place with three organisations who together deliver the Code Manager services. The contracts include an obligation for them to work collaboratively together to deliver a seamless end to end service for users. It also includes a series of quantitative and qualitative service levels that allows RECCo to assess its performance against its contracted deliverables. Missed service levels trigger a service credit regime which sees funds returned to REC Parties through the annual budget reconciliation process.

The Code Manager achieved between 97-99% on target delivery of contracted service levels in 2022/23 with no repeated service failures. In addition to the assessment against Service Level Agreements, a key tool in assessing the performance of the Code Manager is via our annual Stakeholder Survey. We set a challenging target for the Code Manager to achieve an overall score of >8/10 and once again, failure to do so results in service credits to be returned to the funding REC Parties. The overall score for the Code Manager services was 7.6/10 resulting in service credits of 1% of their annual contract value being refundable to RECCo.

Table 1 below provides a summary of feedback in key performance areas from the 2021/22 Annual Stakeholder Survey. In addition to scoring various attributes, survey participants are asked to provide qualitative feedback. A selection of comments are shared below. This provides valuable views on how the services can be improved.

"I think the Code Manager has reacted well to feedback and evolved their service over the last 12 months to better meet the needs of its customers. The main area of improvement would be the change process which needs to be more streamlined and effective - too many changes seem to be in progress."

"The discussions are good and open - but the PAB needs to be more focussed on driving improvements in performance rather than just monitoring and reporting on them. I don't think REC Parties are seeing much direct benefit from the PAB at the moment."

"The digital version of the REC issued very recently looks to be quite good, the rest of it is very hard to navigate and use."

"Whenever I have needed support, I have been able to contact them easily and have built up a really good relationship with my allocated OAM. [They are] really helpful, will always respond quickly and arrange calls and support with the right REC parties to help us resolve the issue or question we have."

Overall, feedback from our stakeholders informed us that one of their greatest challenges is navigating regulation and industry processes, and RECCo and the Code Manager have an important part to play in helping them through it. The results show us that communications should be a key area of focus, reflecting the fact that it is high on the list of stakeholder priorities. Some aspects of communications are already rated very highly such as the Operational Account Managers, but others are where they are most likely to express desire for improvement – the REC Portal and EMAR (Digital REC) were the lowest scoring of all service elements at 6.1/10. The feedback also highlights two other aspects of the Code Manager service which require focus and improvement in the coming year: prioritisation and streamlining of the Change Management process and demonstration that the Performance Assurance service is delivering value to parties. These aspects are covered in more detail in the following sections.

Table 1: Feedback in key performance areas

Code Manager Service Area	Rating / 10
Overall satisfaction with the Code Manager Service	7.6
Quality of service provided by Operational Account Managers	8.5
Overall quality of Code Manager Communications	7.4
Overall delivery of the Performance Assurance Framework	7.3
Overall satisfaction with Change Process	7.3

Section 2: Change Management Schedule Review

The REC Change Process has several key distinctions from other industry codes, reflecting best practice identified in Ofgem's Code Governance Reviews¹ and the Competition and Markets Authority's (CMA) Energy Market Investigation (2016).²

Firstly, anyone, including private individuals, can raise a REC Change Proposal – they do not have to be a Party to the Code, or sponsored by one. Of the 118 REC Change Proposals submitted since the start of these new arrangements in September 2021, 66 have been raised by non-REC Parties, including the Code Manager, Ofgem, other industry bodies and a consumer group. Of those that have been presented to the responsible Change Panel for decision, all but one has been accepted and implemented, or is scheduled for implementation. This demonstrates that expanding the change process to include non-parties offers an important opportunity for meaningful and relevant matters to be formally progressed under the Code and implemented to the benefit of industry and consumers.

Secondly, the REC operates an independent prioritisation model which mandates the Code Manager to focus on resolving more significant issues and delivering changes that offer the most benefit. This enables the REC change process to focus on the change proposals that will have the highest impact and the greatest benefit to consumers and REC users, rather than simply being progressed in an order dictated by when they were raised. This means a more strategic and beneficial programme of change, delivering greater benefits to industry and consumers. The model uses a combination of factors including significance and urgency. The priority status does not establish if a Change Proposal will be progressed, but when it will be progressed based on the Code Manager's assessment of the Change Proposal and the current priorities for the REC.

In 2022 the Code Manager conducted a review of the prioritisation matrix and version two of the REC went live on 31 October 2022. This new version introduced revised prioritisation criteria and weightings that reflect the current priorities for the REC. It also introduced a new way to transparently calculate the priority score based on the new criteria and weightings. This will enable the Code Manager to more easily assess the priority of a new Change Proposal relative to the portfolio of existing Change Proposals.

Under the REC, the Code Manager is responsible for recommending to the Change Panel, or responsible change committee, whether a Change Proposal should be implemented. This is based on a fully assessed business case, including cost-benefit analysis. Industry members are invited to support this analysis by responding to Impact Assessments and Consultations as well as joining working groups and webinars. This model allows the Code Manager to independently progress change, drawing on expertise across the industry but with a reduced demand on industry resources.

Code Manager recommendations also mean that change that is identified as necessary for the retail market overall, or has a direct benefit on consumer outcomes, is able to be progressed. This approach is intended to counteract the issues identified by the CMA in their Energy Market Investigation, which found that:

"...governance structures give industry participants a key role in decision-making even though their incentives are often not aligned with those of customers. Further, we note that incentives often differ between firms, leading to lengthy and costly regulatory processes and delays in decision-making."

