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14 April 2022

Dear Maureen,

We are responding to your consultation on changes to the Market Stabilisation Charge. This submission is non-confidential and may be published on your website.

Changing the losing supplier trigger and derating factors

We do not support your proposals to reduce the losing supplier trigger from 30% to somewhere in the 10-20% range and to increase the derating factor from 75% to somewhere in the 80-90% range.

The effect of these proposals would be to reduce the available savings from switching, were wholesale prices to fall sharply, at a time when the need for consumers to find ways to save money on their energy costs is extremely acute. The recent increase in the price cap is estimated to take the number of households in fuel poverty in Great Britain to around 6.5m. The UK inflation rate is at its highest level in 30 years, the value of benefits is at its lowest level in real terms for 50 years, and it is widely acknowledged that the UK has entered a cost of living crisis. Creating a floor under acquisition prices that effectively forces them to remain at a much higher level than underlying costs is not in consumers' best interests.

The justification for these proposed changes is to preserve the financial stability of energy suppliers. We are deeply concerned by the consumer harm that can arise from supplier failures, but the case made for this change is limited, and largely qualitative in its published form. While you note in paragraph 2.6 that 'our modelling shows that on the current MSC parameters there would be significant supplier exits from the market,' you have not published that modelling making it impossible to judge how robust it is. The very limited summary of costs and benefits contained in paragraph 2.16 suggests that the costs of your proposals mildly outweighs their benefits. It seems surprising that you would consider taking forward proposals that your own analysis suggests are worse than the status quo.

The distributional analysis in the consultation document is quite flimsy, and seems to assume that it makes no difference to consumers whether they can save a large amount of money or a small amount of money from switching. You note that a much larger MSC would 'not present an additional barrier to switching by low income or otherwise vulnerable consumers.' While there may be no additional barrier to switching, the practical implications of paying significantly more for energy than they otherwise would as a result of an increased MSC were they to switch could be very damaging for low income households.

Amending the MSC calculation to reflect guidance on price indexation

We are supportive of your proposal to update the MSC calculation to reflect the updated guidance on the treatment of the price indexation for cap period nine (the "Indexation Guidance Letter").

Adjustment to reflect losses in the MSC

We have no observations on this proposal.

Yours sincerely

Rich Hall

Richard Hall
Chief Energy Economist