Making a positive difference for energy consumers

Decision

Market Stabilisation Charge activation

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Energy customers should be able access fair prices when wholesale prices rise and be able to benefit when wholesale energy prices fall. They should also be able to rely on a stable, competitive energy market in which suppliers can withstand sudden shocks and invest in products and services. However at times of volatility, there can be unavoidable tensions between these objectives.

We have decided to activate the Market Stabilisation Charge (MSC) for this winter as a temporary safeguard against the risks created by exceptional price volatility in wholesale energy prices. We have taken this decision after considering the benefits and costs for consumers, including the potential impact on the savings available from switching.

Activating the MSC does not itself add a charge to customers' bills. It only affects the savings from switching, and only if wholesale energy prices subsequently fall sharply enough to trigger it.

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Executive summary

Energy customers should be able access fair prices when wholesale prices rise and be able to benefit when wholesale energy prices fall. They should also be able to rely on a stable, competitive energy market in which suppliers can withstand sudden shocks and invest in products and services. However at times of volatility, there can be unavoidable tensions between these objectives.

We have decided to activate the Market Stabilisation Charge (MSC) for this winter as a temporary safeguard against the risks created by exceptional price volatility in wholesale energy prices. We have taken this decision after considering the benefits and costs for consumers, including the potential impact on the savings available from switching.

Activating the MSC does not itself add a charge to customers' bills. It only affects the savings from switching, and only if wholesale energy prices subsequently fall sharply enough to trigger it.

What does this mean for consumers?

There is a real trade-off in this decision.

If wholesale prices fall sharply, customers should still be able to find cheaper fixed deals and switch supplier. The MSC reduces the size of the saving available from some of those deals compared with what might otherwise have been offered.

For example, in one illustrative scenario based on a sudden fall in wholesale prices to levels seen earlier over summer, we estimate a fixed tariff might be around £165 to £305 below the price cap. The operation of the MSC could reduce that saving by around £33, leaving customers able to access substantial savings by switching. These figures are illustrative and will depend on what happens to wholesale prices.

We recognise that this reduces the savings available to consumers who switch at a time of falling prices. We therefore considered carefully whether intervening is justified.

Why are we intervening?

The energy retail market is considerably more financially resilient than it was during the energy crisis. Suppliers are now expected to hold substantially more capital, and those reforms are an important protection for consumers.

But they do not mean that suppliers can be exposed to unlimited and uncontrollable risks. If we want a market that is able to secure the capital required to be resilient and at the same time set a tight price cap to protect customers, bearing down on bills so

that suppliers can only make a modest margin, then we need to ensure that the risks those suppliers face are manageable and sustainable.

Suppliers buy much of their energy in advance to protect customers against sudden increases in wholesale prices. Customers, rightly, remain free to leave for a cheaper deal if prices fall; there is no exit fee to the price cap. If wholesale prices fall very sharply, suppliers can therefore be left with energy bought at significantly higher prices for customers who have subsequently switched away.

Suppliers should bear the normal commercial risks of running their businesses. The MSC is not intended to protect them from ordinary losses or guarantee their profits.

Our judgement is that, in exceptional market conditions, such as those we're experiencing with this year's conflict in the Middle East, the scale and speed of these losses could go beyond normal commercial risk.

The MSC provides partial and temporary protection only. Suppliers will continue to manage multiple financial risks themselves, many of which are exacerbated by high energy prices.

Why isn't suppliers' existing capital enough?

We have considered this question carefully.

Our analysis includes a realistic pessimistic scenario in which supplier losses could be around £600m to £900m, alongside the stronger capital requirements now placed on suppliers. This alone is broadly equivalent to recent returns for the entire market and is not the only large risk facing suppliers this winter.

Those capital requirements remain a crucial line of defence. But they are not intended to eliminate every risk, nor does the existence of a capital buffer mean that all exceptional losses should simply be allowed to run through it.

The particular issue addressed by the MSC comes from an imbalance: suppliers are expected to hedge in advance to protect customers against prices rising, while customers remain free to switch if prices fall sharply.

Our judgement is therefore not simply about whether individual suppliers could absorb a particular loss. It is whether, in exceptional circumstances like those we face today, that risk could discourage responsible hedging, weaken resilience and deter responsible companies from investing in the UK's energy retail market. Our assessment is that a limited, temporary safeguard is justified this winter.

We considered alternatives such as introducing an exit fee for the price cap, or permanently increasing the level of the price cap to cover the costs of these rare

events, but judged that the MSC, as a modest, targeted, and temporary intervention was better for consumers.

What did people tell us?

We carefully considered responses to our consultation, including arguments that suppliers are now strong enough to manage these risks themselves and that activating the MSC could weaken competition and reduce the savings available to consumers.

Many respondents also suggested ways in which the MSC could be refined. These responses pulled in different directions, underlining the challenge of designing a measure for rapidly changing circumstances.

We recognise those concerns. However, on balance, they have not changed our judgement that activation is justified for this winter.

No consumer charities submitted a formal response to this consultation. However, Ofgem's consideration of consumer impacts also draws on its wider engagement with consumer organisations, price comparison services and other stakeholders.

What happens next?

The MSC is intended to be a temporary safeguard, not permanent protection for suppliers.

It only takes effect if market conditions are sufficiently serious to trigger it and it only partially protects suppliers from the resulting losses.

We will keep both its operation and its impact on consumers and competition under review. We will consider whether the MSC should remain in place, be changed or be removed in spring 2027.

Our regulatory position remains that consumers should be able to benefit from falling prices and competition, while also being protected from the longer-term costs of an unstable market. Where those interests come into tension, our responsibility is to make that trade-off transparently and in consumers' overall interests.

1. Introduction

We briefly introduce this decision.

Purpose of this decision

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. The duty to make a payment is incurred at the point the switch completes. While the MSC value could change over time, the value in relation to a particular switch would be the one which applies at the point that switch completes.

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 consulted on activating the MSC on 16 October 2026. We refer to this as the 'activation consultation' in this document.

1.4 We have now decided to activate the MSC, so that the licence condition takes effect. The MSC will only lead to payments to and from suppliers in the event that prices fall sharply in accordance with the trigger.

1.5 In reaching this decision, we have had regard to our principal objective to protect the interests of energy consumers and the relevant statutory considerations, including but not limited to security of supply and the ability of licence holders to finance their regulated activities. We consider that supporting market stability and investability in these circumstances is consistent with the principal objective and contributes to those statutory considerations. Although market stability and investability are recurring and important considerations in the reasons provided for this decision, they are not determinative in themselves. They form part of the wider range of considerations we have taken into account in reaching our decision.

Context and related publications

1.6 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.

1.7 We extended the MSC in 2023, and then allowed the licence condition to lapse in March 2024.

1.8 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.

1.9 We carried out workshops on the MSC design with consumer groups, price comparison websites and suppliers in June 2026. We also held bilateral meetings.

1.10 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)
- Market Stabilisation Charge activation consultation (2026)

Scope of decision

1.11 This is a decision on activating the MSC. We have consulted earlier this year on the rationale for introducing an MSC licence condition. In this decision, we therefore do not set out details of alternative potential intervention options, except to note the distributional impacts of the MSC.

1.12 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

1.13 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.

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

1.15 Chapter 4 explains why we have decided to activate the MSC.

1.16 Chapter 5 covers the MSC design. We set out our decision on the MSC guidance. 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 decision for when the MSC activation would take effect, and our intended process for deactivation.

1.17 Chapter 6 briefly sets out the next steps.

1.18 Appendix 1 is the final impact assessment. Appendices 2 and 3 provide further information on consumer savings in different circumstances, supporting the tables in the main body of the document.

Consultation process

Process followed

1.19 We received responses from 16 organisations and 64 individuals. The organisational responses were from larger suppliers, smaller suppliers, third party intermediaries (price comparison websites and another switching service), a consumer advice provider, a representative for technology startups and an industry body.

1.20 We have uploaded non-confidential consultation responses from organisations to our website. We have carefully considered all responses received, and are grateful to stakeholders for engaging at pace.

1.21 During and since the consultation, we have met with several stakeholders who expressed an interest in meeting.

Considering stakeholder feedback on the consultation process

1.22 Several stakeholders said that the consultation period was too short. Some other stakeholders said that we should have consulted at an earlier stage, such as after the introduction of the MSC licence condition. We have sought to take an approach which responds to market developments, so that we can make the right

decision in the interests of consumers. This involved consulting at a point where we considered that the market situation merited activation, but consulting for a period of time that would allow us to respond quickly to that market situation. We consider that we have made this approach known to stakeholders both through our previous publications and subsequent engagement.

1.23 Several stakeholders said that we had already made a decision to introduce the MSC. This is incorrect. We have set out our minded-to position in the activation consultation document and then carefully considered all responses to the consultation before taking a decision.

1.24 We consider stakeholder feedback on our draft impact assessment in Chapter 5.

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: 17 November 2026

Stage 4 Consultation outcome (decision): 17 November 2026

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. We are considering this as a potential scenario – we are not seeking to predict the future path of wholesale prices.

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. (This is a general statement, rather than a statement about how every supplier prices its fixed tariffs). 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. We recognise that there are strategies that suppliers may use to mitigate the impact (for example encouraging customers to re-fix in a rising market). However, such strategies may have costs in terms of margin reductions and may be hard to implement when prices rise sharply.

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 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 responsibly.

Rationale for an MSC

2.10 The MSC 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, which can be cumulative. 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). We recognise that the size of any SoLR levy will depend on several factors, and we discuss this further in Chapter 4.

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. We discuss investability further in the final impact assessment (Appendix 1).

2.13 We consider that the case for an MSC should be seen in the context of the current regulatory framework, including a Cap which delivers a high degree of consumer protection. Consumers benefit from the regulatory framework, but this creates some risks for suppliers (and ultimately to the interests of consumers), which we consider may need mitigation in volatile market conditions. In effect, the regulatory framework transfers some risks to suppliers which consumers would

bear in other markets, but mitigation may be required to limit this transfer when risks are high.

2.14 In order to set a Cap that is stable and forward-looking, we monitor wholesale prices in advance. This means that a responsible supplier must also purchase the energy that their Cap customers are likely to use ahead of time. Failure to do so would leave them at risk of having to buy energy at higher prices than they can sell it at under the Cap. In a volatile market with sustained price rises, this risk can be very large.

2.15 Consumers however, are free to leave the Cap at any time. This means that if prices suddenly fall and fixed deals become more attractive, customers can walk away from the Cap, leaving the supplier unable to recover the costs of the higher cost energy purchased on the customer's behalf. The scale of this risk will depend on a range of factors including the scale and timing of price movements and customer switching – but we consider there is a realistic near-term prospect of losses reaching a threshold of £20 to £30 per dual fuel customer in a pessimistic scenario.

2.16 The retail market is more resilient than it was during the previous gas crisis, and new rules mean that suppliers hold more capital to manage periods of difficulty. However, we do not consider that means they can be expected to take on asymmetric and unmitigitable risks of this scale – especially in the context of the extremely tight margins seen in recent years and the cumulative risks facing the sector this winter. Holding significant amounts of capital requires a reasonable ratio of risk to returns. If risk is high investors will require high returns to compensate for it – or take the capital elsewhere. To have a market in which returns are capped and capital is required, we need to ensure that risk is reasonable.

2.17 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.

2.18 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.

Overview of stakeholder feedback

2.19 We did not ask a specific question in relation to Chapter 2 of the activation consultation. However, stakeholders provided some general comments on the purpose of the MSC. We summarise feedback on the principle for an MSC here, while covering stakeholder responses on the case for activating the MSC in Chapter 4.

2.20 Stakeholder views were mixed on the purpose of an MSC. Larger suppliers agreed with the role we set out for an MSC, while other stakeholders generally disagreed. The main arguments against an MSC in principle were that: suppliers should be responsible for managing commercial risk, the MSC would be contrary to the functioning of a competitive market, our proposal would protect supplier profits at the expense of consumers, and SVT consumers would have expected to be able to switch without costs. We provide more detail on some stakeholder responses about these points in the 'Considerations' section below.

2.21 Some stakeholders suggested alternative measures instead of an MSC. These included: measures to strengthen supplier financial resilience (including higher capital requirements or stronger oversight), increased Cap allowances, longer hedges, or government intervention.

Considerations

Commercial risk

2.22 Businesses generally face uncertainty about their customer numbers and the volume of their products that customers will demand. Energy suppliers also face these risks.

2.23 In normal circumstances, we agree that managing demand uncertainty is a commercial risk for suppliers. However, when wholesale prices are particularly volatile, the scale of the demand uncertainty can be much greater than usual.

2.24 Critically, the demand uncertainty that suppliers face in volatile conditions is in part a consequence of the regulatory framework and the protection it provides for consumers. Any action to mitigate this uncertainty is therefore not a removal of uncertainty that would usually sit with suppliers in other markets. Rather, it is a reallocation of risk that would not usually sit with suppliers in other markets, but which the regulatory framework places on energy suppliers (by virtue of regulatory steps it takes for consumer protection).

2.25 The existence of the Cap does not remove suppliers' commercial responsibility for their hedging. However, by using an indexation methodology, the Cap creates a clear default incentive for suppliers to broadly align their hedging to this methodology. This is an unavoidable consequence of a Cap which delivers a high level of protection to consumers. In this context, hedging is not solely a matter of commercial judgement for suppliers, as it would be in other markets.

2.26 One stakeholder said that the lack of exit fees was not a new feature of the energy market, and that suppliers had always needed to manage their hedging risk in this context. We agree that suppliers have always faced this risk to some extent, though this risk is greater when wholesale prices are especially volatile. However, before the Cap was introduced, suppliers would have been able to reprice their SVTs depending on market circumstances (for example by adding a risk premium for expected risks). In addition, before the Cap, suppliers were generally able to make profits above a normal rate of return, at least on average over time. (Historical profitability data is available on the Ofgem data portal, chart on pre-tax domestic supply margins of large legacy suppliers). Any short-run impacts on profitability would therefore have been easier to bear in that historical context, and so would not affect the investability of the market.

2.27 Some stakeholders said that the MSC would transfer losses from suppliers to consumers, but that this would be asymmetric, as suppliers would benefit when prices moved in the other direction. We do not agree that suppliers would see a benefit if wholesale prices rose, as they would still have to supply their customers at the price defined in contracts (for existing fixed tariffs) or by pricing no higher than the Cap (for SVTs). In fact, suppliers can incur additional costs in a rising market if more customers move to the Cap than expected. (We have referred to this in previous Ofgem publications as 'unexpected SVT demand'). This is why we consider this risk to be asymmetric, which is a key element of our rationale for intervention.

Competitive market

2.28 We recognise that it is not usual practice for a business who gains a customer to make a payment to a business who loses that customer.

2.29 However, we consider that the MSC should be seen in the context of the regulatory framework facing suppliers, which helps to protect consumers. We do not consider that the MSC should be viewed in isolation, without recognising this wider context.

2.30 The combination of the Cap and the option for consumers to join and leave the SVT creates an asymmetric risk for suppliers. This is small in normal market conditions. However, when wholesale prices are volatile, it becomes larger. The MSC is a partial mitigation for this. The MSC is therefore designed to address a consequence of the regulatory framework, in volatile market conditions.