The Code Manager also retains the ability to appeal a decision to Ofgem if its recommendation is rejected by the responsible change committee. In 2022 one such example occurred where the Code Manager's recommendation to accept Change Proposal R0015 - Remote communication obligations for electricity Advanced Meters - was rejected by the Metering Expert Panel but the decision overturned by the Authority on appeal by the Code Manager.

The REC Performance Assurance (RPA) function of the Code Manager is responsible for making use of data analytics to monitor and subsequently mitigate Retail Risks.

Case Study: Change Proposal R0015

Although there are licence obligations requiring the installation of Automatic Meter Reading (AMR) equipment, as part of the ongoing Smart Meter rollout programme. There was nothing to require that the actual communications part of the meter is maintained and working. The Association of Meter Operators raised a REC Change Proposal to address this issue. We consider that this is noteworthy as:

- a) It is evidence of the more inclusive approach taken under the REC – i.e. meter operators are not able to raise changes under the BSC even if that change is focused solely on metering issues that directly impact them;
- b) R0015 was escalated to Ofgem for a decision as the Change Panel did not accept the Code Managers recommendation to accept. This demonstrates both the willingness and value of the Code Manager to act independently of industry party's influence in the consumers' interests.

The REC change management process therefore seems to be delivering as Ofgem intended and demonstrably different to what preceded it.

¹ Competition and Markets Authority, Energy Market Investigation Final Report, June 2016: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

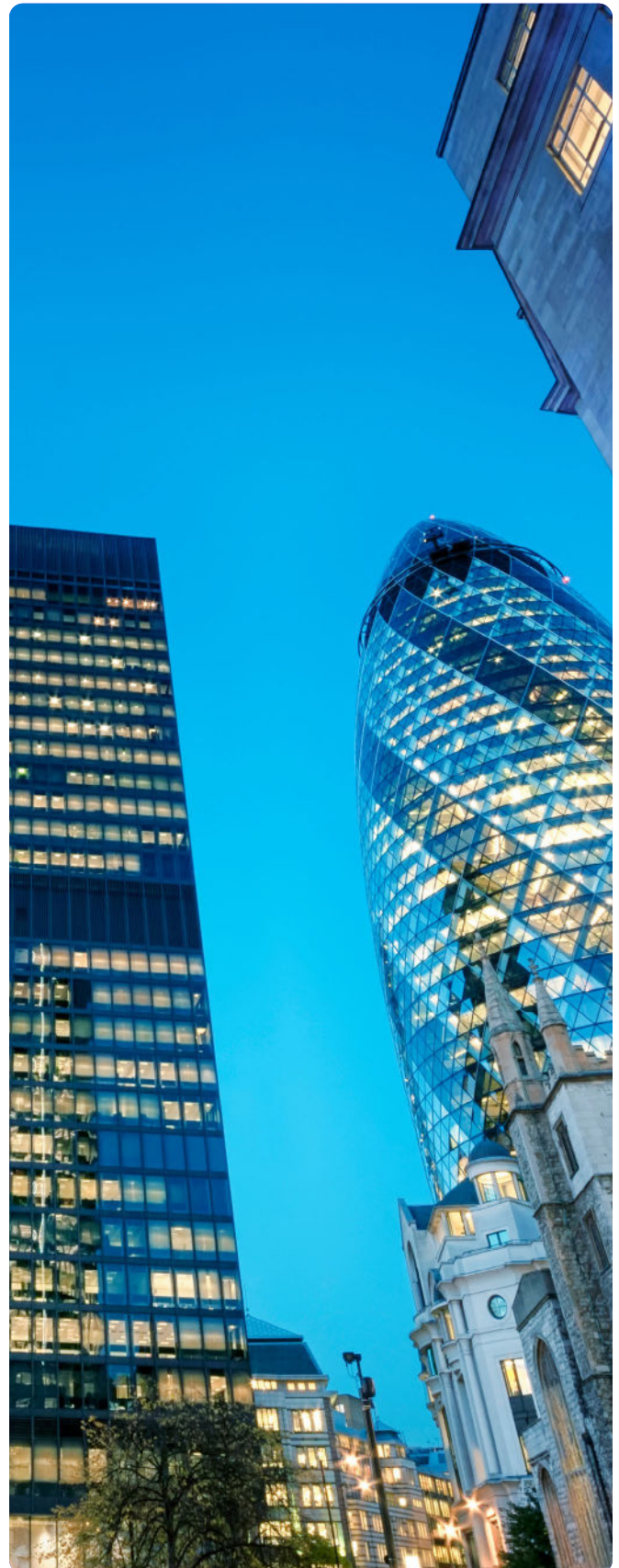
Section 2: Change Management Schedule Review – Continued

It does this through using the data it collects to inform the development of Change Proposals and conducting post-implementation reviews of REC Change Proposals to determine whether their introduction or consequent activity has given rise to new retail risks. In 2022, the RPA led on the development of RO025 and RO092, introducing performance charges and service level agreements to the Data Communications Company (DCC) to incentivise robust delivery of the Central Switching Service. Changes to clarify obligations on metering participants and requirements regarding maintenance of qualification are in progress and they have also earmarked the outcomes of the Secure Data Exchange Platform (SDEP) review as a candidate for a post-implementation review.

In 2022 the Code Manager conducted its first review of the REC Change Process resulting in five recommendations for change that were subsequently implemented:

1. Analyse average timescales to progress change in the REC and the industry and onward communication to consider whether elapsed time under the REC is in line with change activity across other codes.
2. Improve documentation, reducing duplication to support industry to efficiently engage in the Change process.
3. Update the prioritisation matrix so that focus is given to delivering Changes which offer the most benefit.
4. Add housekeeping change process to Schedule 5 of the REC, so a proportionate process is applied to simple, non-contentious Change Proposals correcting misspellings etc.
5. Establish a REC Issues Group to enable industry and the Code Manager to highlight and refine its understanding of industry issues and to discuss and work through those which do not necessarily require the Change process to resolve.

