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Dear Jonathan,

Ofgem's Forward Work Programme - 2024/25

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 renewables, including onshore, offshore wind and solar generation, and energy storage. With over five and a half 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 comment on Ofgem's draft Forward Work Programme (FWP) for 2024-25. It is important that Ofgem is transparent about their priorities for the coming year and takes stakeholder views on board.

We have set out below where we have identified key points in relation to the priorities identified by Ofgem.

Proposed strategic framework for Ofgem's regulatory work

We welcome the introduction of a strategic framework and broadly agree with the three proposed strategic priorities. The use of such a framework will help to provide clarity around purpose, direction, and priorities, and help to align stakeholders across industry in the achievement of these outcomes.

The projects and activities detailed in the draft FWP look broadly sensible but very extensive. Ofgem must ensure it has the necessary resources to undertake its priority projects and to manage its workload. With this in mind, we would encourage Ofgem to set out how it intends to address increased demand for its resources while delivering a consistently high-quality approach across the various work areas.

Shaping a retail market that works for consumers

Drive up standards

We welcome Ofgem's focus on driving up standards, ensuring fair practices, promoting competition and investability, and supporting innovative and evolving markets.

There needs to be a holistic view of what sustainable service looks like across the broad range of activities a supplier carries out, and the broad range of customers they serve. This also means finding an appropriate balance between short and longer-term activities and outcomes for customers. There is a risk that focusing on call wait times or similar contact metrics, for example, risks placing supplier focus on getting through customer contacts quickly but not solving the problem.

We agree that protecting the interests of consumers in vulnerable circumstances should remain a key focus area for Ofgem and continue to be a core objective. In particular, we support Ofgem working closely with Government and industry to develop 'one PSR', a cross utility data sharing platform based on Government data to ensure support can be better targeted at where it is needed most.

We agree that Ofgem needs to continue to monitor industry behaviour and take proportionate action where it is needed. However, there are areas where enforcement action is clearly not delivering the required outcomes, such as the smart metering rollout. A more collaborative and collective approach to what steps can be taken to complete the smart rollout is needed, rather than penalising suppliers for failing to reach largely unachievable targets; a cost which is ultimately repaid by all consumers via their energy bills.

Ensure fair prices

Prices need to be fair for consumers as well as suppliers. It is vital in the short term that Ofgem continues to ensure that the Default Tariff Cap (DTC) allows efficient suppliers to recover their costs and make a fair level of return. We therefore support Ofgem's work to review the Operational Cost allowance. We also support Ofgem's plans to review the Wholesale allowance more broadly, including the compatibility of the DTC with Market-wide Half Hourly Settlement.

Ultimately, however, the Price Cap is an imperfect instrument that drives additional risk for suppliers and costs for consumers. Ofgem must, therefore, also look to work with Government to move to a genuine 'backstop' price regulation approach that protects consumers from excessive costs, while also allowing suppliers to invest for the benefit of consumers and supporting a net zero retail market.

We also continue to support Ofgem's focus on the affordability issues faced by domestic consumers. Millions of households remain significantly concerned about paying their energy bills, while the number of indebted consumers and the average debt per consumer are both rising. However, affordability can only be addressed via Government action. Ofgem's priority

should, therefore, be continuing to push for Government to introduce meaningful and targeted support to tackle the domestic affordability challenge while avoiding additional burdens on other energy users. Removing or reducing standing charges, for example, is not a solution to the affordability challenges many consumers are experiencing and would be a poor substitute for meaningful Government action on bills.

Promote competition and investability

Suppliers continue to operate in a financially challenging environment and face enduring risks because of market uncertainty and having to operate under the DTC. EDF remains committed to working constructively with 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 that benefits consumers.

It is, therefore, disappointing not to see the draft FWP refer to the Ban on Acquisition-only Tariffs (BAT). In the absence of more fundamental reform of the DTC by the Government, Ofgem should be making the BAT an enduring feature of the domestic retail market. Allowing the BAT to lapse from March 2024 will put at risk the significant market and consumer benefits that have resulted from its introduction, along with other financial resilience measures introduced by Ofgem since the start of the energy crisis. Without the BAT, there is a real and material risk that unsustainable business models and practices that do not create long term value for consumers will return and put the future stability of the market at risk.

