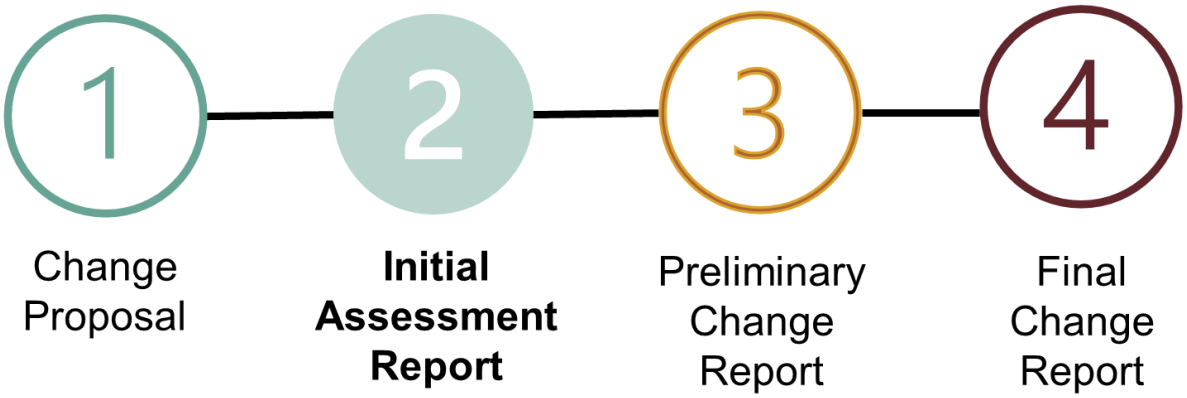
RETAIL ENERGY CODE

This document is classified as **WHITE**.
Information is for public, unrestricted dissemination and publication.

INITIAL ASSESSMENT REPORT



PURPOSE:	This is a written report from the Code Manager setting out their initial assessment of the Change Proposal and planned next steps for progressing the proposal.
NOTES:	The Initial Assessment Report is accompanied by a Change Proposal Plan, which describes the Code Manager's plan for progressing this Change Proposal. The solution will not be finalised until the publication of the Preliminary Change Report.
NEXT STEPS:	The Change Proposal Plan will set out the next steps for progressing this Change Proposal. The Code Manager will either propose additional activities to develop and/or assess the solution, or immediately prepare and publish the Preliminary Change Report.

01	Initial Assessment Report
02	Preliminary Change Report
03	Final Change Report

INITIAL ASSESSMENT REPORT

R0034 – MARKET STABILISATION CHARGE

DOCUMENT VERSION	1.0
DATE ISSUED	25/02/2022
DOCUMENT APPROVAL STATUS	APPROVED BY REC CHANGE PANEL
RESPONSIBLE COMMITTEE	CHANGE PANEL

CHANGE OVERVIEW

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

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

RETAIL ENERGY CODE

CONTENTS

1.	SUMMARY	3
2.	PROBLEM STATEMENT	3
3.	USER STORIES	3
4.	IMPACTS	4
5.	CHANGE PATH AND RESPONSIBLE COMMITTEE	4
6.	PRIORITY STATUS AND URGENCY	5
7.	SUMMARY OF CHANGE PROPOSAL PLAN	5
8.	GLOSSARY	6

LEAD ANALYST
Ann Perry
EMAIL

1 SUMMARY

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

On 16 February 2022 Ofgem issued its decision on those proposals, 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.

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.

Note: Change Proposal R0035 will detail the User Stories relating to implementation and administration of the MSC for Energy Suppliers and RECCo.

4 IMPACTS

REC PARTIES AND SERVICE USERS
Energy Suppliers

REC DOCUMENTS / PRODUCTS
REC Baseline Statement
Interpretations and Definitions Schedule

RECCO AND REC CODE MANAGER
RECCo

The scope of this Change Proposal is to introduce the MSC into the REC, it does not seek to define the governance, charging arrangements or administration of the MSC payments.

This change proposes to:

- Introduce a new Market Stabilisation Charge Schedule into the REC, to place obligations on RECCo and Energy Suppliers;
- Add a new definition for the MSC to the Interpretations and Definitions Schedule; and
- Update the REC Baseline Statement to include the new MSC Schedule.

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.

Subsequent related Change Proposal R0035 will make further changes to the new MSC Schedule to define the governance and administration of the MSC payments.

The legal text for this Change Proposal will be drafted ahead of the Preliminary Change Report publication.

4.1 CROSS CODE IMPACTS

There are no cross-code impacts from this Change Proposal

5 CHANGE PATH AND RESPONSIBLE COMMITTEE

CHANGE PATH	AUTHORITY DETERMINED
RESPONSIBLE COMMITTEE	CHANGE PANEL

This proposal has been raised by the Authority, in accordance with Paragraph 9.3(d) of REC Schedule 5.

