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

Dear Daniel

Market Stabilisation Charge activation

Centrica welcomes Ofgem's consultation on activating the Market Stabilisation Charge (MSC). Given current market conditions we support activation of the MSC.[1]

The MSC is a proven intervention to mitigate unavoidable losses from stranded hedges that could arise in the event of a sudden fall in commodity prices resulting in customers leaving the price cap in large numbers.

Critically, the effectiveness of the MSC in providing suppliers with confidence to hedge to supply price-capped customers for the quarter ahead depends on providing *advance* certainty as to MSC triggering and parameters. So we recommend a decision is taken as soon as possible.

As Ofgem notes, failure to hedge means that, if prices were to rise, suppliers would be compelled to purchase energy at prevailing high prices and supply it at a loss because they do not an option to refuse supply and cannot charge more than the price cap allows.

This is clearly unsustainable and not in the interest of consumers. The very significant sums of money required to hedge for price cap customers ahead of time create the potential for huge unmanageable losses, threatening financial resilience and risk of supplier failure with costs ultimately falling on all consumers through the Supplier of Last Resort process.

It is clearly in consumers' interests that suppliers are supported to hedge responsibly. We agree that an appropriately calibrated MSC is a more appropriate instrument to address the

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risks Ofgem has identified than relying purely on *ex post* price cap adjustments (which would unduly favour engaged customers at the expense of less engaged customers the price cap is intended to protect). We therefore urge Ofgem to press ahead and activate the MSC without delay.

In doing so, however, we note that Ofgem is deliberately proposing parameter values which only provide *partial* mitigation. Taken together with the delay in activating the MSC to date, this means that risks to supplier cost recovery due to unexpected demand remain a live issue which Ofgem will need to keep under review and, if necessary, also address via *ex post* price cap adjustments.

Yours sincerely

Don Wilson
Regulatory Economics and Policy

Appendix: Consultation questions

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

We largely agree with Ofgem's description of the current market context.

As Ofgem correctly notes, the pre-conflict situation is already characterised by substantial risks to investability due to persistent low returns (EBIT margin per domestic customer which averaged just £5 in 2025, far below the 'normal' margin assumed in the notional cap allowance). These risks are further compounded by record and rising levels of debt and arrears (£5bn in Q2 2026).

Against this backdrop, suppliers' ability to absorb losses is extremely limited. Combined with the risk drivers Ofgem discusses, the free option provided by the price cap means suppliers face unmanageable risks in the absence of mitigation via the MSC.

However, delay in activating the MSC and the fact that the mitigation proposed is only partial means suppliers remain exposed to losses, not only in the case where a sudden price fall triggers the MSC but also in cases where high prices give rise to unexpected price cap demand which, rationally, a responsible supplier will not hedge fully given the MSC parameter values Ofgem proposes.

Consequently, Ofgem will need to keep the market under review and, if necessary, stand ready to address material and systematic cost under-recovery due to unexpected demand via *ex post* price cap adjustments.

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

Yes.

Q3. Do you have any comments on our proposed MSC guidance?

No.

Q4. Do you agree with our proposal to keep the MSC parameters unchanged?

We continue to believe there is a case for a lower threshold and a higher proportion of loss recovery. However, we understand Ofgem's reluctance to revisit these parameters at present and agree that the near-term priority is to ensure prompt activation of the MSC.

Q5. Do you agree with maintaining the MSC trigger as a percentage value?

Yes.

Q6. Do you agree with not including deferred allowances in the MSC calculation?

The fact that the MSC calculation does not factor in deferred allowances (notably backwardation) further illustrates the *partial* nature of mitigation provided by the MSC and the need for Ofgem to remain alive to the possible need for other *ex post* interventions to address systematic and material cost under-recovery

Q7. Do you have any comments on the notice period required for activating the MSC?

No.

Q8. Do you agree with our proposed approach to deactivating the MSC?

Yes.

Q9. Do you have any comments on our draft impact assessment?

We welcome the fact that Ofgem has included a short draft impact assessment, notwithstanding its view on whether a formal impact assessment is strictly required in present circumstances.