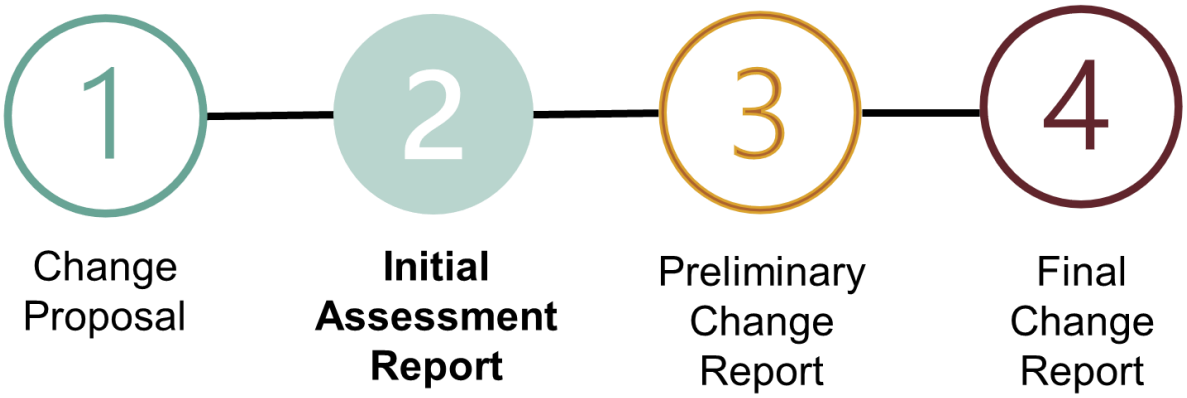
RETAIL ENERGY CODE

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.

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

INITIAL ASSESSMENT REPORT

R0035 – MARKET STABILISATION CHARGE - ADMINISTRATION

DOCUMENT VERSION	1.0
DATE ISSUED	01/04/2022
DOCUMENT APPROVAL STATUS	APPROVED BY REC CHANGE PANEL
RESPONSIBLE COMMITTEE	CHANGE PANEL

CHANGE OVERVIEW

This Change Proposal complements the Urgent Change Proposal R0034, which was raised by the Authority to introduce the Market Stabilisation Charge (MSC) into the Retail Energy Code. This Change Proposal seeks to introduce the necessary governance and charging arrangements to allow the MSC payments to be administered.

	High Impact: N/A
	Medium Impact: Retail Energy Code Company, Energy Suppliers
	Low Impact: REC Code Manager

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RETAIL ENERGY CODE

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 all Gas and Electricity Supply Licences 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 2022 (these parameters will be 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 is 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.

Change Proposal R0034 – Market Stabilisation Charge was raised to give effect to the MSC through changes to the Retail Energy Code (REC). R0034 is awaiting Authority determination, which is expected by 08 April 2022. This Change Proposal 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 and introduced into the REC by Change Proposal R0034. A change is needed to the REC to set out the charging and payment mechanism, and to introduce the necessary governance arrangements to allow these MSC payments to be administered by RECCo.

3 USER STORIES

REF.	USER STORIES
CONSUMER USER STORIES	
C1	As a Domestic Consumer, I want to be able to choose my Energy Supplier and a tariff from a range of competitive options, so that I can take advantage of cheaper deals as they become available.

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.
M2	As a Domestic Supplier, I want to understand how RECCo will calculate my credits and liabilities and when they will send my invoices/credit notes, so that I can plan to review my invoices/credit notes prior to the receipt of monies owed or payments I make to RECCo or at an appropriate time for my organisation.
M3	As a Domestic Supplier, I want to understand how I could dispute an invoice which I do not believe is accurate, so that I am able to raise a dispute/challenge compliantly
M3	As RECCo, I want the Retail Energy Code to specify my obligations, governance and charging mechanisms, so that I can effectively discharge obligations imposed by the Authority through the Licence Condition modification.

