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Reviewing the Potential Impact of COVID-19 on the Default Tariff Cap - Cap Period Seven

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as energy storage. We have around five million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

EDF welcomes the opportunity to provide feedback on Ofgem's review of the potential impact of COVID-19 on the default tariff cap for cap period seven. EDF continues to support Ofgem's review of the costs suppliers are experiencing as a result of the economic impacts driven by the COVID-19 crisis and which are likely to extend further in to 2021.

Additional Adjustment for Cap Period Seven

It is right that Ofgem continues to apply an adjustment for debt related costs, more specifically, the incremental write-offs due to COVID-19. EDF agrees with Ofgem's view that there is significant uncertainty over how long the economic disruption of the COVID-19 crisis will last and whether any disruption will create material additional debt related costs for suppliers in cap period seven.

Given this uncertainty, we had previously recommended, during our response to the working paper on this topic, that for cap period seven Ofgem sets an additional float of £0 per customer and uses the true-up mechanism to analyse, and recover, any additional debt related costs (and any other materially impacted costs). This approach would protect customers from bearing the risk of cost uncertainty while allowing suppliers to subsequently recover efficient costs once they are fully known.

We consider that setting an additional float of £0 per customer would deliver the same outcome as not including an additional float and therefore support Ofgem's proposal to only include a float if there is significant and clear evidence of material additional costs due to COVID-19, providing that the true-up mechanism is still applied retrospectively for cap period seven once actual data is available.

Float Methodology

We do not agree with Ofgem's proposal to calculate the bad debt cost increment at an overall domestic customer level. The default tariff cap only applies to customers on the default tariff and the data used should align to this scope of customers. While using data for a broader group of customers would represent a greater share of the domestic market it would not be representative of the costs incurred for default tariff customers specifically, which are expected to be higher than for other customers, and would not be aligned with the wider cap methodology.

We appreciate that Ofgem will want to ensure that any allowance in the price cap represents efficient costs, but do not consider that a sharing factor is fair or appropriate providing the data gathering process is effective. Ofgem will only propose an adjustment for cap period seven when supplier RFI data and an assessment of external forecasts for key economic metrics show that a float is necessary. Further, Ofgem are proposing to apply additional filters on supplier data to scrutinise whether the assumptions are reasonable and consistent. If these conditions are met, then Ofgem will have significant and clear evidence of material additional costs and will have determined there is an efficient cost to suppliers that is not currently recoverable within the cap. Applying a sharing factor in the setting of the default tariff cap is therefore neither appropriate or proportionate for suppliers given the debt costs incurred are driven by a portion of the customer base that suppliers are not otherwise able to recover from.

In any case, fundamentally a sharing factor is not aligned with the design of the cap and does not support the principle of allowing suppliers to recover their efficient costs, whether the cost is on-going or a one-off.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre or myself. I can confirm that this letter may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink that reads "J Cole".

Jon Cole
Senior Manager, Customers Policy and Regulation