Guidance

ofgem
Making a positive difference
for energy consumers

Market Stabilisation Charge

Subject	**Market Stabilisation Charge Calculation Methodology v2**
Publication date:	~~16 February~~16 May 2022
Contact	Dan Norton
Team:	Retail
Telephone	020 7901 7295
Email:	retailpolicyinterventions@ofgem.gov.uk

~~This~~The purpose of this document is ~~for~~to help domestic suppliers and other market participants ~~to~~ understand the workings of the Market Stabilisation Change (MSC). Ofgem announced this measure on 16 February 2022 as a short-term intervention to address risks to consumers from ongoing wholesale market volatility. This version of the guidance contains changes to the MSC that will take effect from 16 May 2022.

This guidance explains the methodology for calculating this charge and other aspects of its operation, including how often the charge will be updated.

Document version	Date of publication	Comments
1.0	16 February 2022	Published with original decision
2.0 (with amendments)	16 May 2022	Includes outcome of parameter review, amended for latest indexation profile and inclusion of electricity losses and Unidentified Gas (UIG). This version includes transparency on the amendments made to v1.0

Contents

1. Introduction

1.1. Ofgem announced on 16 February 2022 our decision to introduce Licence Condition 24A – the **Market Stabilisation Charge (MSC)** – as a temporary measure to address risks to consumers from market volatility in the short term.[1] This is part of a wider package of measures announced on 3 and 4 February to help stabilise the retail market and protect consumers.

~~1.2. Under this measure, all suppliers acquiring a domestic customer will be required to pay the MSC to the losing supplier.~~ The MSC, which came into effect on 14 April 2022, will~~This is a volumetric charge and represents a proportion of the economic loss to the losing supplier for the energy purchased on behalf of their customer. This measure will come into effect on 14 April 2022.~~

~~1.3. The MSC is comprised of two sub-charges; one for gas and one for electricity. For the purposes of this methodology, references to wholesale prices should be read to mean one reference to the wholesale gas cost and another to the wholesale electricity cost. The MSC is applicable to all domestic customer switches between licensed gas and electricity suppliers.~~

~~1.4.~~1.2. ~~We have introduced the MSC to~~ help suppliers to better manage, on behalf of consumers, the risks posed by severe energy price volatility. This will mitigate the risk of consumers facing significant additional costs from further disorderly supplier exits, as well as the associated negative effects on investment, innovation and competition in the retail energy market. The MSC will only ~~come into effect~~be triggered if wholesale prices fall ~~well~~ below the level assumed in the price cap. Even then, active consumers will still be able to achieve ~~significant~~ savings when wholesale prices fall. The full reasoning for introducing the MSC is set out in the decision document that has been published in association with this Guidance.

1.3. Under this measure, all suppliers acquiring a domestic customer are required to pay the MSC to the losing supplier. This is a volumetric charge and represents a proportion of the economic loss to the losing supplier for the energy purchased on behalf of their customer.

[1] Decision document can be found on our website: https://www.ofgem.gov.uk/publications/decision-short-term-interventions-address-risks-consumers-market-volatility

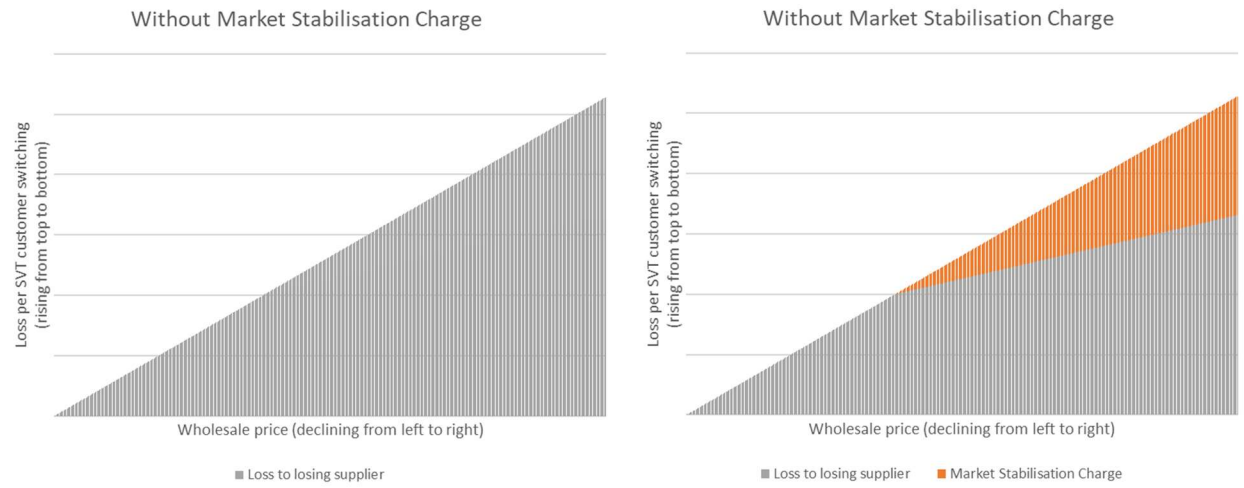
1.4. The MSC is comprised of two sub-charges; one for gas and one for electricity. For the purposes of this methodology, references to wholesale prices should be read to mean one reference to the wholesale gas cost and another to the wholesale electricity cost. The MSC is applicable to all domestic customer switches between licensed gas and electricity suppliers.