4 IMPACTS

REC PARTIES AND SERVICE USERS
Energy Suppliers

REC DOCUMENTS / PRODUCTS
Schedule xx - Market Stabilisation Charge
Schedule 1 – Interpretations and Definitions
Performance Assurance Board (PAB) Procedures (Category 3 document)

RECCO AND REC CODE MANAGER
RECCo
REC Code Manager

REC SERVICE PROVIDERS
Data providers • Electricity – Electricity Enquiry Service and Data Transfer Service • Gas - Central Data Service

CONSUMERS
Domestic Consumers

This Change Proposal seeks to:

- Set out the requirements of RECCo in relation to administering the Market Stabilisation Charge;
- Establish the payment mechanism and charging arrangements;
- Set out the process in the event of late payment;

- Set out a process for Energy Suppliers to follow in the event they wish to dispute a calculation, charge or payment made by RECCo;
- Define the role of the Code Manager and the PAB; and
- Set out the approach to auditing and assurance.

We consider the new MSC Schedule, introduced by Change Proposal R0034, to be the appropriate mechanism for the definition of the obligations on RECCo, the REC Code Manager, Energy Suppliers and REC Service Providers. This reflects the short-term nature of the obligations and would enable the easy removal of the MSC Schedule at an appropriate point in the future with minimal impacts to other REC products.

It is expected that new MSC related definitions will need to be added to the Interpretations and Definitions Schedule, and the REC Performance Assurance Board Procedures will require an update to reflect the additional MSC related responsibilities being introduced to the REC Performance Assurance Board (RECPAB). As the Performance Assurance Board Procedures is a Category 3 document a Category 3 Change Proposal will be raised to progress any identified changes.

The impacts to REC documents will be confirmed, and the legal text drafted, ahead of the impact assessment. However, to support early review and assessment, the proposed solution is set out at a high level in the published document R0035 – High Level Solution Overview v1.0.

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

The Change Path for this Change Proposal has been deemed to be Authority determined, in accordance with REC Schedule, Paragraph 9.3. The Change Proposal is proposing changes that are:

- Likely to have a material impact on competition in the supply of gas or electricity in Great Britain.
- Likely to have a material impact on existing or future Energy Consumers.

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 follows:

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.).

Under the licence notice change there is a Statutory 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.

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

MSC charges could be applicable from the 14 April 2022, therefore the introduction of the governance and administration mechanisms is required at the earliest opportunity to ensure the timely invoicing of liabilities and payment of monies owed that may accrue from the 14 April 2022.

If the scheme is not implemented in a timely manner, it could not be wholly effective in mitigating any risk to market stability.

It is proposed that an Urgent timetable would enable the implementation of the necessary changes on 30 June 2022.

7 SUMMARY OF CHANGE PROPOSAL PLAN

The Change Proposal Plan allows time for the drafting of the legal text changes, impact assessment and industry consultation.

We propose a 13 Working Day impact assessment period, however, we propose the Preliminary Change Report (PCR) will be issued for a 13 Working Day consultation, to give impacted stakeholders sufficient opportunity to review the PCR and respond to the consultation.

Following a Responsible Committee review, the Final Change Report will be referred to the Authority for determination.

	FROM	TO
IMPACT ASSESSMENT PERIOD	08/04/2022	29/04/2022
DEADLINE FOR ALTERNATIVE CHANGE PROPOSAL SUBMISSION	06/05/2022	06/05/2022
PRELIMINARY CHANGE REPORT ISSUED	06/05/2022	06/05/2022
RESPONSIBLE COMMITTEE REVIEW	10/05/2022	10/05/2022
CONSULTATION	13/05/2022	01/06/2022
FINAL CHANGE REPORT ISSUED	10/06/2022	10/06/2022
RESPONSIBLE COMMITTEE DECISION	14/06/2022	14/06/2022
AUTHORITY DETERMINATION	24/06/2022	24/06/2022

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 a Registrable Measurement Point 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)
REC Performance Assurance Board (PAB)	means the performance assurance board for this Code, as from time to time established under Clause 15 of the main body of this Code (which is a Sub-Committee).
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 a Registrable Measurement Point.
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.