RECCo continues to encourage the Code Manager to further refine and develop the REC Change Process in accordance with the core principles it has established and to improve communication of developments to REC Parties. The Code Manager has responded positively and is currently assessing a series of future improvements to speed up technical change, improve the quality of analysis, and encourage productive engagement and participation from industry. The proposals include increasing the amount of analysis carried out on an issue prior to presenting it to industry as a Change Proposal, using expertise from different forums to clearly identify problems and refine solutions. It has also considered digital enablement through the REC Portal and has identified a number of visual and functional enhancements which make it much simpler for parties to engage in the Change Process and highlight their interest in particular issues.



²The REC Change Panel has four subcommittees with specialist expertise for assessing change. These are the Technical Expert Panel (TEP), Metering Expert Panel (MEP) and Performance Assurance Board (PAB).

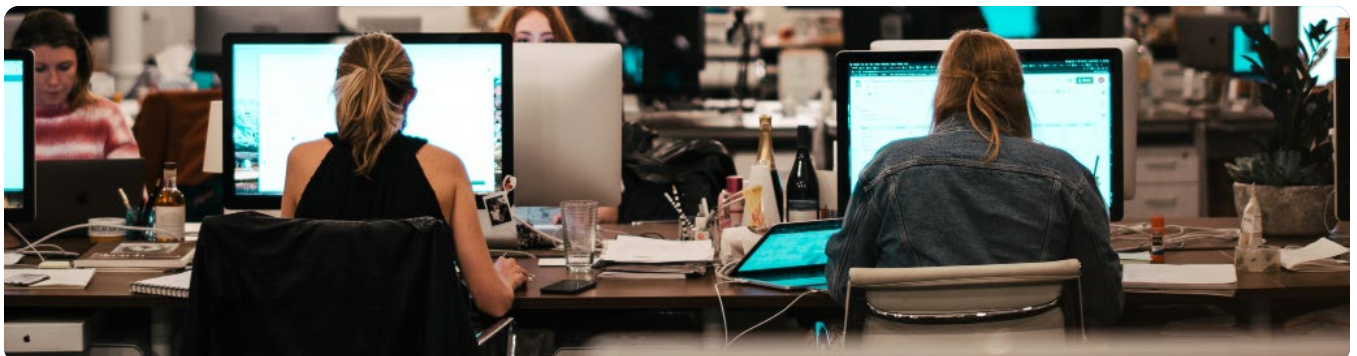
Section 3: Operational Issue Improvements

RECCo is committed to a programme of continuous improvement. Where we receive feedback from stakeholders we work with our service providers to implement changes to address the root causes – be that process, technical or resource based. RECCo and the REC Service Providers learned lessons from the mobilisation and initial operation of the REC Services that allowed the identification of future service improvements, many of which have been implemented in 2022/23 as set out below:

Code Manager Services

The Code Manager has contractual obligations to implement a programme of continuous improvements developed collaboratively across all three service providers. This year, these included:

- REC Portal Improvements** – a series of improvements across the REC Portal to improve accessibility and provide more information to Parties, including Performance Assurance Dashboards, REC Wiki, moving Change Management to open access, a timeout amendment to stakeholder satisfaction and the introduction of Metering, Theft and Consumer Hubs.
 - EMAR/Digital Navigator** – responding directly to industry feedback, the Code Manager completed a series of actions to improve access to the REC Data Specification, including hosting several training workshops. In addition they developed the new ‘Digital Navigator’ product which allows access to the digital code in a more user friendly way.
 - REC Issues Group** – the Code Manager has established the REC Issues Group (RIG), a monthly online open forum where users can discuss operational issues in a collaborative environment. The RIG provides an environment for matters which do not obviously fit into an already existing forum, or as a point for the development of issues that may enter the REC Change Process.
 - Technical Design Authority (TDA)** – the TDA is a critical REC function, providing design assurance across all the REC systems to manage change. This year, the Code Manager initiated new ways of working with the REC Service Providers to ensure increased collaboration on cross-service change and to support the improvement in the quality of impact assessments.
- In addition, non-switching changes to the Enquiry Services, either service impacting or non service impacting, are now also managed by the TDA. The TDA now orchestrates the deployment of maintenance and other fixes to ensure that the performance and impact on the wider ecosystem is understood, mitigated, and communicated to Users.
- REC Change Process** – the Code Manager concluded one and commenced a second review of the REC Change Process in 2022/23. As well as the review of the prioritisation matrix and process improvements identified above, the Codes Roadmap was launched. The Codes Roadmap provides a long-term view of the theme or topic areas that will be subject to review and assessment. This enables industry to understand the likely timescales when they can expect changes to be developed and allows the Code Manager to batch or group related changes together to enable an efficient delivery and release of changes in related and complementary areas and avoid repeated smaller changes to a particular area of the REC and REC Systems or user-associated internal systems.
 - REC Performance Assurance** – the Code Manager delivered a series of dashboards on the REC Portal to improve communication with REC parties and their awareness of their own performance relative to their peers and/or key metrics established by the Performance Assurance Board. These dashboards include feedback from Smart Meter Installation surveys and performance against target on the Theft Detection Incentive Scheme. Multiple parties were assisted in their applications to access data via the Gas Enquiry Service (GES) and Electricity Enquiry Service (EES), which helped inform wider work on simplifying the process. The Code Manager has continued to gather data necessary to inform its and the PAB’s consideration of performance and associated issues, but with regard to the need to be proportionate has lessened its use of Requests for Information. It has also continued to respond to the needs of PAB members and adapt its production of reports and other documentation accordingly. Further details are set out below.