1.5. The MSC will only take effect where wholesale gas and/or electricity prices fall ~~significantly. We have decided to set this **trigger point** at 30% below (i.e. at 70% of)~~below the implied price cap wholesale element for the relevant period ~~(i.e. Summer 2022),~~, taken as an average over a 5-day observation window. ~~When this threshold is met~~In our 16 Feb decision, we originally set out that the parameters of the MSC would include a trigger point set at 30% below the implied price cap wholesale element, and a derating factor of 75%. In our 16 May decision[2] we published **updated MSC parameters**, reflecting ongoing high levels of market volatility, which will ~~publish the charge weekly on a volumetric basis (e.g. in £/kWh), suppliers become liable to pay~~ take effect from **25 May 2022.** From this ~~charge following its publication.~~date forward, the **trigger point** will be set at 10% below the implied price cap wholesale element. In addition, we have decided to set a **derating factor** of ~~75~~85%. This will determine the percentage of nominal hedging losses beyond the trigger point that will be covered by the MSC, while allowing active consumers to continue to benefit from falling prices beyond the trigger point.

1.6. The trigger point and derating factor work together as a pair to set the strength of the MSC. Figure 1 below shows how, past the trigger point, the MSC grows to cover a portion of suppliers' incremental losses. This means that active customers continue to benefit from cheaper tariffs as wholesale prices fall; however, the risk of consumer detriment occurring from supplier failures/exits as a result of unsustainable hedging losses is at least partly mitigated.

[2] https://www.ofgem.gov.uk/publications/decision-changes-market-stabilisation-charge

Figure 1: Illustrative example of the relationship between wholesale price, nominal hedging losses and



MSC

1.7. Ofgem will calculate and publish the level of the charge on a weekly basis in line with the methodology set out in this guidance, enabling suppliers to factor this in when setting their retail tariffs.

1.8. As a novel intervention, we will review the impact of the MSC ~~on a~~ monthly ~~basis~~. If it is not having the effect that we intended, perhaps because there are significant and unexpected market developments, such as material changes in supplier hedging positions or the level of customer switching, we may adjust the methodology and its key parameters if necessary. Any future adjustment to the price cap that materially affects ~~hedging strategies~~the price cap indexation profile may require us to make an adjustment to this guidance to take account of this change in circumstance. Before doing so, we will consult stakeholders as described later in this document.

Changes to the MSC Guidance

1.9. On 31 March 2022 we consulted[3] on changes to the MSC parameters to make the charge more robust to ongoing and sustained levels of volatility being observed in the market. We also consulted on technical changes to the MSC calculation methodology to reflect

[3] Ofgem, 2022, https://www.ofgem.gov.uk/publications/consultation-changes-market-stabilisation-charge

(a) updated guidance to domestic energy suppliers related to the price indexation methodology, and (b) electricity losses and unidentified gas.

1.10. **This Guidance document sets out the current methodology used in the MSC calculation.** These changes to the MSC along with this version of the MSC guidance will come into effect from 25 May 2022 and will remain in effect until the MSC expires, or further guidance is published to replace this. You can review the previous (V1) MSC Guidance here.[4]

~~1.9.~~1.11. Section 2 of this document describes in detail the charging methodology, including how the charge is calculated, when it will come into effect, the frequency of updates, and a description of the role of the Retail Energy Code Company (RECCo) in administering the charge.

Your feedback

General feedback

~~1.10.~~1.12. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this guidance. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this guidance?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Do you have any further comments?

Please send any general feedback comments to retailpolicyinterventions@ofgem.gov.uk

[4] https://www.ofgem.gov.uk/sites/default/files/2022-02/MSC%20guidance.pdf

2. Market Stabilisation Charge Calculation Methodology

Section summary

This section describes the Charging Methodology for the Market Stabilisation Charge

How the MSC is calculated

2.1. The MSC is based on the hedging losses incurred by a nominal supplier (hedging the first season) in line with the ~~6-2-6~~relevant indexation approach assumed in the price cap methodology ~~and implying~~. This means that ~~suppliers~~the hedging strategy of a nominal supplier for the original 6-2-12 indexation profile was reflected on a 6-2-6 basis, and for the 7-1-12 indexation profile the nominal hedge ~~progressively an average of 8 months ahead),~~is reflected on a 7-1-6 basis.[5] It applies only beyond a trigger point, derated by a derating factor and accounting for the fact that suppliers hold different volumes of gas/electricity at different times of the year.

