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Email to: marketmonitoring@ofgem.gov.uk

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Dear Amy,

Ofgem's proposed updates to the Typical Domestic Consumption Values for gas and electricity

EDF Energy is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users. EDF Energy is committed to 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 Energy welcomes Ofgem review of the Typical Domestic Consumption Values (TDCV) and supports regular updates to this valuable data. However, EDF Energy disagrees with Ofgem's decision not to update the Prepayment Charge Restriction and Default Tariff Cap¹ with the new TDCV and revised assumed consumption split. We are not aware of any arguments for retaining the outdated data, which is now several years old, when updated and therefore more accurate data is available, and the Ofgem document does not provide any justification. We urge Ofgem to reconsider this decision and apply the new TDCV as the Benchmark Annual Consumption Level for both caps, from 1 April 2020.

Use of TDCV in tariff cap methodology

The medium TDCV are the baseline against which Ofgem applies the cost assessment² to determine the Relevant Maximum Charge at each cap review. When the Default Tariff Cap methodology was established, Ofgem stated it would take into account different trends related to external costs³; this must also include the TDCV against which the calculation of these costs depends.

If the consumption value used to calculate the allowable level of efficient costs is too high, as the 2019 TDCV bears out, the headroom afforded to suppliers will be insufficient to recover the cost of supply, even for an efficient supplier. This is clearly counter to the principles which underpin the rationale and methodology for the cap, and would significantly impair supplier competition. Ofgem noted the risk of distortion if the cap is set beneath an efficient level of costs, citing impacts

¹ 2017 TDCV defined in the licence definitions of Benchmark Annual Consumption Levels within 28A.28 and 28AD.40 (and 28A.21(a) in relation to the assumed consumption split)

² Default Tariff Cap: Policy Consultation Appendix 1 – Benchmark methodology, para 3.7

³ Decision – Default tariff cap – Overview document, para 3.15

to 'customers' incentives to engage in the market, suppliers' incentives to offer competitive tariffs, and the incentives of new suppliers considering entering the market.⁴ As the baseline for calculating this efficient level, it is imperative the Benchmark Annual Consumption Levels reflect changes in domestic consumption.

The proposed electricity TDCV in this 2019 letter were set based upon BEIS data from 2016 to 2018. The 2017 TDCV originates from the assessment of consumption data collected for the period 2014 to 2015. If Ofgem does not take opportunity to apply this 2019 TDCV outcome to the cap calculations from April 2020, the significant disparity between the caps and actual domestic consumption will continue to widen, up to the next TDCV review expected in 2021.

Given the significant reduction in medium consumption (from 3,100 to 2,900 kWh) already recorded, and the ongoing expansion of energy efficiency measures and planned improvements to the energy ratings of housing stock, it is highly likely we will continue to see further reductions to these values over time. Therefore, a clear process is required for updating the price cap Benchmark Annual Consumption Level, as soon as updated data becomes available.

Ofgem notes that these revised TDCV *WILL* be used by the regulator in communicating typical energy prices (and likely by price comparison websites, consumer bodies, and suppliers for similar purposes). The discrepancy between the typical costs based on the 2019 TDCV and the price cap level based on 2017 TDCV will create an unnecessary dislocation between these sums.

Ofgem states it will prevent confusion by caveating communications using the revised TDCV. This will do little to explain the discrepancy where the contrasting models are viewed separately without protracted explanation. Ofgem's consumer research⁵ has repeatedly found that jargon and complex industry terminology is a barrier to encouraging and enabling engagement. Furthermore, it would be highly confusing and potentially misleading for default tariffs to continue to use 2017 TDCV, when switching services are free to use lower 2019 TDCV to promote alternative tariffs. Such needless complexity would negatively affect each customer's ability to make informed choices when comparing tariffs and suppliers.

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

Yours sincerely

A handwritten signature in black ink that reads 'R. Beresford'.

Rebecca Beresford
Head of Customers Policy and Regulation

⁴ Default Tariff Cap: Policy Consultation Appendix 5 – Updating the cap over time, para 3.14.

⁵ Ofgem Consumer engagement survey 2017.