



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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Dear Maureen,

We are responding to your request for feedback on what action Ofgem should take after the current Market Stabilisation Charge ('MSC') expires on 31 March 2023.¹ This submission is non-confidential and may be published on your website.

Since the publication of the request for feedback, the government has announced a significant package of intervention to protect consumers that will effectively cap the average bill at £2,500 for the next two years. In effect, any wholesale costs above that level will be covered by taxpayers, significantly derisking suppliers.

At a minimum, this appears to necessitate the reframing of the existing MSC to reflect the fact that much of the perceived risk to suppliers now no longer exists. Were acquisition tariffs priced below the cap to become available again it would be perverse for 'gaining' suppliers to be compensating 'losing' suppliers for that proportion of any wholesale cost at risk that is covered by the taxpayer.

We think the government's decision also reduces the case for having an MSC at all, noting that were it to be triggered it would lock in high prices - which is not in consumers' best interests.

We continue to have a range of methodological concerns with Ofgem's approach to the introduction and continuation of the MSC. We expressed concerns with the plausibility and relevance of the VAR approach taken in our response to the last consultation on it, and retain those concerns. The decision document introduces a new perceived consumer benefit of £1bn resulting from '*providing suppliers with the confidence to hedge appropriately.*' You provide no evidence that it has done so. We note that Ofgem's recent decision to move to quarterly price caps assumed that suppliers would be on a three month hedge, which suggests limited supplier confidence in hedging over anything other than the very short term.²

Ofgem is clearly worried about the risks of supplier failures flowing through to consumer bills but has not done a persuasive job in setting out their materiality and likelihood or in demonstrating the trade off between those benefits (if they

¹ Contained in Ofgem's 26 August 2022, '[Decision on extending short term interventions and adjusting the MSC calculation.](#)'

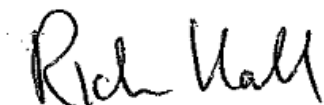
² Paragraph 5.2, '[Price cap - decision on changes to the wholesale methodology.](#)'

crystallise) and potential consumer costs (such as reducing the potential savings available from switching should wholesale costs fall significantly).

It must be noted that one of your fundamental underlying assumptions - that future failures will be added to consumers bills - is questionable. While Supplier of Last Resort ('SoLR') costs are recovered through bills, it is yet to be determined whether costs associated with the Supplier Administration Regime ('SAR') will be. The government may decide to recover these costs through taxation. Indeed, given its recent decision to cap bills, the decision on whether to recover the costs through bills or taxes is effectively moot, as any new costs over the government cap will flow through to taxpayers. Even prior to that decision, it was questionable whether the government would allow the failure of another supplier of similar or larger scale to Bulb to flow through to bills.

We remain very uncomfortable with the extremely narrow focus of Ofgem's assessment of consumer interests in relation to the MSC. It appears to us that you view the relevance of this policy to their wellbeing almost exclusively through the prism of whether or not it makes supplier failures more or less likely. Consumer interests are much broader than this. Putting a floor under acquisition prices so that they are higher than they would otherwise be if wholesale prices fell has the scope to severely adversely affect consumer outcomes. This winter will see average bills that are more than double their historic average, even after the government's intervention. That will cause financial harm to many households and acute social harm - self disconnection, cold homes, and in some cases illness or death - to some. We are yet to see any Ofgem decision in relation to the MSC show any appreciation of the impacts of this policy on fuel poverty or affordability. Keeping suppliers afloat cannot be the only substantive consideration of your decisions on this policy. You also need to keep consumers afloat.

Yours sincerely



Richard Hall
Chief Energy Economist