2.2. This guidance relates to the '7-1-6 MSC calculation', following the publication of updated guidance to industry with respect to the 7-1-12 price cap indexation in March 2022.[6] Following the publication of our statutory consultation on changes to the Price Cap Methodology[7] we will also soon be consulting on additional changes to the MSC to reflect further changes to the price cap indexation profile as part of this work.

~~2.2.~~2.3. The MSC is based on a ~~simple~~ four factor formula to give a £/~~kWh cost~~MWh charge, with two of these factors varying with time and/or wholesale prices. Each factor in the equation has been carefully set to ensure that the MSC delivers the policy as described in ~~GEMA's~~the February 2022 decision document. The methodology below describes how each factor works, and why it is set as it is.

[5] Further details of assumed hedging strategy can be found in chp 3 of the 31 March consultation: https://www.ofgem.gov.uk/sites/default/files/2022-03/Consultation%20-20Changes%20to%20MSC%20Parameters%20FINAL.pdf
[6] Updated guidance on treatment of price indexation in future default tariff cap proposals | Ofgem
[7] https://www.ofgem.gov.uk/publications/price-cap-statutory-consultation-changes-wholesale-methodology

~~2.3.~~2.4. The Market Stabilisation Charge (A, £/MWh) is calculated using the formula below:

$$A = x \cdot l \cdot t \cdot c$$

where:

~~x~~	**The derating factor (%)**
l	Qualifying losses (£/MWh)
t	Consumption weighting factor (%)
c	Conversion factor (unitless)

and:

$$w_c > w_t \text{ , } x = 0$$

$$w_c \leq w_t \text{ , } x = \text{~~75~~85\%}$$

and:

$$w_t = \text{~~70~~90\%} \cdot w_{pc}$$

where:

w_t	The Losing Supplier Loss Trigger (as defined below~~)~~), including elec losses/UIG (£/MWh)
w_c	The wholesale cost of energy (as defined below~~)~~), including elec losses/UIG (£/MWh)
w_{pc}	The wholesale element of price cap (as defined below~~)~~), including elec losses/UIG (£/MWh)

Losing Supplier Loss Trigger (w_t)

~~2.4.~~2.5. The Losing Supplier Loss Trigger is met when the wholesale cost (w_c, see below) is less than or equal to ~~70~~90% of the wholesale element of the price cap for the relevant period (w_{pc}, see below). The MSC is therefore initially triggered when the wholesale cost (w_c, see below) falls more than ~~30~~10% lower than the wholesale cost element of the price cap.

~~2.5.~~2.6. This means that the MSC will not apply, and the market will function as normal, unless wholesale prices fall ~~significantly~~a certain amount below the level assumed in the cap.

Wholesale element of price cap (w_{pc})

~~2.6.~~2.7. The wholesale element of the price cap period is the cost of the hedge held by a nominal supplier which has hedged in line with the ~~6-2~~7-1-6 approach. It therefore changes throughout the season as the composition of the supplier's hedge changes from mostly Summer to mostly Winter, and to reflect the fact that when buying at Winter prices, suppliers are buying higher volumes to reflect higher Winter demand.

~~2.7.~~2.8. The wholesale element of the price cap (w_{pc}) for the purposes of this methodology is a weighted average of the relevant Price Cap indexation of the current (PC_n), next season (PC_{n+1}), and next+1 season (PC_{n+2}).

~~2.8. At the start of the Summer price cap period (1 April), six of the eight months nominally held by the supplier are for Summer, with the remaining two being for Winter. Therefore, the current season (PC_n) is weighted by $^6/_8$ at the start of that season, falling to $^0/_8$ at the end of that season when they nominally hold 6 months of the next season and 2 months of the season after next. Accordingly, at the end of the current season, PC_{n+1} is weighted by $^6/_8$ and PC_{n+2} is weighted by $^2/_8$.~~

2.9. As a result of the non-linear indexation profile, index values are no longer calculated as an average of the index values of the observation period, but as an average weighted by the numbers of trading days of the observed values in observation period. The non-linearity is captured by halved index values during the 16 March 2022- 19 May 2022 period. The sum of the index values for the period is then divided by the number of trading days.

2.10. The volume of hedges held in a 7-1-6 nominal hedge varies from a 6-2-6 nominal hedge for two reasons: the observation period is longer and volumes are hedged at 50% for a limited period. Therefore, contrary to a linear 6-2-6 nominal hedge, a non-linear 7-1-6 nominal hedge assumes that a nominal supplier will not be holding the same volume of hedges at any point in time during the observation window.

2.11. Under a non-linear 7-1-6 nominal hedge, on 1 April (start of the season), a nominal supplier is fully hedged for the current season. For the next season's hedges: 30.24% of volume of hedges will be held, 42.74% of volumes of hedges will be held on 19 May and 100% of volume of hedge will be held from 31 August (Figure 2). Hedging for the next+1 is expected to start on 1 September.

