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Dear Maureen,

We are responding to your consultation on extending short-term interventions and adjusting the Market Stabilisation Charge ('MSC') calculation. This submission is non-confidential and may be published on your website.

Extending the MSC for another six months

We do not support this proposal, based on the information published by Ofgem to date.

We recognise that consumers ultimately foot the bill for supplier failures, and that the volatility in energy prices seen in the sector recently, combined with the underlying fragility of some suppliers' finances, mean that there is a non-negligible risk of further failures that could harm consumers interests.

But extremely high prices also harm consumer interests. The MSC essentially provides a trade-off between a known harm that will definitely occur if it is triggered (eg that consumers won't be able to save money beyond that point) with a speculative harm that may or may not occur (eg that suppliers may fail).

To date, Ofgem has not made a convincing case that the benefits of this policy outweigh the costs and risks. We noted in our response to the last consultation on the MSC[1] that

> *"the case made for this change is limited, and largely qualitative in its published form. While you note in paragraph 2.6 that 'our modelling shows that on the current MSC parameters there would be significant supplier exits from the market,' you have not published that modelling making it impossible to judge how robust it is. The very limited summary of costs and benefits contained in paragraph 2.16 suggests that the costs of your proposals mildly outweighs their benefits. It seems surprising that you would consider taking forward proposals that your own analysis suggests are worse than the status quo."*

We retain those concerns. The current consultation contains a new piece of analysis of the Value At Risk ('VAR') that the MSC seeks to protect against, but it lacks

[1] Citizens Advice response to Ofgem consultation on changes to the Market Stabilisation Charge, April 2022.

robustness and does not take into account the impact of these proposals on consumers.

The VAR analysis calculates the value of loss that would result if wholesale prices were to fall to historic average levels and all price-capped consumers switched off the cap. This is not a credible scenario. To date, the highest annual level of switching in the market since it opened was 21% in 2019,[2] and a significant minority of consumers have never switched. It is very hard to judge how consumers will respond when switching becomes possible again, and it seems quite plausible that a new record might be set as a result of pent up demand combined with historically high prices. But it is not methodologically reasonable to assume a 100% switching rate when calculating the VAR.

In comparative terms it is somewhat more reasonable to assume that prices fall back towards historically normal levels within a single price cap period, but still very unlikely. Recent analysis by Cornwall Insight suggests that wholesale prices may remain at over twice historic averages until the end of the decade.

You have only calculated the potential loss to suppliers, and not to consumers. Consumer energy bills are already at record levels, and are widely expected to exceed £3,000/year on average when the October price cap is set. That will cause huge pain to millions of households. The MSC effectively creates a floor price below which retail prices cannot fall even if wholesale prices do. That limit on customer savings would be hugely damaging to consumers in any scenario where it is triggered, locking them into high prices. It would certainly have a significant adverse effect on fuel poverty, which your analysis does not consider.

In the round, these proposals place great emphasis on what an MSC may mean for suppliers and very little on what it may mean for consumers. We would hope to see a more balanced analysis if the MSC is consulted on again.

We take some comfort from the current time limitation on the MSC but are worried that, given the ongoing uncertainty and the reasonable likelihood of high prices persisting for a number of years, that we may be on a slippery slope towards it becoming a permanent measure. In that regard, we are uncomfortable with the language in paragraph 2.12 which appears to envisage a longer term future for the MSC.

We are not in a position to check the algebra set out in the Technical Adjustments chapter of your consultation, but are in agreement that the methodology of the

[2] BEIS Quarterly domestic energy switching statistics (Q.E.P. 2.7.1).

calculation of the MSC should be amended to reflect the move from six month to quarterly price caps.

Extension of the ban on [new customer only] acquisition tariffs for another six months

We are supportive of this measure. It should build customer trust that they are being offered the same deals that are being offered to new customers. It may also improve the range of deals that are available for internal switchers, which could widen the options available to those who are nervous about, or face barriers to, externally switching.

Yours sincerely

Richard Hall
Chief Energy Economist