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Default tariff cap: approach to the third cap period

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have around five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes the opportunity to respond to Ofgem's proposed approach to the third cap period of the Default Price Cap (tariff cap). We believe the objectives of Ofgem's approach should be the delivery of a model that is robust, transparent and accurate. In particular, the model should deliver a smart metering allowance that enables the full recovery of efficient smart costs.

Smart metering

Given the timing implications of the Government's revised smart metering implementation programme cost benefit analysis, we agree that using an unadjusted version of the current model for the third cap period is a sensible approach and provides some certainty for suppliers.

However, our support for this proposal is subject to Ofgem not adopting some form of retrospective correction mechanism within its model for later cap periods in order to address any instances where it subsequently considers that the allowance was somewhat different to the actual efficient costs in earlier periods. We highlighted in our earlier response on this matter that Ofgem was very clear in its decision documents when implementing the tariff cap that it opposed the inclusion of an error correction mechanism as this would create a further distortion to the market.

We continue to believe a consistent approach across all elements of the cap in terms of retrospective adjustments should be adopted. Ofgem has clearly identified concerns with adopting such a corrective approach. These risks are likely to be considerable if an inconsistent arbitrary approach is adopted.

We note that Ofgem plans to consult later in the year regarding its approach for the fourth cap period and onwards and we look forward to working with Ofgem to develop an updated model that meets the objectives set out above.

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Capacity Market Costs

We welcome confirmation that Ofgem proposes to include a full Capacity Market (CM) allowance in the third cap period. This will enable suppliers to continue to collect CM costs from their customers and enable a smooth reintroduction of payments to capacity providers, should State Aid clearance be granted.

Furthermore, we note that the CMA has provisionally decided to align the Prepayment Charge Restriction (PPM Cap) methodology with that of the Default Price Cap, with the aim of adopting this decision in time for it to be applied for the next charge restriction period in October 2019. We are supportive of both the provisional decision and the desire for timely implementation.

However, if this timescale is not achieved, then there is a need to address the fact that the PPM Cap for the next charge restriction period will not include relevant CM costs. This is because the latest OBR forecasts, as used in the PPM Cap model, do not include CM costs, given the standstill period for the CM scheme. As a consequence, under the current PPM Cap methodology, CM costs would not be included when indexing policy costs for the cap period starting in October 2019.

Such a scenario is entirely inappropriate and both Ofgem and the CMA should actively seek to address this risk and ensure that CM costs are fully recovered under both caps. This may for instance include a CMA Direction to Ofgem to use an alternative data source in respect of CM costs when calculating the policy cost index value, if the implementation of the CMA's decision is delayed.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre on 0208 186 1356, or myself on 07875 112625.

Yours sincerely,

R. Beresford

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