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Consultation Response: Market Stabilisation Charge Activation

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ABOUT STARTUP COALITION

Startup Coalition is the policy voice of UK tech startups and scaleups in Westminster. Since 2010, we have worked to engage on behalf of tech startups in public policy debates in the UK across a range of critical priority issues including access to finance, immigration and skills, and technology regulation.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 4000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem.

The Startup Coalition works directly with the Government across a range of issues. We represent the startup community on the Smart Data Council.

GENERAL REMARKS

Startup Coalition opposes activating the Market Stabilisation Charge (MSC) this winter. If Ofgem activates it regardless, the charge should apply only to customers leaving standard variable tariffs. Every switch away from a fixed tariff should be excluded.

Our community includes energy suppliers growing their customer base and the climate tech companies building smart tariffs, flexibility services and home energy products. All of them depend on a retail market where households can switch to a cheaper deal and suppliers compete to keep them.

We recognise that supplier failures are costly, and that those costs ultimately fall on every bill payer. But the evidence in this consultation does not show a realistic prospect of market-wide failure. Wholesale prices are far below 2022 levels, the financial resilience regime is in force, and Ofgem's central scenario only reaches the bottom of its own activation range.

Against that uncertain benefit, the costs of activation are certain. The right test is not whether a household that switches is better off than one that stays on the Cap. It is whether that household is better off in a falling market with the MSC or without it. On Ofgem's own figures, the charge removes between 43% and 89% of the wholesale saving a switcher would otherwise get.

The charge also pays out more than the stranded hedges it exists to cover. It is calculated on the Cap's notional hedge, not on what the losing supplier actually bought, so it rewards suppliers that under-hedged and charges those that hedged efficiently and won customers as a result. It is paid whatever the reason the customer left, including poor service. And applied to customers leaving fixed tariffs, it pays for hedges that are not stranded at all.

Finally, Ofgem concluded in 2023 that the previous MSC significantly dampened competition. This

consultation does not engage with that finding, which is a mistake.

We ask Ofgem to:

1. Not activate the MSC this winter, keeping it dormant under the existing licence condition (Q2).
2. Assess the alternatives excluded from this consultation (Q2).
3. Carry out a full impact assessment under section 5A of the Utilities Act 2000 before any decision (Q9).

If Ofgem proceeds regardless, our central ask is that it:

4. Excludes every switch away from a fixed tariff, so the charge applies only to customers leaving standard variable tariffs (Q4).

It should also:

5. Raise the trigger to a 20% price fall and lower the sharing factor to 50% (Q4).
6. Give at least five working days' notice of activation or any change to parameters (Q7).
7. Set an automatic end date of 31 March 2027 and publish deactivation criteria (Q8).
8. Publish aggregate MSC flows by supplier size band (Q3).

CONSULTATION RESPONSE

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

We do not dispute that wholesale prices are high and volatile. But read closely, Ofgem's own description of the market points to a weaker case for activation than the consultation draws from it.

Prices remain well below the last crisis. Ofgem acknowledges that wholesale prices are much lower than in 2022 (para 3.11), when the original MSC was introduced amid widespread supplier failure. The shift of customers onto the Cap is also modest and appears to have stalled: the share on SVTs has risen seven percentage points since April, and early mid-September data shows no further increase (para 3.14).

Supplier resilience has improved materially. The number of suppliers below the capital target fell from five to three between September 2025 and March 2026 (para 3.22), and the minimum capital requirement and enhanced Financial Responsibility Principle did not exist when the MSC was first designed. The risks are also not one-sided. Ofgem notes that suppliers could gain if a mild autumn coincides with elevated prices (para 3.31), yet the case for activation counts only the downside.

Nor is low supplier profitability (para 3.21) a stability risk the MSC is designed to address. Thin margins are a question for Cap allowances and supplier efficiency. The MSC compensates for one specific risk, stranded hedges, and should be judged on that alone. Judged on that test, it pays out too much, as we set out under Q2 and Q4.

What the description leaves out is the state of competition. It says nothing about market concentration, how many suppliers are winning customers on price, or how their growth would be affected. Six suppliers now serve over 90% of domestic accounts, and suppliers outside that group

hold under 9%. Concentration is rising: the CMA cleared E.ON's acquisition of OVO on 1 October 2026, combining two of the five largest suppliers into the largest electricity supplier in the market. A measure whose main cost falls on competition needs that context in front of the decision-maker.

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

No. Startup Coalition does not agree that the MSC should be activated.

Ofgem's own numbers barely clear its own bar. Ofgem sets activation at a reasonable prospect of losses of £20–30 per dual fuel customer (para 4.18). Its central scenario produces losses of up to £21, at the very bottom of that range. With lower switching (sensitivity B), losses fall to up to £13, below the threshold altogether. Even these results rely on stacked pessimistic assumptions: a further 20% price rise, then a fall three-quarters of the way to pre-conflict levels within a month, with 17% of all customers switching in step and backwardation eliminated. Ofgem also says it is assessing scenarios rather than probabilities (para 4.24). A "reasonable prospect" test cannot be met without some view of how likely the scenario is.

