

RETAIL ENERGY CODE COMPANY

# **BUDGET**

2022-23

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# Contents

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Foreword to the 2022-23 Budget .....	03
RECCo Strategy: An Overview .....	06
Budget Consultation Process .....	07
2022-23 Budget Overview .....	08
REC Services.....	10
RECCo Operations.....	13
Projects and Workstreams .....	15
Switching Programme Support .....	17
Change Allowance and Contingency.....	19

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# Foreword to the 2022-23 Budget

Brian O'Shea, **Director of Finance**



**The Retail Energy Code Company (RECCo) was established as the corporate vehicle for ensuring the proper, effective, and efficient implementation and ongoing management of the Retail Energy Code (the REC).**

The REC simplifies and consolidates the retail governance arrangements that prior to 1 September 2021 were set out in various industry codes and agreements.

In accordance with the REC, the RECCo Board has agreed a 2022-23 Budget which has been prepared using a zero-based budgeting methodology.

This is a good faith estimate of the costs that are anticipated to be incurred in delivering the RECCo strategy and forward work plan. The REC sets out the process for scrutiny of the Budget by REC Parties and the rights to appeal of budget costs. RECCo is a non-for-profit organisation and any underspend against its full year budget in any financial year is returned to REC funding parties in the subsequent financial year as a rebate against the charges for that year. RECCo expects to provide parties with a rebate for the 2021-22 financial year, such value to be confirmed as part of the audit of our financial statements.

The retail energy market has undergone significant change over the last year. This is expected to continue for the Budget year for 2022-2023.

RECCo needs to strike the right balance between what is needed to address current challenges, while preparing for what is needed in the future as set out in the approved strategy.

Many parts of the retail energy market are evolving, including the introduction of new business models, Supplier exits, and the implementation of the Central Switching Service (CSS), as well as enhanced electricity and gas enquiry services to support faster and more reliable switching.

There are other wider energy market changes, like the Market-wide Half Hourly Settlement programme and the possible introduction, by Ofgem, of a mandated Market Stabilisation Charge (MSC)<sup>1</sup>, that will have an impact on the retail energy market and consumers.

These are all expected to impact RECCo in the Budget year for 2022-2023.

The Forward Work Plan proposes several new workstreams in addition to those being carried forward as enduring. It should be noted that each of these additional workstreams is either an intended improvement to existing activities or has been signalled by BEIS or Ofgem as an anticipated regulatory requirement that we can assist REC Parties in discharging. None are speculative.

Increasingly the REC is being recognised by Ofgem and BEIS as a model of good retail energy market governance. In particular, Ofgem has signalled this through the request for RECCo to bid for the operation of the MHHS Event Driven Architecture governance and the operation of the Ofgem Mandated Market Stabilisation Charge scheme.

RECCo expects this model of regulatory requirement implementation being discharged through the REC to continue for the coming year. Consequently, the Board have taken a prudent approach to the contingency value included in the Budget.

Our increasing role in delivery of regulatory obligations, a fuller understanding of our operating environment, the need to manage commercial and operational risk in the REC Services and the full disclosure of cost drivers under transitioned contracts are direct contributors to the increase in our cost expectation for the coming year compared to our original expectation for that year.

The Budget prioritises the enduring workstreams for which we have existing obligations and/or are central to fulfilling our core purpose and aims.

# Foreword to the 2022-23 Budget

Brian O'Shea, **Director of Finance**

The 2022-23 Budget reflects the resources to deliver our Forward Work Plan which will focus on:

- 1** Ensuring REC Services are delivered on time, on budget and to the quality standard required;
- 2** Digitalisation and Data strategies;
- 3** Switching programme implementation: Central Switching Service ('CSS'), Gas Enquiry Service ('GES') and enhanced Electricity Enquiry Service ('EES') go live and REC v3;
- 4** Theft Reduction Strategy initiatives;
- 5** Metering Code of Practice consolidation and auditor procurement;
- 6** Preparing retail arrangements for Market-wide Half Hourly Settlement (MHHS);
- 7** REC policy initiatives to support market development e.g., Supplier of Last Resort and Market Exit arrangements; and
- 8** Developing RECCo capability to enable delivery of the above.

RECCo has adopted an outsourced service delivery model, enabling it to achieve two key objectives. Firstly, service providers are required to deliver against contracts with clear requirements, quantitative and qualitative standards (KPIs) which have financial and contractual consequences for non-performance and to demonstrate continual improvement. Secondly, it allows for periodic procurement of best-in-class service providers, securing value for money through competition and allowing RECCo to take advantage of new ways of working and technology advances.

To achieve these, RECCo must proactively manage its service providers and to do so it needs an appropriate level of resource capacity and capability which is proportional to its obligations. RECCo mostly contracts with large commercial organisations which are not owned by industry.

