RETAIL ENERGY CODE

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PROPOSED SOLUTION

R0035 – MARKET STABILISATION CHARGE - ADMINISTRATION

1 BACKGROUND

Change Proposal R0035 seeks to introduce the necessary governance and charging arrangements into the Retail Energy Code (REC), to allow the Market Stabilisation Charge (MSC) to be administered by the Retail Energy Code Company (RECCo).

2 DESIGN PRINCIPLES

The solution for the MSC has been developed based on a set of principles:

PRINCIPLE	RATIONALE
Data	
Data requested to populate a model which will be aggregated and not at individual site level.	The MSC policy is intended to help stabilise the market and as such aggregate level data can support this view.
Invoicing	
The model will calculate the MSC liabilities and credits for each Domestic Supplier (Market Participant Identifier and Supplier Short Code) weekly, applying the relevant MSC per MWh for that week, as notified by Ofgem.	This will provide Energy Suppliers a view of switching volumes in the weeks MSCs are applied and be able to reconcile their statements.
Each domestic Energy Supplier will be issued with a MSC 4 Week Cycle statement of the total liabilities and credits under the REC, unless the MSC for each of the four weeks within the statement is zero for both Gas and Electricity.	A billing period has been defined as four-weekly in order to directly map to whole weeks, rather than part weeks which would been seen with a monthly invoicing cycle.
Where an Energy Supplier's liabilities exceed their credits, they will receive an invoice.	RECCo modelled different scenarios for both Net (e.g., total gains minus total losses) and Gross (e.g., total gains only) billing. Net billing was determined to be the most appropriate as: • All Energy Suppliers will receive instant benefit of their losses immediately, rather than having to pay liabilities up front using a gross model. • The total money handled by the scheme is less with a net billing position. • There is less financial exposure if Energy Suppliers were to gain or lose a large volume of sites. • All credits and liabilities can be accounted for on one invoice.

Where an Energy Supplier has a net loss (credits) in a billing period they will receive a credit note for that period. In due course, once monies are received the party will receive a payment, either in whole or in part dependent on the value of monies received for a billing period.	
Payments	
Where an Energy Supplier receives an invoice for a billing period, they shall make full payment to RECCo for the invoice, within 10 Working Days of the invoice date	
Reconciliation and Cash Allocation	
The Scheme will operate on a "cash in / cash out" basis. RECCo will distribute an equivalent value of monies received from Suppliers in any one billing period to the Suppliers who are owned credits for that period.	
In the event of funds received from Energy Suppliers being less than the total liability expected for a billing period, RECCo will proportionally distribute credits to Energy Suppliers who are owed them for the same billing period e.g., if 70% of total liabilities due for a billing period are received, each Energy Supplier with aggregate net credits will receive 70% of their credits for that same billing period.	The intent of the MSC is to stabilise the market. In the event of a shortfall in credits this approach will ensure all Energy Suppliers in credit are stabilised equitably.
Upon receipt of additional monies for a billing period, Energy Suppliers will continue to be paid proportionally until the scheme has closed or all liabilities collected for an invoicing period.	
RECCo shall begin making payments to Energy Suppliers within 10 Working Days of the due date of the payments from Energy Suppliers	
Late Payments	
Payments are associated to an individual invoicing period and will not be netted off against future or prior credits	In the event an Energy Supplier has not paid an invoice, and has a future credit due, RECCo will withhold this credit until the previous invoice has been paid in full. • It is not a requirement of the service provider to reconcile credits based on previous non-payments.
If payment is not made following a non-payment notice, RECPAB will instruct the CSS Provider to suspend the right of the Defaulting Party to make new Registrations (in which case the CSS	This is as per the options set out in the existing REC Main Body, Clause 16.4 (f).

