



# Payment Type Levelisation

How will RECCo implement the process



# Welcome & Housekeeping

## Your facilitator



**Teresa Thompson**  
Stakeholder Engagement Manager



Your camera and microphone will automatically be switched off and muted



You can raise questions in our Q&A function



This meeting is being recorded and will be made available on our website

## 01 Introduction & Welcome

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## 02 PPM Levelisation Background & Context

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## 03 PPM Levelisation Service

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## 04 Q&A and Next Steps

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# Agenda

# Aims & Objectives



Provide an overview of Payment Type Levelisation Policy



Highlight key service components:

- Who's impacted?
- How will scheme and service be implemented?



Opportunity for stakeholders to ask questions on the Payment Type Levelisation Policy and process.

# Your Speakers



Jonathan Wendeatt  
Industry, Operations &  
Commercial Expert (Retail  
Energy Policy), Ofgem



Jon Dixon  
Director of Strategy &  
Development  
Retail Energy Code Company



Ursula Mulholland  
Project Manager  
Cap Gemini



# Payment Type Levelisation Background & Context

Jonathan Windeatt

*Industry, Operations & Commercial Expert (Retail Energy Policy) Ofgem*

## Levelling payment type cost differentials



- The cost-of-living crisis, and forced Pre-Payment Meter (PPM) installations, has put a spotlight on PPM customers and the premium they may pay compared to Direct Debit (DD) customers, with vulnerable customers potentially disproportionately affected.
- This project explores whether we could, and should, make charges more equitable, but less cost-reflective, by 'levelising' across payment types. The Chancellor has asked us to report on levelisation options post April 2024, once the EPG ends.
- Our primary objective of levelisation is to reduce the differentials between the payment types and ensure that we have regard for and meet our statutory duties

The CfE sought views on how we could levelise particular aspects of charges such as unit rates and/or standing charges, and on full or partial levelisation of these charges.

We considered whether to make payment charges more equal or equitable by levelising PPM costs across DD customers, presenting 5 different cases with illustrative examples.

- Our CfE was open from 26 April 2023 to 18 May 2023. In total we received **20** written responses:
  - **9** from suppliers
  - **1** from an industry group
  - **8** from charities and consumer groups
  - **2** from individuals
- We also hosted a workshop on 9 May with consumer groups and charities and we will consider the read-out of that as part of the responses to the CFE, in addition to several bilaterals with respondents.

### Feedback from the CfE

There was **strong support** for levelising and the need to address the unfair differentials paid by PPM customers. Many stakeholders cited this **'fairness'** argument as the primary reason for their support.

There were mixed views on how levelisation should be carried out in practice, with a broad preference for full PPM levelisation and partial standard credit levelisation.

On other considerations raised in the CfE, stakeholders said:

- We should consider whether the current price cap reflects a truly cost reflective benchmark.
- Levelisation should be efficient, as simple as possible and fair between suppliers.
- Any implemented policy needs to allow suppliers to continue to incentivise DD and avoid any perverse incentives around SC as a payment method.
- We should include fixed and capped tariffs and potentially consider regional differences.
- We should introduce a supplier reconciliation mechanism.

#### Link to CfE:

[Levelisation of payment method cost differentials: a call for evidence | Ofgem](#)

### The Case for change

- When the price cap was introduced, the price differential typically **focused on achieving efficient costs**. The costs paid by customers has varied depending on each payment method, with PPM and SC customers typically paying more than DD customers.
- This difference has generally increased over the past two years as bills have increased, due to the energy crisis.
- PPM customers show the highest average vulnerability criteria and are less likely to have chosen their payment method. They are at higher risk of self-rationing and self-disconnection (and the associated wellbeing impacts) due to financial issues, exacerbated by higher standing charges. Standing charges especially increase the risk of self-disconnection as they cannot be reduced through rationing.
- Currently, the PPM standing charge premium is being levelised through the EPG which will lapse in April 2024. Whilst the upcoming changes to the UNC will reduce some of the payment differentials, some will remain, partially due to the Additional Support Credit (ASC) bad debt allowance which will increase the standing charge for PPM customers.