2.31 We do not see it as an inherent issue that suppliers lose revenue when consumers switch away from them. However, when suppliers make losses as a result of circumstances beyond their control, and when this is linked to the regulatory framework, we need to make sure that we are considering the long-term interests of consumers. Under the statutory framework (the Gas and Electricity Acts), we must also have regard to the need to secure that licence holders are able to finance the activities which they are required to carry out.

2.32 We discuss the consequences of activating the MSC further in Chapter 4 and the final impact assessment (Appendix 1).

2.33 The representative for technology startups said that the MSC would be paid regardless of whether a customer left a supplier for reasons like poor service.

2.34 We accept that a uniform MSC cannot identify the reasons why a consumer switches. It cannot identify whether a consumer switches due to problems with their existing supplier. While we acknowledge the potential benefits of a hypothetical MSC mechanism that could take account of such factors, given current market volatility we do not consider this a sufficient reason to prevent or delay activating the MSC.

Profits

2.35 We recognise that financial impacts on energy suppliers may not seem like a priority to consumers, particularly those who are struggling financially. However, like any business, efficient suppliers expect a normal rate of return on the capital they employ to serve their customers. This would show up as a profit in suppliers' accounts, but represents an economic cost of securing the capital required in running a business.

2.36 We do not guarantee that efficient suppliers will make a normal rate of return, either in the short-run or over several years. However, if investors do not expect that it is possible to achieve a normal rate of return, then this will reduce their willingness to invest in the sector, given that alternative opportunities are available. This is especially true if they are required to hold significant capital to operate in that sector.

2.37 We therefore consider that, even though payments made under an MSC would lead to higher supplier profits than in its absence, this can in principle be in the interests of consumers. It can support investability and, as a consequence, delivery of the benefits of a competitive market.

2.38 We do not consider that profits which some companies may make in other parts of the energy sector are relevant. The energy supply market needs to remain sufficiently attractive for investment to deliver an effective supply market for consumers. Even large groups who operate across the energy sector have choices about where they allocate their capital. In addition, some businesses focus on energy supply, and we consider that the supply market should remain open to a range of businesses, not just those with wider activities, to help support competition.

Change to SVT arrangements

2.39 One stakeholder said that SVT customers would have had the expectation that they had the right to switch without cost, and noted that SVT customers would have generally paid higher prices than fixed tariff customers.

2.40 The SVT customer base will include a range of consumers. We recognise that some consumers may have made a conscious choice to select, or remain on, an SVT, so that they could maintain flexibility to switch. However, other SVT consumers will have defaulted onto the Cap due to disengagement.

2.41 Regardless, we do not consider that there is a barrier to us taking action to address volatile market conditions. Our objective remains to protect the interests of consumers – this means that we need to consider the general interest of consumers having regard to several matters, including but not limited to, supplier investability, competition and suppliers financing their activities.

Alternative interventions

Financial resilience interventions

2.42 As set out in our June 2026 supplier financial resilience report (page 25), we are reviewing our financial resilience and controls framework. It is not the role of this MSC activation decision to pre-empt this review.

2.43 However, as a general point, we note that financial resilience requirements have their own costs to suppliers, and therefore ultimately to consumers. It is therefore not the case that additional financial resilience interventions would be costless for consumers as an alternative to an MSC. This particularly true if additional requirements were made at the same time as exposing suppliers to large, asymmetric and unmitigatable risks.

2.44 We continue to monitor the financial resilience of suppliers.

Price cap allowances

2.45 In a meeting before the activation consultation, 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. This point was echoed by one stakeholder in response to the activation consultation, who referred to the one percent wholesale additional risk allowance.

2.46 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 in periods of high voltility. 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.

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2.47 In our 2018 decision when introducing the cap, we noted that we did not set the one percent wholesale additional risk allowance to cover all risks in a particular period (Appendix 4, paragraph 2.31). Rather, we considered whether this was likely to cover average costs over a longer period of time. We continue to consider that this should be the role of the wholesale additional risk allowance. However, when unexpected wholesale volatility materialises linked to geopolitical developments, this is inevitably difficult to reflect in an ex ante framework, without reducing the protection available to consumers in normal circumstances. Moreover, even if we did review the wholesale additional risk allowance now and increased it, suppliers would only recover any additional revenue gradually over the medium-term. An increased wholesale additional risk allowance would therefore not be a timely way of addressing current circumstances.

2.48 Furthermore, while in our 2018 decision we noted the existence of demand volume risk (Appendix 2, paragraph 3.72), we referred to this as a "relatively small upward uncertain cost pressure", noting the estimate from one supplier of an impact in the order of £0.50 per customer for every 1% change in customer numbers. We therefore do not consider that the scale of potential impacts at present (see Chapter 4) are reflected in the wholesale additional risk allowance.

Longer hedges

2.49 Longer hedges would have their own risks when wholesale prices are volatile. A Cap set based on a longer hedge would be slower to react to increases in market prices. This would increase the risk of consumers moving onto the Cap when prices were rising, leading to unexpected SVT demand costs. These consumers could then leave the Cap when prices fell, leading stranded hedge costs.

Government action

2.50 One third party intermediary said that government action would be a better way of responding to extreme conditions. Any such action would be a matter for government. We need to consider the actions open to us as a regulator.

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

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

Consultation question

3.10 In the activation consultation, we asked the following question:

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

Wholesale prices

3.11 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. Prices rose again after the publication of our activation consultation, though have since fallen back slightly. 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).

3.12 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.

3.13 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.

3.14 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

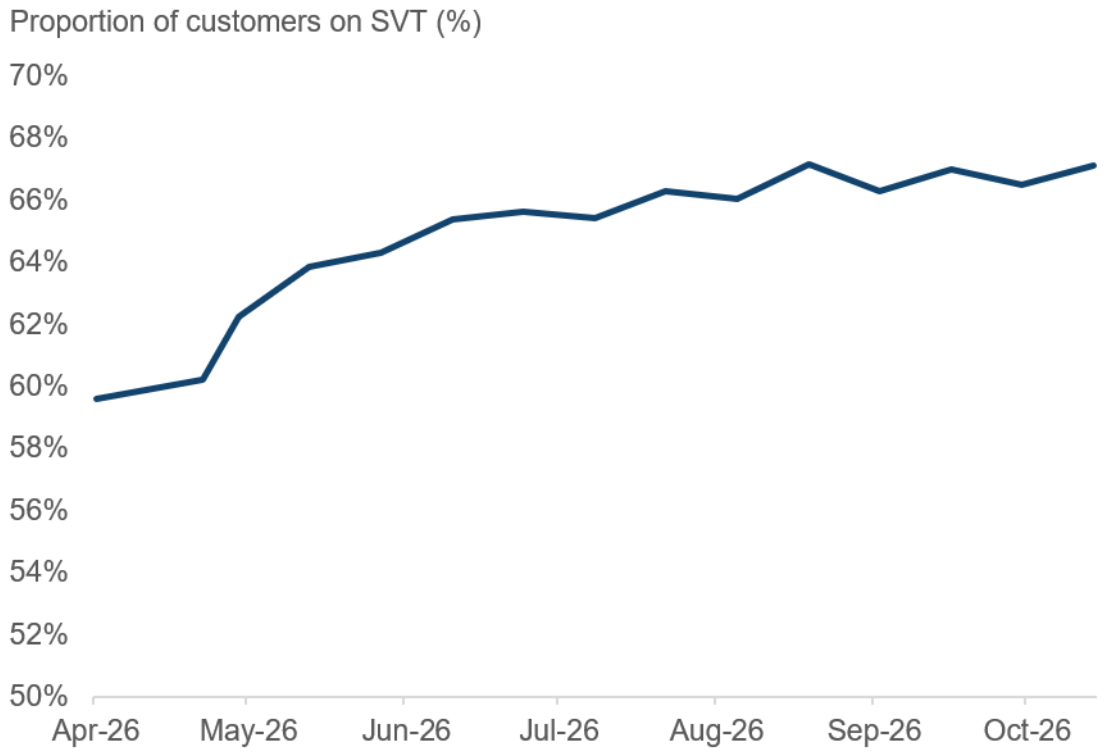
lead to cold spells in the UK. Current market prices will incorporate expectations about the impact on demand, but as expectations evolve, wholesale prices are likely to react accordingly.

Proportion of consumers on the Cap

3.15 We have been monitoring the proportion of consumers on SVTs by gathering data from suppliers. Figure 1 below shows this data over 2026, up to the end of October 2026. The proportion of consumers on SVTs has gradually increased by seven percentage points since April 2026, though most of the increase occurred between April and June 2026.

3.16 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



3.17 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

3.18 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.

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

Wider risks

3.20 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

3.21 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.

3.22 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 Earnings Before Interest and Tax (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.

3.23 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. Since then, we note that on 1 October 2026, the Competition and Markets Authority approved the merger of E.ON and Ovo. As part of its decision, the CMA said (at paragraph 5(a)) that it was unlikely that Ovo would have been able to meet the capital target on its own within

a reasonable period. Where certain suppliers are already below the capital target, further shocks may increase the risk of distress.

3.24 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.

Winter risks

3.25 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.

3.26 Suppliers can face additional risks due to wholesale price movements interacting with the Cap.

3.27 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.

3.28 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.

3.29 Suppliers can also face risks due to weather-linked demand changes.

3.30 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.

3.31 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.

3.32 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.

3.33 Even if prices remain at current levels and demand is normal over winter, suppliers also face other risks.

3.34 Deferred allowances like backwardation can create cashflow impacts on suppliers. Suppliers will always face some differences between when they incur 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.

3.35 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.

3.36 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.

Overview of stakeholder feedback

3.37 Larger suppliers broadly agreed with our description of the current market context and the risks facing suppliers. Some large suppliers made comments about additional risks, including the increase in smaller suppliers since the previous gas crisis, which could strengthen price competition, and the prominence of energy prices making consumers more likely to respond to savings.

3.38 Smaller suppliers and third party intermediaries generally recognised current price volatility, but did not consider that the circumstances merited the activation of the MSC.

3.39 The industry body broadly agreed with our description, though said that it was important to distinguish between exceptional risks and normal ones.

3.40 Some individual respondents raised concern about increased concentration, and the potential effects of the MSC on smaller suppliers.

Considerations

Wholesale prices

3.41 Two third party intermediaries said that wholesale prices were rising, rather than falling, meaning that falling prices were unlikely.

3.42 Wholesale prices have remained volatile. There is the potential for prices to move in either direction, depending on geopolitical developments and winter conditions. We are not seeking to predict prices, or to claim that the wholesale market is more likely to fall than rise.

3.43 However, we consider that there is a credible risk that wholesale prices fall sharply from their current level, so we need to consider whether action is required to mitigate any impacts in that scenario.

3.44 Moreover, the fact that price risk is two-sided is a strong argument for suppliers to be well-hedged, in order to avoid undue exposure to risks in either direction, which could ultimately have negative impacts on consumers.

Other market features

3.45 As set out in the activation consultation, our description of the current market context did not seek to provide an exhaustive view of the state of the market.

3.46 One third party intermediary said switching was around 55% of its 2016 to 2019 level and that the domestic electricity segment was more concentrated than any point since 2004. It therefore said that increasing competitive pressure would help to drive better outcomes for consumers.

3.47 Switching rates before the gas crisis will have been affected by factors such as the participation of suppliers who were not robust. We therefore do not consider that pre-crisis levels are a guide to what a sustainable or desirable level of switching would be going forward.

3.48 We recognise that market concentration has increased in recent years. Competitive rivalry between suppliers can help to deliver good outcomes for consumers. However, up to a point, rivalry can be sustained with different degrees of concentration. This is particularly the case where a key feature affecting market outcomes is low engagement by some consumers (in other words an issue on the demand side rather than the supply side). We therefore do not consider that increases in concentration mean that we should treat reducing this as a priority in itself. We consider the potential consequences of the MSC for concentration in the final impact assessment (Appendix 1).

Wider risks

3.49 One third party intermediary said that, while it recognised the wider risks we mentioned, these were separate to the stranded hedges risk that the MSC is designed to address. It said that most of these other risks would apply in a rising, rather than a falling, market. It therefore said that the case for the MSC should be considered specifically against the stranded hedges risk.

3.50 We continue to consider that wider risks form relevant context to this decision on whether to activate the MSC. Risks can have a cumulative impact on suppliers, and therefore ultimately on consumers' interests in market stability and investability. While some risks would be relevant to a market with rising wholesale prices, the impacts of rising and then falling wholesale prices can occur sequentially. Other risks, especially bad debt, can occur in parallel with the stranded hedges risk, even if bad debt risk is likely to be even greater when prices are rising.

4. Activation

We set out our intent for the MSC. We then explain why we have decided to activate the MSC.

Context on MSC structure

4.1 This is a decision on activating the MSC licence condition. Activating the MSC does 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.

Consultation question

4.3 In the activation consultation, we asked the following question in relation to this chapter:

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

Intent for the MSC

Position

4.4 We consider that the MSC should be activated in a way which provides a balance between supporting investability and mitigating risks to market stability.

4.5 We did not consult on this position, but we are setting it out as context for the discussion on activation later in this chapter.

Rationale

4.6 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.

4.7 We do not consider that either end of the spectrum would be appropriate to support the interests of consumers.

4.8 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.

4.9 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 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

4.10 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.

4.11 In order to set a Cap that is stable and forward-looking, we monitor wholesale prices in advance. This means that a responsible supplier must also purchase the energy that their Cap customers are likely to use ahead of time. Failure to do so would leave them at risk of having to buy energy at higher prices than they can sell it at under the Cap. In a volatile market with sustained price rises, this risk can be very large.

4.12 Consumers however, are free to leave the Cap at any time. This means that if prices suddenly fall and fixed deals become more attractive, customers can walk away from the Cap leaving the supplier unable to recover the costs of the higher cost energy purchased on the customer's behalf. The scale of this risk will depend on a range of factors including the scale and timing of price movements and customer switching – but we consider there is a realistic near-term prospect of losses reaching a threshold of £20 to £30 per dual fuel customer in a pessimistic scenario.

4.13 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 - especially in the context of the extremely tight margins seen in recent years and the cumulative risks facing the sector this winter. Holding significant amounts of capital requires a reasonable ratio of risk to returns. If risk is high investors will require high returns to compensate for it – or take the capital elsewhere. To have a market in which returns are capped and capital is required, we need to ensure that risk is reasonable.

Decision Market Stabilisation Charge activation

4.14 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.

4.15 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.

4.16 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.

Threshold

4.17 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.

4.18 The Cap includes several risk allowances. There is a one percent 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).

4.19 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.

4.20 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.

4.21 In numerical terms, we therefore consider that a reasonable prospect of a loss of £20 to £30 per dual fuel customer, across a typical supplier's customer base, provides an illustration of the circumstances where the MSC should be activated.

4.22 The £20 to £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.

4.23 We note that these allowances scale with the cap level, and so will change at the next cap update in January. Again, using a range is an approximation which can accommodate this.

4.24 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.

4.25 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.

4.26 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 could 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 it would potentially leave suppliers exposed to unavoidable (and repeatable) losses that could significantly deplete capital buffers. 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.

4.27 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 increase the risks if prices rose.

Considering activating the MSC

Background

4.28 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.

4.29 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.

Decision

4.30 We have decided to activate the MSC.

Rationale

4.31 With wholesale price increases and greater hedge volumes ahead of winter, suppliers are exposed to the risk of a sharp wholesale price fall.

