

Consultation

Market Stabilisation Charge activation

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In a period of high and volatile prices, a sharp fall in wholesale prices can pose a risk to market stability. Responsible suppliers must buy energy ahead on behalf of their price cap customers. If prices fall suddenly and customers leave the price cap in large numbers, this can result in unavoidable losses.

During the previous gas crisis we implemented a Market Stabilisation Charge (MSC) as a mitigation. This was a payment from a supplier who gained a customer to a supplier who lost a customer, to partially mitigate losses on energy already purchased.

We reintroduced an MSC licence condition earlier this year in dormant form. Given recent wholesale price increases, we are now proposing to activate the MSC. We consider that this helps to protect consumers' interests by supporting market stability and investability.

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Executive summary

Wholesale gas and electricity prices have been high and volatile this year as a result of the conflict in the Middle East and prices have risen since July to around 200p/therm, about 150% higher than their pre-conflict levels.

The default tariff cap (the ‘Cap’) acts as an important protection for consumers – ensuring prices are fair and based on underlying costs. While it needs to reflect the international wholesale prices that suppliers face and updates them on a quarterly basis, it does offer consumers some price stability during times of volatility by preventing retail prices from changing more frequently.

In turn, this means it is important to ensure that suppliers are well hedged to supply energy to price capped customers. This means that suppliers must have purchased, ahead of time, the energy that their customers are likely to use. If a customer is on the Cap, then this means buying energy for the quarter ahead.

Failure to do so would mean that, if prices were to rise, then the supplier would be forced to sell energy to customers at less than the cost at which they buy it. This would lead to significant losses, which could in turn lead to supplier failure, the costs of which fall on all consumers through the Supplier of Last Resort process. It is therefore in consumers’ interests that suppliers are responsibly hedged.

Put simply – suppliers are required to put very large amounts of money into securing energy supplies on behalf of their Cap customers ahead of time. Consumers however, are free to leave the Cap at any time, which can leave those suppliers holding energy purchased on their behalf. If prices suddenly fall, consumers will have an incentive to leave the Cap and move to lower priced fixed tariffs. This is generally a good thing for consumers, but can create material risks for the market in times of significant volatility, because suppliers who had responsibly purchased energy for these customers would have to sell it back to the market at a loss.

If the scale of switching was sufficiently large, then it could result in serious market stability concerns which suppliers would be powerless to avoid. While we have made significant progress towards a more resilient retail market, it is important to recognise that we expect investors to hold considerable capital within supplier businesses to cover unexpected risks. However we do not consider it would be effective or sustainable for that capital to be seen as a buffer against an unmanageable and uncapped risk resulting from another of our resilience requirements – hedging responsibly.

In other markets, firms would have more options to manage risks in volatile conditions. A firm could choose to, for example: withdraw from accepting new customers, adjust its pricing, or set exit fees. Gas and electricity supply are essential services and so the

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regulatory framework places limitations on the options available to suppliers. While these requirements help to protect consumers, they may leave suppliers with fewer options to manage their risks in certain market conditions. It may therefore be necessary to put in place other interventions to help manage risks to market stability.

During the previous gas crisis we implemented a Market Stabilisation Charge (MSC). This was a mechanism under which a supplier gaining a customer in a sharply falling wholesale market must make a payment to the supplier losing that customer. The payment is designed to partially mitigate the cost of the energy that the losing supplier would have purchased on behalf of the customer. Such a mechanism ensured that suppliers continued to have an incentive to hedge responsibly, even at high prices, and reduced the risk of socialised costs across all consumers. However, it did mean that fixed tariffs on offer during that period were priced slightly higher than they otherwise would have been. We allowed this temporary licence condition to lapse in 2024.

Following price rises earlier this year, we acted promptly to reintroduce an MSC licence condition, giving ourselves the power to activate the MSC at a later date if we considered it was required to protect the interests of consumers. We now consider we have reached that point and are consulting on activating the MSC. This reflects that a combination of recent wholesale price rises, the approach of winter and the movement of customers onto the Cap have increased the value of suppliers' hedges – and therefore the risks if prices were to fall sharply.

We are not taking this step lightly. We do not consider that an active MSC should be a feature of the market in normal circumstances, as the risks in normal circumstances would not be sufficient to merit intervention. However, given the risks this winter in volatile wholesale market conditions, we consider that an active MSC will support both the short-term and long-term interests of consumers, by contributing to responsible hedging, market stability and an investable retail market.

While we are consulting on activating the policy now, the mechanism is designed such that it will only have an impact if and when prices are falling significantly. Even in those conditions, it is calibrated in a way that would only partially cover suppliers' potential losses. As such, the MSC ensures that there would generally still be significant gains from switching to a fixed tariff in a falling market. It also ensures the customers who benefit from switching bear the costs of it, rather than seeing them socialised across a wider customer base.

As part of this consultation, we are consulting on the MSC guidance and parameters, as required in the MSC licence condition. The parameters determine the scale of price fall which triggers the MSC, and the proportion of hedging losses that the MSC covers beyond this. We consider that the previous MSC parameters that were in place remain appropriate.

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We are consulting for a period of two weeks. After considering responses, we expect to reach a decision on whether to activate the MSC in a couple of weeks after the consultation closes. If we proceed with the proposed decision, the MSC would be activated shortly after we publish the decision.

We are not proposing a fixed duration for when the MSC would remain activated, but we expect that it would remain in place at least until the end of winter. The subsequent deactivation would be subject to consultation.

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1. Introduction

We briefly introduce this consultation and provide information about how to respond.

Purpose of this consultation

- 1.1 The Market Stabilisation Charge (MSC) involves a payment from a supplier who gains a customer to a supplier who loses that customer, to partially mitigate losses on wholesale energy that the losing supplier had already bought.
- 1.2 In response to volatile wholesale market conditions, we decided earlier this year to reintroduce an MSC licence condition. We introduced the licence condition in dormant form, with a provision to allow us to activate the MSC at a later point.
- 1.3 We are now consulting on activating the MSC, so that the licence condition takes effect. If activated, the MSC would only lead to payments to and from suppliers in the event that prices fall sharply in accordance with the trigger as proposed in the MSC guidance, which we are also consulting on.

Context and related publications

- 1.4 We previously implemented an MSC in 2022. This was a temporary licence condition. We implemented this as part of a package alongside the Ban on Acquisition-only Tariffs (BAT), which remains in place. These measures were intended to address the risk of sharply falling prices, in a context of exceptional price volatility.
- 1.5 We extended the MSC in 2023, and then allowed the licence condition to lapse in March 2024.
- 1.6 In April 2026 we consulted on reintroducing the MSC licence condition, with some amendments to the provisions which had lapsed. We published a decision in May 2026 confirming the wording of the licence condition. We refer to that consultation as the 'licence consultation' in this document when referring to previous stakeholder feedback.
- 1.7 Since the decision, we have carried out workshops on the MSC design with consumer groups, price comparison websites and suppliers. We also held bilateral meetings. We refer to some of the discussions in this consultation, but do not provide an exhaustive description of the points raised. We are grateful to all stakeholders who engaged with us.

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1.8 Key publications:

- [Statutory consultation on potential short-term interventions to address risks to consumers from market volatility](#) (2021)
- [Decision on short-term interventions to address risks to consumers from market volatility](#) (2022)
- [Decision to extend the MSC and the BAT beyond 31 March 2023](#) (2023)
- [Decision on technical changes to the Market Stabilisation Charge \(MSC\) to extend its operation beyond 31 March 2023](#) (2023)
- [Future of Market Stabilisation Charge after March 2024](#) (2023)
- [MSC guidance version 4](#) (2023)
- [Market Stabilisation Charge licence condition](#) (2026 – consultation and decision)

Scope of consultation

1.9 This is a consultation on activating the MSC. We have consulted earlier this year on the rationale for introducing an MSC licence condition. In this consultation, we therefore do not consider alternative potential intervention options.

1.10 We considered alternatives to an MSC as part of our work on short-term interventions in 2021 to 2022, such as a temporary ban on switching or the introduction of exit fees on the Cap, but decided not to progress these.

Overview

1.11 Chapter 2 sets out the purpose of the MSC licence condition. We provide context on the risk that the MSC seeks to mitigate and the benefits of managing this risk.

1.12 Chapter 3 explains the factors that affect the scale of risks that suppliers face. We then describe the current market context.

1.13 Chapter 4 explains why we propose to activate the MSC.

1.14 Chapter 5 covers our proposals for the MSC design. We indicate that we are consulting on the MSC guidance (as required by the licence condition) as part of this consultation. We cover the MSC parameters, which determine the price fall under which the MSC would lead to payments between suppliers and the proportion of wholesale losses after that point that would be covered by the MSC. This chapter also includes our proposal for when the MSC activation would take effect, and our intended process for deactivation.

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1.15 Chapter 6 briefly sets out our intended next steps.

Consultation stages

Stage 1 Consultation open: 16 October 2026

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 29 October 2026

Stage 3 Responses reviewed and published: Mid-November 2026

Stage 4 Consultation outcome (decision): Mid-November 2026

How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

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If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

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2. Purpose of the MSC licence condition

We provide context on the risk that the MSC seeks to mitigate and the benefits of managing this risk.

What risk does an MSC mitigate?