RECCo is an expert organisation, consisting of employees with a deep understanding and knowledge of the REC Services. This enables internal knowledge development and retention. Alongside this, RECCo should remain current with energy market developments, engage proactively with its stakeholders, manage its finances and commercial arrangements and set out a strategy and forward workplan which will achieve the REC Objectives.

RECCo operating costs as a percentage of total budget fall over the planning period. This reflects the expansion of regulatory activities governed by the REC, the creation of an infrastructure capable to delivering that new expanded role and, certain services e.g. CSS, MHHS, the costs of services being recovered through RECCo at a date later than when it assumes operational deliver responsibility.

**The 2022-23 Budget costs will be recovered evenly across the year and invoiced in the first month of each calendar quarter. The charges by category of funding party are set out in Table 2: RECCO 2022-23 Charges by category of funding party.**

# Foreword to the 2022-23 Budget

Brian O'Shea, **Director of Finance**

We hope this document provides you with sufficient information for your business planning and we would be happy to discuss any questions you may have.

Below we set out the process used to develop the budget and the timescales for any appeals to the Authority.

RECCo will be holding a stakeholder event on 10 February 2022 to present the Budget and answer your questions.

However, if you have any questions in advance of that event, please do not hesitate to email Brian O'Shea at [brian@retailenergycode.co.uk](mailto:brian@retailenergycode.co.uk).

Table 1 below sets out the activities for which RECCo has responsibility to deliver under the Code. For comparison purposes, the scope of activities historically delivered under SPAA and MRA governance are also shown.

Delivery Obligations/Cost Drivers	SPAA	MRA	REC
<b>Code Administration</b>	✓	✓	✓
<b>Code Manager - Professional Services</b>	X	X	✓
<b>Code Manager - Technical Services</b>	X	✓	✓
<b>Code Manager - Performance Assurance</b>	X	✓	✓
<b>Centralised Industry Data Repository (EMAR)</b>	X	✓	✓
<b>Digitalisation Strategy</b>	X	✓	✓
<b>Enquiry Services</b>			
EES (Electricity Enquiry Services)	X	✓	✓
GES (Gas Enquiry Services)	X	X	✓
<b>Green Deal</b>			
Green Deal Central Charging service	X	✓	✓
Green Deal Administration Agreement	X	X	✓
<b>Theft</b>			
Tip Off Service	Gas Only	X	Dual Fuel
Theft Analytics (TRAS)	Gas Only	X	Dual Fuel
Theft Calculator	Gas Only	X	Dual Fuel
Incentive Scheme	Gas Only	X	Dual Fuel
<b>Data Services</b>	✓	X	✓
<b>Central Switching Service</b>	X	X	✓
<b>Metering Services</b>			
AMICoP	✓	X	✓
MAMCoP	✓	X	✓
ASPCoP	X	X	✓
SMICoP	X	X	✓
MOCOPA	X	X	✓
<b>MHHS</b>	X	X	✓
<b>Switching Programme (Coordination &amp; LPA)</b>	X	X	✓

# RECCo Strategy: An Overview

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**RECCo recently consulted on its draft strategy and forward work plan, and an accompanying financial projection for 2022-2025. That draft document can be found [here](#).**

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We received nine responses from a range of organisations. We are pleased that the respondents were on the whole supportive of our approach, though there were concerns raised with some of the specific elements of our proposals, and as expected in the current climate, with the costs associated with them. We hope that this budget document will provide the requested level of detail and rationale for our costs, and of the benefits that will arise from the service and activities they fund.

We will have regard to requests for a greater degree of stakeholder engagement in our planning, particularly around the initiation and subsequent reporting on projects. **We will publish a final version of the RECCo Strategy and Forward Work Plan for 2022-25 in March**, following the conclusion of the budget process, of which this document is part.

As noted in the strategy document, our focus for the next three years and beyond stems not only from the objectives which led to the REC and RECCo being established, but from our overall mission of facilitating the efficient and effective running of the retail energy market. Obviously, as circumstances change we will need to adapt, and potentially change what we do and how we do it in order to achieve that mission.

However, the constant aim will be to deliver services which enable REC Parties and other stakeholders to in turn ensure that consumers are well served by all of us as an energy industry, both now and into the future.

Our delivery of service and proposals for projects, which may lead to future services or improvements to existing ones, stem from our knowledge and understanding retail energy market landscape.

As a not for profit organisation, we aim to take a holistic approach that aims to serve the needs of all market participants, encouraging innovation and giving an airing to disrupting thinking where this may result in a better outcome for consumers.

Our approach will also be evidence-led, and where we consider that the evidence calls for a change in approach, that is what we will do. It is for that reason that we are, for instance, seeking to establish a robust methodology to quantify the scale of energy theft and provide a baseline against which to judge the proportionality and subsequent success of any action to mitigate it. We will take a similar approach to the projects set out within the forward work plan, either seeking to add value through improvements to the service, or otherwise looking for opportunity to remove inefficiencies.