4.32 Price volatility at present is driven in particular by geopolitical developments. This means that prices can change quickly – in both directions. At this point, we consider the risk of a sharp price fall, alongside a sensitivity which includes a price rise followed by a price fall. We note that more consumers could move to the Cap before prices fell, increasing the risks to suppliers.

4.33 The wider context is that suppliers have experienced a period of low returns and are facing a range of significant risks, as set out in Chapter 3. This is in part due to the presence of the Cap, which limits suppliers' ability to manage risks through pricing. The presence of capital requirements does not reduce these risks – it simply means that there is capital available to absorb them. However, that capital comes at a cost to consumers. If investors consider the risks to that capital are large and unmitigitable, a higher return will be required to access that capital. If the risk is large enough and repeatable, then the capital may not be accessible at all.

4.34 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.

Overview of stakeholder responses

4.35 Larger suppliers supported our proposal to activate the MSC. Some of these suppliers highlighted the benefit of activation as an upfront mitigation, including to support incentives to hedge.

4.36 Smaller suppliers and a representative for technology startups disagreed with activating the MSC. Reasons cited included: market circumstances not meriting intervention, the modelled impact being at the low end of the activation range, mitigations provided by other interventions (such as the BAT and capital requirements), the negative impact on consumers, and concerns that payments would over-compensate losing suppliers.

4.37 Third party intermediaries disagreed with activating the MSC. Among their points were: the impact on consumer savings and consumer engagement, insufficient likelihood of supplier failure, and the effects of the previous MSC.

4.38 The consumer advice provider disagreed with the proposal to active the MSC. They said that it would increase costs to consumers, even before the MSC was triggered.

4.39 The industry body recognised considerations in either direction, noting that the responsibility for balancing these is an Ofgem decision.

4.40 Many individual respondents noted the cost of living pressures facing consumers.

Considerations – evaluating market conditions

4.41 We split our considerations into two sections. We first consider the potential supplier losses without an MSC, and the direct impact of activating the MSC on these losses. In the subsequent considerations section, we consider the effects of the MSC.

Evolution of assessment

4.42 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.

4.43 In a workshop in June, 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.

4.44 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.

4.45 In the activation consultation, we set out the risk of a further price rise and sharp price fall, before we could activate the MSC. The price rise period was intended to reflect that it would take time to activate the MSC. We also noted that 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.

4.46 Now we have consulted, we do not have to wait to activate the MSC. We therefore consider that the main relevant scenario at this point is a sharp price fall. However, recognising current volatility, we still consider a sensitivity where prices rise then fall.

Uncertainty

4.47 Any assessment is subject to significant uncertainty, particularly in relation to future prices and customer movements.

4.48 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.

4.49 As part of considering a pessimistic scenario, the upper bound on losses would be in the situation where prices fell and market backwardation was eliminated. (This upper bound would alternatively be equivalent to a larger price fall with some backwardation remaining). One larger supplier said that the elimination of backwardation was not the upper bound, as the market could move into contango (the opposite of backwardation, where near-term prices are lower than those for delivery further out in time). Our pessimistic scenario is based on prices falling and the removal of backwardation. We do not consider it appropriate to model contango at this point, as it is not likely that prices this winter would fall below those for next summer (given that winter prices are generally above summer prices).

4.50 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. (One third party intermediary referred to the recent Consumer Impacts of Market Conditions survey (October 2026, p46), which found "no evidence that customers have not switched simply out of supplier loyalty". We note that this referred to customers who had neither switched tariff or supplier). 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).

4.51 One smaller supplier said that we should not make assumptions about how suppliers would hedge for their fixed tariffs, and should seek further information from suppliers. We are satisfied with the position that we set out in the activation consultation. We are not making an assumption about how every supplier would hedge for fixed tariffs. However, any supplier who did buy wholesale energy close to the point of pricing fixed tariffs would be able to reflect wholesale price reductions in their fixed tariff prices. Even if only some suppliers hedged in this way, this would deliver cheaper fixed tariffs for consumers to switch to.

4.52 One stakeholder said that we had not explained why smaller suppliers would be more likely to offer cheap fixed tariffs. They also said that it was unlikely that new firms could enter the market in time.

4.53 Smaller suppliers generally have fewer SVT customers than larger suppliers. This means that they would be able to reduce their fixed tariffs to reflect falls in wholesale prices, without a significant risk of their own SVT customers switching to these tariffs, which would lead to stranded hedge costs. We are not assuming that new tariff offerings would occur as a result of supplier entry – we agree that material entry is unlikely in a short space of time while prices were falling.

Illustrative impacts on supplier losses

4.54 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 – these examples do not represent predictions.

4.55 These examples are all based on a situation where prices fall in December. In each case the price fall would last one month, with prices falling three-quarters of

the way back to pre-conflict levels in the scenario and sensitivity B. (For the purpose of these illustrations, we model impacts at monthly granularity).

4.56 In the scenario, prices for the remainder of November remain at their average level in the month to date. (We use prices up to 11 November). We treat this as the scenario to recognise recent price reductions.

4.57 However, there is still a risk of further wholesale price increases. In sensitivity A, we therefore assume a 20% price increase (relative to the average across October), followed by a price fall. This is the same price increase that we used in the scenario in the activation consultation, shifted forward one month to reflect the passage of time. We use a slightly larger percentage price fall in this case (81% of the way back to pre-conflict levels), so that the post-fall price is equivalent to the scenario. We note this would be commensurate with prices rising back towards recent highs before falling again.

4.58 We recognise that we are part way through November, which reduces the potential size of a further price rise on average across November. This sensitivity is solely intended to reflect that prices could rise further, and that this would have an impact on stranded hedge costs. It is not intended to suggest that we consider this as a likely outcome.

4.59 Sensitivity B considers the case where a smaller proportion of customers switch back from the SVT to fixed tariffs during the price fall, recognising that this is subject to uncertainty. In the scenario and sensitivity A, 16% of the total customer base switches from the SVT to fixed tariffs during the price fall, whereas in sensitivity B, this figure is 11%. We provide further detail on our assumption in the impact assessment (Appendix 1).

4.60 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. Numbers may not sum due to rounding.

4.61 The mitigation from the MSC line reflects the direct impact of MSC payments only. We consider the indirect impacts of the MSC in the impact assessment (Appendix 1).

Table 1: Illustrative impacts on supplier losses

	Scenario	**Sensitivity A (further price rise)**	**Sensitivity B (lower switching)**
Loss without MSC (£/dual fuel customer across customer base)	Up to -35	Up to -40	Up to -24
Direct mitigation from MSC (£/dual fuel customer across customer base)	Up to 18	Up to 21	Up to 12
Loss with MSC (£/dual fuel customer across customer base)	Up to -17	Up to -19	Up to -12

4.62 A further price rise (sensitivity A) would increase the loss to suppliers without an MSC. In contrast, fewer consumers switching back to fixed tariffs (sensitivity B) reduces the loss to suppliers without an MSC.

4.63 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. We recognise that there are several factors which may influence the losses suppliers incur and the MSC payments that they receive, including existing expectations about customer movements and differences between tariff types. (We discuss fixed tariffs in Chapter 5). We also recognise that there are potential indirect impacts, as discussed in Appendix 1. More broadly, the allocation of the costs of stranded hedges would vary depending on how far prices fall, given that the MSC design covers a greater proportion of stranded hedge losses when prices fall further (see Appendix 1). Our view that the MSC is an appropriate mitigation is not based on suppliers bearing a specific proportion of stranded hedge losses.

4.64 These figures should be seen as an upper estimate for the impacts that might be seen in December. This is because consumer savings would be constrained in December by the existing (Q4 2026) cap level. In other words, customers might wait longer to switch given that the current Cap level is lagging the rise in wholesale prices. As higher wholesale prices feed through into the Q1 2027 Cap that pattern could go into reverse, as the Cap level will be higher and any fall in

prices will be passed through to fixed tariffs. We show the implied consumer savings in December in Appendix 2, following the same approach as in the activation consultation.

4.65 If there were no exceptional headline savings available in December, then we might not expect exceptional switching rates. However, higher than usual switching activity might still occur in anticipation of the higher Q1 2027 cap level. Furthermore, suppliers would still incur stranded hedge losses if consumers switched from January. We therefore consider that this analysis is relevant as an indication of the broad scale of risks, even if the timing of switching (and consequent impacts) may vary.

Conclusion

4.66 We emphasise that these figures do not represent predictions, and that our decision on activating the MSC is not mechanically driven by these figures. However, they show that, without the MSC, suppliers could make substantial losses in a reasonably pessimistic case. We therefore consider that we are within the range where it is appropriate to activate the MSC. This forms part of our decision to activate the MSC, alongside our consideration of the effects of activating the MSC below.

4.67 These figures also illustrate that the MSC would help to mitigate the impact on suppliers, but would not indemnify suppliers for the risk of stranded hedges. This highlights that the MSC would balance how the impacts of stranded hedges are allocated, rather than placing them on one type of market participant. The MSC would therefore balance different consumer interests (lower immediate prices, market stability and investability).

Considerations – effects of activating MSC

4.68 In this section, we summarise our consideration of the effects of activating the MSC. This should be read alongside our final impact assessment (Appendix 1), where we provide more detail on the areas below.

Market stability

4.69 Given the improvements in market resilience as a result of our financial resilience regime, we are not activating the MSC because of concerns about the risks of particular suppliers failing. Suppliers face capital and liquidity requirements, which reduce the risk of failure and the potential impact on consumers if failure did occur. As noted by several stakeholders, the capital target (£115 of adjusted net assets per dual fuel customer) is significantly larger than the indicative modelled losses.

4.70 Nevertheless, losses could have a cumulative effect, given the other risks facing suppliers. At a minimum, large supplier losses increase the risk of present or future market instability.

4.71 Some stakeholders referred to the statement in our supplier financial resilience report (page 5) that the aggregate level of capital was £6.8 billion in March 2026, compared to an aggregate capital target of £3.1 billion. While we recognise that this is a positive development overall, we note that resilience depends on the capital positions of individual suppliers.

4.72 In the event of supplier failure, there would be a risk of consumers bearing costs through the SoLR levy. We discuss the factors affecting the size of these costs in the impact assessment.

4.73 Further, it is important to consider the likely impact of any supplier failure on consumers. Supplier failure costs consumers more when there are additional costs associated with serving the customers affected. A major potential source of such costs would be if a supplier were to fail in a rising market without having adequately hedged for its customers' expected demand. By supporting responsible hedging when prices are high and rising, the MSC can reduce this risk even without being triggered.

Investability

4.74 As set out in our Markets Vision and Strategy, we consider that an investable retail market is in consumers' interests. Maintaining the investability of the retail market supports competition, as it affects the incentives to participate in the market and to invest in processes and products. Competitive pressure and investment can drive efficiency savings, improve product offerings and encourage good service. These are all in the interests of consumers. If the market became uninvestable, there would be negative impacts on these consumer interests.

4.75 We recognise that some of these impacts would take time to emerge. We understand the point from some stakeholders that the costs of an MSC are more immediate than any longer-term benefits from maintaining investability. However, we need to consider consumers' interests in the round. Suppliers provide a service to consumers, but there are limits on their ability to do this if they face unmitigated risks. In this instance, we consider that action is needed to support investability.

4.76 Further, consumers do benefit now from the price protection and stability offered by the Cap. Operating a stringent Cap that limits the margin achievable by suppliers means we need to be mindful of asymmetric and unmitigatable risks. One option for dealing with this would be to set a looser Cap, for example through increasing risk premia. The absence of higher risk premia is a benefit to

consumers, and we consider it an important one to maintain, especially as prices remain high.

Distributional impacts

4.77 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 could be an impact on the less engaged consumers remaining on the Cap.

4.78 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.

4.79 We consider this fairer than the potential alternative of adding a greater risk premium to the Cap. This is because the Cap offers consumers an option to move on and off a capped tariff at any point. This option has a value and a significant one in times of volatile prices. This is because a supplier has to be ready to serve that consumer at the prevailing Cap rate, whether or not they were on it at the time of hedging, and whether or not they remain on it after hedges are purchased.

4.80 When consumers move onto the Cap as prices rise, and off the Cap when they fall, they are exercising that option. We consider it fairer that, in exceptional circumstances, they should pay towards the cost of exercising that option, rather than having the cost socialised across consumers who have not exercised the option.

4.81 The impact on such 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.

Consumer savings

4.82 Table 2 below illustrates the impact on headline annualised customer savings. The columns relate to different sizes of price fall relative to current wholesale prices. Numbers may not sum due to rounding.

4.83 This is based on a comparison between the Cap hedge and the fixed tariffs that could be offered after a given price fall. This is not a comparison against the current Cap level – it is closer to a comparison against the Q1 2027 cap. This is therefore of more general relevance, as it avoids focussing on a particular timing for a price fall.

4.84 The savings figures are headline savings because they are based on comparing the cap hedge with the prevailing wholesale price after a price fall. 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 probabilistic expected value for the cash benefit from switching.

4.85 Headline savings may still act as a prompt to engage for a number of reasons. First, they will represent some degree of positive expected value given the MSC only covers part of the stranded hedge costs. Second, fixing can bring forward lower prices for consumers. And third, a large headline saving can help overcome consumer inertia.

4.86 Appendix 3 provides more detail on these savings figures, including a breakdown between fuels.

Table 2 – Illustrative impact of the MSC on headline savings

	20% price fall	**35% price fall**	**50% price fall**
SVT annualised hedge (£/dual fuel customer)	992	992	992
Fixed tariff hedge post price fall (£/dual fuel customer)	1,015	825	634
Headline discount to annualised Cap hedge pre-MSC (£/dual fuel customer)	-23	167	358
MSC (£/dual fuel customer)	0	33	124
Headline discount to annualised Cap hedge post-MSC (£/dual fuel customer)	-23	135	234
Percentage impact of MSC on headline discount (£/dual fuel customer)	**0%**	**-20%**	**-35%**

4.87 The main takeaway is that the MSC would maintain significant incentives to engage, even when prices fall sharply and the MSC value was large. While there would be no headline savings in the 20% price fall column, this would not be an impact of the MSC, which is zero. Rather, this reflects that current wholesale prices are well above the Cap hedge.

4.88 As noted above, consumer savings would be smaller under the current (Q4 2026) cap level. We do not consider that this removes the case for activating the MSC,

given that this relates to a particular timing for a price fall and consumers may well be aware of the upcoming (Q1 2027) cap rate at that point.

Switching

4.89 Even if triggered, the MSC should broadly maintain the normal incentives to switch (those seen outside exceptional wholesale market conditions). We therefore do not expect that the MSC would reduce switching relative to normal levels.

4.90 Falling wholesale prices create a further incentive to switch. Even if triggered, the MSC would generally maintain some of these additional savings. We therefore consider switching should be higher than normal when the MSC is triggered, because the MSC would generally only remove a proportion of these additional switching incentives.

4.91 We recognise that the MSC would reduce the gains from switching, relative to a situation without the MSC, and would therefore be expected to reduce switching relative to this counterfactual.