- 2.1 Future changes in wholesale prices are uncertain given current market conditions. However, one potential scenario is a sharp fall in wholesale prices. While this would generally be positive for consumers, it could pose risks to market stability and investability.
- 2.2 When wholesale prices rise steeply, there is a risk that prices could later fall sharply. For example, this occurred during the 2022 gas crisis.
- 2.3 Fixed tariffs available in the market generally reflect prevailing wholesale market prices. If wholesale prices fall, fixed tariff prices would fall. Suppliers buy energy for their standard variable tariffs (SVTs) gradually over time (as under the default tariff cap (the 'Cap') indexation methodology). Just as this can result in the Cap increasing more slowly than fixed tariffs while wholesale prices are rising, it can also result in the Cap falling more slowly than fixed tariffs when wholesale prices are falling. A sharp fall in wholesale prices would therefore lead to a significant gap between fixed tariff and SVT prices.
- 2.4 Such a gap would be likely to encourage customers to switch to fixed tariffs. This would particularly apply to any engaged customers who had moved to SVTs during an earlier phase of the price shock (for example if there had been a period when the SVT was the cheapest tariff available in the market).
- 2.5 If a supplier's SVT customer base reduced unexpectedly, the supplier would need to sell back the energy that it had already purchased for the customers it had lost. The supplier would make a loss on these sales, given that wholesale prices had fallen.
- 2.6 Forecasting demand is a core competency for suppliers. However, this can be challenging when prices are extremely volatile. This creates a risk of suppliers making losses for reasons which could be seen as beyond their reasonable control.
- 2.7 We are not required to, and do not, protect suppliers against any and all losses. However, in exceptional circumstances, risks to market stability and investability might mean that some action was desirable from the perspective of consumers. In this situation, there would be a question about how best to manage the risks to

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market stability and investability. This includes the question of which consumers should bear the costs of any mitigating action.

- 2.8 It is also important that suppliers continue hedging for their SVT customers. Given the risk described above of losses when prices fall, in the absence of an MSC suppliers might consider whether to reduce the size of their hedges. This would reduce their risks if prices fell – but would leave them exposed to losses if prices rose further. Suppliers therefore face risks on both sides, due to the uncertainty about the number of consumers who will remain on the Cap.
- 2.9 The Cap provides a degree of price stability for consumers in volatile circumstances, but to deliver this stability, suppliers need to be able to continue hedging consistently.

Rationale for an MSC

- 2.10 The MSC, if activated, would mitigate some of the losses that suppliers could experience from falling wholesale prices. We could activate the MSC if we thought it was to the ultimate benefit of consumers by reducing risks to the financial stability of suppliers and supporting the investability of the market.
- 2.11 By mitigating the extent of losses under falling wholesale prices, an MSC can mitigate risks to suppliers' financial stability. This can be in the interests of consumers given that they can end up bearing some of the costs of supplier failure (through the Supplier of Last Resort (SoLR) levy).
- 2.12 In the longer term, providing confidence to suppliers that we would take a reasonable approach to managing risks in extreme market circumstances would also contribute to making the supply market investable, in line with our [Markets Vision and Strategy](#). Investment and innovation can ultimately generate benefits for consumers, such as improved customer service.
- 2.13 By mitigating risks under falling wholesale prices, a MSC could also provide suppliers with more confidence to hedge responsibly. To the extent that suppliers hedge a greater proportion of their expected demand (than in the absence of an MSC), consumers would be less exposed to risks if wholesale prices increased further.
- 2.14 We recognise that an MSC reduces the short-term savings available for customers who switch supplier. This could be seen as delaying customers from accessing some of the benefits of a wholesale price reduction. However, the design of the MSC ensures that there would generally still be significant gains from switching to a fixed tariff in a falling market. It also ensures the customers who benefit from switching bear the costs of it, rather than seeing them socialised across a wider customer base.

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3. Risk factors

We explain the factors that affect the scale of risks that suppliers face. We then describe the current market context.

Drivers for scale of risks

- 3.1 The size of the risk of stranded hedges depends on several factors.
- 3.2 The value of suppliers' hedges depends on the price they have paid to hedge their customers' demand, so that customers are able to lock in a price for the next quarter. As wholesale prices increase, the value of suppliers' hedges increases.
- 3.3 The value of suppliers' hedges is also affected by seasonal fluctuations in consumers' demand, because suppliers buy energy to supply their SVT customers for the upcoming quarter. At points in the year when suppliers have to buy more energy, this increases the value of their hedges.
- 3.4 The potential loss in relation to each customer who switches away then depends on how much prices fall and how quickly. The larger and faster the price fall, the greater the loss would be.
- 3.5 A gradual price fall would lead to less significant losses on a per customer basis, because suppliers' hedges are gradually replaced over time as consumers use energy. This means that what matters is the size of the price fall over the period of time that the supplier is holding the hedge (around four and a half months on average) – not the total price fall (which could take occur over a longer period, such as a year).
- 3.6 The potential size of a price fall depends in part on the level of wholesale prices reflected in suppliers' hedges. When prices are affected by factors which are expected to be temporary such as geopolitical risks, a higher starting level of prices increases the gap to a more normal level of prices, and therefore leaves more scope for prices to fall below them.
- 3.7 The total cost of stranded hedges then depends on the proportion of consumers moving back from the Cap to fixed tariffs. This requires consumers to engage in the market by switching tariff or supplier. The greater the number of consumers switching back to fixed tariffs, the higher the total costs to suppliers.
- 3.8 This proportion engaging is likely to be higher when the scale and speed of a wholesale price fall is larger, as the gains from switching would be larger.
- 3.9 There is no firm upper bound on the proportion of consumers who might engage. However, one indicator of the proportion of consumers who might be likely to

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engage in the near-term is the increase in the proportion of consumers on SVTs. Such consumers moving to SVTs would have engaged relatively recently (in most cases a year ago) to select their previous fixed tariff. These consumers may therefore be more likely than the average SVT consumer to re-engage, especially if significant savings were available. In other words, the greater the proportion of consumers who have moved to SVT recently, the greater the potential losses as a result of consumers switching to fixed tariffs.

Current market context

Wholesale prices

- 3.10 As wholesale prices increase, the value of suppliers' hedges increases. Wholesale prices increased significantly after late February due to the start of the Middle East conflict. Although prices moderated in mid-summer, they have since increased further since July. These prices have also been subject to significant volatility. (There are limitations on the price data that we can publish for contractual reasons, but some published price data is available online).
- 3.11 Wholesale prices remain much lower than those observed in 2022 after the Russian invasion of Ukraine. However, there is significant uncertainty about how prices may evolve over the winter, as the market responds to geopolitical developments.
- 3.12 The degree of price reaction to developments risks being particularly sharp, given that the Middle East conflict has already affected the market's readiness for winter. In particular, European gas storage levels are just below the historical range (see Figure 8 of [ENTSOG winter supply outlook 2026/27](#)), as high prices over summer have disincentivised storage injections. This reduces one buffer against reductions in gas supply due to geopolitical events or increases in gas demand due to a cold winter. Furthermore, even maintaining the relative position against the historical range requires further storage injections before the start of winter.
- 3.13 There is additional demand uncertainty this winter due to the El Niño weather event. This event is [observed](#) as the largest ever. El Niño increases global temperatures, but also increases uncertainty about weather conditions and could lead to cold spells in the UK. Current market prices will incorporate expectations about the impact on demand, but as expectations evolve, wholesale prices are likely to react accordingly.

Proportion of consumers on the Cap

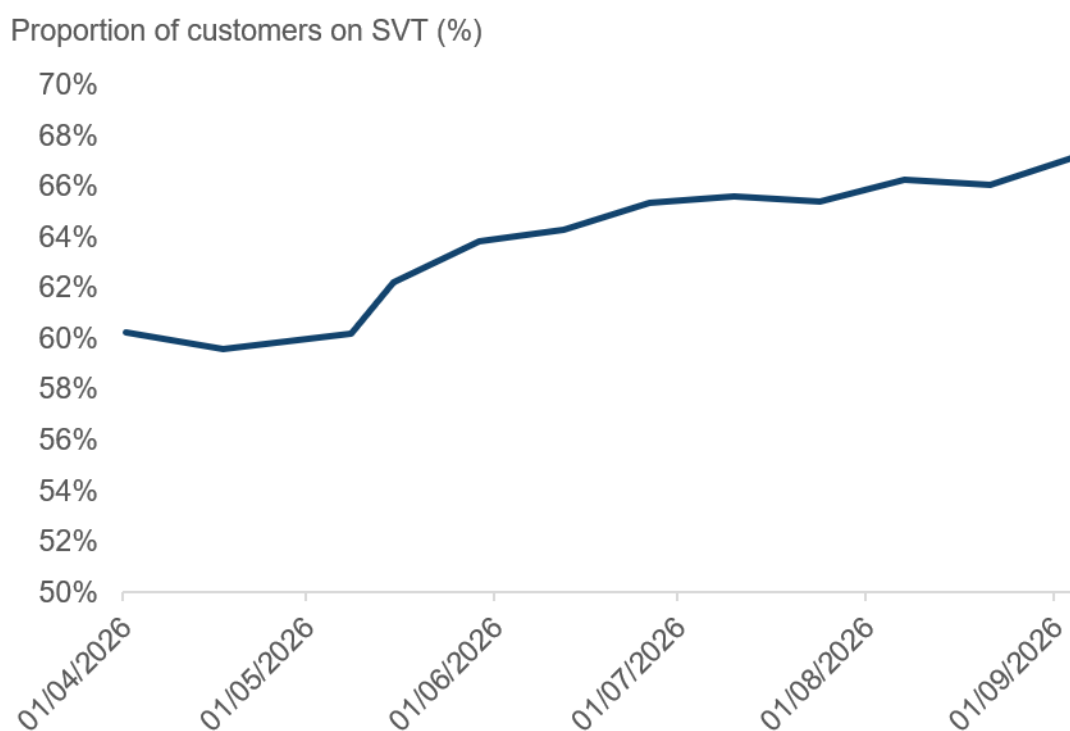
- 3.14 We have been monitoring the proportion of consumers on SVTs by gathering data from suppliers. Figure 1 below shows this data over 2026. The proportion of

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consumers on SVTs has gradually increased by seven percentage points since April 2026. (Please note that this includes data up to 4 September 2026, as we have not yet received a complete dataset from the most recent update in mid-September. Initial indications do not suggest that there has been a further increase in the proportion of customers on SVT in the most recent update).