The cost of failure is real, but the MSC is no longer the right tool for it. We recognise that the supplier failures of 2021-22 cost bill payers an estimated £2.7bn, around £94 per household, before the separate cost of Bulb's special administration (NAO, 2022). Preventing a repeat matters, but the MSC was designed before the minimum capital requirement and the enhanced Financial Responsibility Principle existed. Those rules now target the risk of failure directly, supplier by supplier. When Ofgem let the MSC lapse in 2024, it pointed to exactly these protections, and they remain in force. The consultation does not set the expected cost of failure, given those protections, against the certain cost the MSC imposes on switchers. Without that comparison, the case for activation is not made.

Nor is the MSC needed to keep fixed tariffs on the market. Ofgem argues that the charge supports suppliers' ability to offer fixes (para 2.12). Under the capital regime, suppliers must already hold the resources to manage hedging risk.

Switchers lose out against the right comparison. It has been argued that because the MSC only applies when wholesale prices are falling, households switching away from the Cap will still be better off. That compares the switcher against the wrong baseline: flat prices, or staying on a Cap that lags the market. The right comparison is the same falling market with and without the MSC. Without it, a switcher in Ofgem's central scenario keeps the full £151 wholesale saving. With it, the charge takes £65, or 43%. In the longer-peak sensitivity it takes £134, leaving £17: 89% of the saving gone. Ofgem expects suppliers to build the charge into their fixed tariffs (para A1.14), so the cheapest deals would cost more than falling wholesale prices justify. The MSC does not leave switchers better off. It leaves them worse off than the market would otherwise allow.

Ofgem treats switchers as the group best able to bear this cost (para A1.17). But switching is the main tool the market gives households to cut their bills, and those who use it are often the most price-sensitive.

The MSC pays more than the stranded hedges it exists to cover. The payment is calculated on the Cap's notional hedge, not on the losing supplier's actual position. A supplier that under-hedged is paid as though it had hedged in full, and the supplier that hedged efficiently, and won the customer with a cheaper fix as a result, pays for it. By design, the charge reflects the Cap’s notional hedge rather than any supplier’s actual position. The charge is also paid whatever the reason the customer left, including poor service, so it compensates suppliers for customers they

failed to keep. And when the customer is leaving a fixed tariff, there is no stranded hedge to compensate at all (see Q4). Measured against its own purpose, the MSC overpays.

The charge moves money from suppliers winning customers to those losing them. A supplier that wins customers on price pays; a supplier that loses them is paid. Ofgem accepts this and describes it as an intended consequence (para 4.55). The effect is to make suppliers offering the cheapest fixes fund the positions of suppliers whose customers are leaving.

It also weakens the incentive to compete for existing customers. The MSC pays a supplier when a customer leaves for a rival, but pays nothing when it keeps that customer with a better offer of its own. The rational response is to compete less hard on retention. Ofgem reached this conclusion itself: its October 2023 letter on the future of the MSC found the charge was significantly dampening established suppliers' incentive to compete. The consultation neither mentions this finding nor explains why it no longer applies.

It sends the wrong signal to investors. Anyone backing a growing supplier would face a per-customer charge on every acquisition in a falling market, switched on at a day's notice. The MSC supports investability only for the firms receiving payments. Many growing suppliers are building the smart tariffs, flexibility and home energy products that reduce the system's exposure to gas price shocks.

Ofgem should assess alternatives before activating. Ofgem has excluded alternatives from this consultation (para 1.9). Options that deserve assessment include:

- Relying on the financial resilience regime, with targeted action for any supplier in genuine distress
- Limiting any charge to customers leaving standard variable tariffs, the only customers the Cap's notional hedge describes (see Q4)
- Basing any payment on the losing supplier's actual hedge position rather than the Cap's notional hedge
- Pre-published, objective activation triggers, so the MSC switches on only when measurable conditions are met
- Capping the charge per customer

Keeping the MSC dormant now also keeps the option open. The licence condition already lets Ofgem act. If risks escalate materially, for example through a sustained further price rise and a renewed shift onto the Cap, Ofgem can revisit activation with better evidence.

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

We have no detailed drafting comments on guidance that is largely unchanged from 2023. Our concern is with what it leaves out.

First, the guidance should set out objective activation and deactivation criteria. The market should know the measurable conditions, such as price levels, SVT share and supplier capital positions, under which the MSC is switched on and off.

Second, it should provide transparency on who pays and who receives. Alongside its weekly trigger update, Ofgem should publish aggregate MSC flows by supplier size band, so the market can see whether money is flowing from suppliers gaining customers to those losing them, and how that varies with supplier size.

Third, the guidance should make clear that no MSC is payable when a customer leaves a fixed tariff. That keeps the charge to the hedges it was designed for and removes any risk of double recovery (see Q4).

