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Price Cap: Programme of Work

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.

EDF welcomes the opportunity to comment on Ofgem's current price cap programme of work. Visibility of the workstreams that Ofgem intend to prioritise over the next two to three years is a positive development and provides suppliers with valuable clarity in terms of Ofgem's plans and projected timings for industry engagement.

However, the design of the current Default Tariff Cap (DTC), despite some recent positive changes, continues to present 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. Therefore, in addition to laying out plans to review elements of the current DTC we call on Ofgem to also work with BEIS to put in place medium term plans to overhaul the current approach to price regulation to replace it with one that ensures suppliers are investable by making a fair margin, whilst supporting customers through increased competition in a market which supports a variety of business models. Ofgem and BEIS should work closely with retail suppliers to agree a suitable timeframe for the medium-term plan and areas of focus.

In terms of a continuation of the current approach we are broadly supportive of the proposed priority workstreams that Ofgem has outlined in the programme of work. However, in addition to the number of reviews that are already underway, we would like to see Ofgem address the additional workstreams set out below as a matter of priority.

1. CfD costs.

Despite Ofgem previously consulting on the CfD allowance under the price cap, we remain concerned that there are several risks that could lead to higher outturn CfD costs than assumed by LCCC for the cap allowance. These include:

a. Generator start date delays; We note that BEIS has acknowledged this formally as an issue that leads to extra costs and has recently issued a consultation on measures to stop generators from delaying start dates for commercial reasons. However, this will only resolve the issue for projects from AR5 onwards, which won't start generating for a number of years.
b. Wind volatility and cannibalisation risk
c. Reliability issues or commercial behaviour from baseload generators.

These costs/risks could be accounted for by introducing an ex-post reconciliation as we set out in our submission to the earlier consultation[1]. Furthermore, we note that Ofgem state in Paragraph 3.6 of its recent consultation on changes to BSUoS charges in the price cap, that the BSUoS component is currently set ex-post as the charges are particularly volatile and the forecast at the time of the 2018 decision were not sufficiently accurate. We consider this argument is equally applicable for the CfD allowance under the price cap where potentially CfD costs are more volatile than BSUoS costs were in 2018. Consequently, we strongly urge Ofgem to reconsider adopting an alternative approach to amending the CfD allowance that better reflects the risks of LCCC forecasts being materially different to outturn rates and the ability of suppliers to recover/payback their CfD costs/benefits under the cap.

2. Price Shape

Recent increases in price variability have exceeded cap allowances (within-season monthly prices and within-day half-hourly prices) **[REDACTED]** Although the programme includes a workstream that will cover an additional wholesale allowance review in Summer 24, we would like to see Ofgem review the shaping allowance and consider increasing it and/or a mechanism to recover exceptional material costs.

3. Operational costs

We would like to see Ofgem bring forward its review of operational costs, including smart metering costs, and conduct a review before Winter 24/25.

Another area where Ofgem should undertake a more fundamental review is in how the price cap reflects the associated costs of different payment methods, including those between smart and legacy payment methods.

[1] Consultation on amending the methodology for setting the Contracts for Difference (CfD) cap allowance – 14 April 2022

4. Miscellaneous cost allowances

Various elements in the SVT allowance have not kept pace with rising costs, creating a shortfall. Ofgem should consider reviewing these allowances to allow suppliers to fully recover these costs. These include:

- RO mutualisation; no allowance provided.
- ECO costs; allowance is indexed to GDP growth but costs are indexed and closely linked to CPIH inflation. Inflation has been and is expected to be at a much higher rate than GDP growth, so cap allowance has not and will continue to not keep pace with growing costs. **[REDACTED]**
- Admin fees such as SPAA, DCUSA, Elexon etc have increased faster than the allowance, which increases with CPIH. There is now a shortfall of ~£80m industry cost per year.
- CfD cost of capital; CfD Total Reserve Amount (TRA) payments are becoming more onerous for suppliers as CfD capacity and price volatility increase, with suppliers now having to post over £1/MWh in cash (£300m). These are forecasted by LCCC to grow to around £500m next year, or almost £2/MWh as more generation joins the scheme.
- Gas balancing costs; Following the termination and insolvency of multiple gas shippers over the last 12 months, this has resulted in un-recovered energy balancing costs liable to those shippers of ~£0.25/MWh to be paid by remaining shippers.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre or myself. **[REDACTED]**

Yours sincerely

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