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Statutory Consultation on extending the MSC and BAT beyond 31 March 2023

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewable generation, including onshore, offshore wind and solar generation, and energy storage. We have around six million electricity and gas customer accounts, including residential and business users. EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to provide comments on Ofgem's proposals to extend both the Market Stabilisation Charge (MSC) and the Ban on Acquisition only Tariffs (BAT). It is clear that an extension to these short-term interventions is necessary given the continuation of high, volatile wholesale costs. The design of the Default Tariff Cap (DTC), even following the move to updating the wholesale allowance on a quarterly basis, presents unreasonable and unmanageable volume risks to suppliers, undermining the stability of the retail market. Consequently, we support Ofgem's proposal to extend both the MSC and BAT to 31 March 2024 and for it to take additional powers to enable both measures to be renewed on an annual basis following further consultation.

MSC Design

While we support the extension of the MSC, we remain concerned that its current design does not appropriately mitigate the risks to suppliers and consumers that arise from unstable and uncertain market conditions. Our main concern is that the MSC is only triggered by the relative movement of wholesale prices rather than when switching occurs, with suppliers required to absorb the costs of selling excess volume, for customer losses, in a failing market before the MSC is triggered. Depending on the number of customer losses that occur before the MSC is triggered, and the wholesale costs actually incurred by suppliers, this could lead to a supplier failure and undermines the effectiveness of the MSC.

We are also concerned that the MSC calculation has now become too complicated and would urge Ofgem to design a simpler methodology.

The policy intent behind the MSC is to address the risks that would arise in a falling wholesale market and where significant switching between suppliers re-emerges. A key driver behind customer switching is the absolute price differential between the DTC and other alternatives rather than the relative movement of wholesale prices. Therefore, Ofgem should change the threshold so that it is set as an absolute price differential to the price of the DTC.

An absolute price differential approach would provide a much clearer indication of when switching is likely to occur and can easily be monitored by suppliers. Furthermore, it would allow a fairer proportion of hedging losses to be recovered by a nominal supplier since it would be triggered when actual switching occurs rather than when wholesale prices reduce. As such, this approach would be much more effective in reducing the risk of further supplier failures that create additional costs to consumers.

We are aware that Ofgem intends to consult again in the new year on the MSC parameters and we would urge Ofgem to also take the opportunity to conduct a broader review of the measure in terms of whether its design appropriately meets the policy intent. In doing so it would be sensible for Ofgem to review the periods in which the MSC was recently triggered for gas. Such an assessment should look at forward market prices and the level of the MSC during those periods and the extent to which the MSC is delivering on the policy intent of mitigating the risk to suppliers of losing SVT customer in a falling market.

Extending Ban on Acquisition Tariffs

In addition to extending the BAT, we support Ofgem's proposal to extend the current market wide derogation for fixed retention tariffs for the same period.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre or myself. I can confirm that this letter may be published on Ofgem's website.

Yours sincerely

John Mason
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