- 3.15 This means that there is already a group of consumers who might be likely to re-engage if prices fell. The size of this group is likely to increase over time if wholesale prices remain high or increase further, as more consumers would be likely to roll onto the Cap when their fixed tariffs expire.

Figure 1: Proportion of domestic customers on SVTs



- 3.16 This is not the only group of consumers who might engage in the market if prices fell. SVT consumers will have a range of engagement levels, and being on an SVT does not mean that consumers are necessarily disengaged.

Seasonality

- 3.17 Domestic consumers use more energy, particularly gas, in winter. This means that the size of suppliers' hedges for their customers on the Cap fluctuates over the year. In early winter, suppliers' hedges are at their largest size in the year, as they will have bought the energy to supply their consumers over winter.

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- 3.18 When hedges are larger, this increases the risks to suppliers if prices were to fall sharply. We are therefore approaching the point of maximum risk to suppliers (around the end of the observation window for the Q1 Cap in mid-November).

Wider risks

- 3.19 In this section, we provide brief context on the market situation, as this provides the backdrop to our considerations on activating the MSC. We do not seek to provide an exhaustive description of the state of the market or the risks facing suppliers, as this is not the role of this document.

Pre-conflict situation

- 3.20 We published our [state of the market](#) update on the retail market in January 2026, before the Middle East conflict began. This provides the baseline for more recent developments.
- 3.21 First, suppliers were already experiencing limited profitability on average. Supplier profits were £26 per customer in 2024 and forecast to be £8 per customer in 2025 (page 16 of the state of the market update). The June 2026 [supplier financial resilience report](#) (page 15) has since confirmed 2025 profits at £5 per customer. These figures are below the notional profit allowance included in the Cap, which is intended to deliver a normal rate of return on the capital suppliers need to serve their customers. As an illustrative comparison, the EBIT allowance for the current (Q4 2026) cap period is £46 per dual fuel customer (for a customer with typical consumption paying by direct debit). Where suppliers persistently do not make a normal rate of return, this is likely to have an impact on investors' perceptions of the sector.
- 3.22 Second, some suppliers were below the average situation. At the end of September 2025, five suppliers were below the capital target which forms part of our financial resilience regime, while 18 suppliers were above it (page 18 of the state of the market update). The June 2026 supplier financial resilience report has since indicated (page 20) that the number of suppliers below the capital target had fallen to three by the end of March 2026. Where certain suppliers are already below the capital target, further shocks may increase the risk of distress.
- 3.23 Third, the value of domestic customer debt and arrears has continued to increase over time. Debt and arrears reached £4.48bn in Q3 2025 (page 10 of the state of the market update). This figure has continued to increase to £5.02bn in Q2 2026, according to the [debt and arrears indicators](#) that we publish. Late payment increases cashflow pressures on suppliers, while non-payment creates downward pressure on profitability.

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Winter risks

- 3.24 We discuss the risk of stranded hedges if prices fall in the next chapter. This is the risk that the MSC is designed to mitigate. In this section, we therefore focus on other risks as context to decision making.
- 3.25 Suppliers can face additional risks due to wholesale price movements interacting with the Cap.
- 3.26 If wholesale prices rise, more customers than expected may move onto the Cap at the end of their fixed tariffs. This reflects that higher wholesale prices would reduce (or even eliminate) the savings available from selecting a new fixed tariff. Suppliers would therefore have to buy energy to supply these additional customers, at a higher price than assumed in the Cap allowances. The precise costs that suppliers incur will depend on when they update their forecasts and hedges.
- 3.27 If wholesale prices fall, customers may leave the Cap to select cheaper fixed tariffs. Some cap allowances (particularly for backwardation – the additional cost of buying energy for delivery for the upcoming cap period relative to the upcoming year) involve partial recovery in arrears. If a consumer switches away from the Cap, a supplier may not be able to recover these deferred allowances.
- 3.28 Suppliers can also face risks due to weather-linked demand changes.
- 3.29 If cold weather means that demand increases over winter when prices are already high, suppliers may incur additional costs of buying this additional energy, above the allowances available in the cap.
- 3.30 Conversely, if warm weather means that demand is lower than expected over winter, suppliers may under-recover certain gas network charges. This is because suppliers' liabilities are determined upfront, but the amount they can recover through the unit rate depends on the amount of energy consumers use.
- 3.31 Weather could alternatively lead to upside for suppliers. For example, if there was a mild autumn while prices remained elevated due to the geopolitical situation, then suppliers could benefit from selling back energy that their customers did not require. Over the course of the winter, it is possible that some benefits and risks could offset each other – but we must keep in mind the potential for negative outcomes from a risk management perspective.
- 3.32 Even if prices remain at current levels and demand is normal over winter, suppliers also face other risks.
- 3.33 Deferred allowances like backwardation can create cashflow impacts on suppliers. Suppliers will always face some differences between when they incur

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costs and when they recover revenues, but the impacts are greater in a current context where prices are high and the market is in significant backwardation.

3.34 Bad debt is already a risk to suppliers. If prices remain high, it is possible that consumers will find it harder to pay their bills, so rates of late or non-payment may increase.

3.35 In summary, there are a number of risks facing suppliers this winter. This forms the context for considering the impact of stranded hedges and the potential role for the MSC.

Questions

Q1. Do you have any comments on our description of the current market context?

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4. Activation

We set out our intent for the MSC. We then explain why we are proposing to activate the MSC.

Context on MSC structure

- 4.1 This is a consultation on activating the MSC licence condition. Activating the MSC would not, by itself, mean that there would be payments to and from suppliers. This is because MSC payments only occur when there has been a price fall of a certain amount. We refer to this as the MSC being triggered, which is described in the MSC guidance as referred to in the MSC licence condition (see Chapter 5).
- 4.2 If triggered, the MSC would cover a proportion of hedging losses beyond the trigger point when a customer switches supplier. We refer to this proportion as the sharing factor.

Intent for the MSC

Position

- 4.3 We consider that the MSC should be activated in a way which provides a balance between supporting investability and mitigating risks to market stability.
- 4.4 We are not consulting on this position, but we are setting it out as context for the discussion on activation later in this chapter.

Rationale

- 4.5 There is a trade-off between the potential goals for an MSC. Maximising support for investability would imply an MSC which was regularly active. Conversely, only mitigating market stability risks would imply an MSC which was active in limited circumstances.
- 4.6 We do not consider that either end of the spectrum would be appropriate to support the interests of consumers.
- 4.7 We do not consider that the MSC licence condition should be regularly or permanently active. We do not consider that an MSC is required to deal with normal wholesale price fluctuations. Risk management is an integral part of suppliers' role. An ongoing active MSC would instead mean greater regulatory intervention.
- 4.8 Conversely, we do not consider that the MSC licence condition should purely be a backstop against the risk of supplier failure. Consumers are able to move away

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from the cap when prices fall, which generates losses for suppliers on their stranded hedges. In line with our [Markets Vision and Strategy](#), we consider that an investable market is in consumers' interests.

Considerations

Intent

- 4.9 Our intent for when we would activate the MSC follows on from the position we set out when deciding to reintroduce the MSC licence condition.
- 4.10 We did not introduce the MSC purely as a market stability measure – and so our approach to activation should reflect this, by ensuring that it is not just a backstop against the risk of supplier failure. Conversely, introducing the MSC licence condition in dormant form showed that we did not consider that the MSC should be permanently active.
- 4.11 The MSC should be activated when this is in the interests of consumers. We consider that the MSC can deliver benefits for consumers in relation to market stability and investability. However, we recognise that an active MSC can reduce the immediate savings realised by some consumers, and that any measure which affects competitive intensity could have some impact on the dynamic benefits that consumers realise from competition.
- 4.12 Crucially, when risks rise and wholesale prices remain volatile, suppliers have to make risk management decisions regardless of whether we activate the MSC. Without an active MSC, suppliers may reduce the fraction of demand that they hedge, in order to mitigate the risks if prices fall. However, if prices then instead rise, suppliers would incur additional costs, with potential consequences for the consumer interests in market stability and investability. In other words, a decision not to activate the MSC would have its own consequences for consumers.
- 4.13 We have previously received suggestions that the financial resilience regime reduces the circumstances where an MSC would be required. This financial resilience regime helps to mitigate the risks to consumers from market instability, but does not remove them. Moreover, costs to suppliers may still pose risks to investability, even where the financial resilience regime mitigates the risk of supplier failure. Ultimately, for consumers to realise the benefits of investment and competition, there need to be some limits on the extent to which suppliers are exposed to unmanageable risks.