# Budget Consultation Process<sup>2</sup>

**The Retail Energy Code (REC) requires the RECCo Board to consult on its proposed strategy including indicative costs for the key activities. On 10 January 2022, the RECCo Board published its draft strategy, forward work plan for 2022-2025, and associated three year financial projections for consultation.**

The Board invited comments on the strategy which ended on 31 January 2022. Since the closure of the consultation, the Board has considered all comments received, to determine its final strategy and its Budget for 2022-2023.

The 2022-23 Budget, as set out below, has been agreed by the RECCo Board and is published to REC Parties to allow them the opportunity to appeal the decision of the REC Board to approve the budget to the Authority (Ofgem).

**Any appeal brought must be specific to one or more individual cost items (see Table 3) not to the budget as a whole and must be submitted within 10 Working Days of the Budget being published.**

**The Authority may allow an appeal where the Authority is satisfied that the cost item in question:**

- was not consulted upon as part of the draft budget or in accordance with Clause 9.5 or the REC Board failed to have reasonable regard to any consultation responses submitted;
- is not a legitimate item of expenditure for the REC Board;
- is a manifestly inappropriate provision for the activity in question, and there are insufficient safeguards in place to ensure that the actual costs incurred will be efficient; or
- will, or is likely to, prejudice unfairly the interests of one or more Parties, or cause them to be in breach of this Code, the Energy Licences and/or Law.

**Where the Authority allows an appeal of the budget, the Authority may:**

- refer the cost item back to the REC Board for further consideration and, if appropriate, to pursue a revision to the prevailing budget;
- revise the provision for that budget item to a figure which it reasonably considers to be a better forecast of the cost likely to be incurred, whether that is higher or lower than the REC Board budgeted figure; or
- direct the REC Board to remove that cost item entirely, and make suitable revision to its annual budget and strategy.

Pending resolution of any appeal, RECCo shall not be entitled to incur costs in respect of the cost item that is subject to appeal, except as far as necessary to comply with legally binding obligations which it has previously incurred in accordance with this Code.

**Should a REC Party wish to appeal one or more budget items then they must submit their appeal to [Ofgem industry\\_codes@ofgem.gov.uk](mailto:industry_codes@ofgem.gov.uk) no later than 18 February 2022 setting out the rationale for such appeal with reference to the criteria set out in REC Section 9.**

# 2022-23 Budget Overview

**RECCo, like other businesses, is operating in a period of unprecedented market instability including challenging supply chains, increasing levels of inflation and wage demands and talent shortages.**

This is amplified by the current issues facing the energy market. In addition, the recognition by Ofgem of the REC as a model of good retail energy governance is likely to give rise to additional regulatory requirement implementations being discharged through the REC in the future. RECCo recognises the challenges facing REC funding parties and will, wherever possible, look to minimise the financial impact on them to the extent that doing so would not compromise RECCo's ability to deliver the REC Objectives or meet its financial liabilities. **The 2022/23 Budget is £29.86m equating to the following annual charges by category of funding party.**

**Table 2:** RECCO 2022-23 Charges by category of funding party.

Charges by REC Funding Parties	Annual Charge £
<b>Energy Suppliers - Charge per RMP</b>	0.51
<b>Electricity Distribution Networks</b>	
>750k RMPs on MPAS, annual charge	50,000
<750k RMPs on MPAS, charge per RMP	0.022

The 2022/23 Budget shows a £0.04 increase (c.8% ) per RPM on the original expectation for 2022-23 included in the 2021/22 Budget consultation. This original expectation is shown in the first column of **Table 3** and is provided for information purposes.

As RECCo continues to mature, it benefits from a better understanding of the nature, volume and complexity of issues which RECCo is mandated and requested to resolve, the experience and transparency of transitioning legacy activities, the mobilisation of the Code Manager services, a practical understanding of its operations, the experience of negotiating with new and existing suppliers, and a clearer understanding of the future services being integrated.

A greater knowledge and understanding of the likely future medium term work plan and its interaction with other stakeholders has also been developed.

In particular, the increase is driven by the impact of full transparency of transitioned contract costs, revised expectation of Gas Enquiry Service costs, a more comprehensive Forward Work Plan for the coming year, deferral of certain projects from 2021-22 e.g. Theft and a revised view of the level of resource required to deliver RECCo's current and expanding requirements as well as discharging all the obligations identified for RECCo and the RECCo Board in the Code.

The cost profile for the current 2021-22 financial year is not comparable to that expected for 2022-23.

The 2021-22 RECCo costs reflect a combination of part year service charges for the period post Retail Code Consolidation, one off milestone costs for services development and deployment and the impact of a reduced workstream and projects profile. **Table 3** below sets out the 2022-23 Budget with indicative projections for each of the two subsequent years.

Also shown for information is the expected projection for the year included in last year's business plan. As can be seen, the scale and scope of REC activities will continue to increase year on year including switching programme implementation in mid-2022, CSS charges becoming payable by RECCo from April 2023, implementation of a theft data analytics service in 2023/24 and an expectation that RECCo may take on responsibility for MHHS systems from mid-2024 (subject to outcome of the Ofgem consultation).

