The Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

Email to: retailpriceregulation@ofgem.gov.uk

15 July 2020

Feed-in Tariffs allowance in the Default Tariff Cap

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 welcomes the opportunity to comment on the options available for calculating the Feed-in Tariffs (FiT) allowance in the Default Tariff Cap (DTC). As the FiT costs within the Office for Budget Responsibility (OBR) forecast will no longer be updated it is important that the most reliable data source is used to determine the FIT allowance within the DTC and that suppliers' underlying costs are accounted for.

It is expected that FiT costs and demand will remain relatively stable following the closure of the FiT scheme to new applicants, barring a few exceptions. However, due to the sharp reduction in overall demand during the COVID-19 pandemic, suppliers are now facing a materially higher £/MWh cost for FiT than anticipated or allowed for in the current DTC. We estimate this additional cost to be £1.28/MWh. It is essential that Ofgem move away from using forecasted demand to calculate the £/MWh allowance within the DTC, and instead use the actual demand data from Ofgem's FiT annual report allowing suppliers to recover the increased costs incurred as a result of COVID-19.

Due to the timing of Ofgem's FiT annual report this will introduce a 24 month lag between the actual FiT costs and their pass-through to the DTC allowance. The COVID-19 pandemic has had an unprecedented economic impact, therefore Ofgem should consider whether there are any reliable alternative options that could minimise this lag to enable suppliers to recover these costs sooner than proposed.

An alternative option would be to use the quarterly FiT invoices issued by Ofgem to derive the actual costs from the previous 12 months, divided by the actual demand for that period. This option would reduce the lag period between the actual FiT costs and their pass-through to the DTC allowance allowing suppliers to recover these costs sooner. There is usually a variance of around £0.10/MWh between quarterly FiT invoices and annual FiT invoices that would need to be considered for future DTC periods. This variance is largely due to the Guarantees of Origin (GoO) cap not being met in quarterly submissions. Scheme year 2019/20 is also the first year Energy Intensive Industry (EII) exemptions are permitted within the FiT scheme and reconciliation for this period has not yet occurred. Any material difference caused by EII exemptions should also be considered when adjusting the FiT allowance within the DTC. However, we recognise that Ofgem are committed to robustly assessing the overall net impact of COVID-19 prior to adjusting the DTC, and with a relatively short time-frame to make any changes prior to announcing the DTC for cap period 5, it may not be possible for Ofgem to implement such a change at this time.

We broadly support the use of Ofgem's FiT annual report for DTC period 6 and all subsequent cap periods. As FIT scheme costs have been excluded from the OBR forecast of environmental levies, there is a risk that reliance on this static forecast could become increasingly unreflective of actual FIT costs adding uncertainty for suppliers. However, the first full scheme year since the FIT scheme closed to new registrations has only recently been completed therefore, we agree that using the OBR forecast for DTC period 5 would provide the best estimate of scheme costs for DTC period 5.

In summary, we agree with Ofgem's proposed approach and support the adoption of Option 3. However, Ofgem should pair the implementation of Option 3 with a shift to utilising the actual demand data contained within Ofgem's FiT annual report to enable suppliers to recover the increased costs incurred as a result of the reduced demand during the COVID-19 pandemic.

Should you wish to discuss any of the issues raised in this response or have any queries, please do not hesitate to contact Keith Watson or myself. I can confirm this letter is not confidential and may be published.

Yours sincerely

Steven Eyre

Steven Eyre
Policy and Regulation Consultant (Customers)