Section 3: Operational Issue Improvements - Continued

Central Registration and Switching Services

In July 2022 the Central Switching Service (CSS) delivered by the Data Communications Company (DCC) went live, and responsibility for its enduring delivery transferred from the Ofgem Switching Programme to REC Governance. This marked a significant achievement for the Programme, RECCo, DCC and all of the industry as we transitioned to 'REC v3.0'.

The CSS accounts for a significant portion of RECCo's overall Budget and the RECCo Board has an obligation to scrutinise, and where appropriate challenge, costs. Last year, we implemented new ways of working with DCC to ensure that we engage earlier in the year to understand the basis of DCC's budgeting assumptions and have sufficient time to review and validate. We also introduced an agreement for a six-monthly review to assess progress against forecast and ensure we notice any variations early. At the point of service go-live a number of outstanding programme activities were captured within a 'work-off plan' and passed to the REC Performance Assurance Board to oversee the close-out of issues by DCC. The majority of these are now complete. DCC regularly attends the REC Performance Assurance Board meetings to provide status updates and assurance that it is meeting its REC obligations.

RECCo, supported by the Code Manager, has been working closely with DCC to build positive operational relationships and fully embed the Switching Operator role into DCC's internal processes. As part of this work, RECCo requested that DCC establish the 'Switching Operator Issues Forum', a monthly meeting that allows all stakeholders to discuss operational issues in a transparent and collaborative manner. One area of particular focus for RECCo has been the introduction of Service Provider Performance Charges to introduce an economic incentive scheme for the Centralised Registration Service (CRS) linked to performance against service levels defined in the REC. The service levels implemented via REC CP R0025 were originally designed and documented in the early design stages of the Switching Programme to provide DCC with the ability to reflect them in the commercial contracts with its service providers. From 01 April 2023 DCC will be measured against the scheme.

We recognise that the CSS went live at a time of exceptionally low switching volumes and as levels return to normal the operational processes will be tested. It is therefore critical that in the coming months we focus on working with DCC to close out 'failed to deliver' and 'missing' messages to ensure we can fully realise the benefits of faster switching and ensure the service evolves to meet industries future needs.

Case Study: MSC

Background: Ofgem, as part of its programme to stabilise the energy market, introduced the Market Stabilisation Charge (MSC) scheme as a temporary measure effective from April 2022 and due to expire in March 2024 unless extended. The scheme requires all domestic energy suppliers acquiring a domestic customer to pay a charge to the losing energy supplier when wholesale prices fall considerably below the relevant wholesale price cap index.

Problem Statement: Ofgem tasked RECCo with creating the governance structure to support the MSC and the role of designing, building, implementing, and operating the systems and processes to enable the operation of the MSC from 01 July 2022.

Solution: RECCo established Project Team through which, working in partnership with Ofgem, our supply chain and industry, we delivered the scheme in 4 months.

The MSC project comprised four distinct workstreams: development of detailed scheme design; identifying industry data items and sources; procurement of a system and development of a new REC schedule.

We initially held a series of workshops between RECCo and Ofgem to understand the fundamental scheme requirements and we consulted with industry on changes to the REC and operational processes. We used an agile iterative project process whereby feedback from industry was integrate into the scheme design. We engaged with other organisations who hold centralised industry data sets and established the contracts to enable the use of the data in a safe, secure, and fully GDPR compliant manner. We delivered a competitive procurement exercise to ensure value for money was achieved for the system. We seamlessly integrated that service into existing REC Services and our billing systems. We developed the MSC REC Schedule and worked with the Code Manager and industry to ensure its release on time to support go live.

The project was primarily delivered using existing internal with subject matter expertise procured where necessary and we designed, built, tested, and deployed a robust solution for industry to time and budget.

As part of our commitment to ongoing improvement we have actively engaged with industry and listed to their feedback on improvements required to the administration, in particular the level of management information and the provision of MPxN-level backing data to enable validation of MSC charges.

Section 3: Operational Issue Improvements - Continued

Case Study: GDCC Cost Savings Delivered

REC Schedule 18 sets out the Green Deal arrangements whose aim is to promote the efficient use of energy in a way which protects the interests of Consumers, promotes effective competition between Electricity Suppliers and promotes effective competition between Green Deal Providers. RECCo is required to provide a Green Deal Central Charging Database ('GDCC') service to support the users of the Green Deal. On Retail Code Consolidate in September 2021 RECCo inherited the service from the MRA.

As part of our commitment to secure value for money and procure services competitively wherever possible, we carried out a review of the existing service and concluded a full competitive procurement was not justified given the current service cost, the number of live green deals and their run off profile the stability of the delivery model, the track record of the service provider and our future plans to rationalise industry data sets.

Therefore, we tasked the challenged GDCC Service Provider (C&C Group) to provide us with a proposal which would reduce the delivery cost and update the delivery platform without impacting the user community.

C&C proposed the relocation of the GDCC onto the Electricity Enquiry Services platform, allowing the current GDCC allocation, database hardware and associated Microsoft software licenses to be retired. This allowed us to also retire the GDCC specific contract and incorporate GDCC Service Management provisions into the EES contract. Then on the 20th May the GDCC system was successfully migrated onto a new data platform with no impact to users.