Provider shall suspend new registrations, with effect from the next following day)	
Disputes	
A Dispute can only be raised on invoices that have been paid in full.	This value has been determined to help maintain market stability and is intended to mitigate material cashflow issues.
The value in dispute must exceed £1000 or the entire value of the invoice if lower.	As above
A dispute must relate to the four-weekly MSC invoice at an aggregate level and not at an individual Consumer or supply point.	The MSC model will not hold supply point level data and, therefore the invoices will not contain MPRN/MPAN level data. .
On the basis the Supplier has paid their invoice within the payment window, they have 10 Working Days following the invoice date to raise a dispute.	This corresponds to DCUSA timelines of 14 calendar days.

3 ROLES AND RESPONSIBILITIES

ROLE	RESPONSIBILITIES
RECCo	• Procurement of IT solution and data Service Providers • Production of invoices and credit notes • Payment of MSC credits to Energy Suppliers • Monitoring received payments and informing the IT solution Service Provider. • Creation and maintenance of MSC RECCo website/webpage for the publication of the payments received against liabilities percentage for each invoicing period. • Monitoring of late payments and triggering of Events of Default • Investigation/review of disputes, to support PAB determination
Gas Data Service Provider – Xoserve (a) Gas Switching Data (b) Annual Quantity (AQ)	Provision of gas switching and AQ data pre and post CSS Go-Live Date
Electricity Data Service Provider - (a) Electricity Switching Data – C&C (b) Estimated Annual Consumption (EAC) Data – Electralink	(a) Provision of electricity switching data pre and post CSS Go-Live Date (b) Provision of EAC data pre and post CSS go live
MSC IT Solution Service Provider	• Receive and process the gas and electricity switching and EAC/AQ data • Validate the data files (duplicates, format, header and footers etc.) • Validation of Market Participant Identifiers (MPIDs) and Supplier Short Codes (SSCs) against Energy Supplier standing data • Aggregation of daily data to weekly position and calculate credits and liabilities

	• Receive and process payment data from RECCo to determine weekly invoice period payments against liabilities % • Provision of data to RECCo for invoice/credit note provision and monies due to be paid
Energy Suppliers	• Provide contact details by 30 June 2022, for the purpose of invoice production and dissemination. • Provide Bank details by 30 June 2022, for the purpose of MSC payments. • Ongoing maintenance of contact and bank details for the life of the scheme
REC Code Manager	• Request and collate contact and bank details from Energy Suppliers by 30 June 2022. • Management of contact and bank detail changes being submitted by Energy Suppliers. • Provide latest contact and bank details to RECCo for the purposes of invoice/credit note production, invoice/credit note dissemination and MSC payments to Energy Suppliers. • Performance Assurance of REC Service Providers
RECPAB	• The investigation and determination of Events of Default • Dispute determination
Ofgem	• The MSC will be provided by Ofgem on a weekly basis and published on their website in advance of the charge being applied. • Appointment of an independent scheme auditor
Ofgem appointed auditor	• Audit of the MSC scheme, as directed by Ofgem

4 PROCUREMENT OF SERVICES

4.1 DATA PROVIDERS

In order to secure the provision of the required data in relation to gas and electricity switching quantities, variations will be made to existing RECCo contracts as follows:

- Gas Switching Data: Xoserve's existing contract will be varied, to include the obligation for Xoserve to provide the required data covering the quantity of gas switches.
- Electricity Switching Data: C&C's existing contract will be varied to include the obligation for C&C to provide the required data from the Electricity Enquiry Service (EES) covering the quantity of electricity Switches.
- EAC Data: Electralink's existing contract will be varied to include the obligation for Electralink to provide the required data covering EACs for electricity switches.

Variations will be made in line with the existing contracts change control procedures.

