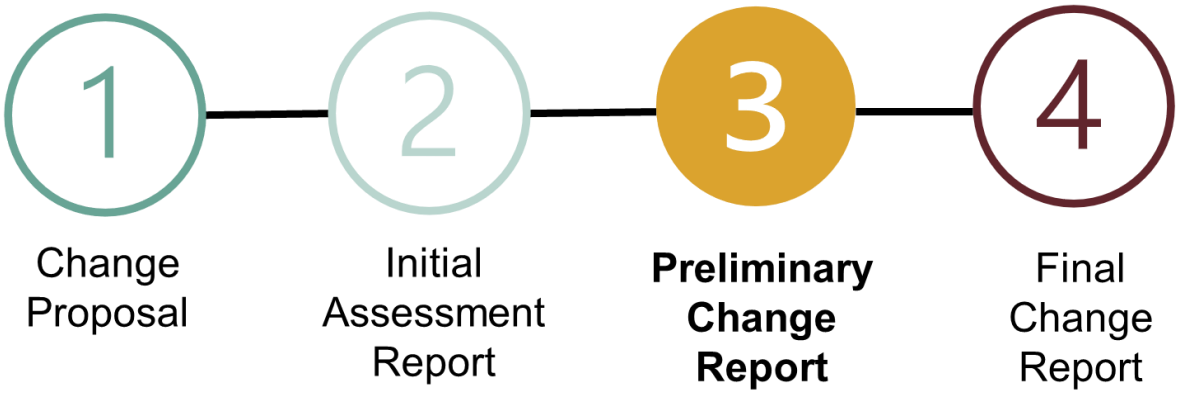
RETAIL ENERGY CODE

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Information is for public, unrestricted dissemination and publication.

PRELIMINARY CHANGE REPORT



PURPOSE:	The Preliminary Change Report is drafted by the Code Manager when a Change Proposal has a fully formed solution that has been sufficiently assessed to allow a decision to be made on whether this should be approved for implementation. The report includes a summary of the Change Proposal, details of the proposed solution and the Code Manager's view on the case for change and recommendation.
NOTES:	The report sets out the minded-to position, prior to formal consultation, and may be changed when publishing the Final Change Report.
NEXT STEPS:	The Preliminary Change Report will be issued for consultation. Following this, the Code Manager will produce a Final Change Report and the Responsible Committee will make a decision on whether to approve the Change Proposal.

PRELIMINARY CHANGE REPORT

R0034 – MARKET STABILISATION CHARGE

DOCUMENT VERSION	1.0
DATE ISSUED	04/03/2022
DOCUMENT APPROVAL STATUS	PUBLISHED FOR CONSULTATION

RESPONSIBLE COMMITTEE	CHANGE PANEL

LEAD ANALYST	ANN PERRY	EMAIL

CHANGE OVERVIEW

This Change Proposal seeks to introduce the Market Stabilisation Charge into the Retail Energy Code.

CODE MANAGER'S RECOMMENDATION

The Code Manager recommends Change Proposal R0034 is **APPROVED** for implementation on 14 April 2022.

	High Impact: N/A
	Medium Impact: N/A
	Low Impact: Energy Suppliers and Retail Energy Code Company

RETAIL ENERGY CODE

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BACKGROUND

1 SUMMARY

On 15 December 2021, Ofgem issued a Statutory Consultation[1] on potential short-term interventions to address risks to Consumers from market volatility.

On 16 February 2022 Ofgem issued its decision on those proposals[2], which include the modification of the licence to introduce the Market Stabilisation Charge (MSC), requiring Energy Suppliers to pay a MSC when acquiring new Consumers from 14 April 2022.

An Energy Supplier gaining new Consumers will pay a charge to the Losing Suppliers. This charge will only take effect if wholesale prices fall significantly below the level used to set the price cap from April (parameters set by Ofgem).

The charge would represent a proportion of the economic loss to the Losing Supplier when the Switch occurs and would be based on the Consumers estimated annual consumption.

The payment mechanism would be managed by the Retail Energy Code, with the Retail Energy Code Company (RECCo) calculating net credit and debits based on all Switches across the market and the level of charge set by Ofgem.

