

Modification proposal:	Retail Energy Code (REC) R0035: Market Stabilisation Charge - Administration (R0035)
Decision:	The Authority ¹ has decided to approve ² this modification ³
Target audience:	REC Board, REC Parties and other interested parties
Date of publication:	27 June 2022
Implementation date:	30 June 2022

Background

Continuing wholesale market volatility means that energy suppliers face an increased challenge in managing risks in buying energy for their consumers. This could increase costs for consumers if they lead to further significant supplier exits from the market. On 16 February 2022, Ofgem issued a decision⁴ to amend the standard licence conditions for the supply of gas and electricity to introduce two measures to enable domestic suppliers to better manage the risks. These measures came into effect on 14 April 2022 on a temporary basis, to address the risks to consumers in the short-term from ongoing wholesale market volatility.

One of these measures, the Market Stabilisation Charge (MSC), has been put in place to ensure that energy companies who have done the right thing by purchasing energy for their customers in advance are better able to recover more of their costs if we see a sharp fall in wholesale prices. This charge, payable by suppliers gaining new customers to suppliers losing them, will only take effect if wholesale prices fall significantly below the level used to set the price cap from April 2022.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ Decision on short-term interventions to address risks to consumers from market volatility:

<https://www.ofgem.gov.uk/publications/decision-short-term-interventions-address-risks-consumers-market-volatility>

In our decision to amend the gas and electricity supply standard licence conditions to introduce the MSC, we stated that the payment mechanism will be managed within the REC, with the Retail Energy Code Company (RECCo) calculating credit and debits based on all switches across the market and the level of charge set by Ofgem.

The modification proposal

R0035 was raised by RECCo ('the proposer') on 21 February 2022. This Change Proposal seeks to allow for the effective discharge of the new licence obligation on energy suppliers to pay the MSC. R0035 will allow the REC to introduce the necessary governance and charging arrangements to allow the MSC payments to be administered. This Change Proposal follows REC Change Proposal R0034 "Market Stabilisation Charge" which introduced the new REC MSC Schedule allowing RECCo to operate the MSC. We approved R0034 on 8 April 2022⁵.

REC Change Panel⁶

At the REC Change Panel meeting on 14 June 2022, a majority of the REC Change Panel considered that R0035 would better facilitate the REC Objectives and the REC Change Panel therefore recommended its approval.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 14 June 2022. We have considered and taken into account the responses to the industry consultation which are attached to the FMR⁷. We have concluded that:

- implementation of the modification will better facilitate REC Objectives (a) and (b), and has a neutral impact on the other relevant Objective;⁸ and

⁵ Decision to accept REC change 0035: <https://www.ofgem.gov.uk/publications/decision-approve-rec-change-proposal-rec0034>

⁶ The REC Change Panel is established and constituted pursuant to and in accordance with [Standard Condition 11B.8\(a\) of the Electricity Supply Licence](#) and [Standard Condition 11.8\(a\) of the Gas Supply Licence](#).

⁷ REC change proposals, change reports and representations can be viewed on the [REC Portal](#).

⁸ As set out in [Standard Condition 11B.6 of the Electricity Supply Licence](#) and [Standard Condition 11.6 of the Gas Supply Licence](#).

- approving the modification is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

We consider this modification proposal will better facilitate REC Objectives (a) and (b) and has a neutral impact on the other relevant Objective.

(a) to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement¹⁰

Approving this Change Proposal will enable RECCo to meet the obligations introduced under Change Proposal R0034 thus facilitating the efficient and effective running of the retail energy market, including its systems and processes.

We therefore consider that R0035 will better facilitate REC Objective (a).

(b) to ensure customers interests and data is protected in the operation of the REC

RECCo is responsible for developing and implementing an invoicing and billing mechanism that delivers a value for money solution for suppliers (and ultimately customers) to give suppliers entitled to payments under the MSC confidence that funds will be transferred in a reasonable timeframe. This change proposal establishes the framework for RECCo to develop this mechanism. R0035 allows the industry to have an operational mechanism to comply with the modified licence conditions, which came in to effect from 14 April 2022 thus ensuring consumers interests are protected in the operation of the REC.

We therefore consider that R0035 will better facilitate REC Objective (b).

Decision notice

⁹ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 and the Gas Act 1986.

¹⁰ The REC will facilitate the efficient and effective running of the retail energy market, including its systems and process. It will promote innovation, competition and positive customer outcomes.

In accordance with Standard Condition 11B of the Electricity Supply Licence and Standard Condition 11 of the Gas Supply Licence, the Authority hereby approves REC Change Proposal R0035: *Market Stabilisation Charge - Administration*. Pursuant to paragraphs 25.1 and 25.4 of the Change Management Schedule of the REC, the Code Manager must now implement Modification R0035 by the implementation date noted above.

Maureen Paul

Deputy Director, Retail Market Policy

Signed on behalf of the Authority and authorised for that purpose