

Modification proposal:	<b>Retail Energy Code (REC) R0034: Market Stabilisation Charge (R0034)</b>		
Decision:	The Authority <sup>1</sup> has decided to approve <sup>2</sup> this modification <sup>3</sup>		
Target audience:	REC Board, REC Parties and other interested parties		
Date of publication:	8 April 2022	Implementation date:	14 April 2022

## Background

Current 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 decision<sup>4</sup> 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 will come 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, in advance of enduring reforms coming in later this year.

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.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 'Change' and 'modification' are used interchangeably in this document.

<sup>4</sup> 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**

This Authority-led Change Proposal seeks to allow for the effective discharge of the new licence obligation on energy suppliers to pay the MSC. R0034 will allow the REC to operate the MSC, by introducing the new REC MSC Schedule. A subsequent Change Proposal (R0035: “Market Stabilisation Charge – Administration”) has also been raised to introduce the necessary governance and charging arrangements to operationalise the MSC scheme and allow these MSC payments to be administered.

## **REC Change Panel<sup>5</sup> recommendation**

On 23 March 2022, the REC Change Panel unanimously considered that R0034 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 Change Report dated 23 March 2022. We have considered and taken into account the responses to the industry consultation which are attached to the Final Change Report. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable Objectives of the REC;<sup>6</sup> and
- approving the modification is consistent with our principal objective and statutory duties.<sup>7</sup>

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<sup>5</sup> 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](#).

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

<sup>7</sup> 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.

## Reasons for our decision

We consider this modification proposal will better facilitate REC Objective (b)<sup>8</sup> and has a neutral impact on the other relevant Objectives.

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

In our decision to modify licence conditions to introduce the MSC we outlined the risks arising from current wholesale market volatility. The MSC will help suppliers to better manage, on behalf of customers, the risks posed by severe energy price volatility. Alongside other interventions being introduced, it will mitigate the shorter term risk of customers facing significant disruption and additional costs from further disorderly supplier exits (including the failure of one or more larger suppliers), and the associated longer term negative effects on investment, innovation and competition in the retail energy market.

RECCo will be responsible for developing 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. We have taken the decision to approve R0034 because it allows the industry to have an operational mechanism to comply with the modified licence conditions, which come in to effect from 14 April 2022. We note that the necessary governance and charging arrangements for the MSC will be developed through a subsequent change proposal: R0035 “Market Stabilisation Charge – Administration”.

We agree with the assessment made by the REC code manager that R0034 will have a positive impact against REC Objective (b), noting that the code manager’s assessment is predicated on the case set out by Ofgem in our decision to amend the gas and electricity supply standard licence conditions to introduce the MSC.

Finally, we note that one supplier did not agree that R0034 better facilitated REC Objective (b), suggesting that the solution only focuses on short-term customer interests. The MSC has been put into place as a short-term measure to support long-term market stabilisation, before

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<sup>8</sup> To ensure customers interests and data is protected in the operation of the REC.

more enduring measures are established. However, the MSC will protect customers in the longer term by reducing the risk of potential supplier failure and the costs from these being passed to consumers. The unprecedented energy price volatility requires consideration of some temporary interventions that, due to the extreme market conditions, we consider to be in customers interests.

### **Decision notice**

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 R0034: *Market Stabilisation Charge*.

**Maureen Paul**

**Deputy Director, Retail Market Policy**

Signed on behalf of the Authority and authorised for that purpose