

By email

Gas and Electricity Suppliers, Gas
Transporters, Electricity
Distributors and other interested
parties

ofgem

Making a positive difference
for energy consumers

Email: switchingprogramme@ofgem.gov.uk
Date: 25 January 2019

Dear Colleague

Retail Energy Code Company (RECCo) Limited: 2019/20 budget consultation

You will be aware that on 6 December 2018 we modified the standard conditions of relevant licenses, requiring accession to and compliance with the Retail Energy Code (REC). Our intention is to designate version 1.0 of the REC upon those licence conditions coming into effect 1 February 2019. We will issue accession forms to relevant parties at that time, which we will require to be returned by 28 February or as soon as possible after.

The REC Company (RECCo) will serve as the corporate vehicle for ensuring the proper, effective and efficient implementation and ongoing management of the REC. In particular, during the implementation of the Switching Programme, the RECCo costs will fall into two main categories:

- administrative arrangements to support the establishment and operation of the REC and of RECCo itself; and
- services to support the delivery of the Switching Programme.

Once the new switching arrangements are implemented and version 2.0 of the REC takes effect, which is due to be mid-2021, the RECCo will also be responsible for the payment of other REC governed services, including those of the CSS. The RECCo will recover such costs from funding parties in accordance with the relevant charging methodology.

As the REC is not yet in effect and in the absence of a REC Manager, we are consulting on the 2019/20 budget, as appended to this letter. We have also set out our forecast costs for the following two years, though we would expect these to be subject to an annual consultation carried out in accordance with the REC, once designated.

We will summarise responses to this consultation and submit them as part of a budget paper for approval at the inaugural meeting of the RECCo board, which we expect to be in late February 2019. This will facilitate the subsequent issuing of invoices to REC funding parties, in accordance with the cost allocation methodology set out in the REC. RECCo will then be able to take responsibility for certain funding requirements and incur other appropriate costs, from the start of the 19/20 financial year.

Invoicing

Subject to the 2019/20 budget being ratified at the inaugural meeting of the RECCo board, invoices will be issued to gas and electricity suppliers as REC funding parties, allocating costs in accordance with the methodology set out in the REC. We are aiming for those invoices to be issued on or around 1 March 2019 and due for payment by the end of that month. This will ensure that funds are available to the RECCo from 1 April 2019. If any supplier would

have difficulty setting up payments to RECCo before the end of the current financial year, we encourage them to contact us and agree a date when their first payment may be made.

In order to ensure that the timely and efficient payment of invoices, we would like to confirm the appropriate contact details for each gas and electricity supplier in advance. We propose to do this by requesting from Electralink and Gemserv the current contact details used by them for billing purposes on behalf of SPAA Ltd and MRASCo Ltd. If you have any concerns with this approach and/or would like to provide alternative contact details for REC billing purposes, please include them as part of your response to this consultation.

Switching Programme support

In February 2018¹ we announced our intention to continue to act as an engaged and involved Programme Sponsor to the Switching Programme. We made this decision as we believe that Ofgem is in the unique position as regulator to be able to assess and act in the best interest of consumers in delivering the Programme.

We have learned lessons from earlier comparable programmes, such as the implementation of Project Nexus and the Smart Meter Implementation Programme. As such, we also announced in the Outline Business Case our intention to procure professional support to provide programme coordination and assurance. At a high level, the purpose of the Programme Coordinator is to coordinate the interactions across the programme's stakeholders, to assist in timely delivery of the programme, and provide assurance over the delivery of the programme.

In the summer of 2018 the SPAA Ltd and MRASCo Ltd boards agreed that the costs of the Programme Coordinator would be met by those codes for the remainder of the 2018/19 financial year. We are grateful for that support. This has allowed us to proceed with the selection of a Programme Coordinator, whom we expect to announce shortly.

We also intend to procure a function to provide independent assurance of Licenced Parties' progress and readiness to participate in the various stages of integration, testing and transition into live operations of the new switching arrangements.