The total saving generated through the migration of the GDCC onto the EES delivery platform expected to be c£600k in the period April 23 – July 25.

It also represents a step towards RECCo's long term goal to combine the current enquiry services into a single solution.

We would like to recognize the professional way in which C&C Group met our challenge and the proposal they provided which enabled us to deliver efficiency savings for our stakeholders.

Energy Enquiry Services

During the latter half of the year, we launched a significant review of the two operational processes: Access to Enquiry Services and Maintain Enquiry Services. This review sought to document these key processes, identify gaps in responsibilities and ensure all Service Providers understand and agree to their roles and responsibilities. There were two key outcomes from this review:

1. The Code Manager was engaged to orchestrate and manage the Maintain process for non-Switching.
2. RECCo implemented a new process to manage Access requests that do not fit an existing Use Case, but which may be valid or of benefit to the REC community and consumers.

REC Change R0022 was introduced to bring clarity to the data items that should be accessible by each EES User Category and remove instances where data restrictions have been placed on EES Users which cannot be justified. After a few minor issues, which were managed and resolved, the change was implemented in April 2023. We have an ongoing project to further simplify access to EES which is running in parallel to and incorporating learnings from our work on Open Data and Consumer Consent, which is in turn part of our wider Data and Digitalisation Strategy.

Metering Services

This year, we have successfully achieved a major milestone by consolidating the four metering codes of practice into a single set of metering arrangements known as the

Consolidated Metering Codes of Practice (CoMCoP). Furthermore, we have streamlined the accreditation process by appointing a single audit service provider. This achievement marks a significant step forward in enhancing efficiency and standardisation within the metering landscape. As this year progresses, we will gather feedback from users to identify any areas for further improvement to both the metering arrangements and the audit scheme to ensure required changes can be made ahead of the next scheme year.

Energy Theft Services

Significant improvements have been made to the Energy Theft Services since their transition to REC Governance in April 2021. Notably, we implemented a change that enables theft reports to be directly issued to Suppliers, eliminating the need for them to log in to the ETTOS Portal. This change was accompanied by rigorous security enhancements to ensure the utmost confidentiality and anonymity of users during data dissemination. Additionally, in response to valuable feedback from Parties, we advanced Change Proposal R0091 to address administration and process issues within the Theft Detection Incentive Scheme. These changes were to ensure the REC accurately reflected the intention of the original scheme requirements and current process to enable REC Parties and their agents to successfully meet their obligations.

Lastly, we have undertaken preparatory work for the introduction of two new industry theft groups, with a dedicated focus on combatting energy theft in 2023. These achievements reflect our commitment to continuous enhancement and collaboration in effectively addressing energy theft challenges.

Section 4: REC PAB Risks and Mitigation

More directly, the PAB is also keen to ensure that going forward there is a greater emphasis on a quality management type approach, with root cause analysis of issues and how they may be resolved. This may include changes to retail procedures to address systemic issues, rather than the application of performance assurance techniques against individual parties or services providers. As part of the REC Code Manager function, the RPA provides the following services:

The REC Performance Assurance Board, supported by the RPA, ensures that all Parties and Service Providers are fulfilling their role in the market processes governed by the REC and meeting the expectations of stakeholders. This type of assurance is familiar to industry, having been a feature of the Balancing and Settlement Code for a number of years, it was not a feature of the legacy retail codes which the REC replaced.

The scope of the REC performance assurance framework is much broader than that of other industry codes, with Ofgem confirming during its development that it may extend to all services and processes defined in and governed by the REC. However, it was also recognised that it may not be practical or proportionate to provide assurance over and mitigate each and every risk to the successful completion of retail processes, but that it may be necessary to establish the complete picture before undertaking any methodological and evidence based approach to assessing the potential likelihood and impact of each risk. Data collection is therefore foundational to the successful delivery of the performance assurance framework, and necessitated a new set of reporting requirements under the REC. While the Code Manager sought to re-use existing reports and or central data sources wherever possible, the requirement for suppliers to provide additional reporting was unavoidable.

Further to concern raised by some parties that the data requested by the Code Manager is too granular and/or does not relate directly to any of the retail risks identified, we engaged with both Energy UK and the Information Commissioners Office to explain the rationale for the requests, and how they would help mitigate risk to retail processes. This is an outcomes-based approach rather than simply a compliance framework, i.e. it seeks to assure the efficacy of the processes rather than only the performance of participants. We acknowledge that some REC Parties remain concerned at the administrative burden the reporting requirements place upon them. We will continue to have regard to these burdens and the need to ensure that performance assurance reporting is proportionate. This will be aided by scrutiny from and challenge by REC Party representation on the PAB, though we are also considering how to provide a clearer line of sight between those requirements and the eventual consumer benefit, thereby better demonstrating the indirect value of the service.

Performance Assurance - Risk Monitoring

The RPA has developed a comprehensive Risk Register, capturing and prioritising known risks to retail energy consumer outcomes and the effectiveness of the retail market. The role of the RPA and the PAB is then to mitigate those risks, primarily through the application of relevant and proportionate interventions referred to as Performance Assurance Techniques (PATs).

The RPA has developed 17 PATs which may be applied, ranging from preventative measures through lighter touch remedies to the more interventionist remedies such as requiring changes to the parties own processes and/or agreed remediation plans. If these PATs do not achieve the desired change in behaviour, the PAB could seek to escalate the matter to a higher authority, including finding the party to be in an Event of Default which could result in the RECCo Board expelling them from the REC, or a referral to Ofgem.

