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Statutory Consultation on potential short-term interventions to address risks to consumers from market volatility

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewable generation, including onshore, offshore wind and solar generation, and energy storage. We have around six 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.

We welcome the opportunity to provide comments on Ofgem's consideration of potential temporary measures that would help suppliers manage the significant risks posed by the current wholesale market volatility. It is evident that the current methodology for the SVT cap is presenting unreasonable and unmanageable risks to suppliers, which in turn are damaging the stability of the retail market, increasing costs to consumers, and risk undermining the progress that is required to reach Net Zero. It is clear that reforms are needed.

In advance of any longer-term changes being implemented to the price cap, it is vital that Ofgem consider potential short-term interventions that would better allow suppliers to recover their efficient costs and thus mitigate the potential for further supplier failures and additional costs being passed on to consumers as a direct result of such market exits.

In addition, it is vitally important that Ofgem adopt a holistic approach when considering which potential market interventions should be introduced. We fully expect Ofgem's decision on any interventions for falling price risks will be considered alongside Ofgem's decision on any adjustment to the wholesale risk allowance within the price cap from April. If Ofgem decide not to take forward the measures considered in this consultation to address the risk of falling prices and do not provide the appropriate allowance in the price cap to reflect this risk then suppliers will remain heavily exposed to volume risks, which will further increase the risk of supplier exits at a substantial cost to consumers.

Key Points:

- We are supportive of Ofgem introducing a temporary requirement on suppliers to make all new tariffs available to existing customers while significant market volatility and consequential risks to suppliers exists. This measure, while not directly targeting potential supplier losses, would ensure more sustainable pricing practices by suppliers that would lead to a more a stable energy retail market;
- The proposed design of the market stabilisation charge is complex and with the adoption of a trigger that requires a 50% fall in wholesale costs leaves suppliers exposed to significant economic losses. As currently designed EDF considers that it is therefore likely to fail to mitigate the risk of further supplier exits. While we support the principle of the proposal, Ofgem needs to reconsider the design to ensure it appropriately mitigates the market risks.
- We do not support the introduction of an SVT exit fee which would be administratively complex and likely to damage consumer confidence in market engagement.
- Ofgem must have flexibility to extend any intervention beyond September 2022 if market volatility is continuing to significantly impact the costs and risks suppliers face and where other longer-term price cap changes have yet to be introduced.

Our response to the specific questions set out in the statutory consultation can be found in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Jon Cole 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 'R. Beresford'.

Rebecca Beresford
Head of Customers Policy and Regulation

Attachment

Question 1: Have we correctly identified and assessed the risks to consumers from continued wholesale market volatility?

In addition to those identified, we consider there to be a further three areas of risk that Ofgem should consider:

- That further supplier exits occur either voluntarily or due to unsustainable losses arising from wholesale prices remaining above the Price Cap. We note that Ofgem is currently consulting on several possible price cap methodology changes, but we highlight the need for a holistic approach to be adopted in terms of ensuring that appropriate protections for customers are retained but where risks and costs to suppliers are better reflected over both the short and longer-term;
- The risks of continued wholesale market volatility may extend beyond September 2022 without any further changes to the price cap. On this basis the interventions detailed in the consultation may also need to extend beyond September 2022. This may include the need for Ofgem to keep an open mind on any interventions and consult again at a later stage where it decides not to implement or activate any changes in Summer 22.
- The energy market is in an unprecedented situation and attracting a lot of media coverage. This level of media coverage may drive much larger volumes of customer churn than expected when fixed products are below the level of the Price Cap.

Question 2: Do you believe that intervention is warranted in the interests of consumers

We agree that intervention is warranted in order to protect the interests of consumers. There is a clear need for change that continues to protect consumers while at the same time allow suppliers to recover their efficient costs. The significant financial impact of supplier failures and the possible impact on consumer bills has been well documented over the recent months. Due to the portfolio sizes for most of the remaining suppliers, another uncontrolled market exit would further increase costs to consumers by potentially billions of pounds, which is unaffordable for most households to absorb. Appropriate measures designed to mitigate further exits until such time as the market becomes more stabilised are needed in order to protect consumer interests in both the near and longer term.

Question 3: Which of these possible interventions, if any, would be most effective and proportionate in addressing the risks identified in consumers' interests?

