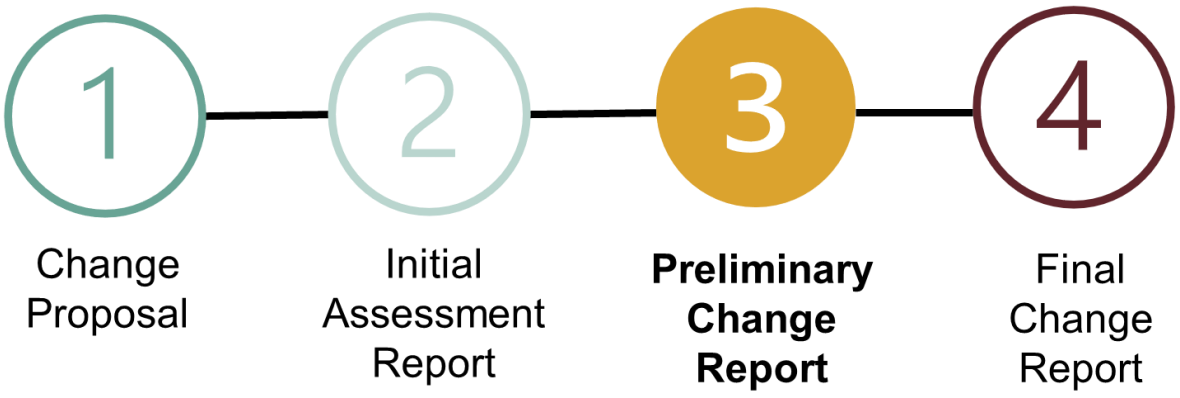
RETAIL ENERGY CODE

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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.

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

PRELIMINARY CHANGE REPORT

R0035 – MARKET STABILISATION CHARGE - ADMINISTRATION

DOCUMENT VERSION	2.0
DATE ISSUED	13/05/2022
DOCUMENT APPROVAL STATUS	APPROVED BY RESPONSIBLE COMMITTEE

RESPONSIBLE COMMITTEE	CHANGE PANEL

LEAD ANALYST	ANN PERRY	EMAIL

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 will introduce the necessary governance and charging arrangements to allow the MSC payments to be administered.

CODE MANAGER'S RECOMMENDATION

The Code Manager recommends Change Proposal R0035 is **APPROVED** for implementation on 30 June 2022.

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

RETAIL ENERGY CODE

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BACKGROUND

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 will 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 the charge being set by Ofgem.

The MSC will be a temporary measure, with the licence condition (which came into effect from 14 April 2022) 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. In its open letter of 27 April 2022, Ofgem also indicated that it is minded to consult on modification to the Gas and Electricity Supply Licences to further extend the MSC.[1]

Change Proposal R0034 – Market Stabilisation Charge was raised to give effect to the MSC through changes to the Retail Energy Code (REC). R0034 was implemented on the 14 April 2022, following Authority approval. This Change Proposal R0035 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 was introduced via the modified Standard Licence Condition 24A and introduced into the REC by Change Proposal R0034. A further 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.

[1] See: https://www.ofgem.gov.uk/sites/default/files/2022-04/Supplier%20Letter%20-%20Price%20Cap%20and%20MSC%20Changes%2027%20May%202022.pdf

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 statements, so that I can plan to review and validate my statements 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 can dispute an invoice which I do not believe is accurate, so that I am able to query an invoice or raise a dispute 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.

PROPOSAL

4 SUMMARY OF IMPACT ASSESSMENT ACTIVITY

4.1 REC PARTY IMPACT ASSESSMENTS

A REC Party Impact Assessment, targeting Energy Suppliers, was published on the 08 April 2022. Responses were received from five Energy Suppliers, one response was confidential in its entirety and one which had confidential elements.

The confidential responses will not be published; however, these have been considered in the assessment by the Code Manager.

The non-confidential responses have been consolidated and can be found on Change Proposal Page on the REC Portal here.