Consultation Market Stabilisation Charge activation**Threshold**

- 4.14 There is no precise way to calibrate the level at which we would activate the MSC. However, in broad terms, we consider that the Cap risk allowances provide a yardstick which aligns with our intent for activating the MSC.
- 4.15 The Cap includes several risk allowances. There is a 1% wholesale risk allowance and an overarching headroom allowance. There is also an implicit benefit from the difference between mean and median consumption, which we took into account when setting the level of the headroom allowance. (This benefit reflects that we include certain fixed costs in the unit rate element of the Cap, so suppliers receive additional revenue when consumption is above the median level used to set the Cap benchmark consumption).
- 4.16 We recognise that these risk allowances will be used for different purposes by suppliers. However, beyond this point, losses exceed those which suppliers might be expected to manage or absorb in normal circumstances.
- 4.17 Risk allowances help suppliers to manage a certain level of risks, in normal circumstances. However, they do not provide suppliers with unlimited ability to manage risks. We may therefore need to take further action when risks exceed these allowances. If risks exceed the allowances provided, then this would put downward pressure on the EBIT margin that suppliers achieve. Historical profitability below a normal rate of return (as described in Chapter 3) shows this is an outcome which has been seen in practice.
- 4.18 In numerical terms, we therefore consider that a reasonable prospect of a loss of £20-30 per dual fuel customer, across a typical supplier's customer base, provides an illustration of the circumstances where the MSC should be activated.
- 4.19 The £20-30 range depends on which allowances we include in the calculation. The fact that this range uses rounded numbers reflects that it is intended as an approximation, given that it would not be realistic to deliver a precise numerical comparison between risks and allowances.
- 4.20 We recognise that the impact of a price fall would vary between suppliers depending on their customer bases. However, we need to consider a single activation threshold across the market. We therefore consider a threshold in terms of the impact on a typical supplier.
- 4.21 This is a choice. If we wanted to focus on the impact on suppliers who might be most impacted by consumers moving between tariff types (those with particularly engaged customers), then we could define the threshold in relation to a particular customer base. However, we consider that looking at the average impact across suppliers is preferable, given that the MSC would apply across all switches.

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- 4.22 We also considered whether a higher activation threshold would be appropriate. However, we do not consider that this would be in consumers' interests. A higher threshold would increase the risk of supplier failure, particularly given that some suppliers would see greater impacts than the average. It would also create greater risks to investability, as there is a risk of suppliers facing repeated shocks. In these circumstances, and given historical profitability, it is unclear whether investors would be willing to repeatedly rebuild suppliers' capital positions if these were being depleted by unmanageable risks. The potential impacts on suppliers' hedge positions would also be greater with a higher threshold, as suppliers might be more likely to reduce their hedges if they had more limited protection against price falls. Any reduction in hedges would have consequent impacts on the risks to suppliers if prices rose.

Considering activating the MSC

Background

- 4.23 The MSC involves payments as costs are incurred, rather than an ex post adjustment in a later cap period. This means that, for the MSC to be effective, it needs to be activated before risks materialise.
- 4.24 However, the risks facing suppliers are inherently uncertain, as they depend (in particular) on future movements in wholesale prices and consumers' tariff choices. Consideration of the risks suppliers face is therefore about scenarios rather than probabilities.

Proposal

- 4.25 We propose to activate the MSC.

Rationale

- 4.26 With recent wholesale price increases and greater hedge volumes ahead of winter, suppliers are exposed to the risk of a sharp wholesale price fall.
- 4.27 Price volatility at present is driven in particular by geopolitical developments. This means that prices can change quickly – in both directions. Given that activating the MSC would take time, we need to consider the possibility of rapid price movements before this could happen. In particular, the worst case would be that prices rose further and then fell sharply. In the meantime, more consumers could move to the Cap, increasing the risks to suppliers.
- 4.28 The wider context is that suppliers are facing a range of risks, as set out in Chapter 3. This means that we need to bear in mind the potential for cumulative impacts on market stability and investability.

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4.29 Activating the MSC involves a judgement on the balance of risks and how best to protect the interests of consumers. We consider that the risks of not acting are greater at this point than the risks of activating the MSC prematurely. This reflects that the benefit of improving confidence to hedge responsibly is by definition only impactful on a forward-looking basis. Further, prices can move quickly. In the absence of an active MSC, suppliers could quickly incur losses if prices fell (with consequent impacts on market stability and investability), whereas an active MSC would still only be triggered by a sharp price fall.

Considerations

Evolution of assessment

- 4.30 We took a decision on 27 May 2026 to reintroduce the MSC licence condition, with the decision taking effect after the statutory 56-day standstill period. Since then, we have been monitoring the market.
- 4.31 In a workshop, some suppliers said that we should activate the MSC immediately, as soon as it became available. We did not take this approach, as it did not align with our intent for the MSC or with our assessment of the risks at that point.
- 4.32 However, our assessment of the risks has now changed. This reflects the following key developments. First, the increase in wholesale prices, which has also increased the scale of backwardation in the market. Second, moving closer to winter increases the size of suppliers' hedges. Third, the gradual movement of customers towards SVTs has also increased the risks if prices fall.
- 4.33 In this context, we have focussed on the risk of a further price rise and sharp price fall, before we can activate the MSC.
- 4.34 Aside from the time required to activate the MSC, there is an additional lag because we receive data about the proportion of consumers on the SVT in arrears. This means that our view of risks is always unavoidably slightly backward-looking.

Uncertainty

- 4.35 Any assessment is subject to significant uncertainty, particularly in relation to future prices and customer movements.
- 4.36 The size of any price fall is uncertain, including the extent to which the market would remain in backwardation if prices were to fall. This uncertainty reflects that even if there were positive geopolitical developments, it would take time to address supply disruptions, and gas storage levels would remain lower than normal in the meantime. As part of considering a pessimistic scenario, the upper bound on losses would be in the situation where market backwardation was

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eliminated. (This upper bound would alternatively be equivalent to a larger price fall with some backwardation remaining).

- 4.37 The speed and scale of consumers' reaction to a sharp price fall is also uncertain. We expect that fixed tariffs would become available that reflected any wholesale price reductions. While the BAT could soften the incentives for established suppliers to offer cheap fixed tariffs, there are smaller suppliers who would seek to acquire customers without needing to worry about losing revenue from existing customers. We then expect that consumers would respond if significant savings became available. However, some consumers may hold off fixing if there is a possibility of further price falls, and some consumers may have preferences for their existing supplier which may limit their likelihood of switching. To consider the pessimistic scenario, we have considered the situation where consumer switching occurs in parallel to wholesale price falls. (In other words, if wholesale prices fall swiftly, this means we are assuming that consumers would return to fixed tariffs over the same timeframe).

Illustrative impacts

- 4.38 We can show the impacts with and without an MSC using three illustrative examples, intended to show reasonable pessimistic situations. The purpose of these examples is to provide further context on the impacts of different risk drivers and to show the broad impact of the MSC if activated – these examples do not represent predictions.
- 4.39 These examples are all based on a situation where prices rise 20% further over a one month period. In each case the price fall would last one month, with prices falling three-quarters of the way back to pre-conflict levels. (For the purpose of these illustrations, we model impacts at monthly granularity).
- 4.40 In the scenario, the price fall occurs immediately after the price rise, whereas in sensitivity A, prices remain at the peak level for one month after the price rise is complete. In the scenario, 17% of the total customer base switches back from the SVT to fixed tariffs during the price fall, whereas in sensitivity B, this figure is 11%.
- 4.41 Table 1 below shows the supplier losses with and without the MSC. These values are presented as “up to” figures, given the uncertainty about backwardation described above. The figures are impacts on a notional supplier – the effects on individual suppliers will differ depending on their customer bases.

Consultation Market Stabilisation Charge activation**Table 1: Illustrative impacts on supplier losses**

	Scenario	Sensitivity A (longer price peak)	Sensitivity B (lower switching)
Loss without MSC (£/dual fuel customer across customer base)	Up to -21	Up to -36	Up to -13
Mitigation from MSC (£/dual fuel customer across customer base)	Up to 9	Up to 18	Up to 6
Loss with MSC (£/dual fuel customer across customer base)	Up to -12	Up to -18	Up to -8

4.42 Prices remaining high for longer (sensitivity A) increases the loss to suppliers without an MSC, relative to the scenario. In contrast, fewer consumers switching back to fixed tariffs (sensitivity B) reduces the loss to suppliers without an MSC.

4.43 In each case, an MSC roughly halves the impact on suppliers, but does not eliminate it. Suppliers would therefore bear a share of the impacts from falling wholesale prices.