4.92 We do not consider that this is a reason not to activate the MSC, for three main reasons. First, as detailed above, we consider that in extreme circumstances the MSC has a benefit to all consumers, and is an appropriate mechanism to partially price in the option value the Cap offers. Second, we consider that in a falling market there will still be at least equivalent, if not greater, incentive to switch than in a normal market. Third, we do not consider that any temporary reduction in switching (relative to the counterfactual without the MSC) would be a hindrance to the effective functioning of the market, given that this exceptional switching would result from temporary differences in wholesale costs rather than some suppliers having a better product offering.

Impacts on competition

4.93 Given the effect on investability described above, we consider that the MSC would have a mixed impact on competition.

4.94 As discussed above, we recognise that the MSC can a temporary effect on the incentives for consumers to engage, relative to a counterfactual without an MSC. We do not consider it likely that there would be a significant persistent impact on the incentives for consumers to engage. Any such impact would rely on there being additional consumers who would have engaged due to high savings, and then continued to engage, even when savings returned to more normal levels. While this effect may be plausible for individuals, we do not have confidence that such an effect would be sufficiently persistent or large to outweigh the benefits to competition from the MSC supporting investability.

4.95 We also do not consider it likely that there would be a significant dynamic impact on the supply side. We recognise that a falling price market may help to support the growth of smaller suppliers. However, in the specific circumstances of a sharp fall in wholesale prices, there may be limited benefits to competition, where this results from temporary wholesale circumstances rather than suppliers having a better product or service.

4.96 In response to the activation consultation, one larger supplier said that the MSC would have no impact on internal switches, and said that two to three times more people switch internally than externally (based on the Ofgem consumer impact of market conditions survey). They therefore considered that this was a reason why there would not be unnecessary market distortions from activating the MSC. Conversely, some stakeholders said that the MSC would weaken incentives for suppliers to compete to retain customers.

4.97 While we recognise that an MSC is not payable on internal switches, we recognise that activating the MSC may have knock-on consequences for the tariffs available to suppliers' existing customers. First, where the best price available from a supplier to its existing customers is also available externally, this price would be expected to incorporate expected MSC costs. Second, where a supplier offers a retention offer which is cheaper than the tariffs available externally, a change in the prices available externally may affect a supplier's pricing decisions. The supplier would have two options. They could maintain their retention prices, making them more attractive relative to tariffs available externally. Alternatively, they could maintain the previous differential between these tariff types, which would mean pricing in the equivalent amount for MSC costs as included in external tariffs. We consider the indirect consequences of the MSC further in the impact assessment.

4.98 Several stakeholders referred to our previous comments in a 2023 letter on the future of the MSC post March 2024 that the MSC dampened competition, and said we had not referred to this in the activation consultation.

4.99 We consider that our previous comments should be seen in the circumstances of the market's recovery from the gas crisis, rather than as a general verdict on the MSC. The retail market is in a stronger position now than when we made these comments. We continue to recognise that the MSC has some risks – this is one reason why we do not consider that an active MSC should be a feature of the market in normal circumstances.

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

Background

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 published an updated version of the MSC guidance alongside the activation consultation for comment. This was largely unchanged from the previous version. The activation consultation therefore constituted the consultation on the MSC guidance, as required by the licence condition.

Consultation question

5.3 In the activation consultation, we asked the following question:

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

Decision

5.4 We have published the latest version of the MSC guidance alongside this decision. We have made minor edits only. These are set out in the version history in the guidance document.

Overview of stakeholder feedback

5.5 We did not receive a significant number of comments on the proposed MSC guidance (excluding the MSC parameters and the inclusion of fixed tariffs, which we discuss in the sections below).

5.6 Of the stakeholders who did comment, some stakeholders expressed support for the draft guidance.

5.7 Some stakeholders said that the guidance should include criteria for activation, deactivation or changes in the MSC parameters.

5.8 Some stakeholders provided suggestions for wording or formula amendments for clarity, to reflect changes since the previous MSC.

5.9 One larger supplier said that we should provide worked examples for the MSC calculations.

5.10 A larger supplier said that there were some future Cap levels which suppliers would not know, and said we should provide information on these. A representative for technology startups said that we should provide transparency about which sizes of suppliers were paying into and receiving money out of the MSC. We cover this feedback on transparency in the implementation section below.

Considerations

5.11 We have not included criteria for activation, deactivation or changes in parameters in the MSC guidance. We consider that the purpose of the guidance is to explain how the MSC is calculated. More generally, future decisions about the MSC will remain a matter of judgement, informed by conditions and evidence at the time, and so we do not consider that we can provide the detail that some stakeholders are seeking.

5.12 We note that activation, deactivation or future changes to the MSC guidance would also be subject to consultation by virtue of the licence condition. This would provide stakeholders with an opportunity to comment on any proposals.

5.13 We have published worked examples alongside this decision.

MSC parameters

Background

5.14 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 are recovered through the MSC.

5.15 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.

Consultation question

5.16 In the activation consultation, we asked the following questions:

Questions
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?

Decisions

5.17 We have decided to maintain the previous MSC parameter values. We have decided 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.

5.18 We have decided to maintain the format of the trigger as a percentage price fall.

Rationale

5.19 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 MSC payments in more normal market conditions 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.

5.20 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.

5.21 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.

Overview of stakeholder feedback

MSC parameters

5.22 Larger suppliers supported the proposed MSC parameters, at least as a means of allowing prompt activation. However, two larger suppliers said that they would still prefer parameters which covered a greater proportion of losses on potential stranded hedges. One of these suppliers said that, after activation, we should test

alternative parameters and consult on changes. They said that there was a risk of losses if consumers switched in a falling market before the MSC was triggered.

5.23 Smaller suppliers and the representative for technology startups said that the parameters should cover a smaller proportion of stranded hedge losses. This view reflected factors including lower volatility than during the previous gas crisis, the quarterly Cap being in place of the previous six-monthly Cap, and how they considered the previous MSC had worked in practice. They proposed raising the trigger factor to 20% or 30%. The representative for technology startups also proposed reducing the sharing factor to 50%.

5.24 Third party intermediaries disagreed with the proposed parameters. They referred to the original MSC parameters of a 30% trigger and a 75% sharing factor. They considered that policy changes since the original MSC and different market circumstances would justify parameters which covered a smaller proportion of stranded hedge losses. One third party intermediary provided analysis suggesting that a 30% trigger would still lead to less than a 2% chance of a loss above £30 per dual fuel customer this winter. Another third party intermediary said that we should carry out sensitivity analysis on different parameters.

5.25 The consumer advice provider said that we should change the MSC parameters, for example to a 15-20% trigger factor and a 50% sharing factor. They said that this would increase the savings available and incentives for consumers to engage.

5.26 The industry body supported maintaining the existing parameters, noting that these are established values and would avoid unnecessary delay.

5.27 Some individual respondents raised concerns about the parameters proposed, including that these did not reflect changes to supplier resilience since the previous MSC.

Format of trigger

5.28 Larger suppliers generally supported maintaining a percentage trigger. One of these suppliers said that for future design it would prefer a fixed price fall trigger to focus on material impacts. However, one larger supplier disagreed with a percentage trigger. In particular, they said that it was the absolute level of savings which drove consumer switching and therefore stranded hedge losses.

5.29 Smaller suppliers and the representative for technology startups supported or did not object to a percentage trigger, but were focussed on the level rather than the format of the trigger. However, the representative for technology startups said that there should be a cap to the MSC.

5.30 Third party intermediaries did not object to a percentage trigger. However, one third party intermediary also said that there should be a monetary cap on the

charge, to prevent the MSC from becoming too restrictive when wholesale prices are high.

5.31 The industry body supported our proposal for a percentage trigger.

Considerations

Approach to setting MSC parameters

5.32 In the June 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.

5.33 In the June 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.

5.34 Our overall position is that MSC activation is a tool to manage temporary market circumstances, and that we would not want to keep the MSC in place for longer than necessary. In that context, we consider that there are limits on how far it would be proportionate to attempt ongoing refinements of the parameters. Nevertheless, we will retain the ability to review the parameters if required, and intend to review the MSC in spring 2027. We discuss our approach to review later in this chapter, in the section on deactivation.

Level of MSC parameters – tightening parameters

5.35 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.

5.36 We further consider that it is important for suppliers to retain some incentive to accurately forecast and hedge for their expected SVT demand. While this is not always possible, which is why we are implementing the MSC, it is still important for suppliers to be incentivised to act as efficiently as they can.

5.37 The MSC parameters should also be seen in the context of our intent for the MSC. We are not introducing the MSC purely as a market stability mechanism. The MSC is being activated at a lower risk threshold 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.

Level of MSC parameters – market conditions

5.38 As discussed in Chapter 3, we recognise that wholesale prices are lower and less volatile than they were at points during the previous gas crisis.

5.39 However, as set out in Chapter 4, suppliers could still incur losses if prices fell sharply from current levels, and the MSC (based on the previous parameters) would only cover a proportion of stranded hedge losses.

5.40 We further note that market conditions can change rapidly during shock events like this, while the MSC is an ex ante backstop. This means that the MSC parameters should be broadly appropriate for a range of potential conditions, rather than aiming for them to be perfectly calibrated for today's conditions.

5.41 We therefore do not consider that changes in market conditions require a different approach to the MSC parameters.

Level of MSC parameters – financial resilience reforms

5.42 We recognise that the financial resilience reforms have taken effect. We discussed these in Chapter 4 as part of our consideration of whether to activate the MSC.

5.43 However, our rationale for activating the MSC is based on investability, as well as market stability. As set out in Chapter 2, exposing suppliers to high and unmitigatable risks would make it harder or more expensive to secure the capital required to serve customers. In this context, we do not consider that financial resilience reforms – which affect market stability only – require a loosening of the MSC parameters.

Level of MSC parameters – quarterly Cap

5.44 In a June 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.

5.45 The introduction of a quarterly Cap reduced the volume that suppliers have to hedge for their Cap customers. Under the previous six-monthly Cap suppliers would have to hold eight months' worth of hedges – the quarterly Cap reduced this to around four and a half months. We recognise that this reduces the absolute size of losses that suppliers would incur on their hedges.

5.46 However, the MSC calculation includes a consumption weighting, so the size of the MSC is smaller under a quarterly Cap than a six-monthly Cap (for a price fall of the same size). This in turn reduces the impact of the MSC on savings and the potential impact on switching. Our risk assessment of potential losses that has informed activation also accounts for this updated consumption weighting.

5.47 We therefore do not consider that the introduction of a quarterly Cap requires a different approach to the MSC parameters.

Level of MSC parameters – previous experience

5.48 In response to the activation consultation, one larger supplier said that the previous parameters had still permitted switching and consumer savings, and that they provided a balanced approach. However, one smaller supplier said that the 10% trigger led to the previous MSC having an impact for a long period of time. Another smaller supplier said that the MSC would have likely been triggered in summer 2025, if it had been in force, even though this was not an exceptional period.

5.49 For this version of the MSC, we consider that any concern about the measure having an impact for too long is mitigated by our ability to deactivate it following consultation. In other words, we would prefer to manage this risk by deactivating the MSC at an appropriate point, rather than having an MSC with a higher trigger, which would be less effective at mitigating losses when it is most needed. In any event, we also intend to review the MSC in spring 2027 – see the section on deactivation below.

5.50 Similarly, we do not consider that the question of whether the MSC parameters would have been triggered in circumstances like summer 2025 is relevant, given that we do not intend to keep the MSC active in normal circumstances.

Level of MSC parameters – scale of losses

5.51 There is significant uncertainty about how wholesale prices will evolve over this winter, including how long prices may remain high and how quickly they may fall. There is also uncertainty about consumer behaviour. We therefore do not consider that it is feasible to take a probabilistic approach to setting the MSC parameters.

5.52 We accept that there would be some factors which would help to place some constraint on the maximum potential scale of losses. For example, some consumers would be unlikely to engage regardless of the savings available. However, we consider that the losses in a reasonable pessimistic case are already of a scale that an MSC would be an appropriate mitigation in this instance.

Format of trigger

5.53 In a June 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.

5.54 In response to our proposal for a percentage trigger, one larger supplier said that the capital target is expressed as an absolute value. We recognise this, but we continue to consider that the relevant comparison is against the Cap allowances, as these help to determine the revenue available to suppliers.

5.55 When the Cap is higher, suppliers will be able to collect higher allowances from their default tariff customers. We therefore consider that the degree of risk mitigation available from the MSC should be set in this context. This is contrary to the view of one larger supplier, who said that a fixed price fall trigger would, when prices are high, leave suppliers exposed to losses that the mechanism was intended to mitigate.

5.56 Conversely, we see a larger MSC when wholesale prices are higher as an intended consequence, given that the risks to suppliers would be higher at this point. While we understand the call for a cap on the size of the MSC, we consider that this could reduce the effectiveness of the MSC at mitigating risks.

5.57 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.

5.58 Moreover, while there could be alternative, more complicated, designs for the MSC trigger, we do not consider that these would be proportionate for a measure (MSC activation) which we intend as temporary. We consider that the best way to manage the impact of the MSC on the market is to deactivate it when it is not required, rather than to attempt to fine-tune it. Nevertheless, we intend to consider whether to change the MSC in spring 2027 – see the deactivation section below.

Fixed tariffs

Background

5.59 The previous MSC applied to all switches, regardless of whether the customer was moving from a fixed tariff or an SVT.

5.60 When we introduced the previous MSC, there were fewer fixed tariff customers than at present (26% in April 2022, see page 10 of the state of the energy market report 2025). This reflected that customers had already moved to SVT following price rises and supplier failures. In this context, switching rates had also dropped already, from autumn 2021 (see page 8 of the state of the market: energy retail highlights 2026).

5.61 We proposed to maintain this scope in the activation consultation. We did not ask a specific question on the inclusion of fixed tariffs in the activation consultation.

Decision

5.62 We have decided that the MSC will apply to all switches, regardless of whether the customer is leaving a fixed tariff or an SVT. This is in line with our proposal in the activation consultation.

Rationale

5.63 The stranded hedge risks that suppliers face will depend on a number of factors that arise from both SVT customers and fixed tariff customers. While there are differences, we do not consider there to be a binary distinction between SVT and fixed tariff customers. SVT stranded hedge costs will depend on the number of SVT customers that a supplier expects to have in future. This does not necessarily align to a supplier's current number of SVT customers. A supplier may rationally expect some current SVT customers to switch away, but a supplier is also likely to

expect some of its expiring fixed tariff customers to roll onto the SVT, especially in a market with high and rising prices.

5.64 Unlike SVTs, fixed tariffs are permitted to have exit fees, except towards the end of the contract. Exit fees must be proportionate. Fixed tariff stranded hedge costs could therefore be partially offset by exit fees, but exit fees are unlikely to fully cover stranded hedge costs in volatile market conditions. Where customers switch at or close to the end of a fixed tariff (which is when we would expect fixed tariff customers to look for a new deal), an exit fee would not be charged, but suppliers are likely to have hedged at least a proportion of expiring fixed tariff customers as expected SVT demand.

5.65 In this context, we consider that a MSC which only offsets part of stranded hedge costs can appropriately be applied to all switches. We consider that this is a sufficient approximation for a temporary intervention, while recognising that stranded hedge costs will vary from case to case. We also recognise that the relationship between stranded hedge costs and MSC payments received will vary between suppliers.