**We consider there to be a case for introducing levelisation** to mitigate the unintended harms as a result of higher standing charges for PPM customers. In our Policy Consultation, we set out the key options and considerations regarding how levelisation should be implemented.

#### Link to Policy Consultation:

[Levelling the cost of standing charges on prepayment meters | Ofgem](#)

# Options

We presented three core options:

- Option 1 - Do nothing: No levelisation between payment methods.
- **Option 2 – Levelise PPM & DD standing charges and levelise ASC bad debt costs (preferred)**:
  - Our initial proposal is to fully levelise PPM and DD standing charges and levelise the PPM ASC across all payment method standing charges, supported by a reconciliation mechanism. This will end the standing charge differential so that all consumers on DD and PPM pay the same standing charge rate.
  - We are minded to focus on standing charge levelisation as standing charges are typically the cause of higher PPM tariffs.
- Option 3 - Option 2 plus levelise debt-related costs:
  - We are also consulting on the levelisation of specific debt-related costs in the payment method adjustment across all payment methods.
  - This would reduce the cost differential between SC and DD.

We also discussed overarching considerations:

- To include a payment reconciliation mechanism.
- To apply levelisation to fixed and capped tariffs.
- Not to target levelisation.
- Not to levelise between regions.
- Referred consideration of price cap cost reflectivity to the OPEX review.
- Referred consideration of social tariff to government.

## Reconciliation mechanism overview

- The reconciliation mechanism would be needed to redistribute associated costs between suppliers due to stability risk to suppliers based on their customer base make-up.
- Without a reconciliation mechanism, suppliers who specialise in one payment type, more so than others, could be hit with heavy losses based on how levelisation would affect those payment types.
- On 15 September we asked RECCo to act as delivery partner for the reconciliation process
- We will be making further announcements on Reconciliation Operation shortly

## How the process will work

- Ofgem will calculate a levelised standing charge for each payment method on a quarterly basis, as well as the reconciliation rate per region, fuel, by standing charge by substituting the levelised cap from the default price cap. This should be provided to both suppliers and the reconciliation mechanism operator.
- The mechanism operator should calculate the reconciliation amounts monthly by multiplying the supply point count or fuel and payment method by the rate for said payment method.
- Payments will be paid between suppliers via this mechanism
- We have not yet determined whether unit rates will be in scope but they we recognise that any unit rate levelisation mechanism will take longer to implement and will have significant complexity

Topic	Proposal
Mechanism	New mechanism will be implemented
Type of mechanism	Reconciliation by difference
Standing Charge Reconciliation	Based on daily rate adjustment
Invoicing Cadence	Monthly
Levelised price cap calculation	Ofgem

## Next Steps

- Assess the Policy Con responses ahead of ongoing policy development prior to Statcon.
- Producing Statutory Consultation for publication.
- Progressing delivery of reconciliation mechanism.

### High level timeline:

- Late Nov: outcome of policy con / Statcon Published
- late Dec: Statcon closes
- Jan 24: Publish Decision / SLC changes
- 1st Apr: Mechanism goes live



# REC Change

Jon Dixon

*Director of Strategy*

# Overview of REC Change Proposal

**REC Change Proposal R0147** raised in anticipation of levelisation scheme being required by 1 April 2024.

While the scheme will be configurable (i.e adaptable to include additional payment methods), R0147 is intended to deliver the **levelisation of the standing charges only**.

Standard Credit included in scheme but levelisation value initially set at zero.

If Ofgem decides to introduce the levelisation of unit rates for example, that would be treated as a separate project and new change proposal.

In line with stakeholder feedback provided to Ofgem, simplicity will be a key design feature.

REC legal text and administrative aspects of the scheme will be based as far as practicable upon those used in the delivery and continuing operation of the **Market Stabilisation Charge**.

# Overview of R0147

## Invoicing

- Calendar month billing periods
- Suppliers receive invoice or credit based on net positions [15 WDs] after the data submission date.