Performance Assurance - Direct Assurance

The RPA also supports RECCo's management of service provider contracts by supporting some of the monitoring and assurance of the other two Code Manager functions (REC Professional Services and REC Technical Services), as well as Switching Services covering CSS, CSS Switching Operator and CSS Certificate Authority (provided by the DCC), the Gas Enquiry Service and Gas Retail Data Service (provided by Xoserve), and the Electricity Retail Data Service and Electricity Enquiry Service (provided by C&C Group).

While the majority of REC Services are provided under contract to RECCo, those provided by the DCC are subject to terms and conditions set out in the REC itself, pursuant to the DCC's licence obligations. It is, therefore, important that the REC contains some of the provisions that would more usually be found in a bi-lateral contract. To that end, the Code Manager led the development of R0025 and R0092, introducing performance charges and service level agreements to DCC to incentivise robust delivery of the Central Switching Service, as detailed in Section 2 of this report.

³ Ofgem: The Retail Energy Code – proposals for version 1.1, October 2020

Section 4: REC PAB Risks and Mitigation– Continued

Market Entry, Qualification and Metering

Qualification and Maintenance is a key tool in monitoring and assuring the REC Parties, REC Service Providers and Non-Party REC Service Users that are operating in the market. This is done by the completion of entry assessment prior to becoming qualified in a specific market role or getting access to REC Services. This focuses on information security, testing and the capability of the business solution. Whilst such qualification has been commonplace in electricity for many years, this principle has been introduced into gas for the first time as part of the Ofgem Switching Programme and will continue to be provided through the REC. The REC Code Manager worked in close collaboration with Elexon on procedures that will allow relevant Parties to fulfil the Qualification requirements of both the REC and the BSC, reducing the administrative burden upon those Parties and contributing to a more holistic approach to system assurance. We are pleased that this collaborative approach has continued, with a representative of Elexon being a member of the REC PAB, and a RECCo executive director being a member of the BSC PAB, facilitating a more joined up approach to the management and mitigation of shared risks.

Many industry processes obviously rely upon the installation, maintenance and regular reading of meters. With Retail Code Consolidation, the governance of many aspects of metering, including the Qualification of agents as mentioned above, transferred from the BSC to the REC. This has allowed for the closer integration of traditional qualification procedures with the technical accreditation previously provided through a number of metering Codes of Practice. As noted below, those codes have now been consolidated and accreditation will be undertaken through a single audit regime. Going forward, we would expect this accreditation regime to effectively form a further Performance Assurance Technique, addressing any issues and mitigating any risks to either retail processes or settlement accuracy, which are traceable back to the installation and/or maintenance of the meter, moving the industry closer towards whole-of-system assurance.

More recently, both the REC Code Manager and Elexon have worked together on a joint Qualification approach and plan, setting out the requirements of Parties during the Market-wide Half-Hourly Settlement (MHHS) Programme. MHHS Qualification assesses whether Programme participants that plan to operate in MHHS arrangements, have the appropriate systems, processes and controls in place to undertake the relevant BSC and REC processes. These assessments, based upon evidence to be submitted by the Programme participant as part of a combined process, will ensure that the applicant is able to meet the new requirements of each code and therefore able to register or be appointed to MHHS migrated metering points.

We look forward to extending this collaborative approach in due course to both the Smart Energy Code and the Uniform Network Code, whose Performance Assurance Framework Administrator also attends REC PAB.

Surveys and Administration of Schemes

REC Performance Assurance requires relevant licensees to undertake quarterly Smart Meter Installation Surveys of domestic and micro business customers, pursuant to the conditions of their licence. The results of these surveys is now shared as dashboards on the REC Portal, both with Parties on an individual basis, and publicly in an anonymised report. The PAB has indicated that these and other reports should become increasingly transparent, including publication in a non-anonymised form where appropriate, as this transparency can of itself be transformative in term of the behaviours that are being monitored and reported upon.

The Theft Detection Incentive Scheme aims to complement suppliers licence obligations regarding the prevention, detection and investigation of energy theft, and provides a financial reward for the reporting of confirmed theft, offsetting the costs of carrying out such an investigation. Each Supplier's progress against theft targets is monitored by the RPA, which determines the incentive payments and charges payable at the end of each Scheme Year. Whereas theft targets have not altered substantively since the schemes were first implemented under legacy codes, following the implementation of REC Change Proposal R0091⁴, which was raised by the Code Manager, a revised Theft Target Methodology will be published each year, setting data-driven targets for each energy supplier that if met, should make a meaningful impact on tackling energy theft.

Supporting the Change Process

RPA is responsible for the following elements of the change process:

- Raising Change Proposals to address issues identified through the operations of the PAF;
- Assessing changes and monitoring performance post implementation.

Two examples of recent RPA-led changes are set out above, covering the introduction of performance charges where switching Service Level Agreements are not met, and improvement to the Theft Detection Incentive Scheme. As further performance data becomes available to inform the root cause analysis of issues and other insights, there may be an increasing number of evidence-based change proposals brought forward to specifically address those issues, potentially through revision to expressed requirements where this is considered to be a more effective remedy than the application of PATs. We also expect that the RPA and PAB will ensure that the REC remains relevant and proportionate by keeping provisions under review and bringing forward changes to remove any obsolete, ineffective otherwise superseded provisions.

Stakeholder Communication

RPA provides second line support to RPS for the provision of advice and support to Parties and other stakeholders.

The REC Portal is used as an interface with REC Parties and wider stakeholders. This now includes a performance assurance dashboard.