Therefore, on 1 April, 78% of the total volume of hedge held is associated with the current season and 22% for the next season. On 15 September, 7% of total volume of hedge held is

associated with current season, 86% is associated to the next season and 7% is associated with the next + 1 season (Figure 3). However, because the non-linear 7-1-12 profile assumes that a nominal supplier will not be holding the same total volume of hedge at any point in time during the observation window (Figure 4), these weightings do not sum up to 100% at any point in time.

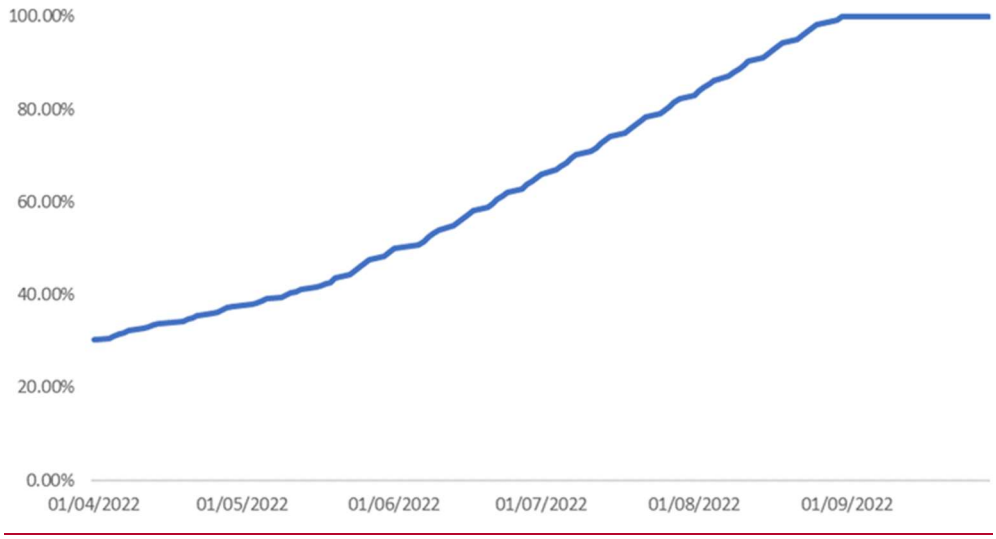


Figure 2: Evolution of volume of hedge held under the non-linear 7-1-12 indexation profile

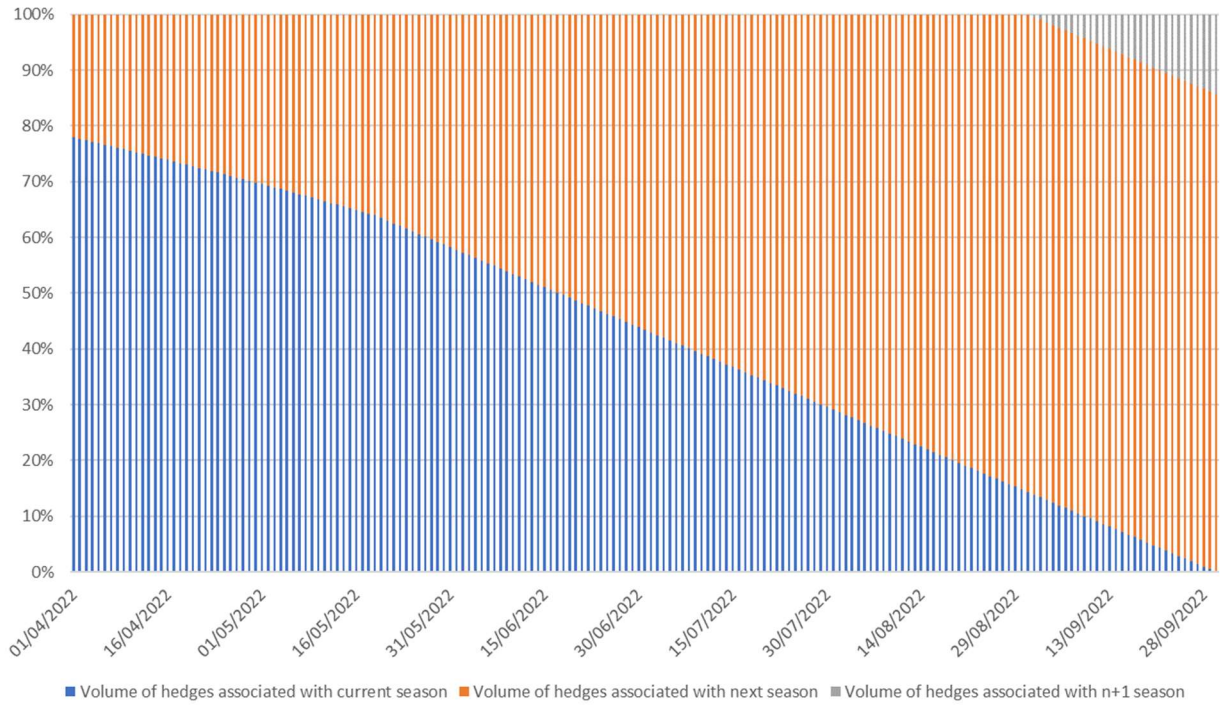


Figure 3: Proportion of hedge volume held associated to each season on a given day during current season

