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### **Ofgem Forward Work Programme 2020-2022**

EDF 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 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 welcomes the opportunity to comment on Ofgem's draft forward work programme (FWP) for 2020-2022. Providing stakeholders with an ability to help shape Ofgem's programme of work is supported and we welcome the transparency provided through the publication of Ofgem's planned activities and key milestones for the period. In parallel with this current consultation, Ofgem is currently consulting on its Decarbonisation Action Plan (DAP) in which it sets out the actions it will take over the next 18 months to enable effective decarbonisation of the energy sector at the lowest cost to consumers. We are supportive of Ofgem developing a decarbonisation plan that sets out its role in enabling the transition to net zero as cost effectively as possible. While Ofgem's FWP makes reference to the DAP, it is important for there to be, at a high level, consistency between the key activities and milestones that are included within both documents given the similar timeframes that are involved for both.

The energy system is going through a significant transition as the sector decarbonises and emerging technologies and new energy services develop across the sector. Energy consumers will undoubtedly need to play an increasingly active role in this transition as the UK works towards achieving its net zero targets by 2050. In this context, we are supportive of Ofgem's three key strategic objectives and the aim of protecting consumer interests through an energy system that attracts innovation and investment, keeps costs low, while also promoting sustainability. We believe a well-functioning competitive market with minimal distortions, which enables efficient and responsible market participants to be sustainable in the long-term; will deliver the best outcomes for customers, including fair prices.

Below we raise a number of additional points over and above that which is currently included within Ofgem's draft FWP.

## **1. Smart Metering**

EDF remains fully committed to an efficient and effective national roll-out of smart meters. We are clear that a successful programme has the potential to deliver real benefits to consumers and promote innovation, and by modernising the energy sector will be integral to the move to a smart, flexible and decarbonised energy system.

2020 will be an important year for the programme as we move towards the end of the current smart metering regulatory framework and the obligation placed on all suppliers to take all reasonable steps to install smart meters in all domestic and designated premises by 31 December 2020. EDF continues to drive its smart programme and continually looks to innovate and optimise its strategy. We have invested heavily in our programme and ensured it is fully resourced in order to meet our smart meter obligations. We note that FWP makes reference to Ofgem continuing to monitor supplier progress in delivering installations. Clearly, as this phase of the smart programme comes to an end, Ofgem's scrutiny of supplier performance will need to extend beyond those who have been subject to annual milestones.

Throughout the programme EDF has sought to maintain an open, constructive and collaborative relationship with Ofgem, BEIS and other industry participants. We have been keen to share best practice, open to feedback and advice, and transparent about the challenges faced in delivering the rollout. As we enter the final year of the current regulatory framework, we believe Ofgem should as part of its smart metering oversight work look to provide feedback to suppliers where it considers that there are further opportunities for improvement so that as many customers as possible will be able to benefit from having a smart meter.

We would also encourage Ofgem to engage with BEIS regarding the development of a smart meter policy framework post 2020. EDF considers the initial post 2020 framework proposals that were consulted on in late 2019 were flawed as they would have the effect of introducing unachievable mandated annual targets on suppliers and are overall unlikely to be in the best interests of consumers. We believe Ofgem has a role in promoting an efficient and cost effective programme that delivers real benefits to consumers and where ultimately it will be the judge of suppliers' compliance with such arrangements.

## **2. 'Green' tariffs**

Within its DAP, Ofgem has commented on the need for energy consumers to be engaged in the net zero target, and be able to play an active role in the transition, through adopting new services or retail offerings that make a real difference. Evidence shows that in the context of addressing climate change, energy consumers are increasingly interested in the environmental impact of their purchasing decisions. Yet, as Ofgem rightly point out, it is critical that energy consumers can trust tariffs marketed as 'green' and are not given a misleading impression as to the environmental impact of any particular tariff. We consider the current arrangements are flawed in many respects and are not acting in the best interests of consumers including, for example, by facilitating the ability to 'greenwash' tariffs and solely focussing on renewable generation which masks the contribution of other forms of low carbon generation to decarbonisation.