This requires the decision to approve the change to be determined by the Authority.

6 PRIORITY STATUS AND URGENCY

PRIORITY STATUS	HIGH
URGENCY	URGENT

PRIORITISATION MATRIX

Significance	Score	Weighting
Legal/Regulatory Compliance	2	30
Strategic Direction	0	20
Cost Benefits / Value	2	10
Consumer Impacts	0	30
Operational Efficiency	0	10

Weighted Significance Score	1
Urgency	3
Overall Priority Score	**13**

Effort	1 - Moderate

Urgency

3	N/A	13	23	33
2	02	12	22	32
1	01	11	21	31
0	00	10	20	N/A

Significance

Priority Score	Priority Status
23 - 33	Critical
13 - 22	High
11 - 21	Medium
00 - 10	Low

PRIORITY STATUS
High

The Priority Status for this Change Proposal is 'High' based on a 'Weighted Significance' score of 1 and an 'Urgency' score of 3. This is broken down as below:

Significance:

Legal/Regulatory Compliance – a score of 2 as this change will ensure the MSC is reflected in the REC, enabling the effective discharge of the licence condition obligations.

Cost Benefits/Value – a score of 2 to reflect Ofgem's estimate that the MSC would reduce the level of supplier losses in their falling prices scenario from £1.0-1.3bn to £0.8-1.2bn[1]. Ofgem expect this, in turn, to reduce the prospect of supplier exits (and of the resulting costs to consumers) and improve investor confidence in the retail market.

Urgency:

This Change Proposal has been given an urgency score of 3 to reflect the need for it to be progressed immediately for it to achieve its required timetable.

We propose that this Change Proposal should follow an urgent timetable on the basis that:

- The change needs to be linked to a specific date (e.g., introduction of legislation, system release date, planned consultation or impact assessment timings, etc.).

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

Under the licence notice change there is 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. An Urgent Change Proposal timetable will enable this.

7 SUMMARY OF CHANGE PROPOSAL PLAN

We deem the solution for this Change Proposal to be simple; to introduce the MSC via a new Schedule and inclusion of a new definition within the Interpretations and Definitions Schedule, therefore no solution development or assessment is required.

To reflect the urgency of this Authority Change Proposal, the Preliminary Change Report will be issued for a 5 Working Day consultation on 04 March, without first being presented to the Change Panel for review.

Following an ex-Committee decision on the Final Change Report, the Change Proposal will be referred to the Authority for determination.

	FROM	TO
DEADLINE FOR ALTERNATIVE CHANGE PROPOSAL SUBMISSION	04/03/2022	04/03/2022
PRELIMINARY CHANGE REPORT ISSUED	04/03/2022	04/03/2022
CONSULTATION	04/03/2022	11/03/2022
FINAL CHANGE REPORT ISSUED	18/03/2022	18/03/2022
RESPONSIBLE COMMITTEE DECISION (EX-COMMITTEE)	23/03/2022	23/03/2022
AUTHORITY DETERMINATION	24/03/2022	08/04/2022

8 GLOSSARY

TERM	DEFINITION
Authority	means the Gas and Electricity Markets Authority (GEMA) as established under section 1 of the Utilities Act 2000.
Authority Change Proposal	means a Change Proposal submitted by the Authority, or a Party acting at the direction of the Authority pursuant to a Significant Code Review.
Energy Supplier	means a person which is either or both an Electricity Supplier and/or a Gas Supplier.
Gaining Supplier	means, in relation to a proposed Switch (or Switch), the Energy Supplier which is proposing to become the Registered Supplier at an RMP as a result of that proposed Switch (or which has become the Registered Supplier as a result of that Switch).
Losing Supplier	means, in relation to a proposed Switch (or Switch), the Energy Supplier which will cease to be the Registered Supplier at an RMP as a result of that proposed Switch (or which has ceased to be the Registered Supplier as a result of that Switch).
Office of Gas and Electricity Markets (Ofgem)	Ofgem is the regulator for Britain's gas and electricity industries, overseen by the Gas and Electricity Markets Authority (the Authority)
Retail Energy Code (REC)	means this Code, including its Schedules and the Technical Specification, maintained pursuant to the electricity supply licences granted under the Electricity Act 1989 and the gas supply licences granted under the Gas Act 1986, as such code is modified from time to time in accordance with its provisions.
Retail Energy Code Company (RECCo)	means the company established under Clause 5 of the main body of this Code.
Switch	means a change to the Registered Supplier for an RMP.
Urgent Change Proposal	means a Change Proposal that should be treated as urgent in accordance with the criteria for urgency published by the Authority from time to time.