The budget includes an allowance for the operation of a mandated Market Stabilisation Charge likely to be consulted on by Ofgem in February 2022. The full extent of this scheme is yet to be fully defined, including the detail of its mechanics, the data and processing requirements which RECCo will need to procure to implement it. Therefore, there is a high degree of estimating risk in this budget allowance.



# 2022-23 Budget Overview

**Table 3:** 2022-23 Budget and indicative projections for following two years.

2022-23 Budget - £'000	2022/23 Expectation included in 2021 Budget	2022-23 Budget	2023/24 Indicative	2024/25 Indicative
<b>REC Services</b>				
Code Manager	10,119	10,232	10,000	10,050
Enquiry Services (Electricity and Gas)	2,989	3,954	4,675	4,782
Green Deal	420	468	500	525
Theft Services (ETTOS, Calculator, Analytics)	3,984	865	2,450	3,025
Central Switching Service (CSS)	-	-	11,000	11,000
Metering Services	-	-	-	-
Market-wide Half Hourly Settlement	-	-	-	5,000
REC Support Costs (Legal, Change Board & PAB fees)	308	534	600	625
	<b>17,820</b>	<b>16,053</b>	<b>29,225</b>	<b>35,007</b>
<b>RECCo Operations</b>				
Board, Staff & Operating Costs	2,177	4,234	4,150	4,375
<b>Projects &amp; Workstreams</b>				
Theft Reduction strategy	100	600	350	250
Digitalisation and Data strategies	-	500	350	350
REC Policy initiatives	250	275	250	250
Market-wide Half Hourly Settlement	-	450	450	450
Metering Code of Practice consolidation /procurement	351	300	-	-
Market Stabilisation Charge project	-	500	500	500
Review of Enquiry Services	-	-	-	500
Additional Projects (including net zero and consumer initiatives)	301	430	350	350
	<b>1,002</b>	<b>3,055</b>	<b>2,250</b>	<b>2,650</b>
<b>Switching Programme Support</b>				
Programme Coordination & Licensed Party Assurance	1,827	1,950	-	-
Switching Programme Engagement	550	870	-	-
	<b>2,377</b>	<b>2,820</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>23,376</b>	<b>26,612</b>	<b>35,625</b>	<b>42,032</b>
Change Allowance (REC/Policy )	2,000	2,000	4,000	4,000
Contingency	1,322	1,700	2,100	2,500
<b>TOTAL</b>	<b>26,698</b>	<b>29,862</b>	<b>41,725</b>	<b>48,532</b>

# REC Services

**The REC requires RECCo to provide the REC Services, as set out in Table 4, and our operational ethos is that we are the accountable service provider to REC Parties. The Code Manager is not responsible for the procurement or management of the REC Services or the service providers.**

RECCo will have operational responsibility for CSS and GES from go live in Summer 2022. RECCo will fund the GES costs from that date but have agreed to assume CSS funding obligations from April 2023. Until then DCC will continue to recover the CSS costs directly through its charges. Metering services have a zero cost as the cost of those services is passed through to the metering entities and not recovered from Suppliers.

However, RECCo will have 4 (four) metering auditor services to manage in the budget year. The Operations and Transformation teams have been sized to enable the effective management of all the listed services. All the services listed, other than the Theft Calculator, have data processing requirements, be that commercially sensitive data or personal data.

To protect commercially confidential information individual service provider costs have been anonymised and/or aggregated wherever possible.

Code Manager costs show a small increase (c.1%) on the original contractual values for the year and this reflect the enduring impact of service changes agreed in 2021/22. This limited impact reflects a combination of the completeness of the requirements specification included in the original procurement and the degree of commercial, operational and technical scrutiny applied to proposed changes as part of the RECCo internal change approval process.

To date, cost of change has been mostly one-off development fees rather than having an enduring service impact. As the REC change process matures and an increased volume of changes are progressed, the impact on Code Manager costs may increase. Any changes agreed in-year will be funded from the Change Allowance. Code Manager costs show a step down in 2023/24 reflecting the obligation for continual improvement outstripping the impact of a small budget allowance to fund service changes. Indexation applies from 2024/25 onwards.

**Table 4:** REC Services

2022-23 Budget - £'000	2022/23 Budget	2023/24 Indicative	2024/25 Indicative
Code Manager	10,232	10,000	10,050
Enquiry Services (Electricity and Gas)	3,954	4,675	4,782
Green Deal	468	500	525
Theft Services - ETTOS & Theft Calculator	865	950	1,025
- Analytics	-	1,500	2,000
Central Switching Service (CSS)	-	11,000	11,000
Metering Services	-	-	-
Market-wide Half Hourly Settlement	-	-	5,000
REC Support Costs Legal fees	240	306	331
Change Board & PAB fees	294	294	294
	<b>16,053</b>	<b>29,225</b>	<b>35,007</b>

# REC Services

## **From switching implementation go-live, expected Summer 2022, RECCo will have operational responsibility for CSS, GES and an enhanced EES.**

RECCo will fund GES and EES costs from that date but have agreed with DCC to fund CSS from April 2023. RECCo needs to be resourced to manage these three crucial services from go-live. The step up in GES and EES costs in 2023/24 primarily reflects the full year impact of the GES.