5.66 We also consider that it is in consumers' interests to activate the MSC now, rather than delaying to consider design changes. This is particularly relevant here, given there is not an existing industry-wide data source available to assess whether switchers are leaving SVT or fixed tariffs (and if the latter, how long was remaining on that tariff). While this data could be made available, it would take time to develop the processes for sharing it in a way that could support the Retail Energy Code Company's (RECCo) payment calculations and systems. We will consider whether to deactivate, change or continue the MSC in spring 2027 – see the deactivation section below.

Overview of stakeholder feedback

5.67 One smaller supplier and the representative for technology startups said that the MSC should only apply to switches from SVTs. The main reasons given were that: the MSC was not intended to deal with fixed tariffs, suppliers can use exit fees until towards the end of a fixed tariff, there would be no SVT stranded hedge costs for customers that a supplier does not expect to roll onto an SVT, and including fixed tariff customers would increase the modelled total MSC payments.

5.68 Conversely, another smaller supplier said the MSC should apply to all switches. The main reasons given were that: suppliers will have to hedge any expiring fixed tariff customers that they expect to roll onto the Cap, fixed tariff customers do not pay exit fees in the last 49 days of their contract (due to licence requirements), exit fees do not cover all stranded hedges, especially when prices are volatile, and the value of fixed tariff hedges is much larger than SVT ones.

5.69 Many individual respondents did not agree with applying the MSC to switches from fixed tariffs.

5.70 Though not specifically related to fixed tariffs, one smaller supplier said that suppliers who are already losing customers would experience windfall gains from the MSC. They said that suppliers would receive MSC payments for customers they already expected to lose and therefore had not hedged for. They said that we should require confirmation from suppliers of which volumes they had hedged for. Similarly, the representative for technology startups said that the MSC would compensate suppliers for a notional hedge, regardless of their actual hedge positions. We consider these comments in this section, because they relate to the point on what hedge costs a supplier would have incurred.

Considerations

Consumer-facing implications

5.71 Even if (hypothetically) suppliers did not have to pay an MSC in relation to former fixed tariff customers, these customers would still likely see some impact from the MSC.

5.72 This reflects that suppliers are unlikely to price differentiate between customers based on existing tariff status. They may instead pass through the average expected MSC cost into their fixed tariffs – in other words a blend of the MSC costs for customers acquired from SVTs and the zero MSC cost for customers acquired from fixed tariffs.

5.73 The consumer-facing impact of excluding fixed tariff customers would therefore be a smaller increase in fixed tariffs. In other words, it may simply approximate to a looser MSC.

Categorising customers

5.74 For the purpose of this section, it is helpful to think about three categories of customers, based on the tariff they leave.

5.75 The first category is customers who leave an SVT. This includes customers who have previously rolled off a fixed tariff. SVT customers would generally be hedged in line with the Cap indexation methodology. However, suppliers may not hedge fully for all current SVT customers, if they expect some to leave.

5.76 The second category is customers who leave a fixed tariff, within four and a half months of their contract end. From that point, suppliers would need to start making forecasts about the proportion of these customers who will roll onto the Cap, and hedge accordingly, so that they can align to the Cap indexation

methodology. Only a proportion of expiring fixed tariff customers will roll onto the Cap, and this proportion will vary between suppliers depending on the characteristics of their customer base. Nevertheless, when wholesale prices fall, suppliers can have some hedge losses incurred on the Cap indexation methodology if a customer switches, even if they have never been an SVT customer. This reflects hedging in expectation of some customers rolling onto the Cap. In addition to any hedge losses incurred on the Cap indexation methodology, suppliers could also incur a loss on any hedges for the remainder of the fixed tariff (if prevailing wholesale prices were lower than the cost the supplier incurred to hedge originally). We recognise that the volume hedged may take into account the risk of customers leaving the fixed tariff.

5.77 Within this second category, there are two subsets. One subset are customers who leave between four and a half months and 50 days before their contract ends. Suppliers would be able to charge an exit fee in relation to these customers. The other subset are customers who leave within 49 days before their contract ends. Suppliers cannot charge exit fees to these customers, in line with licence requirements (standard licence condition 24.8 of the gas and electricity supply licences). We would therefore expect switching from fixed tariffs to be focussed in this period, and this is also our understanding based on the data that one supplier provided in response to the activation consultation.

5.78 The third category is customers who leave a fixed tariff more than four and a half months before the end of their contract. Suppliers would not have an SVT hedge in place for these customers. They would have a fixed tariff hedge in place. Suppliers would be able to charge exit fees for these customers. These could mitigate any losses on the fixed tariff hedge if customers switched away when prices fell (and the prevailing wholesale price had fallen below the hedge cost incurred).

5.79 The likelihood of in-contract switching depends on when a customer started their fixed tariff and therefore the wholesale price incorporated into that tariff. Switching would be unlikely for pre-conflict fixed tariffs and those agreed over the summer, but would be possible where customers have fixed more recently at a high price for certainty, or where customers have signed up to a fixed-term tracker tariff (set at a discount to the Cap). We would therefore expect the number of customers switching in this third category to likely be small at present. Even after any price fall, customers who have fixed recently at a high price would also be aware that they would need to pay an exit fee, which could encourage them to wait for further price falls.

5.80 We recognise that there would be a greater risk of customers leaving tracker tariffs once the Q1 2027 Cap level takes effect, if wholesale prices have fallen by this point.

Considering impacts on categories

5.81 For the first category (customers leaving an SVT), the MSC should apply to these switches in principle, because these customers are exercising the option of leaving the SVT. We recognise that suppliers will not have hedged one hundred percent of the demand for these customers, but the MSC parameters are not set to cover one hundred percent of the stranded hedge costs for an SVT customer. We therefore consider that there is no issue in applying an MSC to these switches.

5.82 For the second category (customers leaving a fixed tariff within four and a half months of contract end), we consider that the MSC should apply to these switches to some extent in principle. To the extent that suppliers have started hedging some of these customers as SVT, this is a consequence of customers having the option of joining the SVT.

5.83 We previously said (in our February 2022 decision on the potential impact of increased wholesale price volatility on the default tariff cap, paragraph 2.29) that we expected suppliers "to respond to the now-known risks of customer demand variance". We have therefore been clear that suppliers should be hedging for customers that they think will roll onto SVT, in order to reduce the costs of unexpected SVT demand, which could ultimately be borne by consumers.

5.84 Where customers switch at a point when they cannot be charged an exit fee, suppliers would face some demand risk in normal circumstances. However, the scale of the risk would be greater when prices are volatile. Therefore, to the extent that stranded hedge losses are above normal levels in this circumstance, this would reduce the risk of over-compensation from applying an MSC to such switches.

5.85 We recognise that there could be an argument for a smaller MSC to be applied to this category of switch. However, as described above, this would not necessarily be passed through as a saving to the specific customers in question. In addition, we took the fact that the MSC applied to fixed tariffs into account when originally setting the MSC parameters. Finally, this would be challenging to do quickly.

5.86 For the third category (customers leaving a fixed tariff more than four and a half months before their contract end), we recognise that there would not be a particular reason to apply an MSC to these switches in isolation. In these cases, a supplier could receive both an exit fee and a MSC payment.

5.87 However, in the round, we do not consider that the risk of overcompensation is significant. First, as noted above, we do not expect significant switches from this category of customers. We recognise that there is a potential exception in relation to tracker tariffs from January 2027. Second, fixed tariff exit fees may not cover all losses when prices fall sharply (which is the situation when the MSC would be

triggered). Exit fees are a commercial choice for a supplier (subject to compliance with licence requirements), but consumers would lose out in normal circumstances if exit fees were set to cover more extreme risks. Exit fees must also be proportionate. Third, in relation to tracker tariffs specifically, their recent use may in part be an attempt by suppliers to mitigate the risk of stranded hedges. To the extent that suppliers have tried to mitigate risks commercially, but still end up incurring losses net of exit fees, it could appear undesirable if a supplier would be left in a worse position (not receiving an MSC) than if they had allowed customers to roll onto the Cap (and therefore received an MSC). At the least, we consider that this shows that the current tariff mix is interconnected with the existence of the stranded hedges risk. Fourth, we would also expect suppliers to consider their requirement to treat customers fairly when applying any exit fees in combination with an MSC payment. Finally, the proposed MSC parameters further reduce the risk of over-compensation in aggregate, given that they do not cover all hedge losses.

5.88 One smaller supplier said that suppliers set exit fees knowing that the MSC is an established Ofgem tool, and so exit fees would increase if the MSC was not applied to fixed tariffs. They said that they would require advance notice of any change to exclude fixed tariffs, so that they could change their exit fees. We do not consider that the possibility of an MSC would have been a material factor in suppliers' decisions about how they set exit fees, given that any activation of the MSC was subject to consultation, including on the design of the MSC.

Customer losses

5.89 Suppliers' hedges will take into account their expected customer numbers. If a supplier expects to lose customers, we agree that the supplier would not have hedged for such customers. We therefore accept that activating the MSC will have an unplanned benefit for suppliers who are losing customers.

5.90 We also recognise that this would conversely increase the acquisition costs for suppliers who would have gained customers in any case – although we expect the impact of this to be borne by the customers switching rather than the gaining supplier. However, we consider that this should be seen in the round, given that the MSC does not cover all stranded hedge costs. Gaining suppliers would therefore generally still benefit in a falling market from being able to offer greater than normal savings. This is also a temporary impact, for the period where the MSC is active and triggered.

5.91 We do not consider that such impacts are an overriding consideration for the MSC design. Normal rates of customer losses are well below those which might be seen in a reasonable pessimistic case. As an illustration, over Q3 2025 to Q2 2026, the largest percentage reduction in a large supplier's electricity customer

base was only 5%. (Calculated based on the information published on the Ofgem data portal, chart 'Electricity supply market shares by company: domestic'). This is much smaller than the assumption we use on the overall proportion of customers who could switch if prices fall sharply (see Chapter 4). We therefore consider that any inaccuracy in terms of which suppliers benefit from an MSC is acceptable in a context of the overall losses that suppliers could face in aggregate.

Practical considerations

5.92 There is no industry data flow which reflects a customer's former tariff type. RECCo uses supplier-provided data split by payment type for levelisation, but RECCo does not hold data on the former tariff type when a customer switches. Incorporating new data would also require changes to the RECCo systems which operate the MSC.

5.93 Similarly, changes would be required if we were to adopt the suggestion from one smaller supplier to calculate the MSC based on supplier-provided data on whether they had hedged for certain customers. The same would be true if we used alternative supplier-provided data on tariff types and applied assumptions about likely hedging.

5.94 We would not activate the MSC with a scope that we considered incorrect. For the avoidance of doubt, our decision on scope is not dictated by data or systems. However, in a context where we consider it reasonable to maintain the scope, we note that changing the scope would delay implementation of the MSC, a measure which we consider is in consumers' interests. We therefore consider that it is appropriate to consider data and systems to this extent.

Effect on modelling

5.95 We consider the effect on modelling of including fixed tariffs as part of the impact assessment (Appendix 1).

Deferred allowances

Background

5.96 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.

Consultation question

5.97 In the activation consultation, we asked the following question:

Decision Market Stabilisation Charge activation

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

Decision

5.98 We have decided not to include additional deferred costs in the MSC calculation.

Rationale

5.99 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.

5.100 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.

Overview of stakeholder feedback

5.101 Several larger suppliers supported our proposal. Several said that we should monitor recovery of deferred allowances and consider alternative action if required. One larger supplier disagreed with our proposal, saying that we should include at least some deferred allowances, particularly backwardation.

5.102 Smaller suppliers and the representative for technology startups agreed with our proposal. The latter said that recovery risk on deferred allowances is a normal commercial risk.

5.103 The third party intermediary who responded to this question supported our proposal. The industry body also supported our proposal.

Considerations

5.104 In response to the licence consultation, the supplier who raised the issue of deferred allowances said that the consequent losses could be significant.

5.105 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 will 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

5.106 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.

5.107 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.

Consultation question

5.108 In the activation consultation, we asked the following question:

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

Decision

5.109 We have decided that the MSC will be activated with five working days of notice. As we have published our decision on 17 November, this means that the MSC will be activated on 25 November.

5.110 This is a change from our activation consultation position, where we proposed activation with at least one full working day of notice.

5.111 We have decided not to make any change to the ongoing weekly process for publishing MSC values.

Rationale

5.112 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 repricing their fixed tariffs. We also recognise that the MSC would be applied at the point the switch completes, so a notice period mitigates the impact on ongoing switches (which have been agreed but have not completed).

Overview of stakeholder feedback

5.113 Of the larger suppliers who commented on this question, two supported our proposal, saying that it provided sufficient time for market participants. However, one larger supplier said that at least two working days would be preferable outside of urgent market circumstances.

5.114 Two smaller suppliers and the representative for technology startups said that one working day was too short. The reasons given for needing additional time included: adjusting sales channels, mitigating the effect on ongoing switches, time to reprice tariffs and for suppliers to adjust hedging. Suggestions were for between five working days and two weeks of notice. The representative for technology startups said that the same approach should apply for any changes to the MSC parameters. One smaller supplier also said that there should be more notice for each weekly MSC value.

5.115 Two third party intermediaries said that the notice period should be longer, especially to allow processing of updated tariff data. They suggested one week or ten working days of notice. They also said that the MSC should not be applied to switches that were already in process, with one third party intermediary referring to this as retrospective. Another third party intermediary said that the ability to activate at one working day's notice would give us the flexibility to wait until prices fell before activating the MSC.

5.116 The industry body recommended a minimum of five working days, given the potential impact on previously agreed switches.

Considerations

Notice for activation

5.117 In the activation consultation (paragraph 5.28), we recognised that stakeholders would be closer to the practical implementation details, and so we welcomed feedback on our proposed notice period. We have received helpful comments in responses.

5.118 The overall context remains that the MSC is a measure to respond to exceptional market circumstances. To be effective, the MSC needs to be activated promptly.

5.119 We consider that the notice period we proposed may have been adequate to provide time for repricing, although we recognise the comments from stakeholders that more time would be preferable for this.

5.120 We recognise that suppliers may look to adjust their hedges in light of the MSC, and that having more time to do this may be helpful for them.

5.121 We accept that suppliers may consider changes to their sales activity depending on how they expect switching activity to evolve, including any effects of the MSC. However, in the context of a measure which is intended to respond to market circumstances, we do not consider that we could delay the MSC until suppliers have adjusted their sales arrangements.

5.122 The key reason why we have decided to extend the notice period is because of the effect on ongoing switches. We recognise that it is preferable, where possible, for the MSC to apply to switches where a supplier had been able to reflect the MSC activation in their pricing.

5.123 We therefore consider that a notice period of five working days is a balanced position. This is within the range of stakeholder suggestions, but at the lower end to recognise that the MSC is intended to respond promptly to market developments.

5.124 We do not consider that an MSC potentially applying to any switch which was agreed before this decision was published creates a retrospective effect. Our decision to increase the notice period already reduces the prospect of the MSC applying to ongoing switches. For any residual switches that are still ongoing at the point of activation, suppliers were already aware of the possibility of MSC activation due to our activation consultation and could therefore have taken this into account as part of their commercial decision-making. Further, any switch would actually occur after the point of activation, not before, and so we do not consider that MSC activation would have retrospective effect.

Notice for changes to MSC parameters

5.125 Should we propose to make changes to the MSC parameters in future, we would consider what the appropriate period for implementation should be.

