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By email only

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OVO response to Ofgem's 'Statutory Consultation on extending the MSC and BAT beyond 31 March 2023'

Dear Maureen,

OVO welcomes Ofgem's review of extending the MSC and BAT beyond 31 March 2023 to remain in place until 31 March 2024. While the MSC has recently been triggered¹ for Power, and at low levels for Gas in November, it remains a key mechanism to provide much needed stability to the Energy Supply sector by enabling suppliers to effectively hedge forecast SVT demand. We are therefore supportive of extending the MSC and the ban on acquisition tariffs to the end of Winter 2023/24.

The key points we would like to raise in our response are as follows;

- We agree that the MSC must remain in force through Winter 2023/24 to aid stability in the energy supply sector. Given the continued level of wholesale prices and market volatility the risk associated with unexpected loss of SVT customers in a falling market remains high. The MSC continues to have a key role to play in enabling suppliers to manage this volume risk effectively.
- We support a continuation of the ban on acquisition tariffs through Winter 2023/24. This will work alongside the MSC to limit the risk of material supplier financial losses if we see significant falls in wholesale prices and an associated increase in customer flight from SVT to fixed tariffs. This approach has the additional benefit of helping to ensure that customers are shown and can access the most attractive tariffs that are on offer from their existing supplier.
- We note that Ofgem retains the existing power to terminate the MSC early by publishing a notice to that effect. We believe this should be confirmed with at least 4 months notice so that suppliers can effectively factor this into their hedging strategies. Suppliers can only adopt an effective hedge strategy if they

¹ [Market Stabilisation Charge Dashboard](#)

have certainty over the MSC parameters that will be in force during the delivery period that is being hedged.

- Due to the decision to apply the Backwardation Adjustment Allowance within the Price Cap over a 6 month period, suppliers losing SVT customers will incur losses associated with under recovery of backwardation costs incurred. This creates a further exposure to increased customer switching rates as a result of falling wholesale prices. If this issue of under recovery of backwardation costs is not addressed elsewhere, we would support a mechanism similar to the MSC being established to compensate suppliers losing SVT customers.
- With the potential inclusion of BSUoS Allowance within the Price Cap, we consider that given suppliers will experience customer losses this will impact the cost recovery for the proposed transitional adjustment. We believe this should be considered by Ofgem in any assessment of the MSC methodology moving forward.

OVO are supportive of the changes proposed by Ofgem, and we look forward to engaging with Ofgem on any future review of the methodology for these measures.

Should you have any questions please contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons
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