## Payments

- Suppliers to pay invoices within [10 WDs] of receipt of invoice

## Funds allocation

- All funds received are distributed equitably
- Money in = Money out (i.e. 95% paid on time = 95% paid out as per MSC)

## Late Payments

- Late payment treated as an Event of Default and escalated to Performance Assurance Board
- Ability to register new customers may be suspended
- Ofgem informed

## Disputes

- Pay on demand, dispute later – maintaining cadence of cash flow
- Minimum value of dispute set at £1000 in line with MSC

# Data requirements

## Joint submission of portfolio data to Ofgem and RECCo

- Important that subsidy calculation and allocation are based on same data set
- All data to be sourced from suppliers
- Failure to provide in a timely and accurate manner may be a breach of licence, not just code
- Any late submissions of data may result on previous months data being used

## Levelisation charge calculated Quarterly by Ofgem

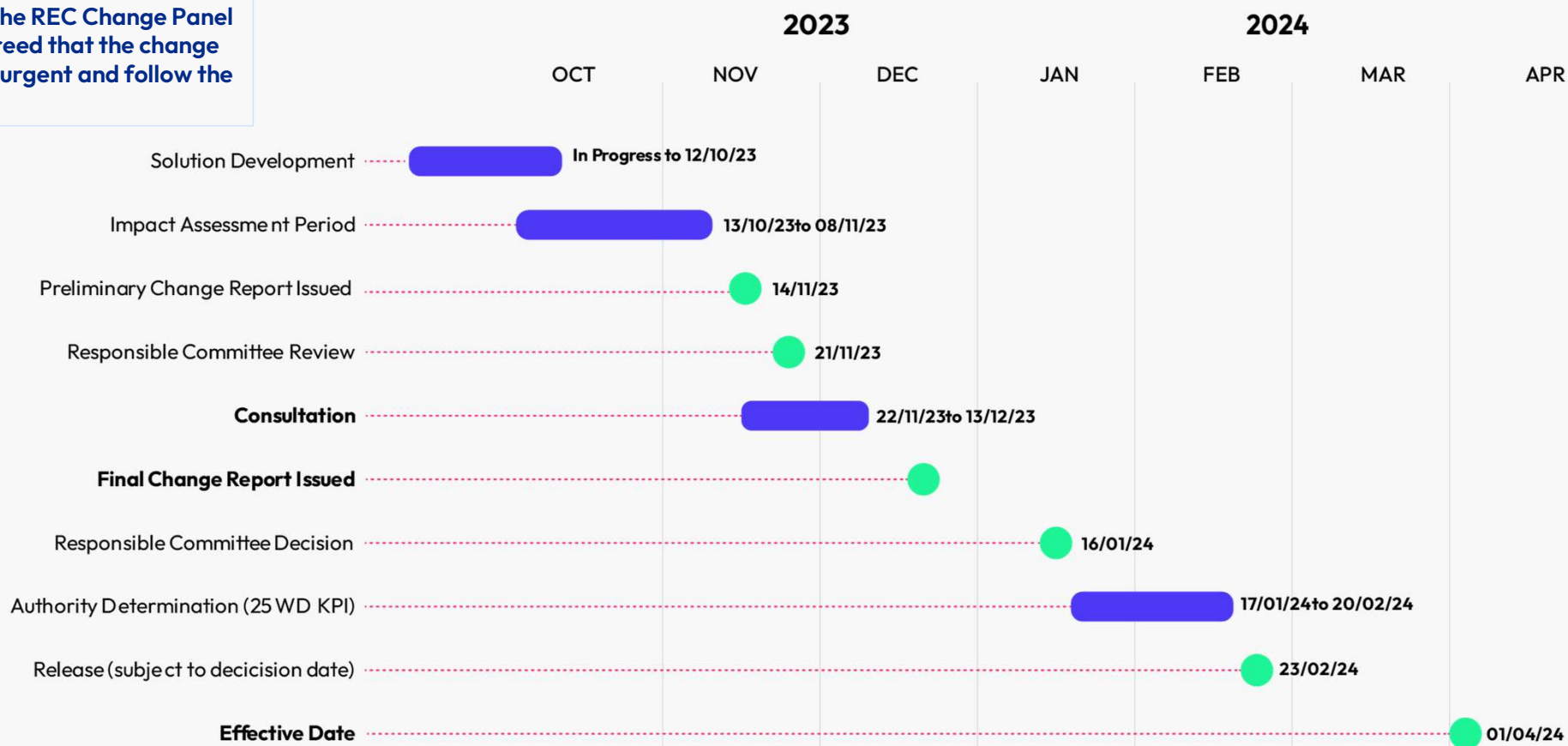
- Expected that we will use the Quarterly levelisation value, but apply to monthly invoices/credits
- Changes in portfolio within quarter could result in scheme under recovery (i.e. if more PPM:DD ratio greater than at time of calculation)
- Quarterly adjustment to account for any material deviation (tolerance to be determined)

