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Market Stabilisation Charge activation

Octopus Energy Consultation Response

Dear Danny,

Thank you for the opportunity to respond to this consultation.

We share Ofgem's concerns regarding wholesale price levels and volatility, and the implications for the market - in particular for customer bills. Ofgem needs to ensure it is encouraging healthy competition in the retail market to drive bills down, whilst protecting customers from market instability (which could ultimately lead to further costs).

The design of the price cap means that there are risks that cannot be managed by suppliers in a scenario where prices drop very rapidly. We would prefer that these risks are addressed by reviewing the design of price protection in the market, rather than layering on additional mechanisms such as the MSC which can distort the competitive market. However, because of the current market conditions, we agree with the proposal to activate the MSC to mitigate against these risks in the absence of more fundamental reform. Wholesale prices have risen significantly, volatility has increased and prices continue to be unpredictable. It is therefore important that measures are in place over the winter that will trigger if abnormal price volatility creates risks to stability and investability

That said, the trigger points must be set at the right level to ensure no unnecessary distortion to competition and customer bills. The mechanism needs to be designed in a way that still enables customers to access a good deal through switching, and to feel the benefit of falling wholesale prices quickly, even when the MSC is active. We agree that the parameters used last time remain appropriate, as evidence shows that they struck the right balance between maintaining market stability and enabling competition. During the period when the MSC was last active:

- ~2.5 million customers switched suppliers[1]
- Between 11-14% of customers switched tariff with the same supplier[2]
- Customers on average could save £150 by switching from the default tariff level to the cheapest tariff in the market. Savings available from switching peaked in June 2023 at ~£500 which represents substantial savings[3].

[1] EUK switching data
[2] Ofgem: consumer impacts of market conditions October 2026, Fig 23 https://www.ofgem.gov.uk/sites/default/files/2026-10/CIM-W7-written-report-V6.pdf
[3] Using difference between default cap level and cheapest tariff in the market between April 2022 and March 2024 as per data on Ofgem's retail data portal

- There were no significant supplier failures which cost UK households ~£2.5 billion in the previous energy crisis.

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

Yours Sincerely,

Anne-Marie Spalding
Head of Regulation and Policy
Octopus Energy

Questions

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

We broadly agree with the assessment of the current market context. An additional point to consider is that there are more small suppliers in the market now than during the previous MSC period. There is also potential for more new suppliers to enter the market, particularly if Ofgem goes ahead with the USO exemption. This could lead to more intense price competition in the market, but also increases the risk of significant churn from SVT customers where smaller/new suppliers may not be well-hedged and can therefore offer very cheap deals when wholesale prices fall.

Q2 Do you agree that we should activate the MSC?

Yes - we agree that the MSC should be activated ahead of the Winter so that there is a mechanism in place to address the risks associated with abnormal volatility in the market.

There has been an increase in the number of customers on SVT tariffs, many of which will be more engaged and therefore price elastic. This increases the risk that if wholesale prices rapidly fall, there could be material costs associated with the stranded hedges. This cannot be mitigated ex-post, and therefore a mechanism needs to be put in place in advance.

The MSC can be activated now in a way that avoids unnecessary distortions on the market. This is because:

1. The design means that even an active MSC will only trigger in the event of rapid and significant price decreases. It will not be present all the time.
2. The MSC is designed to mitigate against significant losses, however given the trigger point is on a % basis, the £/MWh cost per supplier depends on the level of the wholesale allowance at the time. This means that the risk of activating now is low - if the MSC were to trigger at current prices, it would likely have limited impact on the market and wouldn't be a disincentive to suppliers offering lower tariffs and gaining new customers.
3. The vast majority of switching happens as customers take out a new tariff with their existing supplier. 2-3x more people switch internally vs externally[4]. The MSC does

[4] Ofgem: consumer impacts of market conditions October 2026, Fig 23
https://www.ofgem.gov.uk/sites/default/files/2026-10/CIM-W7-written-report-V6.pdf

not apply to internal switches, therefore it will have no impact on this type of switching and savings.

Q3 Do you have any comments on our proposed MSC guidance?
Our only comment is a practical point that there are a few windows in each quarter where the price cap wholesale allowance hasn't been published yet, and therefore we do not have data to estimate our own forecasts for planning purposes. We request that Ofgem ensures that we have data consistently through the period to be able to prepare for any MSC trigger event.

Q4. Do you agree with our proposal to keep the MSC parameters unchanged?
Yes. We think the parameters used during the last MSC period provided the right balance between managing the risk of instability without distorting competition. As set out in our cover letter, under this arrangement the market still experienced switching and customer savings.

In particular:

- The trigger point of 10% fall in wholesale costs over 5 days can represent significant losses through stranded hedges when wholesale prices are high.
- The de-rating factor of 85% prevents excess cost being added to customers as suppliers are not given the full cost of the lost hedge.

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?
No further comments

Q7. Do you have any comments on the notice period required for activating the MSC?
No further comments.

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

Q9. Do you have any comments on our draft impact assessment?
No further comments

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