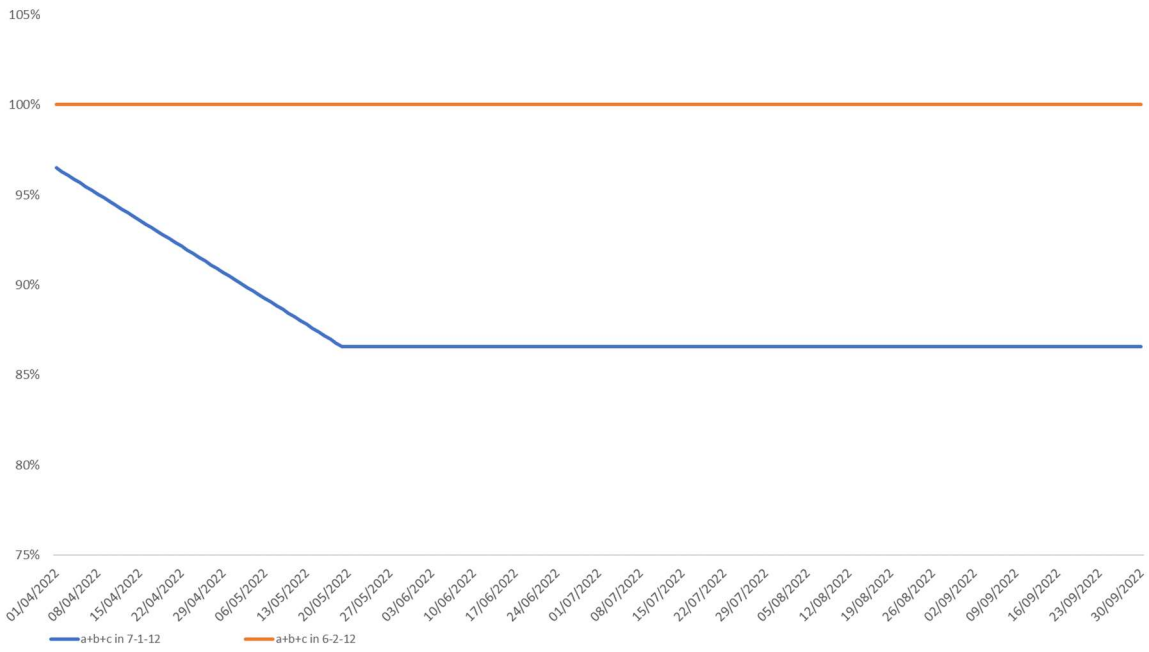


Figure 4: Rate of total volume hedges held from 01 April - 31 April September 2022: 6-2-12 vs 7-1-12

~~2.9.~~2.12. As well as being weighted to account for the number of ~~months~~days of each season nominally held (see above), the relevant Price Cap indices are further weighted to apply the correct seasonal weighting for the months that are nominally held. In order to correctly take the weighted average, the terms by which PC_n, PC_{n+1} and PC_{n+2}, are multiplied therefore add to equal 1, whilst varying with time and reflecting the relative weight of summer and winter hedges.

~~2.10.~~2.13. PC_n is a static value as the current season's hedge has already been bought at the current price cap level, whilst PC_{n+1} and PC_{n+2} are dynamic values as they are being progressively bought by suppliers whilst future price cap observation windows are open.

$$w_{pc} = \frac{PC_n \cdot (a \cdot S_n) + PC_{n+1} \cdot (b \cdot S_{n+1}) + PC_{n+2} \cdot (c \cdot S_n)}{a \cdot S_n + b \cdot S_{n+1} + c \cdot S_n}$$

where:

$$a = \frac{D_{rem}}{D_H}$$

$$b = \frac{\sout{D_{2n} + D_{M1} - D_{M5}}}{\sout{D_H}} \frac{D_n + 0.5(D_{d1} - D_{d50}) + (D_{d50} - D_{d15}\ )}{D_H}$$

$$c = \frac{\sout{D_{M5}}}{\sout{D_H}} \frac{D_{d154}}{D_H}$$

and:

$PC_n = relevant\ Price\ Cap\ indexation\ of\ current\ price\ cap\ period$ (£/MWh or p/therm)

$PC_{n+1} = relevant\ Price\ Cap\ indexation\ of\ next\ price\ cap\ period$ (£/MWh or p/therm)

