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Consultation on extending short-term interventions and adjusting MSC calculation

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 extending its short-term interventions and adjusting the market stabilisation charge (MSC) calculation. It is clear that an extension to these short-term interventions is necessary given the continuation of high, volatile wholesale costs. The design of the Default Tariff Cap (DTC), even if wholesale costs are updated quarterly, presents an unreasonable and unmanageable risk 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.

Rationale for Extending the Short-Term Interventions

EDF agrees that Ofgem should extend the MSC to the 31st March 2023. We welcome Ofgem introducing a new analytical approach to determine the scale of the issue, providing clear, quantifiable output to monitor the on-going market risk. It is clear that the market risk the MSC aims to treat has not materialised since its introduction. Ofgem should continue to perform this analysis to provide transparency on the level of risk that remains in the market and provide an early indication as to how long the MSC is likely to remain in place.

Furthermore, Ofgem must extend this analysis to periods beyond March 2023 and begin industry engagement on whether Ofgem should have the powers to extend the MSC for as long a period as it is needed. We urge Ofgem to retain the MSC until the market risk it aims to treat has materialised and it is not removed prematurely. Since suppliers will begin to hedge the DTC for periods beyond March 2023 in November 2022, Ofgem must consult and decide on extending its powers beyond March 2023 before then.

MSC Technical Adjustments

While we support the principle behind the MSC, we remain concerned that its current design does not appropriately mitigate the risks to suppliers and consumers that arise from unstable and uncertain market conditions. Our main concern is that the MSC is only triggered by the relative movement of wholesale prices rather than when switching occurs, and suppliers will be required to absorb the costs of selling excess volume, for customer losses, in a failing market before the MSC is triggered. Depending on the number of customer losses that occur before the MSC is triggered, and the wholesale costs actually incurred by suppliers, this could lead to a supplier failure and makes the MSC ineffective.

We are also concerned that the MSC calculation has now become too complicated and would urge Ofgem to revert to a simpler methodology. The policy intent behind the MSC is to address the risks that would arise in a falling wholesale market and where significant switching between suppliers re-emerges. A key driver behind customer switching is the absolute price differential between the DTC and other alternatives rather than the relative movement of wholesale prices. Therefore, Ofgem should change the threshold so that it is set as an absolute price differential to the price of the DTC.

This approach would provide a much clearer indication of when switching is likely to occur and can easily be monitored by suppliers. Furthermore, it would allow a more sufficient proportion of hedging losses to be recovered by a nominal supplier since it would be triggered when actual switching occurs rather than when wholesale prices reduce. As such, this approach would be much more effective in reducing the risk of further supplier failures that create additional costs to consumers.

Enduring Ban on Acquisition Tariffs

EDF agrees that Ofgem should extend the BAT to the 31st March 2023. As with the MSC, the market risks that the temporary BAT was set to address have not yet materialised and Ofgem should retain the BAT until it has. Without the BAT, we see a risk of a new supplier, or an existing supplier either with few or no DTC 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 exits.

We also believe that the BAT brings overall customer benefit as it incentivises suppliers to price more sustainably and to promote better deals for their existing customers. This means that those customers that do not regularly switch in the market, which was a high proportion of the market even before the current market crisis, will have access to the best tariffs that their suppliers are offering in the market and are not unfairly penalised for remaining loyal to their supplier. Therefore, Ofgem should extend the BAT until such a time that it can demonstrate that it does not benefit the overall market of customers and should consult with industry before removing the mechanism.

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