The MSC will be a temporary measure, with the licence condition coming into effect on 14 April 2022 and due to expire on 30 September 2022, unless a decision is made to extend the condition by up to a further six months to 31 March 2023, or remove it earlier, if it is considered necessary to do so.

This Authority Change Proposal seeks to give effect to the MSC through changes to the Retail Energy Code (REC), to allow for the effective discharge of the new licence obligation on Energy Suppliers to pay the MSC.

A subsequent Change Proposal (R0035 – Market Stabilisation Charge - Administration) has been raised, to introduce the necessary governance and charging arrangements to allow these MSC payments to be administered.

2 PROBLEM STATEMENT

Following the publication of Ofgem's decision on potential short-term interventions to address risks to consumers from market volatility, the Market Stabilisation Charge will be introduced via the modified Standard Licence Condition 24A. A change is needed to the REC to give effect to the Market Stabilisation Charge from 14 April 2022.

[1] Statutory consultation on potential short-term interventions to address risks to consumers from market volatility

[2] Decision on short-term interventions to address risks to consumers from market volatility

3 USER STORIES

REF.	USER STORIES
MARKET PARTICIPANT USER STORIES	
M1	As the Authority, I want the necessary changes made to the Retail Energy Code to introduce the MSC obligations, so that the new MSC licence obligations on Energy Suppliers can be effectively discharged by RECCo.

PROPOSAL

4 KEY RISKS, ASSUMPTIONS, ISSUES AND DEPENDENCIES

No risks or issues have been identified in relation to this Change Proposal.

4.1 ASSUMPTIONS AND DEPENDENCIES

No.	DEPENDENCY	NOTES	STATUS
D1	The Change Panel will need to be confident with the timetable for progression in order to meet the required implementation date.	If the Change Proposal does not follow the required timetable, it may not be approved in time to implement the necessary changes prior to the modified licence conditions coming into effect.	Closed
D2	The Authority will need to make a determination on whether to approve or reject this Change Proposal by 08 April 2022 if this is to be included in an extraordinary REC release on 14 April 2022		Open

5 PROPOSED SOLUTION

This Change Proposal seeks to give effect to the MSC through the introduction of a new Market Stabilisation Charge Schedule, to allow for the effective discharge of the modified licence, placing obligations on RECCo and Energy Suppliers.

Consequently, a new definition for the MSC will need to be added to the Interpretations and Definitions Schedule, and the introduction of a new REC Schedule will require an update to the

REC Baseline Statement. As the REC Baseline Statement is a Category 3 document a Category 3 Change Proposal, C3-0018, has been raised to progress the changes to the REC Baseline Statement.

We consider the introduction of a new Schedule to be the appropriate mechanism for introducing the MSC into the REC, as this reflects the short-term nature of the obligations and would enable the easy removal of the Schedule at an appropriate point in the future.

While the implementation of this change in itself is not expected to have a direct impact on REC Parties, a subsequent Change Proposal (R0035 – Market Stabilisation Charge - Administration) has been raised to introduce the necessary governance and charging arrangements, to operationalise the MSC scheme and allow the MSC payments to be administered.

6 DRAFT LEGAL TEXT

The legal text changes to deliver the proposed solution to R0034 can be found on the Change Proposal Page on the REC Portal.

7 PROPOSED IMPLEMENTATION DATE AND APPROACH

PROPOSED IMPLEMENTATION DATE	14/04/2022

PROPOSED IMPLEMENTATION APPROACH	BIG BANG

Under the licence notice change there is a 56-day period from publication of decision to the point the changes come into effect. The MSC licence condition will come into effect on 14 April 2022, following publication of the notice on 16 February 2022.

The implementation of the legal text changes required to introduce the MSC into the REC need to be aligned with the licence condition effective date.

As this is following an 'Authority Determined' Change Path, the final determination on whether to approve or reject the Change Proposal is made by the Authority.

There is a dependency that the Authority issue its decision on this Change Proposal by 08 April 2022 for this to be implemented on 14 April 2022.