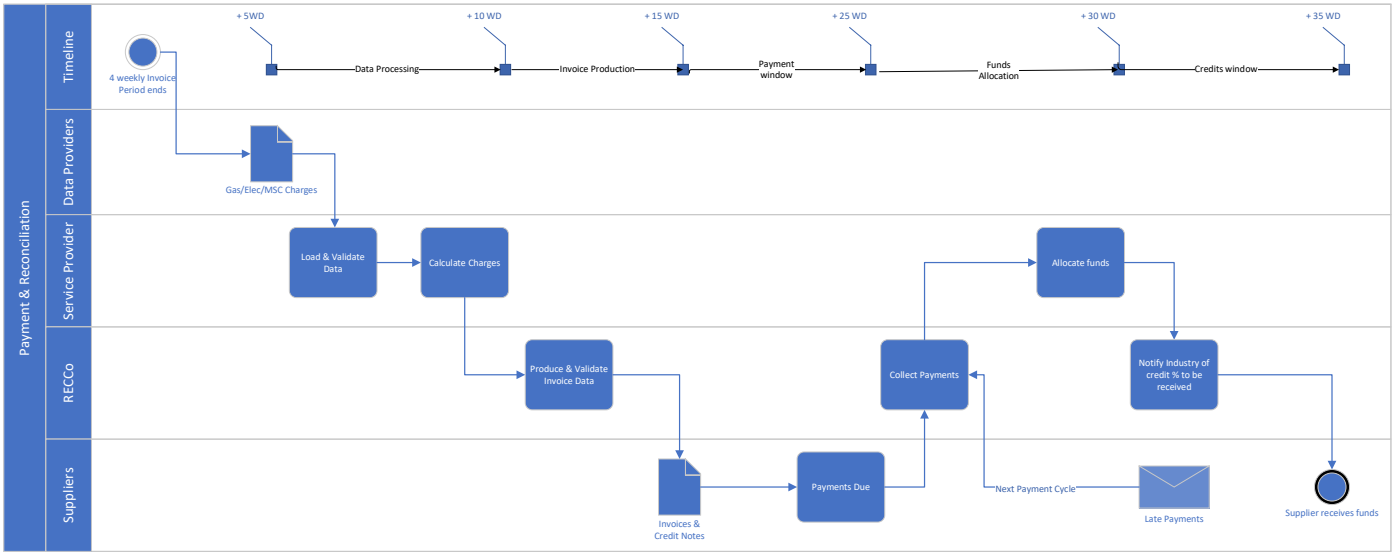
4.2 MSC IT SOLUTION SERVICE PROVIDER

Due to the urgent requirement for the MSC IT solution, RECCo will not have sufficient time to undertake a full open procurement exercise. However, to ensure that competition is maintained, RECCo will be undertaking a Request for Proposal exercise, inviting its current providers for REC Technical Services and REC Performance Assurance services, to submit proposals for the design, build and testing of the MSC IT Solution and the operational and assurance support thereafter.

The existing contract of the Service Provider who submits the winning proposal will then be varied (in line with the existing contracts change control procedures) to include the requirement for the provision of the MSC IT Solution (including post-delivery operational and assurance support).

5 MSC PROCESS

5.1 PAYMENTS AND RECONCILIATION



5.1.1 GAS SWITCHING DATA

The MSC Charging Week is Thursday to Wednesday inclusive, with gas Switching data provided within 5 Working Days of the previous period.

Data to be captured on, and aggregated on a daily basis e.g., Energy Supplier A to Energy Supplier B switches on Day 1 and Day 3 of period would be 2 rows of data with associated Data Items (assigned to the relevant Switch date) and not aggregated to a weekly position.

A Gas MPRN is determined to have been successfully switched when:

- The Supply Effective From Date of the Gaining Supplier has been reached.

If no switches occur between Suppliers on a given calendar this does not need to be captured e.g., zero values are not required

The MSC only applies to domestic MPRNs, any Switches to or from non-domestic Suppliers (based on SSC) will not be captured in the invoicing process. For the purposes of this data a domestic MPRN is defined as where the Losing Supplier defines the Market Segment flag as D.

The MSC will use Rolling AQ values to determine volumes. The Rolling AQ is determined by the month the Change of Supply (CoS) date occurs e.g. If the CoS is on the 30 June 2022 the Rolling AQ value from 01 June 2022 applies.

5.1.2 ELECTRICITY SWITCHING DATA

The MSC Charging Week is Thursday to Wednesday inclusive, with electricity Switching data provided within 5 Working Days of the previous period.