4.44 We can also illustrate the impacts on headline annualised customer savings, as set out in Table 2 below.

4.45 These are the headline savings because they are based on comparing the prevailing cap level with the prevailing wholesale price. In other words, this is not a comparison of the expected cap level over the upcoming year with the size of a fixed tariff, which would provide the expected cash benefit from switching. Headline savings may still act as a prompt to engage.

4.46 We calculate the impact of wholesale price differences between fixed tariffs and the Cap. In addition, fixed tariffs tend to be cheaper than the Cap in normal circumstances. The total net savings below are therefore the combination of the wholesale-related savings (less the MSC) and the typical fixed tariff savings. We calculate the typical fixed tariff savings by looking at the average difference between the cap level and the basket of cheapest tariffs, over the years 2024 and 2025.

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- 4.47 It is important to note that, under a rapid price fall, the comparison is between a Cap level based on hedges before the most recent price rises and the prevailing wholesale prices which would be reflected in fixed tariffs. This reduces the size of price savings (even without an MSC), relative to the situation where a price fall occurs at a later stage once the Cap level incorporates the highest wholesale prices. (For example, if prices instead fell in Q1, the savings would be greater, as the Q1 cap would incorporate any high recent wholesale prices). However, the MSC takes into account the cost of suppliers' hedges, including hedges for the next cap period at higher wholesale prices. This explains the result in sensitivity A below, where the net wholesale savings are nearly eliminated. This is a feature of the specific sensitivity and the assumed timing of the price fall (in December, which is before the Q1 Cap level takes effect), rather than a general implication of the MSC.
- 4.48 In practice, consumers would be aware of the upcoming Q1 cap level once we announce it in late November, and would therefore be able to take this into account when making decisions about whether to switch. This should further support the incentives to engage.

Table 2: Illustrative impacts on headline customer savings related to wholesale prices during price fall

	Scenario	Sensitivity A (longer price peak)	Sensitivity B (lower switching)
Gross wholesale savings without MSC (£/dual fuel customer)	151	151	151
MSC received per customer who switches (£/dual fuel customer)	65	134	65
Implied net wholesale savings (£/dual fuel customer)	86	17	86
Typical fixed tariff savings (£/dual fuel customer)	140	140	140
Total net savings (£/dual fuel customer)	226	157	226

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Distributional impacts

- 4.49 When considering the consumer impacts of activating or not activating the MSC, there are distributional implications. If we did not activate the MSC and risks materialised, there would be an impact on the less engaged consumers remaining on the cap.
- 4.50 Activating the MSC would create additional costs for engaged consumers who switch suppliers (relative to not having an active MSC), but therefore ensures that the impact of consumers being able to move between tariff types is borne by the consumers who make use of this option. In effect, this is conceptually similar to these consumers bearing an exit fee for the costs which result from them moving away from the Cap – it is a cost related to their own tariff choices.
- 4.51 The impact on engaged consumers is also mitigated by the fact that the MSC is not an upfront cost to consumers. In addition, the MSC is designed to ensure significant savings would still generally be available in a falling market.

Impacts on competition

- 4.52 The impacts on individual suppliers from a falling market would vary. This would depend in particular on their proportion of engaged consumers who might switch back to fixed tariffs. The potential impacts on some suppliers could therefore be greater.
- 4.53 We continue to carefully monitor suppliers' financial situations through our financial resilience work. For reasons of commercial confidentiality, it would be inappropriate to publish further detail about the situations of individual suppliers.
- 4.54 However, this does not affect stakeholders' ability to respond to this consultation, because our proposal to activate the MSC is not based on an assessment that the MSC would likely or necessarily be pivotal to the financial position of any individual supplier. Rather, we see the MSC as part of a wider picture of factors affecting suppliers' financial positions, which could end up having impacts on market stability and investability.
- 4.55 In a workshop, one price comparison website said that the MSC could make it harder for suppliers to acquire customers and therefore would reinforce the position of larger incumbent suppliers. We do not intend for the MSC to reinforce the position of larger suppliers. The MSC is a measure to protect consumer interests, not specific suppliers or groups of suppliers. We recognise that, relative to a counterfactual without an MSC, suppliers who lose customers would benefit from the introduction of the MSC. However, this is an intended consequence in order to deliver the benefits of market stability and investability.

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- 4.56 In a meeting, one price comparison website said that while market stability is important, we should be cautious about interventions that may dampen competitive market dynamics or reduce consumer savings. They said that intervention could weaken competitive incentives for suppliers to improve products, service quality and customer retention.
- 4.57 If active, the MSC only applies in specific temporary circumstances and does not generally remove the existence of savings from switching, given that it only incorporates part of a price fall. Suppliers would continue to face significant commercial incentives to compete, with the MSC representing only a partial protection against losses resulting from customer switching.
- 4.58 Furthermore, a falling market already creates a stronger incentive to switch than would be present if wholesale prices were stable. This reflects that a falling market creates unusually large savings relative to the Cap. The MSC may reduce the savings available, but is designed not to eliminate this effect.

Alternatives

- 4.59 In a meeting, one price comparison website said that if we considered that suppliers were not compensated sufficiently for risks, adjustments to the Cap may be a more appropriate intervention than the MSC.
- 4.60 We do not consider that the Cap risk allowances are set incorrectly. Rather, we consider that there is a question about how to manage a significant additional risk. Cap allowances would be less effective than the MSC in targeting payments to the suppliers who were incurring losses as a result of consumers switching away. A Cap increase would therefore be less effective at supporting the aims of market stability and investability, but would also lead to distributional impacts between consumers, as the costs would be borne by default tariff customers.

Questions

Q2. Do you agree that we should activate the MSC?

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5. Process

We discuss our process for activating the MSC. This includes the MSC guidance and parameters. We also cover the issues of whether to include lagged costs in the allowance, how much notice there should be before the MSC takes effect, and when the MSC should be deactivated.

MSC guidance

- 5.1 SLC 24A.2 provides for MSC guidance, stating that “following consultation, the Authority may issue and may from time-to-time revise” this. We published [the latest version of the MSC guidance](#) on 20 March 2023.
- 5.2 We have published an updated version of the MSC guidance alongside this consultation for comment. This is largely unchanged from the previous version. This consultation therefore constitutes the consultation on the MSC guidance, as required by the licence condition.

MSC parameters

Background

- 5.3 As part of the MSC guidance, we specify the MSC parameters. These determine the scale of the price fall which triggers the MSC, and the proportion of hedging losses beyond this point which feed into the value of the MSC.
- 5.4 The previous MSC used a percentage price fall as the trigger. There were suggestions in response to the licence consultation that we should change to a fixed price fall trigger (in £/MWh). This would mean that the fall required to trigger the MSC would not depend on the level of wholesale prices.

Proposals

- 5.5 We propose to maintain the previous MSC parameter values. We propose that the MSC would be triggered by a 10% price fall, and suppliers would receive 85% of the value of the stranded hedge beyond this point.
- 5.6 We propose to maintain the format of the trigger as a percentage price fall.

Rationale

- 5.7 The previous MSC parameters are aligned with what we consider these parameters should achieve. First, the MSC should not be triggered by normal fluctuations or every time wholesale prices fall. We do not consider that ongoing

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MSC payments are necessary or desirable. Second, consumers should see a benefit from wholesale price reductions, including in order to maintain incentives to switch. Third, suppliers should receive some protection from significant risks, but with the level of protection balancing mitigating losses and providing consumers with some immediate benefits from a price fall.

- 5.8 Within this intent, any specific choice of parameters involves judgement. We have not seen a case to move away from the previous parameter values, which have been subject to previous consultation. It is worth noting that the decision to refine the parameters to the current levels was taken at a time of even greater market volatility than we see today.
- 5.9 As set out in Chapter 4, we consider that the need for an active MSC should be viewed in the context of the cap risk allowances. As these allowances scale with wholesale prices, we consider that a percentage trigger – which also scales with wholesale prices – is appropriate.

Considerations

Approach to setting MSC parameters

- 5.10 In the workshop with suppliers, there was a suggestion that we should analyse the impact on supplier profitability from different parameter values. Given the number of unforecastable factors that would drive the outcomes of such an analysis, we prefer to focus on the principles for what the MSC parameters should achieve. Determining a maximum acceptable impact on supplier profitability would itself involve a judgement. This is particularly the case given that the MSC aims to support investability as well as market stability. We instead consider the potential impact on supplier profitability from activating the MSC, holding the parameters constant.
- 5.11 In the workshop with consumer groups, we received questions about whether the parameters could change over time once the licence condition was active. The parameters sit in guidance, so could be amended following consultation if required. During the previous MSC, we did change the parameters once. However, keeping the parameters consistent may help to provide stability for market participants.

Level of MSC parameters

- 5.12 In response to the licence consultation, we received comments suggesting that the MSC parameters should be revised in either direction – to cover either a greater or a smaller proportion of hedging losses. One supplier also said that the MSC should be triggered less frequently, but should cover the full value of the

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hedge when it was triggered. Two stakeholders said that the parameters were based on a previous environment which had changed. One supplier agreed that the design used during the previous MSC was a sensible starting point.

