

Christopher McDermott  
Retail Price Regulation  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

Email to: [retailpriceregulation@ofgem.gov.uk](mailto:retailpriceregulation@ofgem.gov.uk)

9 January 2025

Dear Christopher

### **Introduction of a Network Charge Compensation (NCC) Scheme Allowance in the energy 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 renewables, including onshore and offshore wind and solar generation, as well as 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.

EDF welcomes the opportunity to provide comments on Ofgem's proposals to amend the default tariff cap methodology to include an additional allowance for the Network Charge Compensation (NCC) Scheme, as set out in its consultation paper published on 12 December and through a follow up clarification email of 20 December. EDF is supportive of Ofgem amending the price cap in order to allow for suppliers to be compensated for funding the NCC scheme and facilitating the government's policy objective of redistributing these costs among non-Ell customers, including domestic customers.

In terms of the proposed implementation approach, we agree with the introduction of an allowance from price cap period 14a onwards (i.e. from April 2025) through inclusion of an allowance in 'Annex 4 Policy Cost Methodology', and that the allowance being recovered from electricity consumers only on a volumetric basis (i.e. unit rate).

However, in terms of the proposed methodology for setting the new allowance we have the following concerns which should be addressed in the final decision:

- Ofgem's proposed approach is to include an annualised allowance for the NCC costs, which will ramp up over time as initially only 5 months' worth of data will be available for the Q2-25 cap period, then 11 months' data at the time the Q4-25 cap is set before a full 12 months' worth of data is included from the Q2-26 cap period. The allowance will then be updated on a seasonal basis, similar to other Policy Costs.

- However, within the annex model provided alongside the consultation, Ofgem is applying a seasonal adjustment factor to the annualised £/MWh allowance. In effect, this adjustment means that a supplier will never recover its costs (i.e. 45% of the annual rate would be recovered from 45% of annual demand in summers and 55% of the annual rate would be recovered from 55% of annual demand in winters).
  - To be made whole, suppliers would expect to recover 100% of the annualised rate in all seasons, so this seasonal adjustment is not required. This adjustment is not highlighted within the consultation itself, so we request Ofgem clarify this point, including whether this adjustment in the model is in fact an error.
- The overall recovery mechanism is complicated given the lag in recovering these costs, which is partly due to the lag in availability of data (6 months in arrears) conflicting with the required date to publish upcoming cap allowance levels. Our interpretation of Ofgem's proposals is that the allowance would be recovered as set out in Table 1 of the attached Appendix. We would like Ofgem to clarify their intentions in this respect.
- Alternatively, we would recommend just including the latest quarters' data available when setting each quarterly cap allowance. This will produce some quarterly volatility in the allowance, but it is a relatively low component of the cap, for example compared to the much more volatile backwardation allowance. This approach would require the NCC allowance to be updated on a quarterly, rather than seasonal basis as Ofgem is currently intending. This alternative is outlined in Table 2 of the appendix.
- Finally, it looks like the volumes used to determine the allowance are national demand @NBP provided by the LCCC. In this case the model allowance calculation creates an under-recovery as it does not include the impact of transmission and distribution losses. We expect Ofgem to either include an uplift for losses if @NBP volumes are being used or to confirm that @CT / supply point volumes will be used initially in the model calculation.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre, or myself. I confirm that this letter may be published on Ofgem's website.

Yours sincerely



**John Mason**  
**Senior Manager - Senior Manager (Price Regulation and Market Dynamics)**

## APPENDIX

### EDF Response to Introduction of a Network Charge Compensation (NCC) Scheme Allowance in the energy price cap.

**Table 1: EDF Interpretation of Ofgem Proposal**

Cap Period	NCC Data Included:		Months' Data Included	Latest Data Known at cap publication
	Start Month	End Month		
Q2-25	Apr-24	Aug-24	5	Aug-24
Q3-25	Apr-24	Aug-24	5	Nov-24
Q4-25	Apr-24	Feb-25	11	Feb-25
Q1-26	Apr-24	Feb-25	11	May-25
Q2-26	Sep-24	Aug-25	12	Aug-25
Q3-26	Sep-24	Aug-25	12	Nov-25
Q4-26	Mar-25	Feb-26	12	Feb-26
Q1-27	Mar-25	Feb-26	12	May-26

**Table 2: EDF Recommendation**

Cap Period	NCC Data Included:		Months' Data Included	Latest Data Known at cap publication
	Start Month	End Month		
Q2-25	Apr-24	Jun-24	3	Aug-24
Q3-25	Jul-24	Sep-24	3	Nov-24
Q4-25	Oct-24	Dec-24	3	Feb-25
Q1-26	Jan-25	Mar-25	3	May-25
Q2-26	Apr-25	Jun-25	3	Aug-25
Q3-26	Jul-25	Sep-25	3	Nov-25
Q4-26	Oct-25	Dec-25	3	Feb-26
Q1-27	Jan-26	Mar-26	3	May-26

EDF  
January 2025