$PC_{n+2} = relevant\ Price\ Cap\ indexation\ of\ next + 1\ price\ cap\ period$ (£/MWh or p/therm)

$D_H = Total\ number\ of\ delivery\ days\ in\ conventional\ 8\ month\ hedge\ (242\ calendar\ days)$

$D_n =$ *Delivery days* ~~*in current hedge* (calendar days in next 8 months, i.e. until same day 8 months later~~ $of\ season\ n + 1\ held\ on\ day\ 1\ of\ season\ n$

$(51\ days\ fixed\ \ throughout\ the\ period)$

$D_{d1} = Term\ growing\ by\ 1\ unit\ per\ calander\ day\ from\ calander\ day\ 1\ of\ season\ n$

$(1st\ April\ for\ Summer\ '22)$

$D_{d50} = Term\ growing\ by\ 1\ unit\ per\ calendar\ day\ from\ calendar\ day\ 50\ of\ season\ n$

$(20^{th}\ May\ for\ Summer\ '22)$

$D_{d154} = Term\ growing\ by\ 1\ unit\ per\ calendar\ day\ from\ calendar\ day\ 154\ of\ season\ n$

$(1^{st}\ September\ for\ Summer\ '22)$

$D_{rem} = Delivery\ days\ remaining\ in\ current\ season$ (calendar days)

~~$D_{2n} = Delivery\ days\ in\ first\ 2\ months\ of\ next\ season$ (calendar days)~~

~~$D_{M1} = Delivery\ days\ since\ day\ 1, month\ 1\ of\ current\ season$ (calendar days)~~

~~$D_{M5} = Delivery\ days\ since\ day\ 1, month\ 5\ of\ current\ season$ (calendar days)~~

S_n = *Total fuel type seasonal demand weighting for the current season* (ratio relative to next season)

S_{n+1} = Total fuel type seasonal demand weighting *for the next season* (ratio relative to previous season)

Wholesale cost (w_c)

~~2.11.~~2.14. The wholesale cost (w_c) is calculated as the weighted average (based on a five-day observation window, see 'when will the charge be calculated' below) of the forward contracts for the remainder of the period for which a supplier is hedged (assuming they hedge in line with the ~~6-2~~7-1-6 approach). It is calculated using seasonal prices where they exist, followed by quarterly, then monthly if the seasons/quarters have broken down into quarters/months. It is then adjusted to account for the relevant seasonal weighting in a similar manner to w_{pc}, see above. This methodology is analogous to that used to set the price cap.

~~2.12.~~2.15. As with w_{pc}, w_c is bounded by the equivalent values for the current and next two seasons (w_n, w_{n+1} and w_{n+2}). Therefore, the below equation is comprised of two halves where w_r and w_n are weighted to find a value in between the two values. Therefore, the factors by which w_r and w_n are multiplied must add to equal one, whilst varying with time and reflecting the relative weight of summer and winter hedges.

$$w_c = \frac{w_n \cdot (a' \cdot S_n) + w_{n+1} \cdot (b' \cdot S_{n+1}) + w_{n+2} \cdot (c' \cdot S_n)}{a' \cdot S_n + b' \cdot S_{n+1} + c' \cdot S_n}$$

where:

$$a' = \frac{T_{rem}}{T_H}$$

$$b' = \frac{\cancel{T_{2n} + T_{M1} - T_{M5}}}{\cancel{T_H}} \frac{T_n + 0.5(T_{t1} - T_{t33}) + (T_{t33} - T_{t104})}{T_H}$$

$$c' = \frac{\cancel{T_{M5}}}{\cancel{T_H}} \frac{T_{t104}}{T_H}$$

and:

w_n = *Weighted average cost energy for the remainder of the current season* (£/MWh or p/therm)

w_{n+1} = *Season ahead cost of energy for next season* (£/MWh or p/therm)

w_{n+2} = *Season ahead cost of energy for next* + 1 *season* (£/MWh or p/therm)

T_H = ~~*Trading*~~*Total number of trading days in* ~~*current*~~*conventional 8 month hedge* ~~(Working days in next 8 months, i.e. until same day 8 months later)~~ (168 *trading days*)

T_{rem} = *Trading days remaining in current season* (working days)

~~T_{2n}~~T_n = *Trading days ~~in first 2 months~~ of ~~next~~ season ~~(working days)~~*

~~T_{M1} = *Trading days since* $n+1$ *held on* 1*st day* 1, *month* 1 *of current season (working days)* n~~

~~T_{M5} = *Trading days since* (37 *trading days fixed throughout the period*)~~

T_{t1} =

Term growing by 1 *unit per trading day from trading day* 1~~, *month* 5 *of current season (working days)* n~~

(1st *April for Summer* '22)

T_{t33} = *Term growing by* 1 *unit per trading day from trading day* 33 *of season n*

(20th *May for Summer* '22)

T_{t10} = *Term growing by* 1 *unit per trading day from trading day* 104 *of season n*

(1st *September for Summer* '22)

S_n = *as above*

S_{n+1} = *as above*

*Derating factor (**x**)*

~~2.13.~~2.16. The derating factor derates the level of the charge that the acquiring supplier would pay, once the charge has been triggered. When the wholesale price is greater than w_t the derating factor is 0. From $w_t \geq w_c$ the derating factor is set to ~~75~~85%, meaning that suppliers and consumers effectively share further losses.