Consequently, we are fully supportive of Ofgem identifying the need to undertake work in this area as part of the DAP. However, we see this as an example of a key activity that is consistent with Ofgem's three strategic objectives and which should be specifically included within Ofgem's FWP. We would like to see Ofgem commit to undertaking a review of the current arrangements and assessing the extent to which they are acting in the best interests of consumers and supporting the transition to a decarbonised energy market.

### **3. Supplier Licensing Review**

EDF has fully supported Ofgem's review of the supplier licensing regime with a view to introducing targeted and proportionate changes that ensure consumers are better protected and risks are minimised for existing suppliers.

Specifically, we are supportive of Ofgem considering options that would introduce improved cost mutualisation protections. There have been a significant number of supplier failures resulting in customer disruption and cost mutualisation over the last two years. In these cases, customers who have been supplied by the failed supplier, often on very low prices, are in effect cross-subsidised by other customers through the mutualisation of unpaid policy costs and reimbursement of credit balances. This is manifestly unfair, and should be addressed as a matter of urgency. Ofgem has recently announced its intention to further consult on its proposals in this area. While we accept the need for Ofgem to undertake a comprehensive assessment and industry consultation process, any undue delay in implementing much needed reform should be avoided.

### **4. Regulated Asset Base Model**

We support inclusion within the FWP of Ofgem's role in assessing (with BEIS) a framework that would allow for new nuclear generation to be delivered under a regulated asset base (RAB) model. EDF welcomed the 2019 Government's Consultation on a RAB model for Nuclear and within it recognition that nuclear power has an important continuing role to play in achieving the UK's commitment to net zero by 2050, while maintaining security of supply and ensuring reliable and affordable energy supplies for customers.

We believe a RAB Model has the potential to enable financing of new low carbon nuclear assets in a way that minimises the costs to consumers. If Government adopts this policy there is an important role for Ofgem in developing and operating a RAB regime that protects the interests of both existing and future consumers and which promotes investment in the energy sector.

### **5. Capacity Market**

The GB Capacity Market is an important policy mechanism in terms of both promoting investment in more sustainable, low carbon electricity capacity and securing electricity supplies for the future. Ofgem has a significant role in ensuring that the capacity market rules continue to meet their objectives and act in the best interests of participants and consumers. On this basis, we welcome inclusion within the FWP of Ofgem's work on the Capacity Market rules, however, greater clarity on how this work will proceed over the period should be provided.

## **6. System Resilience**

Throughout Ofgem's work plan there is a heavy focus on cyber security and resilience of service providers of essential services. We agree that this is an important area for Ofgem and its work rightly focusses on delivering good consumer outcomes in terms network costs and improved reliability and safety. However, in the context of net zero transition and in particular the decarbonisation of the UK's energy and heat systems, there is likely to be a growing reliance on electricity supply by society. It is therefore vital that throughout this transition system resilience is not allowed to deteriorate and that Ofgem has in place a regulatory strategy that ensures security of supply is appropriately protected.

On a similar theme, assessment of the circumstances that led to the major power outage of August 2019 provided real insight in to the significant impact that distributed/decentralised producers can have on the overall power system. This incident underlines the importance of having a regulatory framework that is able to adapt to a transitioning energy system. Distributed generation accounts for ~25GW and rising and yet Ofgem has little regulatory oversight or powers over such producers. We believe it is vital that lessons are learned from this network incident and that Ofgem should seek to address any shortcomings in the current market arrangements to ensure whole system implications are understood and managed, particularly as more decentralised generation is connected to the system.

## **7. Interconnector Capacity**

The proposed FWP indicates that Ofgem will undertake work that facilitates new interconnector links. We do not believe that there is evidence of a need for further electricity interconnectors at this time. On this basis, we would question whether any anticipated work should be a priority for Ofgem during the next two year programme. Before any new interconnections are agreed there is a need for Ofgem to demonstrate a positive consumer benefit and to fulfil its previous commitment to review the effectiveness of its regulation of interconnectors (the cap and floor regime) in order to ensure an appropriate framework is in place.

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

I can confirm this letter is not confidential and may be published on Ofgem's website.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Angela Hepworth'.

**Angela Hepworth**  
**Corporate Policy and Regulation Director**