Weekly process

5.126 Under the previous weekly process, as proposed for reintroduction in the MSC guidance, we publish the MSC value on a Monday (or the next working day in the case of bank holidays). The MSC value then takes effect two days later, for the next week.

5.127 Under this cycle, switches can be instigated at a point when one weekly MSC value is published (and therefore likely factored into a supplier's pricing), but the MSC value which applies at the point the switch completes could be different. This includes the case where the MSC is triggered one week and not the next (or vice versa). We recognise that this creates a degree of uncertainty for suppliers.

5.128 However, the difference between the expected and incurred MSC could be in either direction, so the impacts would be likely to cancel each other out to some extent over time. We therefore do not consider that this would be a significant systematic impact on suppliers who gain customers.

5.129 We consider that the ongoing weekly cycle is different from the situation where the MSC is activated for the first time, because activation involves a one-off change which does not occur on a planned cycle.

5.130 A longer lag between calculation of the MSC and it taking effect could also reduce the accuracy of the MSC in a falling market. This would be negative for the effectiveness of the measure in mitigating losses.

5.131 Therefore, we have decided not to make any change to the weekly process.

5.132 We note that suppliers will monitor wholesale prices as part of their existing activity. They will therefore have some understanding of whether the MSC is likely to be triggered or the direction that the MSC may move in. While we appreciate that the MSC will be an additional consideration for suppliers when pricing their tariffs, suppliers' understanding of the MSC will reduce the extent to which they face a risk of unexpected charges – and therefore the risk that they price a risk premium into their fixed tariffs to cover this.

Implementation

5.133 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 will publish the MSC in a similar way as previously on a dashboard.

5.134 We will consider whether any additional presentation of the size of the MSC (eg in pounds per customer) would be helpful while the MSC is active. At this point, we have prioritised the steps required to activate the MSC.

5.135 We recognise that the Cap hedge is an input to the MSC calculations. We do not publish forecast levels of the Cap, and we do not intend to change this established practice. Some suppliers will already be carrying out their own Cap forecasting, based on commercially-available wholesale price data.

Deactivation

Background

5.136 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.

5.137 In the June workshop with consumer groups and charities, we received a question about how long the MSC would remain active and the process for deactivation.

Consultation question

5.138 In the activation consultation, we asked the following question:

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

Decision

5.139 We intend to review the MSC activation next year. This review could decide to retain, change or deactivate the MSC in spring 2027.

5.140 We do not intend to consult on deactivating the MSC before this, though we will keep the situation under review.

5.141 This is a change of emphasis from our proposal in the activation consultation. In that document, we said that we did not propose to define a fixed review point, but we indicated that we expected that the MSC would remain active for several months, and likely at least until the end of winter (the end of March 2027).

Rationale

5.142 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.

5.143 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.

5.144 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.

5.145 Therefore, while we consider that an MSC is required for this winter, spring 2027 is an opportune point for review of whether an active MSC remains necessary.

5.146 Similarly, we consider that this would be the point to consider whether any changes to the MSC design are appropriate. We do not currently consider that it is proportionate to review the design earlier than this, as the MSC is a temporary backstop protection. We consider that earlier design reviews would create unnecessary uncertainty, especially as near-term market conditions frequently change. Nevertheless, we will keep the MSC under review.

Overview of stakeholder feedback

5.147 Most larger suppliers supported our proposal. One of these suppliers said that it would welcome a review point, monitoring indicators and criteria for deactivation. However, two larger suppliers disagreed, saying that the MSC should remain permanently active.

5.148 Smaller suppliers and the representative for technology startups said that, if the MSC was activated, it should end at the end of winter, or following an earlier review if possible. Two of these stakeholders said that there should be an automatic end date of 31 March 2027 unless there was a further consultation, noting that the previous MSC ended up remaining in place for two years.

5.149 Third party intermediaries considered that deactivation should be prompt and subject to less discretion. They provided suggestions such as an automatic end date, conditions for deactivation, and regular monitoring.

5.150 The industry body broadly agreed with our proposal, but considered that the period of intervention should be minimised.

Considerations

Permanent MSC

5.151 We introduced the MSC licence condition as a measure that could provide the option of implementing the MSC at pace, and included provisions for activation and deactivation. Had we intended to introduce a permanent MSC, we would have consulted on that proposal when proposing to introduce the licence condition.

5.152 More fundamentally, we do not consider that the MSC should be a permanently active feature of the market, as the risks in normal circumstances would not be sufficient to merit intervention.

5.153 We note the comments from some larger suppliers that an active MSC does not involve payments between suppliers when it is not triggered. However, we do not consider that this creates a case for a permanently active MSC. First, we consider that the activation process is a proportionate way of ensuring that an active MSC is justified by market conditions, while allowing us to proceed at pace if required. Second, MSC parameters which are appropriate for volatile market conditions may not be appropriate when prices are normal, as the MSC could be triggered in circumstances where it was not required.

Fixed end date for activation of the MSC

5.154 In line with standard licence condition 24A.3 of the gas and electricity supply licences, deactivation of the MSC is subject to consultation. We are therefore unable to set a fixed end date for activation of the MSC at this point, as we cannot prejudge the outcome of that future consultation.

Review point

5.155 One third party intermediary said that there should be a presumption in favour of deactivation. At the point of considering deactivation, we would want to make the best decision to protect the interests of consumers, considering responses to the relevant consultation concerning any potential deactivation of the MSC. We therefore do not consider that a presumption on the outcome would be appropriate.

5.156 However, as a general point, we reiterate that we do not consider that an active MSC should be a feature of the market in normal circumstances, and we do not want the MSC to be active longer than necessary.

Process

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

5.158 One smaller supplier and the industry body said that there should not be a need for a longer consultation on deactivation than for activation. We recognise that, as with the activation consultation, there is a benefit in consulting close to a potential decision point. This would reduce the risk of changes in market circumstances between consultation and decision. However, there could also be benefits in providing more time for stakeholders to respond.

5.159 Some stakeholders suggested that we should publish regular updates (for example monthly) of our assessment of whether the MSC was required. We do not consider that this is necessary over the next few months, given that we would not

deactivate the MSC immediately. However, we appreciate that there may be a role for updates should the MSC remain in place over a longer period.

Impact assessment

5.160 We produced a draft impact assessment as part of our consultation. We have now published a final impact assessment alongside this decision – see Appendix 1.

5.161 When producing this final impact assessment, we have considered the feedback received in response to the consultation. We have developed the impact assessment further in light of feedback. We consider that the impact assessment is appropriate in the circumstances of trying to respond to volatile market conditions and follows relevant guidance in light of those circumstances.

5.162 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 have decided to activate the MSC with the intention that this is 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.

Consultation question

5.163 In the activation consultation, we asked the following question:

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

Overview of stakeholder feedback

5.164 One larger supplier welcomed the inclusion of a draft impact assessment. Two other larger suppliers supported aspects of the draft impact assessment, but provided suggestions for further development.

5.165 The representative for technology startups said that we should carry out a full impact assessment under section 5A of the Utilities Act 2000. One smaller supplier also said that we should consider the impact of including fixed tariffs within the MSC and of the impact on switching before considering that the proposal was not important. Another smaller supplier said that the draft impact assessment had gaps in relation to the impact on switching, the effect of alternative parameters and the impact on competition.

5.166 Third party intermediaries disagreed with the draft impact assessment and provided suggestions for additional content, particularly in relation to the impact on consumer savings and the effect on switching.

5.167 The industry body broadly agreed with our draft impact assessment.

5.168 Many individual respondents raised concerns about the evidence base for activation, including saying that there was no evidence that the benefits to consumers would outweigh the costs.

Considerations

5.169 We consider some themes from responses below. We have also considered more specific points in the drafting of the final impact assessment.

Importance

5.170 The representative for technology startups said that the proposal to activate the MSC would have a significant effect on commercial activities and the general public. For the former, they said that the MSC would place a charge on every switch in a falling market, which would affect pricing and acquisition decisions. For the latter, they noted the scale of payments in our central scenario in the draft impact assessment.

5.171 We do not consider that there is likely to be a significant impact on commercial activities. While it will have a temporary impact on suppliers' incentives, the MSC would only apply on a temporary basis, and would only lead to payments in specific wholesale price conditions. Even if triggered, there would be circumstances where the value of the MSC payment would be small.

5.172 We also do not consider that there is likely to be a significant impact on the general public. The MSC only applies in certain circumstances and is not set at a level which removes the incentive to switch to lower cost suppliers. Further it will only apply to certain customers – those who choose to switch in those circumstances. We recognise that the scale of payments under the scheme could be large in some circumstances, but as set out in the activation consultation, the impacts quoted represent a reasonable pessimistic scenario.

5.173 The representative for technology startups also said that the fact the previous MSC paid out over £80m showed that the charge was material. While we recognise that this could be seen as a large sum of money in other contexts, we continue to consider that this value should be seen in the context of the amounts of money flowing through the energy sector, for example in comparison with many similar scale decisions taken on the Cap policy.

Counterfactual

5.174 Some stakeholders said that we should focus on a comparison with and without the MSC. We agree that this is the main relevant comparison, and have refined the drafting to emphasise this. We continue to consider that it is also relevant that alternative interventions would have more undesirable distributional consequences for consumers.

Fixed tariff customers

5.175 We consider the policy issues in relation to fixed tariffs in Chapter 5. We have further explained fixed tariff impacts within the final impact assessment.

Switching

5.176 Some stakeholders said that we should be clear that the MSC would have a negative impact on switching. We recognised the potential impact on switching in the 'Description of impacts' section of the draft impact assessment (paragraph A1.15). We have expanded our consideration of switching in this final impact assessment.

Benefits, costs and monetisation

5.177 Some stakeholders said that we had not demonstrated that the benefits of activating the MSC to consumers would exceed the costs.

5.178 Ultimately, we do not consider that this is susceptible to straightforward quantification. A substantial part of our rationale for the MSC depends on the benefits of investability, which are indirect and would occur over time. However, we consider that there is a clear strategic case, in line with our Markets Vision and Strategy, that investability helps to support good outcomes for consumers. We have discussed the costs and benefits in the final impact assessment to the extent that we deem appropriate in the circumstances. We acknowledge that there is further analysis that some stakeholders would have liked to see better reflected, but we consider the final impact assessment to represent an appropriately detailed assessment whilst ensuring we are able to act at pace in the interests of consumers.

Decision Market Stabilisation Charge activation

Lower risk scenario

5.179 One third party intermediary said that we should consider a scenario where wholesale prices remained high or fell gradually. They said that in this scenario the MSC would provide little stability benefit but could affect tariff pricing.

5.180 We do not consider that this is a priority. We do not consider that an active MSC that was not triggered would have a material impact on pricing. The MSC does not present a material ex ante risk to suppliers costing new tariff offerings that would mean the chance of it being triggered would need to be priced in. The MSC could also deliver benefits in that situation by supporting responsible hedging, given that there would still be a risk of further volatility.

6. Next steps

We set out the next steps.

6.1 In line with our position in Chapter 5, the MSC will take effect after a notice period of five working days following this decision. This means that the MSC will take effect from 00:00 on Wednesday 25 November.

6.2 This decision document constitutes the statement in writing to activate the MSC, pursuant to standard licence condition 24A.2A of the gas and electricity supply licences.

6.3 RECCo has been preparing for the potential activation of the MSC. Due to the time required for systems changes, Retail Energy Code Change Proposal R0343 has extended the timetable for the first set of MSC payments following activation. This extends the time for RECCo to issue the statement of amounts owed from 15 to 40 working days.

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.

Appendix 1. Final impact assessment

A1.1 We consider that this final impact assessment is appropriate in the circumstances. This reflects the importance of proceeding 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 final 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 final impact assessment should be read in conjunction with the main body of the decision document. We do not repeat all relevant points from the main body of the decision document.

Rationale

A1.5 We provide a summary rationale for the MSC here as an introduction. We also cover the rationale in Chapter 2 of the main document. We discuss the individual costs and benefits further in this impact assessment.

A1.6 Activating the MSC would in part 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.

A1.7 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.

A1.8 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.

A1.9 In order to set a Cap that is stable and forward-looking, we monitor wholesale prices in advance. This means that a responsible supplier must also purchase the energy that their Cap customers are likely to use ahead of time. Failure to do so would leave them at risk of having to buy energy at higher prices than they can sell it at under the Cap. In a volatile market with sustained price rises, this risk can be very large.

A1.10 Consumers however, are free to leave the Cap at any time. This means that if prices suddenly fall and fixed deals become more attractive, customers can walk away from the Cap leaving the supplier unable to recover the costs of the higher cost energy purchased on the customer's behalf. The scale of this risk will depend on a range of factors including the scale and timing of price movements and customer switching – but we consider there is a realistic near-term prospect of losses reaching a threshold of £20 to £30 per dual fuel customer in a pessimistic scenario.

A1.11 Under the regulatory framework, consumers have the option of joining and leaving the Cap. This option has a value, particularly in volatile market conditions. An active MSC would mean that the consumers who benefit from exercising this option (by switching supplier) would bear more of the impact of doing so.

A1.12 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.

A1.13 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 leave suppliers with fewer options to manage their risks in volatile market conditions. It may therefore be necessary to put in place other interventions to help manage risks to market stability.

A1.14 It is the combination of regulatory requirements (particularly the Cap and the lack of exit fees on SVT) which create the potential for switching to be driven by temporary differences in wholesale costs rather than underlying differences in efficiency. This would be a market inefficiency, which the MSC is intended to

mitigate. In normal wholesale market conditions the impact would be small, but the impact could be much greater when wholesale prices are volatile.

A1.15 One stakeholder said that exit fees do not apply universally in other sectors, for example not applying in telecoms to customers who were outside their initial term. We accept that practices will vary. However, firms at least have the option of using exit fees in sectors where they are not prohibited from doing so. More fundamentally, suppliers face particular risks in a market like energy supply which involves commodity purchases and consequent exposure to price risk on hedges. We therefore consider that suppliers would be likely to consider the use of exit fees for energy SVTs if they were allowed to.

A1.16 Within our Multi-year strategy, activation of the MSC primarily aligns with the objective of enabling competition and investability through financial resilience.

A1.17 In reaching our decision, we have had regard to our principal objective to protect the interests of energy consumers and the relevant statutory considerations, including but not limited to security of supply and the ability of licence holders to finance their regulated activities. We consider that supporting market stability and investability in these circumstances is consistent with the principal objective and contributes to those statutory considerations. Although market stability and investability are recurring and important considerations in the reasons provided for this decision, they are not determinative in themselves. They form part of the wider range of considerations we have taken into account in reaching our decision.

Counterfactual

A1.18 For the purpose of this final impact assessment, we consider the MSC against a counterfactual of a falling wholesale price scenario with no MSC.

A1.19 We also briefly explain how the consumer impact of the MSC could differ from alternative interventions to mitigate suppliers' losses – see the section on alternative interventions.

Impact on consumers

Benefit to consumers: market stability

Description

A1.20 To the extent that the MSC mitigated the risk of supplier failure, all consumers could benefit from a reduction in the SoLR levy.

A1.21 This benefit could materialise in the event that wholesale prices fell sharply. It could also materialise in the event that wholesale prices rose, if the MSC provided suppliers with greater confidence to hedge.

