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Sent by email to: priceprotectionpolicy@ofgem.gov.uk

Dear Daniel

Market Stabilisation Charge licence condition¹

Centrica welcomes the opportunity to respond to the above consultation. We agree with Ofgem that the market stabilisation charge (MSC) is a proven intervention, and that reinstating the MSC licence condition as proposed is a sensible first step to enable timely implementation if required.

We note Ofgem's insistence that, at this stage, it is only proposing changes that would enable a subsequent decision to implement the MSC, not prejudging such a decision. However, we strongly urge Ofgem not to delay any further necessary consultation and decisions on the associated guidance including the parameters necessary for the effective operation of the MSC in practice. We provide initial views on this topic below, in anticipation of such further consultation.²

While we understand that Ofgem wants to keep its options open at present, it is important to recognise that the effectiveness of the MSC in providing suppliers with confidence to hedge depends on providing *advance* certainty as to MSC triggering and parameters. Postponing decisions unhelpfully prolongs regulatory uncertainty, which risks undermining the eventual effectiveness of the MSC.

The better approach, as we have previously advocated, is to create a permanent licence condition that allows the MSC to operate automatically and predictably if specific trigger conditions are met.

¹ [Market Stabilisation Charge licence condition | Ofgem](#)

² We note that the present consultation expressly excludes MSC guidance or parameters. However, Ofgem also expressly invites early stakeholder feedback on these issues – see 3.13.

The key parameters Ofgem needs to determine are:

- The “trigger point” – i.e. how far wholesale prices fall below the price cap allowance to activate the MSC.
- The “de-rating factor” – i.e. what proportion of hedging losses beyond the trigger point threshold are covered by the MSC.

Ofgem’s February 2022 decision set the initial MSC trigger point at 30% below the implied wholesale price cap allowance with a de-rating factor of 75%. However, this was subsequently revised to a 10% trigger and 85% derating factor in May 2022.

The effectiveness of the MSC in providing suppliers with confidence to hedge in practice is plainly sensitive to these parameters. The MSC will be most effective with parameters set at 0%/100% i.e. the MSC is triggered as soon as wholesale costs fall below the price cap index, and the full value of the lost hedge is recoverable.

To the extent Ofgem continues to set parameters shy of 0%/100% suppliers will be inhibited from hedging fully and the risk of unexpected SVT demand costs remains.

In principle, Ofgem could seek to address this risk through ex post adjustments to the price cap rather than via the MSC. However, as Ofgem’s own outline impact assessment recognises, the distributional impact would be quite different:

“Engaged customers would be better off with an ex-post adjustment compared to an MSC, as they would avoid paying an MSC or through the Cap. Less engaged consumers would be worse off, as they would bear the costs through the Cap.”³

Given that the whole purpose of the price cap is to protect disengaged customers, relying on ex-post cap adjustments in preference to the MSC is likely to result in perverse distributional outcomes. Consequently, there remains a compelling case for setting the strongest possible MSC parameters, notwithstanding that *“In the interests of speed, our current expectation is that we would retain the same parameters as previously.”⁴*

Should it proceed with the licence modification Ofgem also commits to consult on the MSC guidance before any decision to activate the MSC.⁵ It is, therefore, vital that Ofgem should neither prejudge the issue of MSC parameters, nor delay necessary further consultation to plead time constraints for maintaining a ‘no change’ position. Ofgem cannot lawfully fetter its discretion. Consequently, whatever its minded to position going into a consultation, Ofgem must provide certainty through a final decision as soon as possible including on the parameters of the scheme.

Yours sincerely

Don Wilson
Regulatory Economics and Policy

³ Consultation, A1.16

⁴ Consultation paragraph 3.12

⁵ Consultation paragraph 3.11