Data to be captured and aggregated on a daily basis e.g., Supplier A to Supplier B switches on Day 1 and Day 3 of period would be 2 rows of data with associated data items (assigned to the relevant Switch date) and not aggregated to a weekly position.

If no switches occur between Suppliers on a given calendar this does not need to be captured e.g., zero values are not required

An Electricity MPAN is determined to have been successfully switched when:

- The Supply Effective From Date of the Gaining Supplier has been reached.

The MSC only applies to domestic MPANs, any switches to or from non-domestic Suppliers (based on MPID, and as agreed with Ofgem) will not be captured in the invoicing process. For the purposes of this data a domestic MPAN is defined as follows:

- The Losing Supplier defines the Profile Class as 1 or 2 and Measurement Class A

  or

- The Losing Supplier defines the Measurement Class as F.

The EAC captured will use the maximum effective from date prior to the losing Supplier being notified of their loss. Where no EAC is present for an MPAN an Ofgem supplied default value should be substituted in its place.

5.1.3 SWITCHING SCENARIOS

In the event of an Erroneous Switch, this would be treated as two switching events and the MSC charged at Supply Effective From Date.

Switches between Gaining and Losing Suppliers who have the same parent company will be included in the data, although when presented in invoicing these will be netted off against each other.

If a Supplier of Last Resort (SOLR) event occurs, any switches between the Losing and Gaining Suppliers will be included in the data. SOLR events will be captured based on published market information and any MPID(s) and/or SSC(s) affected will be transferred to the new Supplier from the date of the SOLR. All credits or invoices from this date will be assigned to the new Supplier.

If an MPXN switched multiple times, including any switches made in the cooling off period, each individual Switch should be treated as a single data point e.g.

- MPRN/MPAN ABC switches from Supplier A – Supplier B on 03/06/2022 (data point 1).
- MPRN/MPAN ABC switches back from Supplier B – Supplier A on 06/02/2022 (data point 2).

In the event of any Market Exits (not SOLR related) all switches will be treated as a standard Switch.

5.1.4 CALCULATING CHARGES

The credits and liabilities for each MPID and Supplier Short Code (SSC) will be calculated for each MSC Charging Week.

- Electricity liabilities: Aggregated EAC Mwh (where MPID = Gaining Supplier) multiplied by the MSC.
- Electricity credits: Aggregated EAC Mwh (where MPID = Losing Supplier) multiplied by the MSC.
- Gas liabilities: Aggregated AQ Mwh (where SSC = Gaining Supplier) multiplied by the MSC.
- Gas credits: Aggregated AQ Mwh (where SSC = Losing Supplier) multiplied by the MSC.

The weekly credits and liabilities will be used to determine the Energy Supplier level credits or liabilities for a four-week invoicing period:

- Energy Supplier is due credits where: Electricity Credits + Gas Credits – Electricity Liabilities – Gas Liabilities > 0.00.
- Energy Supplier has liabilities where: Electricity Credits + Gas Credits – Electricity Liabilities – Gas Liabilities < 0.00.

5.1.5 INVOICING

Invoices will be produced for a net liability position and credit notes for a net credit position. Invoices and credit notes will be produced for each Supplier, broken down into weekly invoice periods per MPID and/or SSC, where the MSC has been above zero for at least one of the four weeks within the four-weekly billing period. Invoices will be checked by the RECCo finance team prior to being issued. For the avoidance of doubt, a Supplier will either receive a credit note (when in a net credit position) or invoice (when in a net liability position or in a net zero position) and not both.

The scheme will have no de minimis billing requirements and any invoice/credit note amount will be issued to an Energy Supplier.

Where the MSC has been zero for all four weeks, no invoices/credit notes will be produced. A notice to industry will be posted on the RECCo website.

5.1.6 RECONCILIATION

The RECCo finance team will track and monitor received funds into the scheme against invoiced data.

When payments are received these will be assigned to the relevant invoicing period.