## Aggregated data only

- Data to be submitted at a Market Participant ID (MPID) /Supplier Short Code (SSC) level

# REC Change Timeline

R0147 presented to the REC Change Panel 3 October, which agreed that the change should be treated as urgent and follow the timetable below:



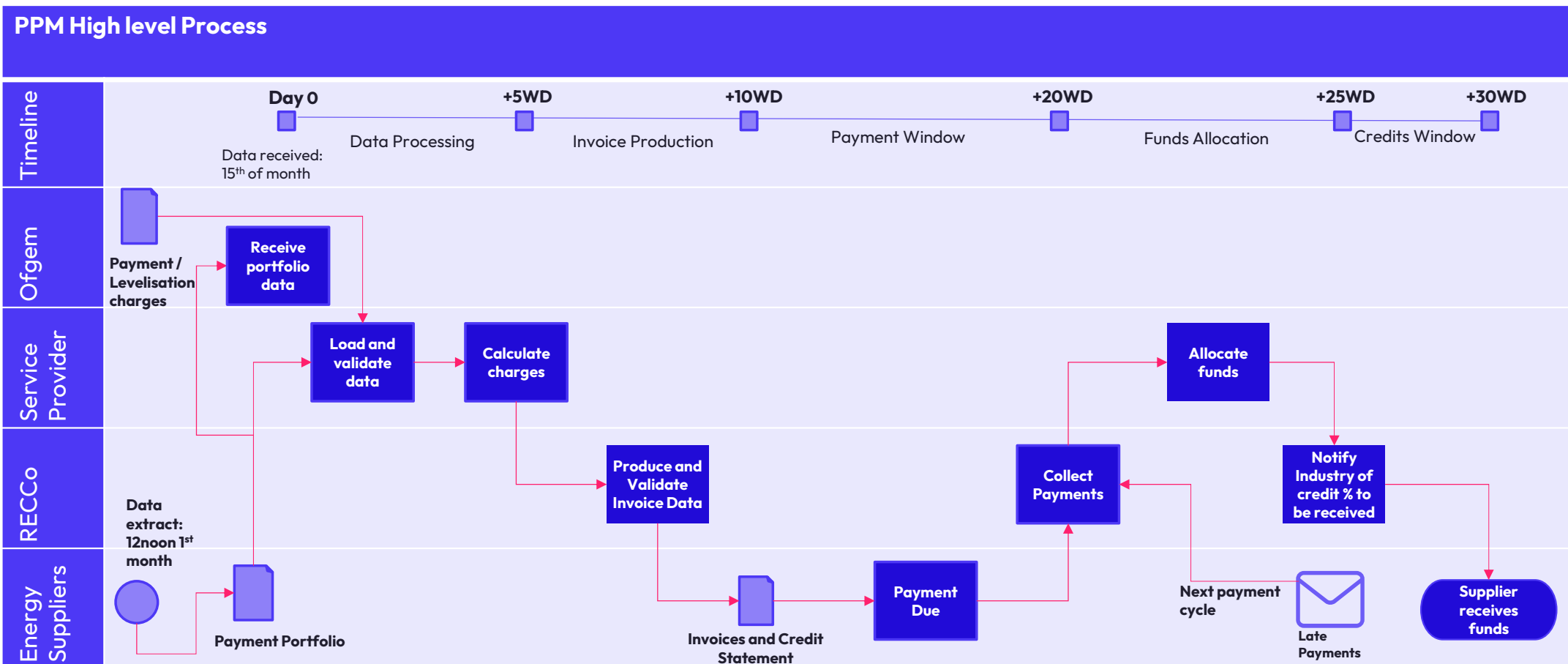


# Key Service Components

Ursula Mulholland

*Project Manager CapGemini*

# High Level Process with Timeline



# Example Data

## RAW DATA

Supplier Ref - MPID/Short Code	Ofgem region	Traditional Pre-Payment Meter Points	Smart Pre-payment Meter Points	Direct Debit Meter Points	Standard Credit Meter Points	Total meter Points
AAA	Eastern	3056	0	25005	209	28270