⁴ R0091: Clarifications to the Theft Detection Incentive Scheme

Section 5: RECCo Strategy and Performance vs Budget

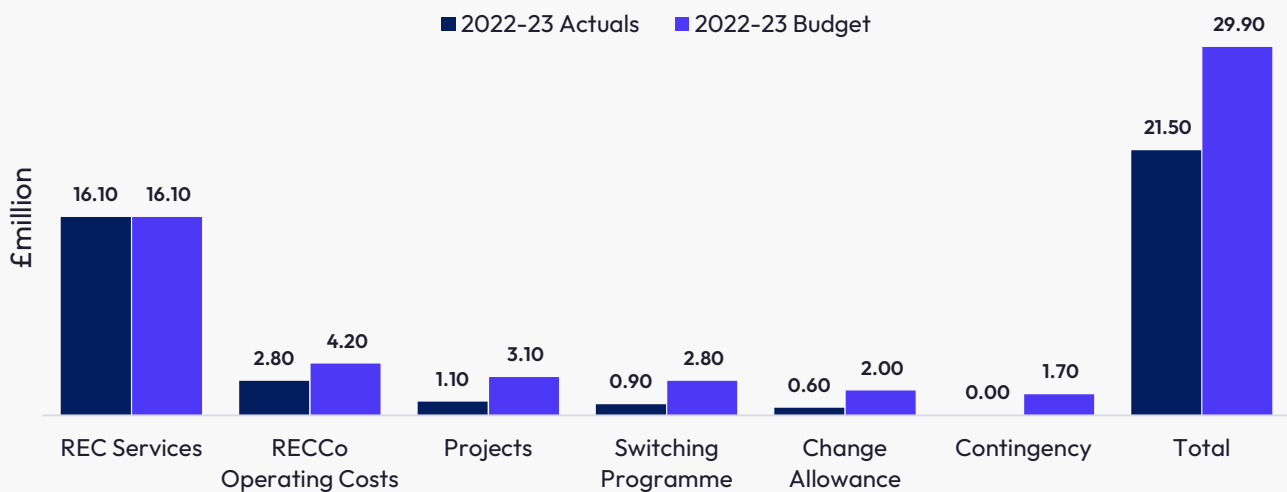
The REC (clause 5.3) sets out that RECCo is responsible for procuring the REC Services, including Central Registration Services (CRS) and is then responsible for supplying those services to the service users. RECCo is also required to take action against service providers where they fail to provide the REC Services.

In discharging this responsibility, RECCo is committed to securing value-for-money for REC Parties when we procure REC Services and throughout its lifecycle. This commitment also extends to our internal operations and our project commitments, as we do not compromise quality of delivery for price. We hold our service providers to their contractual delivery obligations and we recover service credits should service levels be missed in the discharge of a contract for the provision of a REC Service. To ensure maximum value and visibility to industry and consumers, we prepare our budgets using a zero-based budgeting methodology, utilising good faith estimates of the costs that are anticipated to be incurred in delivering the RECCo strategy and forward work plan. This was the approach for our 2023-24 Budget and it is anticipated that this will continue in future. As RECCo is a not-for-profit company, we do not carry forward balances between years, and therefore any underspend against the full year budget in any financial year is returned to REC funding parties as a rebate.

RECCo expected Financial Year 2022-23 to continue to reflect an energy market undergoing significant change. Consequently, our Budget included a prudent assessment of likely costs, striking the right balance between what we needed to address current challenges, while preparing for what is needed in the future as set out in the approved strategy. In 2022-23 RECCo and the REC developed significantly, reflecting several key events such as gaining responsibility for the operation of the Central Switching Service, go-live of the Gas Enquiry Service and the Electricity Enquiry Service, and the deployment and operation of the Market Stabilisation Charge (MSC) scheme. RECCo as an organisation also matured with our internal resource capability growing to match our delivery.

We are delighted to say that through a combination of focussing on the key deliverables for the year, plus actively ensuring we achieve best value for the REC funding parties, we expect to rebate c.£9m later this year as a reduction against the 2023/24 charges. The exact value will be determined on completion of the statutory audit of the financial statements in the Summer. Notable elements of the rebate include ensuring that all Non-REC Parties who utilise the REC Services were charged for their use, active credit control ensured bad debts were minimal, non-urgent project delivery was rephased, engagement with HMRC allowed for c£850k of VAT recovery on switching programme costs, recovery of c£900k of service credits and late delivery payments from service providers, delivery of “must have” projects e.g. Theft Estimation Methodology and MSC below budget and wherever possible, commitments were delivered through internal resource rather than bought in services, in particular the acquisition of the responsibility for the CSS and its subsequent integration into REC governance.

2022-23 Financial Results Actual v Budget



Section 5: RECCo Strategy and Performance vs Budget – Continued

Where we have inherited services and systems thereby inhibiting our ability to competitively procure e.g. Enquiry Services, d Green Deal Central Charging and Central Registration Services provided by DCC, we have engaged with the service providers to develop strategies to restructure the delivery capability to enable cost savings for the future. This has allowed for significant cost reduction in those services for 2023-24 onwards. In particular, in July the Central Registration Services went live and came under REC governance. From April 2023 RECCo became responsible for funding the cost of this service. In line with our role as intelligent customer and through active and professional engagement by DCC, we secured a reduction £2.5m reduction in the budgeted CRS costs for 2023-24. We also agreed new ways of working for the development of future CRS budgets which will deliver benefit for both organisations and REC Parties. We also engaged with the Gas Enquiry Service provider and challenged them to develop a proposal for the re-engineering of their delivery platform which will reduce the overall service delivery costs. Xoserve, in conjunction with its key sub-contractor (Correlia Ltd), responded in a timely and positive way to this challenge and provided a credible delivery proposal with associated cost reductions of c£1m per annum while also improving overall service performance without risk to the end service user.