A1.22 The impacts on individual suppliers' financial positions 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. Within our analysis, we consider a notional supplier hedging in line with the Cap indexation methodology.

A1.23 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.

A1.24 However, this does not affect stakeholders' ability to understand our rationale, because our decision 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.

Discussion of scale

A1.25 In the absence of an MSC, there would be an increase in risk for 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.

A1.26 As noted in the main document (for example Chapter 3), risks can also have a cumulative impact on suppliers and their resilience.

A1.27 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. The net cost of acting as a SoLR would influence whether there was a SoLR levy impact on consumers.

A1.28 We note that SoLR costs can be millions of pounds, even when a smaller supplier fails. For example, the failure of Rebel Energy led to a levy claim of up to £7 million (Last Resort Supply Payment claims minded-to positions 2026). This claim related to credit balances and other costs only.

A1.29 We also note that in a rising wholesale market, a supplier acting as a SoLR may incur costs from buying energy for additional customers which are above the amounts they could charge under the Cap. This could increase the cost to the SoLR levy.

A1.30 We recognise that, as noted by some stakeholders, the SoLR levy offset has come into force, following our decision on a SoLR levy offset in 2025. This allows us to recover some SoLR levy costs where there is value remaining in a company after the insolvency process. As set out in that decision, we consider that the SoLR levy offset can deliver benefits for consumers, and found that in the majority of previous supplier failures an amount would have been recoverable (paragraph 2.11 of the SoLR levy offset decision). However, as also noted in that decision (paragraph 2.13), the amount that would be recovered in any future supplier failures is uncertain and would depend on the circumstances. We therefore do not consider that the existence of the SoLR levy offset removes the potential for market stability benefits from the MSC.

A1.31 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.

A1.32 To summarise, one of the benefits is avoided supplier failure and socialised costs. While we do not expect another failure of the scale of Bulb, the net costs of a mid-tier supplier failure could be material, and well above the size of the £7 million costs attributable to Rebel Energy. We therefore conclude that this

represents a material potential benefit to consumers, which we assess against any costs below.

Benefit to consumers: investability

Description

A1.33 A market which can attract sufficient investment at reasonable cost is in consumers' long-term interests. It is important for quality of service and innovation. Ultimately it is also critical for financial resilience – capital requirements will only work and be in consumers' interests if the risk-reward on that capital is acceptable. If it isn't, then consumers would face higher prices and more suppliers could exit the market or struggle to gain necessary investment. Therefore supporting investability in the market supports us to comply with our principal objective.

A1.34 The level of investability could have wide-reaching effects on the market over time. In the context of this impact assessment, we do not attempt to describe the full potential set of effects. However, we provide an outline here.

A1.35 An investable market is required to provide incentives to participate in the market. If efficient suppliers do not expect to receive a normal rate of return on average over time, then this may impact decisions about participation in the market.

A1.36 An investable market is also required to provide confidence for suppliers to allocate capital for investment. If suppliers do not invest in their businesses, then over time this would impact consumers through factors like costs, service quality and product range.

A1.37 If the market became uninvestable, there would be negative impacts on these aspects, and therefore consumer interests. As a backstop measure, the MSC is intended to reduce the risk of reaching this point.

A1.38 Fundamentally, we do not consider that, in the counterfactual, a market can absorb costs beyond a certain level without any negative impacts to consumers. That would imply that risks can be paid for through suppliers' capital buffers, without any costs to consumers – but this would raise the question of why suppliers would put capital at risk on those terms.

Discussion of scale

A1.39 The Cap regime protects consumers by capping the profits available to suppliers, by reference to the financing cost of a notional efficient supplier. However, the broader regulatory regime, including the requirement to allow

consumers to switch away from SVT to a new supplier at no cost, mean that suppliers face downside risk in periods of volatile prices. If this risk is sufficiently material to reduce investors' expectations around returns on investment below that needed to cover their financing costs, this will reduce the willingness of suppliers to enter and invest in the retail market.

A1.40 Suppliers will and should always face commercial risks, such as if their costs rise, or their quality of service falls, and they lose customers. This is inherent to a competitive market. However, it is different from an unmanageable downside risk attributable to a combination of volatile wholesale prices, and the terms of the SVT. It is this risk which the MSC is designed to address.

A1.41 The longer-term benefits of a healthy engaged market should be to reduce costs, and improve quality of service for consumers.

A1.42 We also note that the longer-term benefits of competition could affect substantial components of the cost stack, and therefore consumer bills. We provide two illustrative examples below.

A1.43 Competition should support efficiency. This would primarily affect suppliers' own operating costs. The current value of the core operating cost allowance in the Cap for a typical dual fuel customer paying by direct debit is £204.

A1.44 Development of new products to help consumers use energy at different times would for example affect the direct fuel costs for electricity in terms of consumers' current bills. (New products would also be expected to help avoid future wholesale and network costs that would be incurred in a situation with more limited consumer-led flexibility). The current value of the electricity direct fuel component in the Cap for a typical customer paying by direct debit is £341.

A1.45 Even taking the current values of these components alone, small reductions could deliver significant consumer benefits. Therefore, a reduction in investability in the counterfactual which led to the benefits of competition not being realised would harm consumers.

A1.46 To summarise, we consider that the MSC is designed to address a risk from the current regulatory system that impacts effective competition, and therefore will reduce incentives to invest. Although it is not directly possible to measure this impact, we would expect competition to reduce costs and improve quality of service over time, including through providing incentives to identify new innovative services.

Cost to consumers: MSC payments

Description

A1.47 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. This is a transfer to suppliers from customers who switch supplier. (However, we note that the regulatory framework transfers some risks to suppliers which consumers would bear in other markets, but mitigation may be required to limit this transfer when risks are high).

A1.48 The MSC would mitigate, rather than remove, stranded hedge losses for the losing supplier. This means that there will still be incentives for consumers to switch, which can promote competition. However, the MSC will make the losses more affordable and in line with the exposure faced in a well-functioning market.

A1.49 For the avoidance of doubt, we do not expect that there would be an impact on the prices paid by consumers when the MSC was not expected to be triggered. The value of the MSC when it is not triggered is zero. We do not expect an impact because the MSC liability would be determined at the point a switch completes, rather at any other point in time. A supplier who gains a customer would therefore not have an ongoing question about whether an MSC liability would be incurred at any point during the life of that tariff.

A1.50 In line with our decision, MSC payments would be made in relation to all switches. This therefore includes switches where a customer leaves a fixed tariff, as well as those where a customer leaves an SVT.

Discussion of scale

A1.51 We have set out results for illustrative falling price cases in Table 1 (in Chapter 4), shown as average impacts across the customer base.

A1.52 In our scenario in that table, we model prices remaining flat in November, then 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 levels in a short timeframe. This reflects that gas storage levels are lower than historically and that geopolitical uncertainty may not be eliminated.

A1.53 This analysis requires an assumption about the proportion of the total customer base who move to fixed tariffs.

A1.54 We explain below how we have developed this assumption. However, this should be treated as a broad assumption that there could be a very substantial

proportion of customers moving to fixed tariffs, rather than a precise prediction about how many customers of each type might move. We emphasise that this is a very substantial proportion of switching.

A1.55 We assume that 16% of the total customer base move to fixed tariffs for the purpose of this illustration. We have sized this assumption based on four elements.

A1.56 First, we include the 7% of the customer base who have already moved to SVT since April. This is on the basis that these customers engaged recently (when selecting their previous fixed tariff) and so would be likely to re-engage when attractive tariffs became available.

A1.57 Second, we make an assumption that a further 2% of the customer base move to SVT before prices fall (ie during November). This reflects that we assume in the scenario that wholesale prices remain high in November, relative to the current cap level. Based on the proportion of fixed tariff customers before the conflict (38% in January 2026), assuming an even expiry rate and that most fixed tariffs are 12 months long, this would imply that around 3.2% of customers would be expiring fixed tariff customers in any month. The 2% assumption is then based on the majority (modelled as 60%) of these expiring fixed tariff customers rolling onto SVT, given current high prices and limited fixed tariff availability below the Q4 2026 Cap, though also recognising that recent movements to SVT have been smaller. We recognise that the circumstances of individual suppliers' customer bases will differ, but we need to consider an overall assumption.

A1.58 Third, we include an additional 5% reflecting that some customers who were on SVT before the conflict may engage in response to a sharp price fall. This is an illustrative figure, but we consider it important to reflect that even customers on SVT at the start of the year would have a range of levels of engagement. (In sensitivity B in Table 1, we remove this element).

A1.59 Finally, we include an additional 2% for expiring fixed tariff customers who would have been expected to roll onto the Cap, and for whom there would therefore have been an SVT hedge in place. This is based on the same monthly switching as the second point. We only include one month of expiring fixed tariff customers (reflecting December) to size this assumption. This reflects that the cap level will reset from January, which will increase incentives to engage. However, we note that suppliers would start to hedge some expiring fixed tariff customers from four and a half months before contract expiry. This figure should therefore be treated as a broad proxy.

A1.60 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.

A1.61 The switching assumption behind Table 1 does not include a specific component for switches from fixed tariffs where there was no Cap hedge in place – either because the supplier expected the customer to leave at the end of the fixed tariff or because the customer was mid-contract. (We discuss fixed tariffs in Chapter 5). Rather, we consider that this is reflected in the round, for the reasons below.

A1.62 We recognise that all switches between suppliers will incur an MSC payment when it is triggered, including those from fixed tariffs. However, we do not consider that this means we understate the potential scale of MSC payments. The assumption on the proportion of customers switching is very high. In the round, we consider that this can accommodate any other switches from fixed tariffs, which are not likely to be large in a single month at present. We have already assumed that there would be an SVT hedge in place for the majority of customers whose fixed tariffs expire in that month, and customers are unlikely to switch in-contract from fixed tariffs entered into at lower prices.

A1.63 We recognise that, where there is no Cap hedge in place, a supplier would not incur stranded hedge costs in relation to a Cap hedge (which is the approach we use to calculating costs in Table 1). However, suppliers could still have stranded costs in relation to fixed tariff hedges – either in excess of an exit fee, or where the supplier cannot charge an exit fee. We therefore do not consider that there is a material impact on our conclusion that the MSC would only cover part of the stranded hedge costs incurred by suppliers.

Cost to consumers: effect on internal tariff switches

Description

A1.64 As discussed in Chapter 4, there could be indirect impacts on the price paid by consumers who switch tariff with their current supplier. If suppliers increased the prices of their retention tariffs in line with the MSC (when triggered), then the consumers who switch tariff would pay more than in the counterfactual. This would be an indirect rather than a direct effect of the MSC, as the supplier would not have an MSC liability in this instance. This is a transfer to suppliers. (Again, we note however that the regulatory framework transfers some risks to suppliers which consumers would bear in other markets).

A1.65 Where a supplier is setting a fixed tariff available to both new and existing customers, they could not set their tariff to simultaneously reflect the marginal cost of the MSC for each type of customer. Pricing is a commercial matter for suppliers. However, we note that, to the extent that a supplier incorporated the average expected MSC cost (across internal and external switchers) into its fixed tariffs, then the amount priced into these tariffs would be lower than the full value of the MSC. This would have an effect on the prices paid by all customers who selected these tariffs. In other words, to the extent that some consumers who switch internally end up paying more than the MSC cost the gaining supplier incurs in relation to that switch, other consumers who switch externally may end up paying less than the MSC cost the gaining supplier incurs in relation to that switch.

A1.66 We note that growing smaller suppliers would be more likely to price the full value of the MSC into their tariffs (compared to larger suppliers), as they would have fewer internal switches relative to their number of customer acquisitions. We also appreciate that such suppliers are likely to provide some of the cheapest prices in a falling market in the counterfactual, so any specific impact on their pricing could have knock-on consequences for the pricing decisions of other suppliers.

A1.67 Where a supplier is setting a retention tariff (available to existing customers only), as set out in Chapter 4, they would have flexibility to choose how to set this tariff. However, a conservative assumption would be that they would price the MSC into their retention tariffs.

Discussion of scale

A1.68 Within the illustrative analysis behind Table 1, we assume that most switches (80%) to fixed tariffs in a falling market are external. This implies that the remaining internal switches within this framework would be small.

A1.69 We do recognise that, in line with the data cited in Chapter 4, there are usually more internal than external switches. The balance between internal and external switches would affect the extent to which there is a direct impact on consumers (from MSC payments) or an indirect impact (through an effect on internal tariff switches).

A1.70 We recognise that fixed tariffs will expire each month, so that there could be cumulative impacts on internal switches over time. However, we would not expect the MSC to be continually triggered, especially not at large values.

Cost: changes in tariff decisions

Description

A1.71 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.

A1.72 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.

A1.73 If a customer remained on the Cap, rather than switching supplier or tariff, then they would pay more than otherwise.

A1.74 We recognise that switching can generally deliver social benefits through the process of competition, including by encouraging consumers to switch to more efficient providers. However, in the specific circumstances of a price differential driven by temporary differences in wholesale costs due to market volatility, it is less clear that switching would create a long-term shift in this dynamic. We therefore treat any impacts on tariff decisions as a transfer between consumers and suppliers, rather than a loss of a social benefit.

Discussion of scale

A1.75 We consider that there would still be clear incentives to switch between suppliers if the price fall occurred from Q1 2027. As shown in Table 2 (in Chapter 4), the headline savings would be significant, even with the MSC in place.

A1.76 We recognise that any change in savings would be likely to have some impact on switching. One third party intermediary referred to previous Ofgem work on switching elasticities (Ban on Acquisition Tariffs consultation 2024). However, when savings are large, it may not be as reliable to apply elasticities which incorporate data on more normal savings. This reflects that some consumers may be unlikely to switch for any level of savings.

A1.77 Given the level of uncertainty about switching behaviour when savings levels are high (in both the counterfactual and policy scenarios), we do not consider that it is worthwhile to estimate the impact.

A1.78 We recognise that there would be more likely to be an impact on switching if the price fall occurred while the current (Q4 2026) cap level was in place. For example, Appendix 2 suggests that in the event of a price fall in December,

there would still be some incentives to switch, but the MSC would remove the wholesale-related gains from switching. This could mean that switching rates would be broadly normal only, lower than in the absence of the MSC.

A1.79 We do not consider that this would have a material impact on consumers. This is because the incentives to switch would become stronger once the new cap level took effect from January. A consumer who paid more than if they had switched would therefore only do so for a short period, if they then switched in Q1 2027.

Cost to consumers: working capital impact

Description

A1.80 Suppliers who gain customers may see a working capital impact from the MSC. (One smaller supplier said that a price fall would also create margin calls, so this would be an additional working capital impact at the same time). We would expect this cost to be passed through to consumers switching to fixed tariffs, and therefore include it as a cost to consumers.

Discussion of scale

A1.81 We do not expect this cost to be material, given that it would be the cost of any additional capital which would be priced into tariffs.

Cost to consumers: operating the MSC

Description

A1.82 All consumers would also bear any costs of operating the MSC through Retail Energy Code charges.

Discussion of scale

A1.83 Implementation costs are a matter for RECCo. We do not expect these to be material in the overall context of the scheme.

Distributional impacts between consumers

A1.84 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 engagement, even if it is not the only form of engagement from a wider perspective.

