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Price Cap: Call for input of our approach to reflecting potential changes to BSUoS charges in the price cap

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.

Suppliers continue to operate in a financially challenging environment and face increasing risks as a result of the continued period of market volatility and high prices, and operating under the default tariff cap. EDF remains committed to working constructively with both BEIS and Ofgem to develop and introduce measures that promote a healthy, well-functioning market that allows efficient and sustainable businesses to attain a fair margin and enable continued innovation and investment to benefit the interests of consumers.

The manner in which BSUoS charges are currently recovered under the price cap introduces significant risks to suppliers around cost recovery, particularly in a market which continues to see high and volatile wholesale energy costs with BSUoS costs expected to increase in the future. The lagged nature of cost recovery has impacts on suppliers' ability to ever recover their actual costs given the risks of customers switching from SVT to fixed tariffs and at the time exiting the current price cap. Both of these issues have been exacerbated by the introduction of the Energy Price Guarantee as this significantly increases the number of customers on SVT. We therefore welcome Ofgem considering changes to the price cap methodology that would have a positive impact on these risks that suppliers currently face.

CMP 361

EDF supports the introduction of Connection and Use of System Code (CUSC) modification CMP361 and the move to an ex-ante fixed volumetric BSUoS tariff to replace the existing variable charge. Furthermore, in the event that Ofgem approves this modification proposal we support Ofgem's minded-to approach to reflect this change in the price cap methodology by replacing the

lagged variable charge with an ex-ante fixed charge in time for cap period 10a (April 2023 – June 2023).

Transition

Ofgem has correctly identified a number of transitional issues that need to be considered as part of moving to an ex-ante fixed basis BSUoS cost recovery from April 2023. Our views on these are set out below:

Adjustment approach:

We agree that BSUoS charges from January 2022 up to and including March 2023 will only be partially recovered by the time cap period 10a commences and at the point any new cost methodology is introduced. There is therefore a need to consider the BSUoS charges within this period when calculating any adjustment to be made from April 2023. However, we recognise that not all data on the actual BSUoS charges within this period will be available at the point Ofgem needs to set the cap level for period 10a i.e. February 2023.

Of the options put forward by Ofgem to address this issue, we are supportive of Ofgem's minded-to approach to adopt Option A which will make an adjustment in two stages, at times when the actual data becomes available. The duration over which each adjustment should apply should seek to recover any shortfall/surplus in a timely manner. On that basis we would support it being applied over two quarterly cap periods. This approach would allow for accurate adjustments to be calculated and for actual costs to be recovered by suppliers in a timely manner, reducing any cashflow and cost of capital impacts. This transitional approach would ensure the price cap deviates from underlying ex-ante BSUoS costs for the shortest period.

Calculation of adjustment:

We do not agree that any offsetting should apply in terms of the transitional adjustment and any future headroom allowance. Firstly, it is unclear the extent to which the current headroom allowance reflects any allowance for BSUoS cost uncertainty under the current methodology. In fact, the very reference made by Ofgem (within this call for input) to para 3.77-3.79¹ states that Ofgem has "*minimised uncertainty in our estimates of BSUoS costs by using lagged values of the actual charges to suppliers*". Ofgem then go on to consider two possible residual sources of uncertainty but appear to conclude that neither should be a determining factor. Secondly, the headroom allowance is expressed as a fixed percentage of all costs, excluding networks where BSUoS costs are recovered. Therefore, we do not consider that Ofgem has demonstrated a case for any offset to apply in this case.

However, we do acknowledge that some actual BSUoS costs prior to the commencement of the price cap have been recovered through the methodology. If Ofgem decide to proceed with an adjustment, then it should look to use a simple approach that would avoid performing complex calculations for multiple cap and indexing periods. One such approach could be to use typical

¹ Ofgem (2018) Appendix 2 – Cap level analysis and headroom, page 29

customer consumption and add up all the BSUoS allowances from January 2019 to March 2023 and totalise the actual BSUoS in that period. Any shortfall in allowances vs costs would then determine the amount to be recovered in the transition period.

Application of adjustment:

We would be supportive of applying any transitional BSUoS adjustment through the 'Adjustment Allowance' as opposed to the adjusting the network cost allowance given its temporary nature.

BSUoS Rate Re-opener

Clarity is required as to what would be the impact on Ofgem's approach to modifying BSUoS costs under the price cap methodology in the event that the Electricity System Operator (ESO) re-opened the 'fixed' BSUoS rate. This could happen where costs were significantly higher than the set charge and after the price cap allowance had been set. More detail is required on how this increased cost to suppliers would be captured under the price cap. For instance, would this be added on to a future cap period allowance or would this necessitate a within cap period re-opener?

Finally, there is a clear need to consider in advance of the cap announcements for the cap period commencing in January 2023 how the price cap continues to operate alongside the Energy Price Guarantee. We would welcome the opportunity to meet with Ofgem to discuss this matter.

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, appearing to read 'John Mason', enclosed within a thin black rectangular border.

John Mason
Senior Manager (Price Regulation and Market Dynamics)