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Market Stabilisation Charge licence condition

Octopus Energy Consultation Response

Dear Danny,

Thank you for the opportunity to respond to this consultation.

We agree with the proposal to edit the licence condition to enable a quicker consultation process to activate the MSC if needed. The MSC is a useful tool to manage the impact of rapidly falling prices, however it is important it is designed in a way that is proportionate and doesn't lead to unintended consequences. Subsequent consultations on the design parameters will be important to ensure that criteria is met.

We have provided further information in our responses to your questions below, and we are happy to discuss any of the points mentioned.

Yours Sincerely,

Anne-Marie Spalding
Head of Regulation and Policy
Octopus Energy

Response to consultation questions:

1. Do you agree that an MSC could help to manage the impact of falling wholesale prices?

Yes - we agree that a market stabilisation charge can help to manage the impact of falling wholesale prices in extreme scenarios (e.g. after a wholesale price shock). We also agree that this intervention is the least distortionary compared to other options mentioned (e.g. adjustments through the price cap).

Prudent suppliers will hedge in line with the price cap (and this is monitored closely by Ofgem), and whilst this should prevent supplier failures caused by unsustainable hedging strategies (such as those we saw in 2021/22), it presents a risk to suppliers in a scenario of rapidly falling prices. This risk is driven by the potential exposure to the SVT hedge, if large

numbers of customers were to switch from SVT to cheaper fixed tariffs. The risk is larger if there are a large proportion of customers that are on SVT tariffs, which have no exit fees and therefore no barriers to switching away. We saw during the last crisis the % of customers on SVT increased significantly.

Whilst we agree that an MSC can help manage the impact of falling wholesale prices in principle, activating the MSC should be designed with trigger points that mean it is only activated in periods of very volatile wholesale prices, and where significant losses could occur. If it is triggered too readily, it could have negative and unintended consequences on customers and competition in the market. Ofgem's aim should be that customers are still able to access a good deal through switching, and to feel the benefit of falling wholesale prices even under an active MSC. We agree that the design used during the last MSC period is a sensible starting point.

2. Do you have any comments on the consumer impacts of an MSC?

We agree that the MSC would mitigate the risk of falling wholesale prices, and this in turn will benefit customers through a more stable market, with potentially less cost of failure, and better hedging for SVT.

The primary risk with activating the MSC is that it could increase the prices of fixed tariffs on offer at the time, therefore potentially dampening the benefit to customers switching in periods of falling prices. However, we believe this can be managed by the design of the MSC to ensure that customers can still benefit from switching, whilst protecting customers from the impacts of potential future losses.

3. Do you agree with our proposed licence drafting?

We agree with the proposed drafting of the licence condition. Implementing the change in this way is prudent at this stage as it doesn't automatically activate the MSC, but enables a quicker consultation period and activation if needed.

4. Do you have any comments on our intended process?

The process suggested by Ofgem is sensible and incorporates consultation on the design of the MSC and trigger points, which is critical.

It would be helpful for Ofgem to keep the market as informed as possible on the indicators it is reviewing to assess whether to consult on activating the MSC, as well as give as much notice as possible on timings (as far as possible) so suppliers can feed in appropriately. If the MSC is reactivated, we urge Ofgem to provide full transparency on the methodology and data inputs, including the price cap wholesale allowance components, to ensure suppliers can easily track, back-calculate, and verify trigger points regardless of whether the previous or new methodology is used.