- 5.13 We do not consider that the MSC must cover all hedging losses, as we do not consider that the value to consumers from the MSC increases linearly with the proportion of hedging losses covered. In particular, we consider that it is important to maintain incentives to switch, given that the dynamic impacts from competition deliver long-term benefits for consumers. We also consider that it is important that consumers see some share of the immediate benefits when prices fall.
- 5.14 The MSC parameters should also be seen in the context of our intent for the MSC. We are not proposing the MSC purely as a market stability mechanism. The MSC would therefore be activated more frequently than if it were purely for market stability purposes. However, in this context, providing full compensation for stranded hedges would increase the impact of the MSC on the market, for example if reduced switching had dynamic impacts on competition. This might not be outweighed by the benefits towards the goals of market stability and investability.
- 5.15 In a workshop, one supplier said that we have implemented quarterly cap updates since the previous MSC, meaning that price falls are passed through more quickly to customers than under the previous six-monthly cap. They therefore considered that this change may reduce concerns that, if the MSC parameters covered a greater proportion of hedging losses, this would delay wholesale price benefits reaching consumers. We note that the previous MSC was still in force under quarterly cap updates. We also consider that maintaining incentives for consumers to engage is important.
- 5.16 In a workshop, one price comparison website asked whether different fixed tariff exit fees should be considered in the design. The MSC applies to all customers who switch supplier, regardless of which tariff they leave. We therefore recognise that there may be cases where a consumer leaves a fixed tariff, with the supplier receiving both an exit fee and an MSC payment. The MSC does not have a goal of mitigating losses on fixed tariffs, given that suppliers are able to make commercial decisions about the exit fees they set. However, the risk of double remuneration is reduced to some extent by the fact that exit fees set upfront will not cover all possible losses, especially when prices fall sharply (which is the situation when the MSC would be triggered). We would also expect suppliers to consider their requirement to treat customers fairly when applying any exit fees in combination with an MSC payment. In any event, the proposed MSC parameters further reduce

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the risk of over-compensation in aggregate, given that they do not cover all hedge losses.

Format of trigger

- 5.17 In a workshop, one supplier said that a fixed price fall trigger would be simpler and clearer than a percentage trigger. We accept that a fixed price fall trigger would remain constant. However, any trigger would always be applied in relation to hedge costs, whose values would themselves change over time. We therefore do not consider that there would be significant simplification benefits from a fixed price fall trigger.
- 5.18 In any event, changing the format of the trigger at this stage would delay the implementation of the MSC. We do not consider that this would be in consumers' interests.

Deferred allowances

Background

- 5.19 In response to the licence consultation, one supplier said that we should include additional deferred allowances in the calculation of the MSC. For example, they said that we should include deferred backwardation allowances.

Proposal

- 5.20 We do not propose to include additional deferred costs in the MSC calculation.

Rationale

- 5.21 When a customer switches away from the Cap in normal circumstances, suppliers can incur losses on deferred allowances. We do not guarantee that suppliers will avoid such losses. A risk of under-recovery is an intrinsic feature of gradual recovery of allowances, but passing through costs immediately could expose consumers to bill volatility. In addition, suppliers may gain in some circumstances if their number of default tariff consumers increases at a point when they are recovering deferred allowances in excess of current costs.
- 5.22 The MSC is intended to address the risks to suppliers of stranded hedges, in exceptional circumstances. We consider that expanding the scope of the MSC to include additional deferred allowances would go beyond the intention of the MSC, as it would move away from being a targeted mitigation and towards being more general compensation for losing a customer.

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Considerations

- 5.23 In response to the licence consultation, the supplier who raised the issue of deferred allowances said that the consequent losses could be significant.
- 5.24 We recognise that suppliers may incur losses on deferred allowances when customers switch supplier. The size of deferred backwardation allowances is likely to increase over the winter, as winter backwardation costs are incurred. Nevertheless, activating an MSC for the risk of stranded hedges would already mitigate some risks to suppliers, and we do not consider that we are required to mitigate all risks to suppliers when customers switch.

Notice period

Background

- 5.25 In response to the licence consultation, two stakeholders said that we should include a notice period for the time between an activation decision and the MSC becoming active. One supplier also made a similar comment, but said that we could provide this clarity through the decision document or guidance. They considered that a minimum 24 hour period would be required, unless there was a clear rationale otherwise. An industry body also commented on the desirability of a notice period.
- 5.26 The main reasons given for a notice period were that suppliers would need time to reflect MSC activation in their commercial decisions, third party intermediaries would need to manage changes in tariff offerings and industry bodies would need to activate the MSC arrangements.

Proposal

- 5.27 We propose that the MSC would be activated with at least one full working day of notice, from the start of the day after this. (For example, this means that if we published a decision statement on a Monday, the MSC would take effect from the Wednesday).
- 5.28 However, we recognise that stakeholders will be closer to some of the practical implementation details, and so we welcome any feedback which would help us refine this position.

Rationale

- 5.29 As the MSC is a measure to deal with urgent market circumstances, we want to ensure that it is implemented promptly. However, we recognise that stakeholders will need a short amount of time to respond to an MSC activation announcement, for example for re-pricing their fixed tariffs.

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- 5.30 The MSC cannot be active for part of a day only, so providing a full day of notice requires activation to occur at the start of the next day.

Implementation

- 5.31 The process for the MSC involves Ofgem publishing a weekly update indicating whether the MSC is triggered for either fuel. If the MSC is triggered, we publish the value of the MSC. We expect to publish the MSC in a similar way as previously on a [dashboard](#).

Deactivation

Background

- 5.32 We have introduced a permanent MSC licence condition, without a sunset clause. However, we do not intend for the MSC to be permanently active. We are able to deactivate the MSC following consultation (and subsequently reactivate it if required) in accordance with the relevant parts of the MSC licence condition.
- 5.33 In the workshop with consumer groups and charities, we received a question about how long the MSC would remain active and the process for deactivation.

Proposal

- 5.34 If we activate the MSC as proposed, we propose to maintain flexibility about how long it remains active. We therefore do not propose to define a minimum period for which it will be in place or a fixed review point.
- 5.35 However, to provide an indication of our current thinking, we expect that the MSC would remain active for several months, and likely at least until the end of winter (the end of March 2027). We will keep the need for the MSC under review, and would consult on deactivation at an appropriate point.

Rationale

- 5.36 We aim to provide a degree of predictability and stability for the market. We therefore do not consider that it would be appropriate to activate and deactivate the MSC in quick succession.
- 5.37 Conversely, we also would not want to maintain an active MSC for an unduly long period. This reflects that we see an active MSC as a tool to manage exceptional market circumstances, rather than as an ongoing feature of the market.
- 5.38 We do not consider that a scheduled review would be appropriate, given the need for the MSC depends on volatile wholesale prices. A scheduled review would not respond to market conditions, which could lead to the MSC being in place too

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long (if the scheduled review was too late) or creating unnecessary uncertainty (if we had to carry out a scheduled review at a point when circumstances had not changed materially).

- 5.39 The amount that suppliers could lose if wholesale prices fall depends on the value of their hedges. This in turn is partly affected by seasonality. Suppliers' hedges are larger in winter, because consumers use more energy during this period. This means that the need for an active MSC may reduce as we exit winter, although this will also depend on wholesale price movements.

Considerations

- 5.40 We would consider the appropriate duration of any deactivation consultation at the time. We note that the duration may not be the same as this consultation, given that the degree of urgency may be different.

Impact assessment

- 5.41 We have produced a draft impact assessment for our proposal to activate the MSC – see Appendix 1.
- 5.42 We have considered whether our proposals are “important” as defined in [section 5A of the Utilities Act 2000](#), which would create a duty to carry out an impact assessment (except for reasons of urgency). We do not consider that this is the case. First, we are proposing to activate the MSC for a temporary period, rather than creating an ongoing market intervention. Second, while the size of payments under the MSC is subject to variation depending on market conditions, this is not a policy where the amounts of money involved are bound to be large, in the context of the flows of money through the energy sector. We note that the previous MSC scheme, which was in operation over two years, only involved [payments](#) in excess of £80m, equivalent to less than £2 per domestic consumer per year. Third, the MSC largely involves transfers between market participants, rather than costs to society. Fourth, we have already implemented a MSC previously, and so this is not a novel scheme or design.

Questions

- Q3. Do you have any comments on our proposed MSC guidance?
- Q4. Do you agree with our proposal to keep the MSC parameters unchanged?
- Q5. Do you agree with maintaining the MSC trigger as a percentage value?
- Q6. Do you agree with not including deferred allowances in the MSC calculation?

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- Q7. Do you have any comments on the notice period required for activating the MSC?
- Q8. Do you agree with our proposed approach to deactivating the MSC?
- Q9. Do you have any comments on our draft impact assessment?

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6. Next steps

We set out our intended next steps.