The GES cost estimate presents both a financial and operational risk. RECCo is in the process of agreeing the contract with the service provider (Xoserve) and is awaiting confirmation of the costs.

Xoserve is a monopoly provider of these services and in turn procures the bulk of its services from a single outsource commercial service provider. The material change in EES and GES costs compared to original expectations for the Budget year reflects RECCo getting full transparency of the novated EES contract costs during 2021 and the rough order of magnitude of GES costs being higher than originally expected.

Green Deal costs reflect the costs associated with the provision of the Green Deal Central Charging (GDCC) service to industry. This service is stable and mature and the cost profile reflects this.

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## **The increases year on year reflect indexation allowances in the service provider contract.**

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RECCo has identified a workstream to consider the Green Deal arrangements and this will include an assessment of the most economic means of delivery of the GDCC.

The 2021/22 Budget assumed the procurement of a Theft Analytics service by March 2022, the service being mobilised in the subsequent 6 months and go-live from October 2022.

In 2021/22 RECCo has adopted a revised approach to Theft Reduction, firstly completing a project to develop the strategic and economic case for a Theft Analytics services and secondly, commissioning a project to develop a Theft Methodology to quantify the value of energy theft (see Workstreams section for further information).

The revised approached timescale means that Theft Analytics costs will not be incurred in 2022/23. For planning purposes, it is assumed that a Theft Analytics service will be procured in 2023/24.

However, RECCo is committed, as part of its Theft Reduction project in 2022/23 to establish, based on data and evidence, the best means of recovering the largest element of the theft value quantified by the Theft Methodology.

This may be by means other than a Theft Analytic service.

The ETTOS costs include both costs of service provision and an allowance for marketing activities. These together account for 97% of the budget allowance. The balance is the annual support and maintenance and an allowance for the ongoing development of the Theft Calculator.

CSS costs will crystallise from April 2023 onwards. The values included reflect the best estimate of these costs at this time.

RECCo is awaiting confirmation from DCC of the rough order of magnitude of costs. RECCo has agreed a process which will allow for REC Board input into setting the annual CSS budget, a payment profile that enables DCC to manage its risk, all CSS change costs are funded through the RECCo change process and change budget (rather than through a separate change budget managed directly by DCC) and their annual budget should not contain any contingency.

# REC Services

**This represents a significant departure from the funding arrangements under SEC.**

Metering services have a zero cost as the metering entities audited pay for the service costs. However, RECCo will have 4 (four) metering auditor services to manage in the 2022/23 budget year.

The Operations and Transformation teams have been sized to enable the effective management of all the listed services. RECCo's portfolio of services includes significant data processing requirements and, in most cases, RECCo is the data controller in the service contract. RECCo has allowed for DPO and information security expertise in the financial projections.

RECCo's role in MHHS is still under development and discussion. Ofgem consulted on the most appropriate enduring governance arrangements for MHHS on 20th January 2021. This may be the REC rather than the BSC (Balancing and Settlement Code).

Therefore, for planning purposes, the projections for 2024/25 reflect an allowance for funding the MHHS service provider costs. This cost allowance will fall away if the BSC is considered the best governance custodian for MHHS.

REC Support costs reflect the RECCo responsibility for funding any legal fees required to review REC changes.

In addition, the REC requires the Change Panel and Performance Assurance Board to have independent members. The budget allows for the remuneration of such independent members.



# RECCo Operations

**RECCo operational costs include maintaining a fully independent and remunerated Non-Executive Board, infrastructure costs to enable the company to discharge its obligations under the REC and Companies Act, successfully manage and mitigate the commercial and operational risks inherent in its outsourced business model, have the capacity to deliver successful change and effectively and efficiently manage all the REC Services. RECCo will implement a policy whereby reliance on external Subject Matter Experts is reduced and talent and knowledge is developed and retained internally in the organisation.**

RECCo operating costs as a percentage of total budget fall over the planning period. This reflects the expansion of regulatory activities governed by the REC, the creation of an infrastructure capable of delivering that new expanded role and, for certain services e.g. CSS, MHHS, the costs of services being recovered through RECCo at a date later than when it assumes operational deliver responsibility.

Board costs reflect a remunerated independent non-executive Board which have the necessary skills, experience and expertise to ensure the RECCo strategy and REC objectives are delivered.

RECCo must proactively manage its service providers and to do so it needs an appropriate level of resource capacity and capability which is proportional to its obligations. RECCo should be an expert organisation, consisting of employees with a deep understanding and knowledge of the REC Services. This enables internal knowledge development and retention.