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

No. If Ofgem activates the MSC despite our objections, its scope and parameters should change to limit the harm to competition and to switching households.

Our central ask is to exclude every switch away from a fixed tariff, so the charge applies only to customers leaving standard variable tariffs. The MSC is calculated on the Cap's notional hedge, which describes how suppliers buy energy for default tariff customers. Fixed tariffs are hedged differently, for their own term. A customer who switches at the end of a fix strands little or no hedge, because suppliers expect most customers to re-fix or leave when a term ends. One who leaves early either pays an exit fee, which is the supplier's own tool for that risk (para 5.16), or leaves a tariff the supplier chose to offer without one and priced accordingly. In none of these cases is there a stranded hedge for the MSC to cover. Excluding all fixed-tariff leavers also removes any risk of double recovery.

We also propose a higher trigger and a lower sharing factor. Ofgem notes the current values were refined at a time of even greater volatility than today (para 5.8). That argues for less generous protection now, not the same protection. Ofgem also accepts that the value to consumers does not rise in line with the share of losses covered (para 5.13), and the same logic supports covering less.

We propose raising the trigger from a 10% to a 20% price fall, so payments apply only to genuinely extreme falls rather than ordinary volatility, and lowering the sharing factor from 85% to 50% of losses beyond the trigger. On its own, the lower sharing factor cuts the charge by around 40% for any given loss. Applied to Ofgem's central scenario, that would reduce the £65 charge per switcher to roughly £38, before any effect from the higher trigger or the exclusion of fixed-tariff leavers. This keeps most of the wholesale saving with the switching household while still covering the most extreme losses.

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

We do not object to a percentage trigger in principle. The level of the trigger matters far more than its format, as set out under Q4.

We disagree with Ofgem's reasoning that a change would delay implementation (para 5.18). If a better design needs more time, that is a reason to take it, not to activate the existing one.

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

Yes. Adding deferred allowances such as backwardation would turn the MSC from a targeted measure for stranded hedges into general compensation for losing a customer, as Ofgem itself notes (para 5.22).

It would deepen the transfer from suppliers gaining customers to those losing them and cut further into the savings available to switchers. Recovery risk on deferred allowances is a normal commercial risk that suppliers already manage.

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

One working day is too short. Suppliers gaining customers, which will be net payers, need time to reprice fixed tariffs, adjust hedging and update investors and lenders. Price comparison websites and other intermediaries need time to refresh their offers. Five working days allows one full repricing cycle for suppliers and one refresh of price comparison listings, so that the charge is reflected in the tariffs households see.

We propose at least five working days between a decision and activation. The same notice should apply to any later change to the parameters.

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

No. An activation with no end date and no review point leaves the market facing an open-ended charge on growth. The previous MSC was meant to be temporary, yet ran for over two years (para 5.42).

If the MSC is activated, it should expire automatically on 31 March 2027, Ofgem's own expected end of winter (para 5.35), unless Ofgem consults on and decides an extension. Ofgem should also publish deactivation criteria, so the market knows which conditions will end the charge. And it should commit to an early review if wholesale prices or the SVT share fall back materially, rather than waiting for the end of winter.

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

The draft impact assessment understates the effect on competition. Ofgem should carry out a full impact assessment under section 5A of the Utilities Act 2000 before deciding.

We disagree that the proposal falls outside section 5A. A proposal is important under section 5A if it is likely to have a significant impact on persons engaged in commercial activities connected with gas or electricity, or on the general public. This proposal meets both tests.

- **Commercial activities.** The MSC places a per-customer charge on every supplier gaining customers in a falling market. It is designed to change pricing and acquisition decisions across the retail market.
- **The general public.** Ofgem's own central scenario moves up to £0.2bn from switching households to suppliers (para A1.49).

The previous scheme paid out over £80m. That is evidence that the charge is material, not reassurance that it is small.

The competition effects are asserted rather than assessed. Paragraphs A1.27–A1.31 offer no analysis of customer acquisition by growing suppliers, market shares or investment into new suppliers. The model also assumes the MSC does not change switching at all (para A1.39), which removes the main harm by assumption. Ofgem's own 2023 finding that the previous MSC significantly dampened competition should be the starting point for any assessment, yet it is absent.

The evidence on lasting effects is weak. Fixed tariff take-up recovering after the MSC lapsed (para A1.32) shows switching returned once the charge was removed; it does not show the charge did no harm while in place. Table A1 also asks the wrong question. It shows that consumers bear costs in every case, and that activation shifts those costs onto households who switch. The question the impact assessment should answer is how a switcher fares in a falling market with the MSC compared with the same market without it. On Ofgem's own figures, they lose between 43% and

89% of the wholesale saving.

Finally, monitoring should track outcomes for growing suppliers. That means net MSC flows by supplier size, acquisition rates for suppliers outside the largest six, and the gap between the cheapest fixed tariffs and the Cap.