The agreed funding from the SPAA Ltd and MRASCo Ltd boards was on the understanding that from 1 April 2019 and for the remainder of the programme, the Programme Coordinator's invoices and other programme support costs (other than the provision of SMEs from the code bodies) would be met through the REC. However, some contingency has also been provided in the 2019/20 SPAA and MRA budgets² in the event of slippage in the setting up of RECCo. Following the modification of relevant licence conditions and expected designation of the REC v1.0 on 1 February, we are on track to meet the RECCo milestones and as such would not expect to call upon the SPAA and MRA contingency funding.

These programme support costs will form the largest elements of the REC budget for the first two years of operation, until such time as the CSS arrangements go live and Ofgem exits the Programme Sponsor role. Whilst the levels of cost associated with each role remain commercially sensitive, we consider that the aggregated figures provided in the draft budget provide a reasonably accurate forecast and may be revised before the budget is finalised.

REC Manager Procurement

The majority of respondents to our June 2018 and October 2018 consultations agreed that it would be beneficial for the REC Manager to be appointed early, in order to assist with the effective delivery of the Switching Programme. Not least, we anticipate that the REC Manager

¹ 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>

² Subject to ratification at the respective SPAA and MRA Forum

will have an important role to play in helping us deliver the next version(s) of the REC and consequential changes to other codes, which we are progressing through the Significant Code Review process. We have therefore included the costs of running the REC Manager procurement in the 2019/20 budget.

The precise timing of the procurement activities will be for the RECCo board and/or any procurement panel it appoints to determine. However, for budgetary purposes we anticipate that a REC Manager may be appointed in advance of – or early in – the 2020/21 financial year. We would also expect that its activities and associated charges would ramp up as we approach CSS go-live the following year.

Wider REC activities and projects

In addition to the REC operational costs and Switching Programme support, we have included an indicative cost of the existing theft services transferring from the SPAA and DCUSA into the REC, for which there was almost unanimous support amongst respondents to the October 2018 consultation. These costs are purely indicative and intended to show how cost recovery for certain activities will migrate from existing codes to the REC, as associated governance provisions and/or contracts novate across. However, this is not intended to pre-empt discussions on the re-procurement or otherwise of those services, or the future level of associated charges.

We would also appreciate views on whether the forecast budget should incorporate the development of other work that we anticipate will, or is at least likely to, be governed by or interact with the REC. Another example is the *midata in energy* project (midata).³ Midata seeks to ensure that consumers are able to quickly, easily and securely share their energy data with trusted third parties; enabling them to make better informed choices and to ensure they are on the best tariff for them. The midata framework will centre on an open data standard establish a set of rules to ensure that data being shared is consistent across all suppliers. It is possible that this project will also require some form of portal to consumer data to be made available. In the longer term, the REC may be a suitable vehicle to govern the midata standard and/or the terms and conditions of access to it. A provision in the budget would facilitate further exploratory work on whether and how such initiatives will have any impact upon and/or form part of the future scope of the REC.

Consultation process

The closing date for responses to this budget consultation is **15 February 2019**. Any comments should be submitted by email to: switchingprogramme@ofgem.gov.uk.

Please note that this consultation is being carried out on behalf of the RECCo board in facilitation of the effective implementation of the REC. As such, we will share all responses with that board, unless marked confidential, and publish them on the Ofgem website. Respondents who wish to have their responses remain confidential should clearly mark documents to that effect and include the reasons for confidentiality.

If you have any questions, please do not hesitate to contact me.