In principle, we are supportive of the following two interventions:

- Requiring suppliers to make all new tariffs available to existing customers; and
- Requiring suppliers to pay a Market Stabilisation Charge when acquiring new customers.

Both measures have the potential to have a positive impact reducing the risks to consumers. However, we have identified a number of issues that require further consideration, and which are set out below.

We do not support the adoption of an SVT exit fee as this will likely further damage consumer trust and engagement in the market.

Requiring suppliers to make all new tariffs available to existing customers

We agree most of the reasoning provided in the paragraphs from 3.17 to 3.20 in the consultation. However, in terms of the risk of unsustainable pricing behaviour discussed in 3.19, we do see a risk of an existing supplier either with few or no SVT customers or with significant financial resources competing aggressively to gain market share with below cost prices, knowing other suppliers will be constrained in reacting to such competition due to this intervention. This would distort competition and could result in further market exists.

Therefore, this measure even with the other financial resilience measures introduced, will certainly not mitigate market exit risk entirely. Ofgem should further consider these impacts and ensure that overall its package of measures reduces supplier risks to an acceptable level.

Requiring suppliers to pay a Market Stabilisation Charge when acquiring new customers.

We agree with the rationale for introducing such a measure. However, as currently designed we do not consider this would sufficiently mitigate the risks to consumers or allow efficient cost recovery by suppliers. Specifically:

- As opposed to the 'do nothing' option this intervention goes some way to mitigate consumer risks. However, the potential for significant financial losses for suppliers would remain under the proposed model that may not prevent further supplier exists. In particular, the proposal does not cap losses, and suppliers must absorb over 30-50% of losses once the intervention is active, as well as all costs up until wholesale prices fall far enough for the intervention to be activated.
- The proposed intervention would be complex both to implement and manage. This includes the need for coordinated code changes and the expectation that RECCo will administer the intervention. It could be made significantly simpler if Ofgem were to take an active role in coordinating the intervention.
- One supplier exiting the market could lead to other suppliers' revenue unexpectedly falling (through non-payment of stabilisation charge) and causing a domino impact across the market.

Question 4: For each option, are there particular benefits or risks for consumers, including those in vulnerable circumstances, that we have not identified?

Any short-term interventions and more broader price cap changes need to provide confidence to the market that efficient cost recovery can be achieved. If suppliers and their investors do not consider that the combined package of interventions implemented by Ofgem are adequate to provide confidence of a path to future profitability, then it is inevitable that further suppliers will look to exit the market, and in the meantime will focus their resources on short term survival rather than supporting customer's needs more widely, let alone the investments and innovations required to achieve Net Zero.

Question 5: For each option, do you agree that we have identified the full range of expected impacts on suppliers, consumers and competition?

We have identified a number of risks and issues with the potential interventions in our answer to question 4 above.

Question 6: Where applicable, do you agree that the draft Licence Condition text accurately implements the intervention as described?

We have no specific concerns with the proposed licence condition wording. We are supportive of the flexibility in terms of duration included within the drafting.

Question 7: Do you agree that the methodology outlined in Appendix 2 best delivers the charge described in this consultation document?

The charge outlined in Appendix 2 would represent a proportion of the economic loss to the losing supplier applied when the switch occurs and would be based on a customer's estimated annual consumption. It is therefore consistent with the policy set out in the consultation.

Question 8: Do you agree that an ex-ante publication of the charge delivers the best outcome for customers?

We agree that an ex-ante publication of the charge delivers the best outcome for customers

Question 9: Do you agree that a weekly publication represents an appropriate frequency of charge update?

To create a better outcome for customers and suppliers the charge should be updated monthly. However, should material swings be observed in wholesale prices Ofgem should be able to update the charge more regularly as needed. Stability of pricing creates more efficient processes for suppliers and give customers longer to consider offers from suppliers.

Question 10: Do you agree that the payment mechanism described here is the most effective way of ensuring that charges are collected and paid?

We would recommend instead that Ofgem performs the role outlined for the RECCo. Ofgem should be able to undertake the role relatively easily, more simply, and more cost effectively given similarities to existing processes. This would streamline implementation and provide greater confidence to suppliers that the intervention will work as intended.

EDF
January 2022