Alongside this, it should remain current with energy market developments, engage proactively with its stakeholders, manage its finances and commercial arrangements and set out a strategy and forward workplan which will achieve the REC Objectives.

**Table 5: RECCo Operations**

2022-23 Budget - £'000	2022/23 Budget	2023/24 Indicative	2024/25 Indicative
Board Costs	313	350	375
RECCo Human Capital	2,677	2,750	2,900
RECCo Operating Costs	1,244	1,050	1,100
	<b>4,234</b>	<b>4,150</b>	<b>4,375</b>

# RECCo Operations

The Budget allows for 30 employee roles, with several roles being recruited to align with the introduction of new or expanded RECCo requirements. Historically under previous governance arrangements a number of the functions retained in-house by RECCo have either been delivered by the then code administrators or were not required under those governance arrangements. For the future, while the Code Manager service will be the most interacted with by REC Party personnel, RECCo will increasingly become an organisation required to deliver data services. All of the REC Services, other than the Theft Calculator, have data processing requirements, be that commercially sensitive data or personal data. Ensuring customers' interests and data is protected in the operation of the REC is a defined component of the REC Objectives as set in Licence Conditions. For the planning period, RECCo human capital will be structured:

**Strategy:** The role of the Strategy and Development team is to ensure that the REC remains relevant and continues to evolve in order that both the code content and the associated services provided by RECCo anticipate and then meet the changing needs of REC Parties and wider stakeholders in the energy market.

**Transformation:** Given the nature, complexity and number of data flows (and contracts) for which RECCo is now and will become responsible as Data Controller or Processor, and recognising the extensive and complex GDPR (General Data Protection Regulation) arrangements inherent within the REC, the data management and transformational activities will be consolidated under a dedicated team. This new team led by a director of data, technology and transformation will deal with increasing data, security and information issues which cannot be economically and effectively outsourced to service providers and as well as delivering dedicated project management and PMO capability.

**Operations:** The role of the operations department is to ensure that each RECCo service provider is delivering its services in line with REC requirements and/or contractual obligations and to the required quality standards. The resource model we have established will ensure that each service provider/service function has a service manager lead that

will be the expert on the service. Resources will be assigned to reflect the scope and quantum for each service.

**Finance:** The role of the finance and commercial function is to ensure that RECCo's finances are managed in an efficient manner to ensure it has the resources available to meet its financial liabilities and deliver its strategy and projects. The commercial function is required to ensure that RECCo's commercial risk is managed, services are procured competitively and, working alongside the operational and transformation teams that all services are delivered to their contractual requirements.

**Corporate:** The corporate affairs function is responsible for leading on RECCo's stakeholder engagement strategy, communications and marketing, HR, people and culture functions within the business. The HR and people function has been brought in-house which is a more cost-efficient solution for the organisation and will ensure there is a continued focus on developing employees into a highly capable and performing team. To address RECCo's desire to proactively consider the needs and wants of its stakeholders whilst building trust and confidence for the organisation's initiatives, stakeholder engagement capacity has been brought into the business.

RECCo operational and infrastructure costs reflect the day-to-day operational costs of the company. While a small number of these are discretionary, as far as they will need a business case to support any expenditure against the budget allowance, a number are necessary because of legislation, REC requirements or good business risk management practice e.g., audit fees, insurance, training and development, IT costs etc. The projections include an allowance for bad debts. While the REC allows for the socialisation of any bad debts, RECCo works to commercial principles in managing its debtors.

Our finance system automatically "chases" overdue debts, material value overdue debts are followed up individually with the nominated REC Contract Manager and REC v3 will be updated to explicitly identify non-payment as a "REC event of default" which can be referred to the Performance Assurance Board. This may lead to expulsion from the Code. Together these combine to provide commercial incentives for REC Parties to pay their invoices on time and for RECCo financial exposure to be reduced. In 2021, supplier failures accounted for c.9.5% of the market while RECCo bad debts equated to less than 1% of turnover.

# Projects and Workstreams

The projects and workstreams set out below align to those identified within the strategy. Full details of the intent of each workstream are set out in the strategy and this section does not seek to replicate the detail provided therein.

Table 6: Projects and Workstreams

2022-23 Budget - £'000	2022/23 Budget	2023/24 Indicative	2024/25 Indicative
Theft Reduction strategy	600	350	250
Data and Digitalisation strategies	500	350	350
REC Policy initiatives	275	250	250
New Workstreams (incl. net zero and consumer initiatives)	430	350	350
Market-wide Half Hourly Settlement	450	450	450
Metering Code of Practice consolidation/procurement	300	-	-
Ofgem mandated Market Stabilisation Charge project	500	500	500
Review of Enquiry Services	-	-	500
	<b>3,055</b>	<b>2,250</b>	<b>2,650</b>

## Theft Reduction strategy

RECCo is required to develop a Theft Reduction Strategy that will better facilitate the discharge of REC Parties licence obligations to prevent, detect and investigate gas and electricity theft.