Looking forward to 2023-24

In February we published our [2023-24 Budget](#).

We expect 2023-24 to continue to be a period of unprecedented market instability including challenging supply chains, high levels of inflation and wage demands and talent shortages. This will be amplified by the industry specific issues facing the energy market. RECCo must respond to these changes in the market, including the needs of REC Parties, consumers and the wider community. We recognise the challenges facing REC funding parties and will, wherever possible, continue to look to minimise the financial impact on them, to the extent that doing so would not compromise our ability to deliver the REC Objectives or meet its financial liabilities.

Our 2023-24 [Forward Work Plan](#) strikes a balance between embedding stability, improvement, and evolution of the REC Services, delivery of industry initiatives such as MHHS as well as theft and data initiatives. The retail energy market has undergone significant change over the last two years. It has become clear that a strong consumer focus, balanced with sustainable and efficient market and business practices are integral to the success of a robust retail energy market.

Many parts of the retail energy market are evolving including; the introduction of new business models, Supplier exits, and the Central Switching Service (CSS) to support faster and more reliable switching. There are other changes, like the Market-wide Half Hourly Settlement (MHHS) programme that will have a material impact on the retail energy market and consumers, and for which we have an obligation to deliver a key element.

The 2023-24 Budget shows a c21% increase on the costs we expected for this coming year, with c90% of the increase due to a combination of higher-than-expected CRS charges and the impact of an enhanced MHHS programme.



Section 5: RECCo Strategy and Performance vs Budget – Continued

Achievements

Last year we set out an ambitious work plan, being a combination of continuing long-term projects and new activity, while striving for excellence in our day to day operations.

Workstream	Deliverable	Assessment
REC v3	Produce the drafting for REC v3.0 to introduce governance of the CSS	<ul style="list-style-type: none"> REC v3 implemented on time Managed the governance development, baselining and testing
Central Switching Service	Go-live with new switching arrangements	<ul style="list-style-type: none"> CSS Go-live was successfully achieved in July 2022 Established the process for sending Switching Domain Data to the CSS Updated the market entry assessment and qualification and market exit process to reflect the new switching arrangements Updated the REC change process Updated the REC Performance Assurance Framework Worked closely with DCC and other service providers to agree and test new REC processes Exited switching early life on time and managed transition to enduring governance Developed CSS performance management regime ready for implementation on 01 April 2023
Electricity and Gas Enquiry Services	Onboard EES and GES	<ul style="list-style-type: none"> Designed, built and tested new interface to exchange messages with CSS Changed EES website and API's to accommodate all new CSS functionality and data items Negotiated GES service provision and successfully onboarded service
Market Stabilisation Charge	Ofgem obligation for RECCo to operate the MSC	<ul style="list-style-type: none"> Introduced vires for RECCo to operate the scheme Developed governance and processes to support the MSC administration Designed, developed, tested and implemented technical solution under the REC Successful collection and distribution of first billing cycle
Metering consolidation and assurance	Consolidate and simplify metering codes	<ul style="list-style-type: none"> Consolidation of four Metering Codes of Practice will be in place by the end of the financial year in line with the target date Awarded new Auditor contract
Energy Theft Tip Off Service	Improve consumer awareness of the Tip Off scheme and the risks associated with energy theft	<ul style="list-style-type: none"> Delivered Awareness Campaign – across different social media platforms such as TikTok, radio campaigns, Google ads and out of home campaign

Section 5: RECCo Strategy and Performance vs Budget – Continued

Achievements

Workstream	Deliverable	Assessment
Energy Theft Detection Incentive Scheme	-	<ul style="list-style-type: none"> • Better targeted incentives introduced for 2022/23 scheme year • Effective credit control processes ensured timely reconciliation of 2021/22 scheme year • Change Proposal raised to make further improvements to future scheme years in line with feedback from stakeholder survey and Theft workshop
Theft Reduction Strategy	Develop vision, strategy and robust business case for the theft reduction services	<ul style="list-style-type: none"> • Produced robust Theft Estimation Methodology; • Delivered industry workshop identifying current impediments to more effective theft prevention and solutions to them • Consulting on initiatives to be taken forward as part of the Theft Reduction Strategy
Digital Navigator	Improve and enhance REC Data Specifications	<ul style="list-style-type: none"> • Improved engagement and navigation of the digital REC in EMAR • Progressing the inclusion of REC Party licences to facilitate read across of obligations
Performance Assurance Reporting Catalogue	Update and review	<ul style="list-style-type: none"> • Changes to the catalogue were made to accommodate the introduction of the CSS, and improve the clarity and efficiency of the data collection process
Service Management	Continuous development and supporting parties	<ul style="list-style-type: none"> • Managed close out of Code Manager Post Implementation Plans (PIP) to resolve outstanding deliverables including operational processes, documentation, and system issues. • Worked with the Code Manger to ensure all the PIP requirements were completed to the required quality standards and that solutions that will support Parties in engaging with the service and understanding their obligations under the Code were implemented at no additional cost
Financial and Commercial Management	Established and implemented robust financial and commercial processes to ensure efficient use of industry money	<ul style="list-style-type: none"> • Developed refined financial reporting processes to minimise bad debts and risk • Developed and implemented robust procurement principles and processes • Received a clean statutory audit
Consumer Initiatives	Supported Government Initiatives to support Consumers with energy costs	<ul style="list-style-type: none"> • Provision of data reports to support BEIS in the delivery of the Energy Bills Support Scheme