Within 5 Working Days following invoice payment being due, the money received for an invoicing period will be calculated as a percentage of the total liabilities across all Energy Suppliers. For example, if total liabilities are £1000, and payments received = £700, the funds received percentage would be 70%. This approach has been taken as there is no RECCo budget provision to make up any shortfalls in received funds and incentives have been put in place through the events of default process to ensure payments are made promptly.

All Energy Suppliers who are in credit for an invoicing period will be due their total credits multiplied by funds received percentage. E.g., Supplier Credits due = £250, Money received percentage = 70%, Supplier is credited £175.00.

RECCo finance team will make the payments due to Energy Suppliers based on the percentage of payments received per invoice period.

5.2 LATE PAYMENTS / EVENTS OF DEFAULT

Where late payments are made, the total funds received for an invoicing period will be updated as part of the next invoice and payments cycle. The funds received percentage will be recalculated for the earlier invoice period(s) and any additional funds distributed at the next payments cycle.

For each invoicing period, RECCo will publish the percentage of funds received against liabilities, as each invoice and payments cycle is completed, the percentage will be revised where necessary for historic invoicing period

Upon the closure of the 10 Working Days payment window, RECCo will identify all non-paying Energy Suppliers and inform the RECPAB who will in turn inform any affected Energy Suppliers they have entered an Event of Default, replicating these existing mechanisms is deemed to be appropriate and proportionate to the MSC. This is in accordance with the process defined in Clause 16 of the REC Main Body.

Suppliers will then have 20 Working Days to make payment.

- If no payment is made by this point, as set out in Clause 16.4(f) of the Main Body, RECPAB will instruct the CSS Provider to suspend the right of the defaulting Energy Supplier(s) to make new Registrations until payment is received in full.

  The defaulting Energy Supplier has the right to appeal to the Authority, as set out in the REC Main Body, Clause 16.7.

- If payment is made within the next 20 Working Days, RECCo will notify the Service Provider, and the payments will be reconciled by the Service Provider in the next payment cycle.

Payments are associated to an individual four-weekly invoicing period and cannot be netted off against future or prior credits.

In the event an Energy Supplier has not paid an invoice, and has a future credit due, RECCo will withhold this credit until the previous invoice has been paid in full. Withheld credits will not be issued to other Energy Suppliers and will be issued to the owed Energy Supplier once any outstanding invoices have been paid in full.

5.3 DISPUTES

All Energy Suppliers will have the ability to query their invoices with RECCo prior to raising a dispute, to confirm the invoice or credit note has been issued as expected.

Any Energy Supplier wishing to raise a dispute shall do so in accordance with Clause 22 of the REC Main Body. The Energy Supplier must pay the MSC by the due date before lodging a dispute and any dispute must be raised within 10 Working Days of the invoice date.

Grounds for raising a dispute must meet the following criteria:

- The issue relates to the four-weekly MSC invoice at an aggregate level and not individual Consumer or supply point.
- There is a manifest miscalculation of the MSC in relation to the invoice issued and the disputed amount is for the whole invoice, or the value of dispute is greater than £1000.
- There is evidence to support the Energy Supplier's claim of a miscalculation.

The industry Market Messages used to identify Switches for the MSC scheme are required to be the 'source of truth' for any calculations. Disputes cannot be made against data that the scheme would not have available.

When reviewing a dispute, RECCo can reasonably be expected to track data back to its source and validate that:

- aggregated values were correct;
- any calculations made were correct; and
- values were produced against the correct dates or reporting periods.

In accordance with the REC Main Body Clause 22, the RECPAB will ensure any dispute is settled within a reasonable period of time following referral. The RECPABs determination is final and binding.

6 ASSURANCE

RECCo are responsible for contracting with the IT solution and Switching Data Service Providers, including the creation of appropriate service levels.

Ofgem have appointed an independent auditor, who will assure the Data Service Provider and IT Solution Service Provider activity, including the design, build and testing of the IT solution before implementation.