~~2.14.~~2.17. As the MSC is also subject to the consumption weighting factor, active consumers will be able to realise significantly more than ~~25~~15% of the annual savings available from fixed term contracts as prices fall below the Losing Supplier Trigger Loss.

~~2.15.~~2.18. The definition of the derating factor is:

$w_c > w_t$, $x = 0$

$w_c \leq w_t$, $x =$ ~~75~~85%

Where w_c and w_t are as defined above.

Qualifying losses (l)

~~2.16.~~2.19. The qualifying losses (l) to which the derating factor applies are the difference between the wholesale price (w_c) and the Losing Supplier Loss Trigger (w_t). This means that the losses that the MSC covers are the incremental losses below the trigger point. Even ~~once~~if the MSC is triggered, the MSC does not apply to losses above w_t, so wholesale savings between the wholesale element of the price cap (w_p) and w_t are expected to be passed directly on to active customers in full; only savings beyond w_t will be dampened by the MSC.

2.20. The non-linear 7-1-6 profile implies that a nominal supplier will not hold the same volume of hedges at any point in time during the observation period. Therefore, a volume factor is introduced to the MSC formula to ensure that the charge is correctly apportioned to the total volume a nominal supplier holds at any point in time. The volume factor allows to control for the varying total volume held throughout the hedging period. The volume factor V is represented as:

$$V = (a + b + c)$$

Where a, b, and c are as defined above.

~~2.17.~~2.21. $\boldsymbol{l}$ is calculated using the formulae below:

$$w_c > w_t,\ l = 0$$
$$w_c \leq w_t,\ l = ~~w_t~~ v.(w_t - w_c)$$

Where w_c and w_t are as defined above.

Consumption weighting factor ($\boldsymbol{t}$)

~~2.18.~~2.22. The MSC billed to gaining suppliers uses each customer's estimated annual consumption of gas and/or electricity (Estimated Annual Consumption (EAC~~/~~) / Annual Quantity (AQ) volumes). The consumption weighting factor is therefore applied to the MSC value to account for the fact that a nominal supplier hedging in line with the ~~6-2~~7-1-6 approach will only have purchased energy to cover 8 months of the lost customer's annual consumption.

~~2.19.~~2.23. As electricity and gas demand is higher in the Winter months, suppliers will be holding hedges for a greater volume of gas/electricity at different times of the year and the consumption weighting factor changes throughout the year. Therefore, suppliers are holding the largest volumes of energy at the end of summer, and therefore likely to incur larger losses for customers lost at the end of summer (if prices are relatively stable across Summer).

$$t = \sum_{n}^{n+7} Consumption\ weight$$

Where $n = \ month\ in\ which\ the\ switch\ occurs$

~~2.20.~~2.24. The consumption weight for each month is applied following the principles outlined in Annex 2 of the Price Cap[8].

Conversion factor (c)

~~2.21.~~2.25. The conversion factor (c) converts the qualifying losses from a p/therm value for gas and £/MWh for electricity into a £/MWh value.

~~2.22.~~2.26. The conversion factor for gas (c_{gas}) is equal to 0.3412.

$$c_{gas} = 0.3412$$

~~2.23.~~2.27. The conversion factor for electricity (c_{elec}) is 1 as qualifying losses are expressed in £/MWh.

$$c_{elec} = 1$$

When the MSC will be calculated

~~2.24.~~2.28. Ofgem will calculate and publish the level of the charge on a weekly basis in line with a transparent methodology, enabling suppliers to factor this in when setting their

[8] Ofgem, 6 November 2018, Default Tariff Cap: Decision; Appendix 2 – Cap level analysis and headroom,
available at: Appendix 2 - Cap level analysis and headroom (ofgem.gov.uk)

retail tariffs.[9] The MSC is denominated in terms of £/MWh, and as such is a volumetric charge. RECCo will use this charge~~,~~ and switching data containing net EAC and AQ volumes gained/lost by suppliers to calculate a £ denominated cost/payment due to each supplier over the course of a billing period.

Charge value period and updates

~~2.25.~~2.29. Ofgem will ~~be~~ publish the gas and electricity charge values on an ex-ante, weekly basis, based on the average of the previous five trading days' values for w_c and w_t ~~.~~(or for a shorter period if any of the weekdays are public holidays).