## INVOICE

Description	Quantity	Unit Amount per month	VAT	Amount GBP
REC PML Month 1 Eastern TPPM	3056	0.6	No VAT	1,833.6
REC PML Month 1 Eastern SPPM	0	0.6	No VAT	0
REC PML Month 1 Eastern DD	25005	0.3	No VAT	(7,501.5)
REC PML Month 1 Eastern SC	209	0.00	No VAT	0
			Subtotal	(5,667.9)

## BACKING DATA

Source:		Supplier					Ofgem				Schedule	Calculation			Net
Supplier Ref - MPID / Short code	Ofgem region	Traditional Pre-Payment Meter Points	Smart Pre-Payment Meter Points	Direct Debit Meter Points	Standard Credit Meter Points	Date	Traditional Pre-Payment Differential I (£/day)	Smart Pre-Payment Meter Points	Direct Debit Differential I (£/day)	Standard Credit Differential I (£/day)	Calendar days	Amount per month PPM	Amount per month DD	Amount per month CC	Calculated amount (PPM-DD-SC)
AAA	Eastern	3056	0	25005	209	20240415	0.02	0.02	0.01	0	30	1833.6	7501.5	0	-5667.9

# Key components

## Data extract & calculation of Levelisation

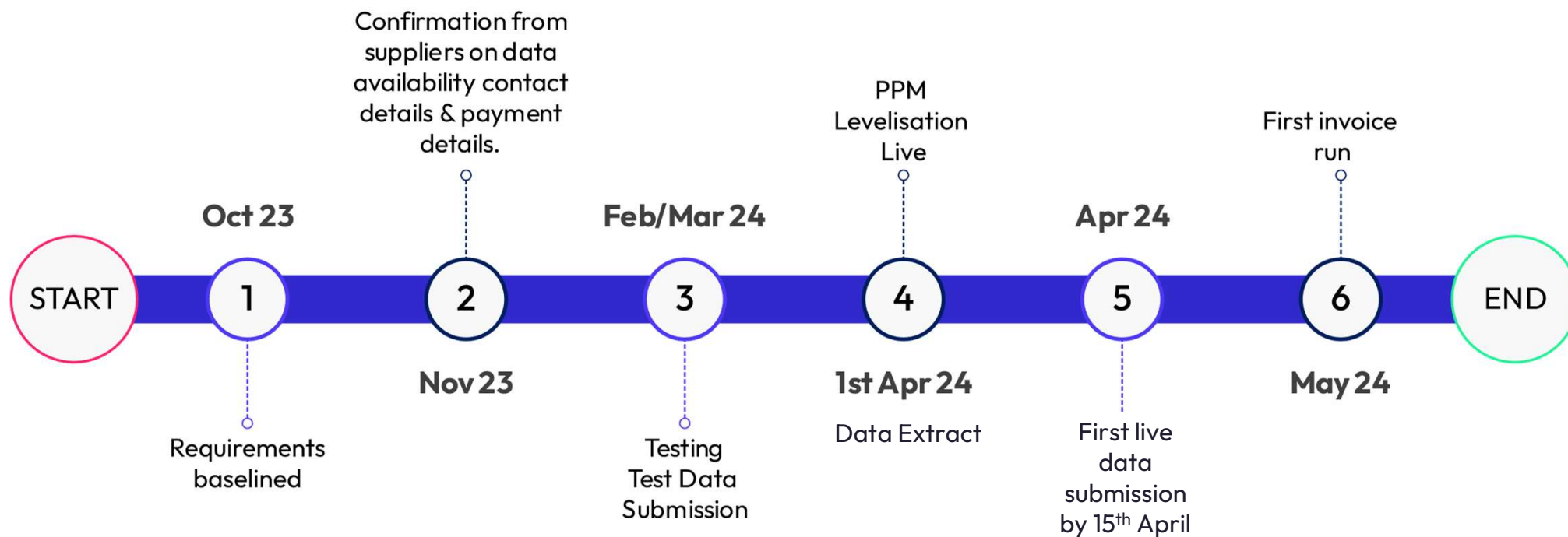
Ref	Process	Requirement
1	Data Extract	Snapshot of Primary Meter Point payment types (Traditional Prepayment, Smart Prepayment Direct Debit and Standard Credit) volumes by the 14 Ofgem regions to be supplied on a monthly basis by MPID/Short code for both Gas and Electricity for all domestic MPIDs <i>Full definition of Payment type to be supplied by Ofgem</i>
2	Data Extract	Data extract will be based on 12noon on 1 <sup>st</sup> of the month and that data will be applicable for the calendar month
3	Data Extract	The same data must be provided to Ofgem and RECCo.
4	Data Extract	A CSV file must be uploaded to an agreed secure file location by the 15th day of the month (or last working day preceding this date) in the format stipulated by RECCo. Only the agreed supplier contact(s) will have access to the secure location and authentication will be required to access
5	Data Loader	Data will be validated, and data not supplied in the correct format will be flagged for resubmission with the Data Supplier
6	Data	All access will be monitored to the data files to maintain the integrity of the data
7	Calculation	Invoicing cycles will be monthly, in arrears and based on a calendar month
8	Calculation	Levelisation calculations will be calculated using the count of each payment method for each energy type, MPID/Shortcode and region, multiplied by the Ofgem provided differential for each region, payment type, energy. A liability will apply for any direct debit meter points, a credit will apply for any pre payment meter points. These will then be netted off for each Supplier. Where a credits minus liabilities > 0, a credit note will be due. Where credits minus liabilities < 0, an invoice will be raised. There is no de-minimis billing requirement.