Ultimately, it is essential that we return to a sustainable, resilient, and investable market capable of helping Britain achieve net zero. A resilient sector which has confidence in its ability to invest and innovate will deliver the widest consumer benefits. However, if investors are not confident in the future of the GB domestic energy retail market, further market exits are likely and new entry will be discouraged. Put simply, and as Ofgem has acknowledged through its desire to improve supplier financial resilience, unsustainable competition and pricing practices of the sort widely seen before the energy crisis and the introduction of the BAT are not an attractive proposition for investors.

Enabling infrastructure for net zero

Establish strategic planning

Regarding Future System Operator (FSO) performance, while we welcome Ofgem's confirmation that it will be establishing performance objectives for the FSO, we would like to highlight how critical it is that Ofgem gets this right. The level of detail provided is very light given the criticality of this challenge. We encourage Ofgem to look at international comparisons and identify best practice for the FSO type model.

We note that there is no mention of wholesale market liquidity in the FWP, which is surprising given the recent Call for Input from Ofgem on power market liquidity. We welcome clarification on Ofgem's role in taking forward this important topic.

Expand electricity networks

The FWP notes that Ofgem will conclude its work on new interconnectors under hybrid and cap and floor regulatory mechanisms. Ofgem needs to carefully consider its approach in this area. It is clear from the work on the Review of Electricity Market Arrangements (REMA) to date, that interconnectors have a material interaction with the market and on reform options e.g., a national vs. a zonal market. Ofgem's policy work needs to be integrated into the thinking on REMA.

Ensure resilient supplies

We are pleased to see a focus on financial, cyber and climate resilience. We welcome the opportunity to understand whether there is anything EDF could share and facilitate from our nuclear operations regarding climate adaption and resilience.

It is especially important that there is a focus on ensuring that the electricity networks remain resilient and that we have a robust energy system which supports a low carbon future, including decisions about the future of the gas grid and the role of hydrogen.

Establishing an efficient, flexible energy system

Deliver effective and efficient market incentives and signals

We note that Ofgem proposes a Call for Input in Spring regarding Network Charging. EDF has repeatedly stressed that action is needed now to improve the predictability of network charges. In our view, issuing a Call for Input in Spring indicates that Ofgem does not appreciate the urgency in this area.

Ensure the enabling systems are in place

This is a vital time for strategic thinking and planning to develop the energy system needed to support a net zero future. It is critical that Ofgem starts considering this now and what might need to change or be improved before it is required. For example, Market-wide Half Hourly Settlement may cause a proliferation in Time of Use (ToU) tariffs that could change the nature of the demands placed on the network; an increase in the take-up of electric vehicles could have a similar impact.

We agree that consideration needs to be given to consumers who can't shift or vary their consumption, for example those that rely on electricity for medical equipment, to ensure they do not suffer material detriment where they are not able to reduce or flex their demand. We note that there was a proposal to trial gas Demand Side Response (DSR) for domestic and other non-daily metered gas consumers, although this has now been deferred. We are concerned about the potential impact of such trials on those consumers that need to keep their homes at a certain temperature because of their circumstances, but who may try to switch off their heating to earn the associated incentive payment.

Digitalisation is a key enabler for the future energy system. We welcome clearer proposals from Ofgem on how the benefits of data, including supplier and smart metering data, can be unlocked for public good.

Delivering environmental and social schemes for Government

As well as the three strategic priorities, we welcome Ofgem's continued focus on its role in delivering environmental and social schemes. We agree that Ofgem should continue to administer these schemes, but should look for ways to ensure that the support is being targeted at the right people and delivering the maximum benefits.

As noted above, a different way of targeting consumers with support should be considered, such as a cross-utility, centrally administered, vulnerability/support register, based on Government data such as health and benefits data. Government, Ofgem and industry should work together to deliver an optimal solution that provides 'one version of the truth' regarding consumers that need support.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact me directly.

I 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
Director of Net Zero Strategy and Policy