~~2.26.~~2.30. ~~Ofgem will observe wholesale prices for the five day period beginning every Monday morning. This observation window will close at the close of markets the following Friday. Thereafter,~~ Ofgem will publish the charge value at the end of the working day each Monday (or the following working day if the Monday/Tuesday is a public holiday~~), with the~~). The updated charge value ~~taking~~will take effect ~~at~~from 00.~~01am~~00am on the Wednesday after publication (or Thursday/Friday if the Monday/Tuesday is a public holiday~~) after the close of this observation window~~). The charge will then remain in place until the next scheduled weekly charge takes effect.

~~2.27.~~2.31. As the Licence Condition takes effect on Thursday 14 April 2022, the first charging period is a reduced 6~~-~~-day period beginning at 00.~~01am~~00am on Thursday 14 April 2022. The observation window for this period will be 4 – 8 April 2022, with the Charge announced on 12 April 2022.

When the MSC will be triggered

~~2.28.~~2.32. The Market Stabilisation Charge is triggered when the average wholesale price in a weekly (Monday – Friday) observation window (w_c) is ~~30~~10% or more below the weighted rolling average of the price cap index (~~w_p~~w_{pc}) for the relevant fuel.

~~2.29.~~2.33. As the MSC comprises two sub-charges, it is possible that only one of these charges may be triggered at any given time. However, as gas and electricity prices tend to

[9] https://www.ofgem.gov.uk/publications/market-stabilisation-charge-dashboard

closely track one another this is unlikely and, even if this were the case, it would not be a problem - the sub-charge that is triggered would simply be relatively small.

~~2.30.~~2.34. If the wholesale cost rises above the trigger point, the MSC becomes inactive again as the value becomes 0, and Licence Condition 24A only creates an obligation to pay the MSC if the Losing Supplier Loss Trigger is met.

How long the MSC will apply for

~~2.31.~~2.35. The MSC will be a temporary measure, coming into effect on 14 April 2022 and due to expire on 30 September 2022, unless the Authority decides to extend the condition by up to a further six months to 31 March 2023. We will assess in ~~July~~Summer 2022 whether there is a case for extension~~, and will do so only if we consider it necessary, proportionate and in consumers interests~~. We will consult on this in good time before the condition is due to expire. ~~As part of this, we will publish our thoughts on whether there is a case to taper down the parameters for the charge in order to smooth the way to removing it altogether.~~

Guidance updates

~~2.32.~~2.36. The Authority may, following consultation, revise this guidance from time-to-time if it believes a revision is necessary to achieve the policy objective of the MSC. As this is a novel intervention, we will review the impact of the MSC ~~on a~~ monthly ~~basis~~. If it is not having the effect that we intended, perhaps because there are significant and unexpected market developments, such as material changes in supplier hedging positions or the level of customer switching, then we retain the right to adjust the methodology and its key parameters if needed. As we proceed with plans to reform the price cap, and have published on 16 May 2022 our final consultation on these changes, we ~~would~~ expect to ~~update~~ consult on changes to the MSC methodology to reflect ~~changed hedging expectations inherent in any~~further changes to the price cap ~~change~~indexation.

~~2.33.~~2.37. Before making changes to the guidance, we commit to consult stakeholders on our proposed changes for 14 days. We shall consider any representations that are duly made and not withdrawn during this consultation period before announcing our decision on any necessary amendment. Any changes would come into effect no earlier than when we publish the second weekly update to the charge after the consultation period closes.

Implementing the MSC

Retail Energy Code

~~2.34.~~2.38. To give effect to the MSC, Ofgem will introduce ~~a Change Proposal (s) to the Retail Energy Code (REC) in advance of 14 April 2022. RECCo will develop~~two Change Proposals to the Retail Energy Code (REC). The first of these REC0034 has been approved by Ofgem on 14 April 2022[10]. This REC change allows 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. RECCo are developing an invoicing and billing mechanism that delivers a value for money solution for suppliers (and ultimately consumers) to give suppliers entitled to payments under the MSC confidence that funds will be transferred in a reasonable timeframe.

~~2.35.~~2.39. Recognising the speed at which the MSC has been designed ~~it will be unlikely that~~ all the mechanisms for payment ~~will be~~have not been put in place by 14 April 2022. With this in mind RECCo will calculate the charges owed to and by suppliers in the period where the mechanism is being set up and will bill at the appropriate time. The appropriate billing schedule is yet to be determined.

~~2.36.~~2.40. We have been liaising with RECCo on the implementation of this charge and its design and will raise a Change Proposal (s) to the REC to create an obligation on parties to pay the MSC. We will also provide details of how data will be acquired and analysed in order to identify parties' net MSC payment positions. In introducing the Change ~~Proposal (s),~~Proposals, we will set out the mechanisms for payment, the disputes process and what would happen in the event of non-payment.

[10] https://www.ofgem.gov.uk/publications/decision-approve-rec-change-proposal-rec0034