The current theft arrangements operated by RECCo are the Energy Theft Tip Off Service (ETTOS), the Theft Detection Incentive Schemes and the Theft Calculator. To inform its approach to the Theft Reduction Strategy, RECCo commissioned in 2021/22 two pieces of work, an initial "Theft Risk Assessment Service Strategic Outline Case Discovery" which set out the strategic and economic cases, along with scalable service options, for Theft data analytics service.

The second piece of work was to commission a Theft Methodology model development to enable quantification of scale of theft using a data driven model. The budget allowance will, in the first instance be used to assess the best option(s) which will enable the greatest value of theft to be recovered or create the greatest theft deterrent. RECCo has not predetermined the outcome of such an assessment.

Thereafter the budget will be used to fund the development of any such options. Options may include:

- a material variation in the Theft Incentive Scheme to understand if a fundamental increase in incentive values would encourage greater theft recovery and investigation by Suppliers;
- a significantly enhanced ETTOS marketing campaign to drive greater public reporting of theft and safety issues; or
- initiation of theft analytics service procurement project.

# Projects and Workstreams

## Data and Digitalisation strategies

The full extent of the RECCo role in the guardianship and custodianship of industry data sets within the REC Services and the corresponding impact of GDPR (General Data Protection Regulation), Security and Information management has crystallised during 2021. This in turn has driven the need for dedicated Information and Data Security personnel within RECCo and these are reflected in the staffing costs.

Further, RECCo is working closely with the RPA to understand the extent to which existing centralised industry data sets can be utilised to improve industry processes through the Performance Assurance Framework. The expectation is that access to such data sets would carry a cost. The budget allowance includes several data workstreams: Data Cleansing, Open Access Data to consolidate data catalogues and external governance changes required to gain access to third party data, e.g., DCC, Digitalisation “Cost to Serve” and further data reporting.

## Policy Initiatives and New Workstreams

Reflects an allowance for a suite of small research driven projects including, as part of the future market design workstream, a potential net zero and sustainability projects as well as consumer insights initiatives.

Each of the individual workstreams are areas, either currently or likely to be in the future, governed by the REC and directly linked to the REC Objectives.

None of these projects are speculative. Other projects include developing a REC-led code of practice for TPIs (third party intermediaries) as a viable alternative to direct regulation; new entry and exit requirements; research on the potential overlaps with Heat Strategy and market processes; potential for re-purposing of Green Deal arrangements including potential for service and system downgrades to drive cost savings; assessing further code consolidation and work on the Priority Services Register development. In addition, this allowance will be used for activities and projects which cannot be identified at this time but for example, may be used to fund any Ofgem initiatives cascaded down to RECCo e.g., comprehensive review of credit cover arrangements.

## Market-wide Half Hourly Settlement

Ofgem has indicated the benefits of greater involvement of RECCo and the extension of REC governance into the MHHS project. RECCo is supportive of this initiative. The full extent of RECCo's role will be established in Q1 2022. The budget allowance included reflects the requirement for RECCo engagement in the project and an allowance for involvement in the governance of the project.

## Metering codes consolidation and procurement

There are currently five metering codes of practice governed through the REC. The audit and assurance activities for these are provided by four service providers.

Completion of the meter code consolidation activities and development of procurement document is expected to be completed in 2021/22 and procurement of the service provider and implementation of their service will be completed in 2022/23. It is expected that a single metering code auditor will be in place for April 2023.

## Ofgem mandated Market Stabilisation Charge:

In December 2021 Ofgem consulted on the introduction of a Market Stabilisation Charge (MSC). We understand that if introduced, Ofgem's intention is that the charge will take effect from April 2022. The consultation proposed that the scheme is likely to be governed and administrated through the REC.

We therefore anticipate that change(s) will be required to the REC enabling RECCo to administer the scheme and provide it with the necessary vires to do so. The full details and mechanics of the operation of the scheme is to be defined. It is expected that, among other things, RECCo will require access to both electricity and gas switching data sources, carry out periodic calculations and the delivery of an invoicing and financial management mechanism.

The full mechanics of the scheme will need to be defined and incorporated into the REC through the REC Change Process. A project allowance of £500k has been included in the budget. Given the current lack of detail on the mechanics of the scheme and the consequential operational impact on RECCo this budget allowance is a good faith estimate, which necessarily carries a high degree of estimating risk.

## Enquiry Services review

Currently two separate gas and electricity enquiry services are delivered to industry. This is a function of legacy arrangements. Significant investment has been made in enhancing these services to support switching implementation. Industry needs to achieve a payback on this investment.

Under the general objectives within the REC and RECCo development workstream, in 2024 RECCo will initiate a review of the feasibility for developing a consolidated dual-fuel enquiry service which will take advantage of technology and data management advances over the next three years. The timing will align with contract expiry dates for the respective services and will allow for return on investment made.