ENERGY SUPPLIERS	The key areas of repeated feedback from Energy Suppliers: - Payment terms of 5 Working Days is not sufficient and would limit the opportunity for internal review and validation of statements - Respondents did not agree with the Dispute threshold limit of £3000 or the total amount payable on a statement (if lower) and sought clarity on the timelines for the resolution of any Dispute

	- The provision of Consumer/supply point (MPRN or MPAN) level data as part of the statement to enable Energy Suppliers to validate their Statements. - Clarity was sought on invoicing at an Energy Supplier level, with all registered MPIDs included - Clarity was sought on exclusions from the charge in certain scenarios - Clarity was sought on exactly which Estimated Annual Consumption or Annual Quantity value would be used for the calculations - There will be a financial impact to Energy Suppliers through the implementation of this Change Proposal and the MSC scheme, in additional to the MSC payments themselves. These costs are associated with the operational resource required to receive, validate and process the MSC statements and payments, and the potential development of internal reporting capability to enable the validation of MSC invoices.

The Code Manager and RECCo have reviewed all impact assessment responses, identifying the key areas of feedback provided by respondents and assessing these against the objectives of the scheme and the design principles set out in the Proposed Solution document.

The Code Manager identified a number of areas where the feedback and supporting justification set out a compelling case for changing the solution. Therefore, the following changes have been made:

DOCUMENT	SECTION / PARAGRAPH	AMENDMENT	REASON
Legal text	5.1	Addition wording added to the Paragraph	To clarify the statements will include all Market Participant Identifiers registered to an Energy Supplier
Legal text Proposed Solution	5.3 2, 5.1 and 5.2	Payment terms changed from 5 Working Days to 10 Working Days	Although the High Level Solution Overview set out the justification for payment terms of 5 Working Days, in response to feedback received from Energy Suppliers this has been extended to 10 Working Days
Legal text Proposed Solution	7.3c 2 and 5.3	Dispute threshold reduced from £3000 to £1000	The threshold was proposed to help maintain market stability and is intended to mitigate material cashflow issues. However, in response to feedback received from Energy Suppliers the threshold has been reduced.
Legal text	8.1 and 8.3	Additional wording added regarding the publishing of the amount RECCo actually received from Energy	Clarification

		Suppliers for the given MSC-4-Week Cycle	
Proposed Solution	2	Addition to the design principle wording regarding MPXN level data	Clarifying that the MSC model will not hold supply point level data and, therefore the statements will not contain MPXN level data. .
Proposed Solution	3	Full descriptions of acronyms	Clarification
Proposed Solution	5.1.2	The removal of the post CSS go-live method for the identification of domestic Switches. The same methodology will be utilised pre and post CSS go-live	In response to feedback from Energy Suppliers regarding the inaccuracies that would be seen through the use of the Domestic Premises Indicator
Proposed Solution	5.1.2 and 5.1.3	Clarification added to explain the AQs and EACs that will be used within the MSC calculations	Clarification
Proposed Solution	5.1.3	Additional wording added to explain how different switching scenarios will be reflected in the MSC calculations	Clarification
Proposed Solution	5.1.5	Additional wording added to explain invoicing for periods where the MSC is above zero.	Clarification
Proposed Solution	5.1.6	Explanation provided for the position taken regarding the payment of credits where total liabilities for an invoicing period have not been received.	Clarification

5 KEY RISKS, ASSUMPTIONS, ISSUES AND DEPENDENCIES

5.1 RISKS AND ISSUES

No risks or issues have been identified that may impact the progression or implementation of the proposed solution for this Change Proposal.

5.2 ASSUMPTIONS AND DEPENDENCIES

No.	DEPENDENCY	NOTES	STATUS
D1	The Change Panel will need to be confident with the timetable for	The Change Proposal Plan was approved by the Change Panel on the 05 April 2022	Closed

	progression in order to meet the proposed implementation date of 30 June 2022.		
D2	The Authority will need to make a determination on whether to approve or reject this Change Proposal by 24 June 2022 if this is to be included in the standard REC release on 30 June 2022.		Open
D3	RECCo to procure and provide the data and IT solutions ahead of the first billing period post implementation on 30 June 2022.		Open

6 PROPOSED SOLUTION

The proposed solution for this Change Proposal is set out in the published document R0035 Solution v2.0.

The Change Proposal proposes changes to the Interpretations and Definitions schedule to amend the definition of 'Market Stabilisation Charge' and to define or incorporate into the REC for the first time, the following terms:

- Electricity Market Stabilisation Charge Value
- Estimated Annual Consumption
- Gas Market Stabilisation Charge Value
- MSC-Weekly Cycle
- MSC-4-Week Cycle

Further changes are proposed to Schedule 22 – Market Stabilisation Charge. We consider the MSC Schedule, introduced by Change Proposal R0034, to be the appropriate mechanism for the definition of the obligations on RECCo (and, by extension, it's Service Providers) and Energy Suppliers. This reflects the short-term nature of the MSC 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.