# Key components

## Invoicing & payments

Ref	Process	Requirement
9	Invoice	Invoice payment terms will be 10 working days
10	Payment	It is the responsibility of suppliers to ensure their payment details are maintained with RECCo. Where available, payment details from MSC will be utilised unless informed otherwise
11	Payment	Upon payment due, the funds received total will be used to calculate the % of credits to be paid. E.g. if a total of £1000 is due across all liabilities for April, and £850 is received, then 85% of the credit note value for April will be paid for each supplier due a credit. If payments are received late, they will be totalled and used in the payment run for the following month e.g. If a further £100 of late payments are received for April, then a further 10% of the credit note value for April will be paid in the next payment run.
12	Funds received	Suppliers will receive notification of the % funds received for each reporting month.
13	Dispute	A dispute process in line with MSC will be maintained, along with the 'Pay now, dispute later' policy. Disputes can be raised against the invoice or the credit statement
14	Backing data	Invoices will itemise the credit or liability calculated for each Energy, region and payment type
15	Default process	Payments are associated to an individual invoicing period and cannot be netted off against future or prior credits
16	Default process	Upon closure of the payment window, RECCo will identify non-paying Suppliers to the Performance Assurance Board who will inform any affected Suppliers they have entered an event of default Suppliers have an additional 20 days to make payment. If no payment is made, PAB are required to issue a notice to CSS to prevent the Supplier making any further registrations until invoice is paid in full. Future credits will be withheld until invoices are paid in full. Information regarding a suppliers repeated non payment will be shared with Ofgem

# Project Timeline



# To aid us in building the solution...



Would providing the data via CSV file format cause an issue?



Are there any issues of a secured share point location- which require named access to it?



If we provide a file format, what is the lead time to providing the initial data set by Feb 2024?

Please submit any questions you may have to [Communications@retailenergycode.co.uk](mailto:Communications@retailenergycode.co.uk)



# Q&A

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# Thank you for attending..

Presentation and recording of this session will be published on our website

We will be hosting a 2nd webinar in early December  
Final preparatory webinar early Feb 2024

Should you wish to discuss aspects of today's event:  
[Communications@retailenergycode.co.uk](mailto:Communications@retailenergycode.co.uk)

# POAP