# Switching Programme Support

**RECCo operational costs include maintaining a fully independent and remunerated Non-Executive Board, infrastructure costs to enable the company to discharge its obligations under the REC and Companies Act, successfully manage and mitigate the risks inherent in its outsourced business model, have the capacity to deliver successful change and effectively and efficiently manage all the REC Services. RECCo will implement a policy whereby reliance on external Subject Matter Experts is reduced and talent and knowledge is developed and retained internally in the organisation.**

RECCo will continue to fund Programme Coordination and Licenced Party Assurance for the Budget year. These costs are expected to stop at the end of the 2022 calendar year.

The value of Programme Coordination and Licence Party Assurance costs reflect the expected costs to the end of the contracts extended by Ofgem in 2020 for the respective organisations. RECCo considers that it receives the benefits of these services as RECCo will be the contracting entity for the new switching services (CSS, GES and EES) being developed under the programme.

The RECCo Board receives a commercial report on the programme activities monthly.

The Budget does not make allowance for RECCo to fund DCC Switching Programme costs either prior to, or for the period after CSS Go-live.

Those costs have not been funded by RECCo historically and the working assumption is that the current method of DCC recovery will continue for the future. RECCo will pay CSS operational delivery costs from April 2023.

**Table 7:** Switching Programme Support

2022-23 Budget - £'000	2022/23 Budget	2023/24 Indicative	2024/25 Indicative
Programme Coordination & Licenced Party Assurance	1,950	-	-
Switching Programme Engagement			
EES PUI Obligations - service provider/SME support	660	-	-
GES service deployment support	135	-	-
Consumer Initiatives	75	-	-
	<b>2,820</b>	<b>-</b>	<b>-</b>

# Switching Programme Support

## Switching Programme Engagement

The Switching Programme is expected to continue for the 2022 calendar year with the Central Switching Services, Gas Enquiry Services and an enhanced Electricity Enquiry Service expected to go-live in Summer 2022.

At go-live RECCo will be responsible, under the REC, for the provision of these services to the REC Parties. In the lead up to go-live RECCo will need to discharge its extensive and formal obligations as a Switching Programme Party Under Integration (PUI) for the EES.

Critically, RECCo will need to assure itself that the CSS and GES are fit for purpose and can be accepted as such and that we and our Code Managers are suitably resourced and able to deliver their operational obligations, including service provider management and change control, post go-live.

RECCo has also included an allowance to fund any further consumer focussed initiatives which may arise from Switching implementation. RECCo has received the outcome of the Customer Journey Form and will, prior to the start of the Budget year, consider what work is required.

## RECCo's Switching Programme Implementation Project – 4 Workstreams



### Workstream 1

Strategic Oversight and Engagement of the Ofgem Programme



### Workstream 2

REC Code Manager Preparation and Readiness



### Workstream 3

Enquiry Service Delivery



### Workstream 4

Development of REC Version 3.0 Drafting



# Change Allowance and Contingency

## Change Allowance

The change allowance for 2022/23 has been retained at the current 2021/22 level of £2m. In the first 8 months of the 2021/22 budget year, change costs were c.£865k the bulk of these costs were incurred in a 4-month period post Retail Code Consolidation.

It is expected that the volume of REC change will increase for 2022/23 and therefore a full allowance has been retained.

From April 2023, RECCo will be responsible for funding any CSS and GES changes, as well as new theft services coming online, and the doubling of the change allowance budget for 2023/24 onwards reflects this increased activity.

## Contingency allowance

RECCo is required to develop its budget on a bottom-up basis. Any risk inherent within an activity is, as far as possible reflected in the budget allowance for that activity. Nonetheless, the recognition by Ofgem of the REC as a model of good retail energy governance is likely to give rise to additional regulatory requirement implementations being discharged through the REC in the future.

In particular, the request for RECCo to bid for the operation of the MHHS Event Driven Architecture governance and to operate the Ofgem mandated Market Stabilisation Charge scheme is evidence of this. RECCo expects this model of further regulatory requirement being discharged through the REC to continue for the coming year.

Consequently, and reflecting the inherent instability in the market and the uncertainty of some new services which have not yet been contracted the Board have taken a prudent approach to the contingency value included in the Budget. A contingency allowance of c.6% has been included.

**Table 8:** Change Allowance and Contingency

2022-23 Budget - £'000	2022/23 Budget	2023/24 Indicative	2024/25 Indicative
Change Allowance (REC/Policy)	2,000	4,000	4,000
Contingency	1,700	2,100	2,500
	<b>3,700</b>	<b>6,100</b>	<b>6,500</b>

**The Board would like to remind REC funding parties that RECCo is a non-for-profit organisation and any underspend against its full year budget in any financial year is returned to REC funding parties in the subsequent financial year as a rebate against the charges for that year. RECCo expects to provide parties with a rebate for the 2021-22 financial year, such value to be confirmed as part of the audit of our financial statements.**



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