The proposed changes to the MSC Schedule set out the following:

- Where Gaining Suppliers is obligated to pay Market Stabilisation Charges, the Gaining Suppliers would pay these to RECCo;
- RECCo's obligations to:

- Obtain necessary data to enable the calculation and invoicing of the MSC due to be paid by each Energy Supplier;
- Receive MSC payments and distribute these to the relevant Energy Suppliers

- Statement production and payment cycle
- Steps that will be taken in the event of late payments and Event of Default situations
- Dispute process; defining when and how a statement can be disputed
- Energy Supplier's and RECCo's obligation to co-operate with an Authority appointed scheme auditor.

7 DRAFT LEGAL TEXT

The legal text changes to deliver the proposed solution to R0035 can be found on the Change Proposal Page on the REC Portal.

8 PROPOSED IMPLEMENTATION DATE AND APPROACH

PROPOSED IMPLEMENTATION DATE	30/06/2022

PROPOSED IMPLEMENTATION APPROACH	BIG BANG

Following the introduction of Licence Condition 24A and the implementation of R0034, a significant reduction in wholesale cost would result in the MSC charges being triggered.

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 prior to the implementation of the necessary payment and administration mechanisms.

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

We propose this change is implemented in the next REC release following approval, on 30 June 2022.

9 CHANGE PATH

CHANGE PATH	AUTHORITY DETERMINED

10 RESPONSIBLE COMMITTEE

RESPONSIBLE COMMITTEE	CHANGE PANEL

11 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[2].

On 16 February 2022 Ofgem issued its decision on those proposals[3], which include the modification of the Supply Licences to introduce the Market Stabilisation Charge (MSC), requiring Energy Suppliers to pay a MSC when acquiring new Consumers from 14 April 2022.

The approval and implementation of this Change Proposal will introduce the necessary governance and charging arrangements to allow the MSC scheme to be administered, enabling the fulfilment of obligations introduced into the REC through Change Proposal R0034.

In their Impact Assessment responses, four of the five respondents confirmed they would expect to see costs incurred through the implementation of this Change Proposal and the MSC scheme, in additional to the MSC payments themselves. However, these were not quantified by Energy Suppliers. Although the impacts to Energy Suppliers should be recognised, the Code Manager does not consider these would be significant enough to impact the Case for Change or the Code Manager's recommendation.

RECCo has confirmed that the cost of administering the MSC has been included within its budget for 2022/23 and as such the implementation of R0035 is not expected to result in a change to RECCo charges.

12 CASE FOR CHANGE

The Code Manager considers that R0035 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	Positive	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

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

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

		• Consumer Outcomes. The Authority has made the case for the MSC being required to achieve an effective retail energy market in the long term, however there is a recognised impact to competition in the short term. In the event of wholesale prices falling significantly, a positive impact on Consumers is expected in the longer term. The Code Manager considers the shorter-term nature of negative impacts to Consumers is balanced by the longer-term benefits of stability within the energy market. The approval, and subsequent implementation, of this Change Proposal will enable RECCo to meet the obligations introduced under Change Proposal R0034. Therefore, the Code Manager considers the impact against this REC objective to be positive.
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 £500k provision for the operation of the MSC, the current forecast of costs covering the period 01 April 2022 to 31 March 2023 is c£225k. 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, the Code Manager considers this Change Proposal does not positively or negatively impact this objective.

13 CODE MANAGER'S RECOMMENDATION

Based on the assessment in section 11 and 12 of this report, the Code Manager considers 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 recommends that the Change Panel recommend that the Authority:

- **APPROVE** the proposed change solution.
- **APPROVE** the proposed implementation approach.
- **APPROVE** the proposed implementation date of 30 June 2022

14 CONSULTATION PLAN AND NEXT STEPS

The consultation on this Preliminary Change Report for R0035 will be published on the REC Portal on **13 May 2022** and will close on **01 June 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 responses submitted and the Code Manager's response.

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

15 APPENDIX

CHANGE PROPOSAL	R0035 - Market Stabilisation Charge - Administration
LEGAL DRAFTING	Legal text changes
SOLUTION OVERVIEW	Proposed Solution v2.0
CONSOLIDATED IMPACT ASSESSMENT RESPONSES	Consolidated IA responses
RELATED CHANGE	R0034 – Market Stabilisation Charge