8 CHANGE PATH

CHANGE PATH	AUTHORITY DETERMINED

9 RESPONSIBLE COMMITTEE

RESPONSIBLE COMMITTEE	CHANGE PANEL

10 BUSINESS CASE ASSESSMENT

On 15 December 2021, Ofgem issued a Statutory Consultation on potential short-term interventions to address risks to Consumers from market volatility[3].

On 16 February 2022 Ofgem issued its decision on those proposals[4], which include the modification of the licence to introduce the Market Stabilisation Charge (MSC), requiring Energy Suppliers to pay a MSC when acquiring new Consumers from 14 April 2022.

The payment mechanism would be managed by the Retail Energy Code, with the Retail Energy Code Company (RECCo) calculating net credit and debits based on all Switches across the market and the level of charge set by Ofgem.

This change will ensure the obligations on Energy Suppliers to pay the MSC, and on RECCo to implement, govern and administer the MSC are reflected within the REC.

11 CASE FOR CHANGE

The Code Manager considers that R0034 has the following impacts against the REC Objectives:

OBJECTIVE	IMPACT TYPE	JUSTIFICATION
To ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement	Neutral	When assessing the impacts against this REC Objective, the Code Manager has considered impacts to the following areas: • The efficient and effective running of the retail energy market; • Competition; and • Consumer Outcomes. The Authority has made the case for the MSC being required in order to achieve an effective retail energy market in the long term, however there is a recognised impact to competition in the short term.

[3] Statutory consultation on potential short-term interventions to address risks to consumers from market volatility

[4] https://www.ofgem.gov.uk/sites/default/files/2022-02/Short%20Term%20Interventions%20-%20Decision%20Document.pdf

		In the event of wholesale prices falling significantly a positive impact on Consumers is expected in the longer term. At this time the Code Manager considers the impact against this REC objective be neutral, with the shorter-term nature of negative impacts being balanced by the longer-term benefits of stability within the energy market. However, this will be validated through industry consultation.
To ensure customers interests and data is protected in the operation of the REC	Positive	In the event of wholesale prices falling significantly, the MSC would likely have a dampening effect on some consumers' willingness to switch. In these circumstances consumers would still benefit from switching, even considering Energy Suppliers factoring the MSC into their prices. However, there has been very little assessment of the wider detrimental impacts to consumer confidence in the market. On balance the deliberate detriment to competition in the short term, and reduced consumer savings, are offset by the longer-term stability of the market and the reduced consumer exposure to mutualised costs associated with supplier exits.
To drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs	Neutral	The REC 2022/2023 budget includes provision for the operation of the MSC. Resources required for the development, implementation and administration of the MSC, will not be diverted from the delivery of the other areas targeted in the REC Strategy or Code Manager's Forward Work Plan. Therefore, Code Manager considers this Change Proposal does not positively or negatively impact this objective.

At this stage, the scale of the activity required by the REC and RECCo, to develop, operationalise and maintain the MSC scheme, is not clearly understood. This will be set out and assessed as part of Change Proposal R0035.

12 CODE MANAGER'S RECOMMENDATION

Based on the assessment in section 10 and 11 of this report, the Code Manager's minded to position is that the REC Objectives would be better facilitated on the basis of this Change Proposal being implemented than would otherwise be the case.

However, in the event the MSC is never triggered an argument could be made that the approval and implementation of this Change Proposal would negatively impact the REC objectives.

The Code Manager's minded to position is that the Change Panel recommend that the Authority:

- **APPROVE** the proposed change solution;
- **APPROVE** the proposed implementation approach; and
- **APPROVE** the proposed implementation date of 14 April 2022

This position will be ratified through industry consultation, with the Code Manager's final recommendation presented within the Final Change Report.

13 CONSULTATION PLAN AND NEXT STEPS

The consultation on this Preliminary Change Report for R0034 will be published on the REC Portal on **04 March 2022** and will close on **11 March 2022.**

Following consultation, the Code Manager will produce an updated version of this Preliminary Change Report (referred to as the Final Change Report). This will include the outcome of the consultation, setting out a summary of the consultation submissions and the Code Manager's response.

The Final Change Report will be issued to the Change Panel to make its recommendation to the Authority.

14 APPENDIX

CHANGE PROPOSAL	Change Proposal Page
LEGAL DRAFTING	Link to EMAR – Change Set