Jon Dixon
Switching Programme

³ See: <https://www.ofgem.gov.uk/publications-and-updates/enabling-customer-data-energy-market>

Annex: Forecast budget

	19/20	20/21	21/22
REC set up costs			
REC manager procurement	300	-	-
Website set up	50	25	25
Legal: set up and drafting	250	250	-
REC operational			
Code management		500	1,000
Website maintenance		50	50
Legal: operational & change control	-	-	100
Audit	20	20	20
Professional fees/tax	10	10	10
Insurance	15	15	15
Meeting costs	25	25	25
Secretariat	50	25	-
Board remuneration and expenses	100	100	100
Switching programme support			
Programme Coordinator & Licensed Party Assurance	2,000	3,000	250
Theft			
Contract management, etc.	-	-	100
TRAS	-	-	3,000
ETTOS	-	-	250
Contingency			
Aggregate 10%	282	402	495
Total	3,102	4,422	5,440

Rationale and assumptions

We consider that many of the cost lines in the proposed budget are self-explanatory, and where appropriate we have used existing code budgets as a comparator. However, the costs of administering the existing industry codes can vary greatly, and in some cases there is an order of magnitude difference between seemingly comparable services.

REC manager procurement

As outlined above, we consider that the early procurement of the REC manager will be one of the key early deliverables of the RECCo board. Given the interim nature of the board and to limit the burden placed upon the interim directors, we consider that the procurement exercise would appropriately undertake by a bespoke panel. Given that it will be in REC Parties' and wider stakeholders' interests to ensure that this procurement is effective, we would expect the panel to be made up of procurement experts drawn from a wide range of such interested parties. We would not expect participation in such a panel to be remunerated,

though the RECCo may be required to cover reasonably incurred expenses, etc. It may also be appropriate for the procurement panel to be supported by a project manager and to seek legal advice, as appropriate.

Website set up and development

As with each of the existing industry codes, we would expect the primary means of communicating REC material to be through a dedicated open-access website. The cost of setting up such a website can vary greatly depending on the User requirements, but we consider that at least initially these would be relatively straightforward, centred around hosting relevant REC related documents and market information. Whilst we would expect the REC Manager to develop and with the approval of the RECCo board and parties take forward a digitalisation strategy, as set out in our October 2018 consultation, we have not sought to anticipate the costs of developing such a strategy as part of this website cost line.

Legal: set up and drafting

We have included £250k for each of the next two years to cover the ongoing development of the REC in the period while it remains subject to a SCR. This would include all further drafting of and advice upon the REC itself, together with the coordination and quality assurance of consequential drafting to other industry codes, as set out in our October consultation. This will ensure that the new governance will remain relevant, incorporating any changes that may occur over the interim period, and be fully complementary with the other industry codes. Once the next full version of the REC is implemented, the SCR process will conclude and further changes will be progressed through the normal REC change process and accordingly, be considered operational costs.

Code management

We would not expect the REC Manager to be appointed ahead of the 2020/21 financial year, by which time more will be known about the scope of the REC Manager services. In particular, we should have completed the drafting of what are currently being referred to as REC versions 2.0 and 3.0. The Code Management costs included within years 2 and 3 are intended to be indicative only of when we would expect those costs to be incurred, and that there will likely be a ramping up of cost as the REC Manager takes on more responsibilities in the run up to CSS go-live, currently scheduled to be summer 2021.

In advance of a REC Manager being appointed, it is likely that the RECCo board will require day to day secretariat support. We have therefore made an allowance for this support, dropping away as the REC Manager is appointed and able to assume some or all of these duties.

Remuneration and expenses

Whilst we would not expect the interim RECCo directors to be remunerated, as set out in the October consultation we consider it likely that future appointees may require remuneration if we are to attract the right calibre of individual to make the RECCo as effective as we would like. The constitution of the enduring RECCo board is yet to be determined, but we would expect to commence the recruitment process in advance of the REC Manager being appointed. We have therefore made an allowance for these recruitment costs as part of the 2019/20 forecast, being replaced by directors' remuneration in subsequent years. In the meantime, we would expect the independent chair and any officers the company may appoint to be compensated, and for both they and the interim directors to be able to claim reasonable expenses.