- 6.1 This consultation is open for two weeks. We consider that this is a sufficient period of time for stakeholders to consider the information provided and respond. The duration of this consultation recognises that the issue is urgent, because an MSC needs to be in place during any price fall to be effective.
- 6.2 We would be happy to meet with stakeholders during the consultation period. Please get in touch if you would like to discuss the proposals in this consultation.
- 6.3 After the consultation closes, we will consider responses. Our current expectation is that we would seek to reach a decision on whether to activate the MSC a couple of weeks after the consultation closes. However, this remains subject to wholesale market developments. In volatile circumstances, we do not consider it appropriate to commit to a particular decision-making timetable, even though we recognise that stakeholders would ideally prefer as much clarity as possible on this.
- 6.4 If we were to activate the MSC, we expect that activation would take place shortly after we published the decision, in line with our proposal in Chapter 5.
- 6.5 The Retail Energy Code Company (RECCo) has been preparing for the potential activation of the MSC. Due to the time required for systems changes, the payment schedule would be slower than normal for the first payments if the MSC was activated and then triggered swiftly. This would affect the timing of when suppliers who lose customers would see mitigating flows of money from the MSC, and therefore have an impact on suppliers' cash positions. However, this delay would not affect the monetary value that suppliers would ultimately receive from the MSC, and therefore does not materially impact the case for activation.

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Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Consultation Market Stabilisation Charge activation**Appendix 1. Draft impact assessment**

- A1.1 We consider that this short draft impact assessment is appropriate in the circumstances. This reflects the importance of consulting at pace, so that the MSC can be in place when it would be most effective in volatile market conditions. It also reflects that activating the MSC is a temporary measure, and that the MSC would only be triggered in certain conditions (rather than being a measure with material impacts in all conditions).
- A1.2 We also note that the MSC is not a novel intervention, as we previously implemented an MSC. We already considered the case for intervention at that time, including an impact assessment.
- A1.3 Publishing this draft impact assessment does not mean that we will publish an impact assessment or take the same approach to impact assessment for any future consultations on deactivating or reactivating the MSC. We will consider the appropriate approach in the circumstances.
- A1.4 This draft impact assessment should be read in conjunction with the main body of the consultation document. We do not repeat all relevant points from the main body of the consultation document.

Description of impacts**Rationale**

- A1.5 Activating the MSC would be intended to support market stability during a sharp fall in wholesale prices. This could benefit consumers by reducing the risk of supplier failure, which can lead to costs to consumers through the SoLR levy.
- A1.6 We have developed a financial resilience regime to protect consumers. This financial resilience regime helps to mitigate the risks to consumers from market instability (for example because supplier capital would help to bear the impact if suppliers failed, before this fell on consumers), but does not remove them. We therefore do not consider that the financial resilience regime removes the case for an MSC.
- A1.7 Providing confidence to suppliers that we would take a reasonable approach to managing risks in extreme market circumstances could also contribute to making the supply market investable, in line with our [Markets Vision and Strategy](#). Investment and innovation can ultimately generate benefits for consumers, such as improved customer service.

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- A1.8 Furthermore, activating the MSC could increase suppliers' confidence to hedge for their forecast SVT customer demand. Any increase in hedging could support market stability should prices increase further. This is because suppliers would be less exposed to the risk of losses from buying energy at higher prices. This increase in market stability could benefit consumers, for example through reduced exposure to SoLR levy payments. The MSC could therefore deliver benefits, even if it was never triggered by a falling price scenario.
- A1.9 In other markets, firms would have more options to manage risks in volatile conditions. A firm could choose to, for example: withdraw from accepting new customers, adjust its pricing, or set exit fees. Gas and electricity supply are essential services and so the regulatory framework places limitations on the options available to suppliers. While these requirements help to protect consumers, they may leave suppliers with fewer options to manage their risks in certain market conditions. It may therefore be necessary to put in place other interventions to help manage risks to market stability.
- A1.10 Within our [Multi-year strategy](#), activation of the MSC primarily aligns with the objective of enabling competition and investability through financial resilience.

Counterfactual

- A1.11 For the purpose of this draft impact assessment, we consider the MSC against a counterfactual of a falling wholesale price scenario with no MSC. However, we also briefly explain how the consumer impact of the MSC could differ from alternative interventions to mitigate suppliers' losses.

Impact on consumers

- A1.12 To the extent that the MSC mitigated the risk of supplier failure, all consumers could benefit from a reduction in the SoLR levy. Similarly, all consumers could eventually benefit from improvements in investability, for example if investability supported competitive pressure and therefore led to efficiency improvements. All consumers would also bear any costs of operating the MSC through Retail Energy Code charges.
- A1.13 The impacts of an MSC would vary between consumers depending on their level of engagement. We categorise engagement in a simple way below for the purpose of explanation. We recognise that consumers have a variety of different levels of engagement. However, it remains the case that the benefits from switching in a falling wholesale market accrue to customers who actually switch, and that any negative consequences for market stability and investability would be distributed more widely. We therefore consider that actual switching behaviour is important in this case as an indicator for

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engagement, even if it is not the only form of engagement from a wider perspective.

- A1.14 Relative to the counterfactual, an active (and non-zero) MSC would mean that engaged consumers who switch supplier would likely pay more. This is because we would expect suppliers to include the MSC within the prices of their fixed tariffs.
- A1.15 The MSC generally maintains incentives to select a fixed tariff in a falling wholesale price scenario. However, as a result of reducing the gains from switching, some consumers might decide not to switch supplier. These consumers could pay more than in the counterfactual. The scale of the impact would in part depend on whether they were prepared to switch tariffs with their existing supplier. As one reason why internal switching is relevant, the savings required for a consumer to switch tariff with their existing supplier may be lower than the savings required to switch supplier.
- A1.16 Other consumers would not pay an MSC or have their tariff choice affected by the MSC. These consumers could therefore be net beneficiaries from an MSC, as they would benefit from any reduction in the SoLR levy.
- A1.17 There would be alternative options to manage risks from falling wholesale prices, such as an ex post adjustment through the Cap. In principle, an ex post adjustment could deliver the same level of payment to suppliers as an MSC. However, the distributional impact would be very different. Engaged consumers 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. Less engaged consumers may be more likely to be on low incomes or in vulnerable circumstances (for example see page 56 of the [consumer impacts of market conditions survey: wave 6](#)). To the extent that consumers with certain protected characteristics are less likely to engage, we consider that activating the MSC is aligned with the Public Sector Equality Duty.
- A1.18 While we recognise that individual consumers would benefit from switching, we must also consider the aggregate impact on consumers. Switching during a sharp wholesale price fall may lead to negative impacts on consumers' interests in resilience and investability. This means that switching can create negative externalities on other consumers. We therefore need to balance interests across consumers.

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Impact on suppliers

- A1.19 Suppliers may incur administration costs while the MSC is in operation. Gaining suppliers would also incur a working capital impact in relation to the period between paying the MSC and receiving revenue from their tariffs.
- A1.20 In aggregate, suppliers would benefit from the MSC. Although the MSC is a payment between suppliers, we would expect the MSC payment to be factored into fixed tariffs. This means that an MSC payment should not be a net cost to the gaining supplier.
- A1.21 The scale of the benefits for individual suppliers would depend on the degree of engagement of their customer bases. Suppliers with a more engaged than average customer base would see greater than average benefits, because, absent an MSC, they would be more exposed to the risk of losing customers in a falling wholesale price scenario.
- A1.22 The consequences of receiving MSC payments would also vary between suppliers depending on their financial circumstances.
- A1.23 In a counterfactual without an MSC, some suppliers might be able to increase their customer numbers by offering fixed tariffs at a significant discount to the Cap. These suppliers might therefore not see such benefits under an MSC. However, the MSC would still allow suppliers to offer some savings through fixed tariffs as a result of falling wholesale prices, and suppliers may be able to offer further savings due to differences in efficiency levels. Suppliers would also remain able to attract customers through non-price attributes, such as service quality.
- A1.24 The existence of cheaper fixed tariffs in a falling wholesale price scenario does not depend on some suppliers pricing unsustainably. If wholesale prices fall sufficiently, this can lead to significant savings being available against the Cap, even if all suppliers priced their fixed tariffs sustainably.

Summary on consumer and supplier impacts

- A1.25 The MSC is a transfer payment between suppliers. However, given likely pass-through to fixed tariffs, this is effectively a transfer between engaged consumers and suppliers. We discuss the distributional implications of the MSC relative to other potential interventions below.
- A1.26 The main benefits of activating the MSC would be an expected reduction in the SoLR levy and the positive consequences from supporting investability. The main costs would be the administrative costs of operating the MSC, for both suppliers and RECCo.

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Impact on competition

- A1.27 Relative to the counterfactual, an MSC is likely to temporarily reduce switching. This could have some impact on the competitive pressure on suppliers from the demand side. However, the extent of any such impact would be mitigated by the design of the MSC, which maintains incentives to select fixed tariffs. The MSC would also only apply in a sharply falling wholesale market.
- A1.28 Any reduction in switching could affect the revenue received by intermediaries (such as price comparison websites) as commission for facilitating switches. We recognise that any reduction in revenue could affect the attractiveness of the energy sector to these intermediaries, or their willingness to invest in developing new services which could benefit consumers. However, given that the MSC generally maintains incentives for consumers to switch, we do not expect the scale of revenue reduction from a temporary MSC activation to have a significant long-run impact on intermediaries.
- A1.29 An MSC also reduces the opportunity for suppliers to gain customers quickly. Absent an MSC, such growth could affect the structure of the market and have dynamic impacts on competition. However, the benefits to competition may be unclear if a supplier has grown due to temporary market circumstances rather than because it had a better underlying product.
- A1.30 Conversely, an MSC could benefit competition if it avoided the risk of failure for existing suppliers who would have remained in the market in more normal market conditions. Supplier exit is a normal part of a market and it is not our role to prevent exit. However, there is a question about how to manage the impacts of exceptional market conditions in the overall interests of consumers.
- A1.31 More broadly, an investable market can support competition by making it more attractive for suppliers to enter and invest. If firms considered that the risk of being left with unmanageable costs was too high, then this could reduce suppliers' willingness to enter or continue to participate in the market.
- A1.32 In response to the licence consultation, we received suggestions that there could be a persistent impact on switching. The proportion of customers on fixed tariffs returned to pre-crisis levels (page 9 of [state of the market; energy retail highlights January 2026](#)), which does not suggest that the previous MSC had a persistent impact on switching.