A1.85 When the MSC is triggered, consumers who switch supplier would pay for an MSC through their tariffs. Consumers who switch tariff would also likely implicitly pay for impact of the MSC (if they select a tariff also available externally) or may implicitly pay for the impact of the MSC (if they select a retention tariff). While these consumers would share in the benefits of the MSC, the net impact on these customers is likely to be a cost.

A1.86 Consumers who are temporarily deterred from switching supplier or switching tariff as a result of the MSC would pay more than in the counterfactual. However, this would only be for a short period.

A1.87 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 and the benefits of investability.

A1.88 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.

A1.89 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.

Impact on suppliers

Benefit to suppliers: MSC payments

Description

A1.90 Suppliers who lose customers would receive MSC payments when the MSC is triggered. This is a transfer from the consumers who pay the MSC, as discussed above.

A1.91 While this is a benefit to suppliers relative to the counterfactual for the purpose of this impact assessment, it must be kept in mind that this is a partial offset for the costs of stranded hedges (which would be incurred in the counterfactual as well) – see the section on comparisons against alternative interventions below.

Discussion of scale

A1.92 See discussion above on MSC payments.

Benefit to suppliers: additional revenue from tariff increases

Description

A1.93 As discussed above, where customers switch internally to a tariff which is priced higher in the presence of an active (and non-zero) MSC, suppliers would receive additional revenue. This is a transfer from consumers.

A1.94 Again, while this is a benefit to suppliers (relative to the counterfactual) for the purpose of this impact assessment, suppliers could still incur stranded hedge costs in relation to customers who switch internally.

Discussion of scale

A1.95 See discussion above on internal switches.

Cost to suppliers: administration

Description

A1.96 Suppliers may incur administration costs while the MSC is in operation.

A1.97 We assume that these costs may be borne by suppliers, rather than priced into tariffs. This reflects that these would be short term, non-marginal costs.

Discussion of scale

A1.98 We do not expect any such costs to be material.

Impacts across different suppliers

A1.99 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.

A1.100 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.

A1.101 The consequences of receiving MSC payments would also vary between suppliers depending on their financial circumstances.

A1.102 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 generally 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.

A1.103 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.

A1.104 In a workshop in June, 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

A1.105 While not relevant to the comparison against the counterfactual, we accept that the relationship between MSC payments (and increased tariff revenue) and suppliers' incurred stranded hedge costs will vary between suppliers depending on their circumstances. In particular, suppliers who expected to

lose customers would not have hedged for these volumes. They would therefore benefit from a uniform MSC.

Summary on impacts

A1.106 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.

A1.107 From a social perspective, and ignoring transfers, we can summarise the impacts of the MSC as:

- Reduction in costs of supplier failure (benefit)
- Consequences from supporting investability (benefit)
- Administrative costs of MSC to RECCo (cost)
- Administrative costs of MSC to suppliers (cost)
- Working capital costs (cost)

A1.108 From a consumer perspective, we can summarise the impacts of the MSC as:

- Reduction in costs of supplier failure (benefit)
- Consequences from supporting investability (benefit)
- MSC payments (cost)
- Effect on internal tariff switches (cost)
- Effect on tariff decisions (cost)
- Administrative costs of MSC to RECCo (cost)
- Working capital costs (cost)

A1.109 Although we have not quantified these impacts, we consider that the measure would benefit consumers, based on our discussion above.

Considering other impacts

Impact on competition

Switching and demand-side pressure

A1.110 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 generally maintains incentives to select fixed tariffs. The MSC would also only apply in a sharply falling wholesale market.

A1.111 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.

A1.112 In response to the licence consultation and the activation 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.

A1.113 One third party intermediary said that, given the high proportion of disengaged consumers, anything which affected the actual or perceived cost of switching would negatively affect market functioning. We recognise that engagement can benefit the market. However, in the specific circumstances of a volatile wholesale market, we consider that we need to balance desirable outcomes.

A1.114 In a meeting before the activation consultation, 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.

A1.115 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.

A1.116 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 generally not to eliminate this effect.

Market structure and supply-side pressure

A1.117 In general, reducing the cost or risk of customer switching would reduce competitive pressure on suppliers to some extent. However, an active, non-

zero MSC would be a short-term impact. We therefore do not consider that this is a material consideration.

A1.118 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.

A1.119 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.

A1.120 In response to the activation consultation, one third party intermediary said recent entry to the supply market had been minimal. We recognise that entry is in general terms beneficial for consumers. However, we do not consider that, in the specific circumstances of a sharp fall in wholesale prices, the effect on entry is the only consumer interest. In any case, we do not consider that the kind of market disruption that can happen with a volatile wholesale market and no stability measures is in the interests of stable and effective competition, and therefore we do not expect that the MSC would deter entry by more efficient competitors.

A1.121 In a meeting before the activation consultation, one price comparison website said that intervention could weaken competitive incentives for suppliers to improve products, service quality and customer retention.

A1.122 Suppliers would continue to face significant commercial incentives to compete, with the MSC representing only a partial protection against losses resulting from customer switching.

A1.123 The introduction of the MSC would affect growing suppliers. In response to the activation consultation, the representative for technology startups said that it would send a negative signal to investors in such suppliers. We do not consider that there would be a material effect, because the MSC relates to exceptional events. However, we accept that there could be an impact on the perception of regulatory risk.

Impact on growth

A1.124 In line with our Markets Strategy and Vision, we consider that supporting investment and innovation can support economic growth. Given that we

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

A1.125 We recognise that entrants can play a role in helping to stimulate economic growth. However, we do not consider that there would be a significant impact in the counterfactual from a one-off period of falling prices.

Impact on the environment

A1.126 We do not expect that the MSC would have a direct effect on the environment.

Wider impacts

A1.127 We consider that the scope for wider impacts or unintended consequences from MSC activation is limited by its scope, given that this is intended as a temporary measure which is only triggered in certain circumstances.

A1.128 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 in the round.

A1.129 We recognise that the MSC will apply to all switches, including those motivated by poor service from a consumer's existing supplier. While this is not an intended design outcome, we do not consider that it is a material distortion when responding to volatile market conditions.

Comparison against alternative interventions

High-level description

A1.130 We can consider two alternative cases.

A1.131 First, if we did not intervene and there was supplier failure, this impact would be borne by the customer base as a whole.

A1.132 Second, if we did not intervene through an MSC, but later considered that the impact should be addressed through a Cap adjustment, this impact would be borne by SVT customers only.

A1.133 This shows that activating the MSC does not necessarily create costs to consumers, relative to what might happen in its absence. This is not to say that the costs to consumers are the same in each case – we are just trying to say that there can be costs to consumers in each case.

A1.134 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.

Illustrative quantification of comparison against alternative intervention

A1.135 We can illustrate the distributional effects using a simple example below (Table A1.1), based on the same analysis as Table 2.

A1.136 This is not intended as an exhaustive description of the potential impacts of the MSC. Rather this focusses on how the cost of stranded hedges is allocated when an MSC is applied to switches that create these costs. This example therefore does not take into account cases where an MSC would be payable but no stranded hedge costs were incurred, or indirect impacts on the prices paid by consumers who switch internally. It also does not consider changes in the number of customers switching. We still consider that this illustration is helpful for showing the main points on distributional impacts, even if the numbers are illustrative.

A1.137 In the counterfactual, the cost of stranded hedges is borne entirely by suppliers who lose customers.

A1.138 Under the MSC, customers who switch supplier pay towards the cost of stranded hedges. The proportion they bear depends on how much wholesale prices fall, which impacts whether the MSC is triggered and, if it is, what the size of the MSC would be. However, it is worth emphasising that customers who switch would still be better off than if prices had not fallen, as they still see a benefit from falling prices.

A1.139 We also consider the illustrative example of an additional price cap allowance that provides the same additional revenue to suppliers as an MSC. In that example, the impact of stranded hedges is partly borne by other customers who do not switch supplier, rather than by the customers who do switch supplier. This means that some customers would incur a cost as a result of other customers exercising their option to move between fixed tariffs and the Cap.

Table A1.1: Allocation of stranded hedge costs between suppliers and consumers

	Customers who switch supplier	Other customers	Suppliers gaining customers	Suppliers losing customers
Counterfactual	0%	0%	0%	100%
MSC in 20% price fall	0%	0%	0%	100%
MSC in 35% price fall	35%	0%	0%	65%
MSC in 50% price fall	61%	0%	0%	39%
Alternative of cap allowance (set equivalent to MSC in 20% price fall)	0%	0%	0%	100%
Alternative of cap allowance (set equivalent to MSC in 35% price fall)	0%	35%	0%	65%
Alternative of cap allowance (set equivalent to MSC in 50% price fall)	0%	61%	0%	39%

A1.140 To show the net effect for completeness, we note that the direct benefit from stranded hedges accrues entirely to customers who switch supplier. Table A1.2 below takes this benefit, and then subtracts the distribution of costs above. Positive values are a net benefit to a particular group, while negative values are a net cost. As this only shows the direct impacts of the stranded hedges, there is no impact on suppliers who gain customers in this example.

A1.141 This shows that customers who switch supplier would still see a net benefit from falling prices, even with the MSC in place. We acknowledge that this net benefit would be smaller than under the counterfactual.

Table A1.2: Allocation of net benefit from stranded hedges

	Customers who switch supplier	Other customers	Suppliers gaining customers	Suppliers losing customers
Counterfactual	100%	0%	0%	-100%
MSC in 20% price fall	100%	0%	0%	-100%
MSC in 35% price fall	65%	0%	0%	-65%
MSC in 50% price fall	39%	0%	0%	-39%
Alternative of cap allowance (set equivalent to MSC in 20% price fall)	100%	0%	0%	-100%
Alternative of cap allowance (set equivalent to MSC in 35% price fall)	100%	-35%	0%	-65%
Alternative of cap allowance (set equivalent to MSC in 50% price fall)	100%	-61%	0%	-39%

Monitoring and evaluation

A1.142 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. Any future consultation would mean that stakeholders would be able to provide views, including on the functioning of the MSC.

A1.143 It would be hard to monitor the outcomes of improved market stability and investability. 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.

A1.144 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.

Appendix 2. Implied consumer savings in a December price fall

A2.1 This table (Table A2.1) corresponds to the scenario and sensitivities in Table 1 (Chapter 4 of the main document). These relate specifically to a price fall in December. This appendix should therefore be read in conjunction with the explanation of Table 1.

A2.2 We are including these results for completeness and consistency with the activation consultation. We emphasise that these results are based on a specific timing for a price fall. Table 2 and Appendix 3 show the more general case which broadly represents a price fall relative to the Q1 2027 cap.

A2.3 The first line is based on the gross wholesale savings, in the absence of the MSC. 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.

A2.4 The second line reflects the modelled MSC payment. The third line is the difference between the gross wholesale savings and the MSC payment.

A2.5 In addition to the impact of wholesale price differences between fixed tariffs and the Cap, fixed tariffs tend to be cheaper than the Cap in normal circumstances. The total net savings below (the fifth line) 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 (the fourth line) by looking at the average difference between the cap level and the basket of cheapest tariffs, over the years 2024 and 2025.

A2.6 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 2027, the savings would be greater, as the Q1 2027 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 results where there are no net wholesale savings. This is a feature of 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.

A2.7 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 A2.1 – Illustrative impacts on headline customer savings related to wholesale prices during price fall

	Scenario	**Sensitivity A (further price rise)**	**Sensitivity B (lower switching)**
Gross wholesale savings without MSC (£/dual fuel customer)	131	137	131
MSC received per customer who switches (£/dual fuel customer)	140	167	140
Implied net wholesale savings (£/dual fuel customer)	-9	-29	-9
Typical fixed tariff savings (£/dual fuel customer)	140	140	140
Total net savings (£/dual fuel customer)	130	110	130

Appendix 3. Fuel breakdown of savings

A3.1 These tables provide further detail and a breakdown by fuel for the figures presented in Table 2. These broadly reflect a fall in wholesale prices in Q1 2027.

A3.2 Wholesale inputs are rounded, given this is an illustration. Wholesale inputs include electricity losses and unidentified gas, as we take these into account in the MSC calculation.

Table A3.1 – Electricity inputs

	Units	**Value**
Annual consumption	MWh	2.5
Current wholesale price	£/MWh	211
Current wholesale Cap hedge	£/MWh	165
Current annualised Cap hedge	£/year	413

Table A3.2 – Electricity illustration of impact of MSC on discount – post fall wholesale price

	Units	20% price fall	35% price fall	50% price fall
Post fall wholesale price	£/MWh	169	137	106

Table A3.3 – Electricity illustration of impact of MSC on discount – MSC calculation

	Units	20% price fall	35% price fall	50% price fall
Fall relative to Cap hedge - the MSC only applies to price falls below this		-2%	17%	36%
The MSC leaves the first 10% fall below the hedge as a supplier risk.		0%	7%	26%
The MSC then covers 85% of any further fall.		0%	6%	22%
But it only applies to the proportion of annual consumption that is hedged for, currently 44% due to winter consumption levels across the 4.5 month hedge		0%	3%	10%
Total MSC applied	**£/MWh**	**0**	**4**	**16**

Table A3.4 – Electricity illustration of impact of MSC on discount – MSC impact annualised

	Units	20% price fall	35% price fall	50% price fall
Cost of buying an annual fixed tariff hedge after price fall, assuming a flat forward curve	£/year	422	343	264
Pre-MSC discount on annual fixed tariff hedge compared to annualised Cap hedge (which affects next Cap level)	£/year	-10	70	149
MSC	£	0	11	40
Remaining discount on annual hedge after MSC applied. (Normal fixed tariff discount would be additional to this)	£/year	-10	59	109
Percentage impact of MSC on discount		**0%**	**-15%**	**-27%**

Table A3.5 – Gas inputs

	Units	Value
Annual consumption	MWh	9.5
Current wholesale price	£/MWh	78
Current wholesale Cap hedge	£/MWh	61
Current annualised Cap hedge	£/year	580

Table A3.6 – Gas illustration of impact of MSC on discount – post fall wholesale price

	Units	**20% price fall**	**35% price fall**	**50% price fall**
Post fall wholesale price	£/MWh	62	51	39

Table A3.7 – Gas illustration of impact of MSC on discount – MSC calculation

	Units	**20% price fall**	**35% price fall**	**50% price fall**
Fall relative to Cap hedge - the MSC only applies to price falls below this		-2%	17%	36%
The MSC leaves the first 10% fall below the hedge as a supplier risk.		0%	7%	26%
The MSC then covers 85% of any further fall.		0%	6%	22%
But it only applies to the proportion of annual consumption that is hedged for, currently 65% due to winter consumption levels across the 4.5 month hedge		0%	4%	14%
Total MSC applied	**£/MWh**	0	2	9

Table A3.8 – Gas illustration of impact of MSC on discount – MSC impact annualised

	Units	20% price fall	35% price fall	50% price fall
Cost of buying an annual fixed tariff hedge after price fall, assuming a flat forward curve	£/year	593	482	371
Pre-MSC discount on annual fixed tariff hedge compared to annualised Cap hedge (which affects next Cap level)	£/year	-13	98	209
MSC	£	0	22	84
Remaining discount on annual hedge after MSC applied. (Normal fixed tariff discount would be additional to this)	£/year	-13	76	125
Percentage impact of MSC on discount		**0%**	**-23%**	**-40%**