Impact on growth

- A1.33 In line with our [Markets Strategy and Vision](#), we consider that supporting investment and innovation can support economic growth. Given that we

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consider that activating the MSC would support investability, we therefore consider that our proposal is supportive for economic growth.

Impact on the environment

A1.34 We do not expect that the MSC would have a direct effect on the environment.

Wider impacts

A1.35 We consider that the scope for wider impacts or unintended consequences from MSC activation is limited by its scope, given that this is a temporary measure which is only triggered in certain circumstances.

A1.36 In the main body of the consultation, we discuss that the MSC would apply to switches from all tariffs, including fixed tariffs, and explain why we do not consider that this is likely to lead to overcompensation.

Illustrative quantification of impacts**Approach**

A1.37 We present below an illustration of the impacts for our falling price scenario (as described in Chapter 4).

A1.38 We do not present an impact for a scenario where prices only rise. The impact of an MSC in a rising price scenario would depend on how suppliers had adapted their hedging as a result of the MSC, relative to a situation without the MSC. While we monitor suppliers' hedging, hedging behaviour could change over time if wholesale prices remain high. We therefore do not consider that the impact of the MSC would be reflected by any difference between suppliers' current hedges and a 100% hedge. Nevertheless, we continue to consider that providing suppliers with confidence to hedge is one of the benefits of the MSC.

A1.39 Our modelling approach considers a fixed proportion of consumers moving to fixed tariffs. This therefore does not include any impact from the MSC on the proportion of consumers who switch. We do not consider that this is likely to be significant in most circumstances, given that the design of the MSC allows some of the benefits of falling wholesale prices to flow through to fixed tariffs.

Parameters

A1.40 We model a price increase of 20%. This is intended as a significant but not extreme further price increase.

A1.41 We then model a fall 75% of the way from the peak price back to pre-conflict levels. We do not assume that prices would fall all the way back to pre-conflict

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levels in a short timeframe. This reflects that gas storage levels are lower than historically and that geopolitical uncertainty may not be eliminated.

- A1.42 We assume that 17% of the total customer base switch back from SVTs to fixed tariffs. This is made up of: 7% of the customer base who have already moved to SVT since April, an assumption that a further 5% of the customer base move to SVT before prices fall, and an additional 5% reflecting that some customers who were on SVT before the conflict may engage in response to a sharp price fall. Of these customers who switch to fixed tariffs, we assume that 80% of these switch to another supplier (rather than to a fixed tariff with their current supplier, in which case an MSC would not be payable). This reflects that we would expect smaller suppliers without a large existing customer base to be offering some of the cheapest prices in the market.

Market stability and investability

- A1.43 In the absence of an MSC, there would be an impact on market resilience. Previous experience shows that costs of supplier failure can be significant for consumers. We previously indicated in 2024 that the cost of the SoLR process was £2.35 billion at that point (paragraph 1.2 of the [decision on a SoLR levy offset](#)). (As noted above, we recognise that the financial resilience regime has come into force since the last crisis). Furthermore, any material loss would contribute to worsening suppliers' financial positions, which would have some impact on market resilience.
- A1.44 We do not consider that it is appropriate to present an estimate of the likely cost of supplier failure in our falling price scenario. First, the probability of supplier failure would depend on the individual circumstances of suppliers, which would be affected by a number of factors. This makes it hard to conclude that losses as a result of falling wholesale prices would be the direct cause of any particular supplier failure. Second, the cost of supplier failure would depend on the specific financial circumstances of any supplier who failed (for example the size of their customers' credit balances), as well as wider wholesale market conditions. Relative to a rising wholesale market, other suppliers might be more willing to take on customers in a falling wholesale market, when the costs of buying energy for additional customers would be below the amount they could charge under the Cap. However, suppliers would still consider the cost of honouring credit balances and the administrative costs of acting as a SoLR when deciding their approach to bidding to act as a SoLR.
- A1.45 We also do not consider that it is feasible to present an estimate for the likely impact on investability. The prospect of unmitigated losses could affect

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suppliers' cost of capital. However, there is not a simple way to consider the impact on the EBIT allowance in the cap. We use the Capital Asset Pricing Model framework to set the cost of capital in the EBIT allowance. Any effect on investability would need to occur through the beta term in this framework, which measures the exposure to systematic risk – but this term depends on the relationship between the risk for an energy supplier and wider market risk. Unmitigated losses could also deter future investment in the sector, and consequent benefits of competition to consumers, but this is inherently hard to model.

- A1.46 Again, we consider it more helpful to consider the key point, which is that from an investor's perspective, additional risks without compensation would make the energy retail market less attractive, relative to other investment opportunities.

Results

- A1.47 For the purpose of this section, we translate impacts from a figure per dual fuel customer to a total impact, using the number of dual fuel customers in the market. (This therefore does not include any impact on single fuel electricity customers).
- A1.48 We estimate that the loss that suppliers could make without the MSC would be up to -£0.5 billion. However, we do not consider that it would be viable to leave a loss of this scale with suppliers while maintaining a resilient and investable market. The impact on suppliers without the MSC is what could lead to consequences for market stability and investability.
- A1.49 We estimate that an active MSC would reduce the supplier loss to up to -£0.3 billion in this scenario. This implies a transfer of up to £0.2 billion from engaged consumers to suppliers.
- A1.50 However, given that we do not consider that it would be feasible for suppliers to bear the full loss, including from an investability perspective, we should consider the MSC against what would happen in its absence.
- A1.51 As an illustration for the potential distribution of impacts, we can consider the case where suppliers bear the same loss as under an active MSC (up to -£0.3 billion), but any loss above this level generates equivalent costs of supplier failure that would be borne by consumers overall. This can be seen as a broad illustration of the point that suppliers would bear some losses through their capital before there was an impact on consumers. For the purpose of illustration, we assume that the share of customers remaining on the Cap is aligned with our assumed customer movement back to fixed tariffs, as

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described in Chapter 4. This would mean 50% of consumers would remain on the Cap.

A1.52 We can also consider the case where we instead intervened ex post through an adjustment to the Cap, in order to mitigate the same degree of losses as an MSC (up to £0.2 billion). In this case, the impact of this intervention would be borne solely by SVT customers.

A1.53 Table A1 below shows the distribution of these illustrative impacts.

Table A1 – Distribution of impacts between suppliers and consumers

	Impact on suppliers (£billion)	Impact on engaged consumers (£billion)	Impact on less engaged consumers (£billion)
Activate MSC	Up to -0.3	Up to -0.2	0
No MSC and supplier failure	Up to -0.3	Up to -0.1	Up to -0.1
No MSC and ex post intervention	Up to -0.3	0	Up to -0.2

A1.54 This is a simplified illustration, but underlines two basic points. First, activating the MSC does not necessarily create any costs to consumers, relative to what might happen in its absence. The purpose of this illustration is not to demonstrate that the costs to consumers are the same in each case – we are just trying to show that there can be costs to consumers in each case. Second, activating the MSC does affect the distribution of costs between consumers. However, we consider that this is a positive feature because it avoids impacts on less engaged consumers, who do not benefit from moving to fixed tariffs and who are on average more likely to be vulnerable or on low incomes.

Monitoring and evaluation

A1.55 As set out in Chapter 5, we would consult on deactivating the MSC at a suitable point. We would therefore be monitoring the future need for an active MSC. While this would be largely a forward-looking assessment, it may be informed by the context of how the MSC had been operating in practice.

A1.56 It would be hard to monitor the outcomes of improved market stability and instability. We would be able to monitor the factual circumstances (for example the number of supplier failures), but we would not be able to compare these against a counterfactual without the MSC.

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- A1.57 One relevant indicator for the effect of the MSC on the market would be the proportion of consumers switching supplier. There will be a range of factors affecting this proportion. In particular, the level of the Cap relative to prevailing wholesale prices would affect the savings available and therefore potentially the level of switching, even in the absence of the MSC. We would therefore need to be careful about interpreting changes in the rate of switching, especially over a short period of time. However, it would still be relevant to consider the potential impact of the MSC on the rate of switching. We already receive data on this indicator, so we do not need to gather further data for the purpose of monitoring.
- A1.58 We welcome any comments on the approach to monitoring and evaluation.

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Appendix 2. Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We may share your responses, including any personal data within them, with the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

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- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> or telephone 0303 123 1113.

7. Your personal data will not be sent overseas**8. Your personal data will not be used for any automated decision making.****9. Your personal data will be stored in a secure government IT system.**

10. More information For more information on how Ofgem processes your data, view our [Ofgem privacy policy](#).