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Monitoring trends in suppliers' expected costs

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, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy is supportive of a cost index for estimating ongoing trends in the direct costs of energy supply. This forms part of our vision for Ofgem as a trusted provider of market information to consumers and other stakeholders. As Ofgem is aware, the previous SMI provided misleading/misunderstood cost/profit messages to stakeholders, and in so doing (in our view) significantly contributed to deterioration in consumer trust in energy suppliers. We are clearly sensitive to any new SMI repeating these errors.

EDF Energy is concerned with some areas of the proposed index, in particular the use of a single index for (gas and electricity) energy costs; there are many consumers who only take electricity and others who have different suppliers for each fuel, and there are important differences in the cost drivers/movements relevant to each fuel. We also believe any index should be representative of the wide range of suppliers and tariff types now available in the competitive market.

We recognise that a cost index will be of most value if the basis of the estimates and associated assumptions are set out clearly and transparently. To this end, it will also be important that any material differences with other information published by Ofgem that shows changes in supplier costs (such as the prepayment cap calculation and the movements seen in the published consolidated segmental statements) are clearly reconciled and explained.

Customers are easily able to check prices in the market and we expect engagement will improve following the implementation of the CMA's package of remedies. Therefore, an important benefit of monitoring and publishing trends in costs is to provide consumers with an indication of the direction of travel to help inform their switching decisions e.g. regarding a choice between short versus long-term fixed tariffs. However, we accept that the information provided should not attempt to provide granularity on the level of price that consumers can expect to see in the market due to the large variance in the type of tariffs available.

Reflecting the impact of changes in wholesale market costs on suppliers' is challenging given the potential range in suppliers hedging between different tariffs. A supplier's

hedging approach is part of its commercial strategy, and is a key area of competition between suppliers. To ensure that the index remains relevant and transparent for all consumers and stakeholders, we recommend that Ofgem publishes trend data for changes in wholesale costs that represent an appropriate range of supplier hedging strategies. This will reduce the risk of eroding consumer and stakeholder trust in the measure given the probable divergence between the proposed single wholesale cost measure and the range of wholesale costs underpinning a supplier's portfolio of tariff prices. This is of particular importance in the context of a wider variety of tariffs offered following deprioritisation/removal of the Simpler Tariff rules by Ofgem.

Over the coming years, energy suppliers will face significant costs arising from industry-level changes. These changes include the multi-billion pound rollout of smart meters, and the faster switching, half-hourly settlement and Nexus IT programmes. These costs will inevitably feed through into consumers' bills, but are not included in Ofgem's proposed indices. While we understand Ofgem's decision not to include suppliers'' operating and metering costs in the proposed index, we believe that it is necessary to provide information in relation to the potential impact of these programmes either as part of the index or alongside it.

We do not agree with Ofgem's proposed approach to estimating the cost of Government obligations. A significant weakness of the previous SMI was the reliance on Government estimates (for example in impact assessments) when the costs actually incurred by suppliers were sometimes very different. We believe it would be appropriate for Ofgem to request information from suppliers on their latest cost forecasts to provide estimates that are more accurate (though we note that Ofgem may have to adjust for different timings of ECO costs as suppliers can take different approaches in this respect).

Lastly, we foresee a risk that consumers and other stakeholders could be confused if Ofgem publishes numbers that on the face of things should be the same, but are not. In particular, in relation to suppliers' costs, Ofgem will publish the proposed indices, values for the PPM cap components, and suppliers Consolidated Segmental Statements. The different methodologies used for these is likely to produce results that are sometimes (unavoidably) contradictory.

To address this risk we suggest that Ofgem publishes any information relevant to price or trends on the same date of each quarter. This would require co-ordination of the updates to the quarterly trends data with the updates on the PPM cap and any information or analysis relating to the segmental statements. Taking this approach would allow Ofgem to clarify the basis of published information and explain any inconsistencies in the results. We note that our suggested inclusion of ranges for areas such as wholesale energy hedging would reduce the risk of Ofgem producing contradictory messages.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Adam Heeley on 07875112123, or myself.

I confirm that this letter and its attachment are not confidential and may be published on Ofgem's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

Monitoring trends in suppliers' expected costs

EDF Energy's response to your questions

CHAPTER: One Question

Q1.1: Do you agree that Ofgem should provide estimates of ongoing trends in suppliers' costs, in addition to the analysis we publish of realised costs for previous financial years?

EDF Energy is supportive of the publication of realised costs and profits of suppliers through the Consolidated Segmental Statements (CSS) in its current form, which provides the most reliable, transparent and easy to understand view of suppliers' costs for both consumers and other stakeholders.

EDF Energy also supports initiatives that provide reliable estimates of the ongoing trends in supplier costs. However, as seen with the previous SMI, the risk of providing estimates of trends in future costs is the potential inaccuracy of the assumptions and data which can result in inconsistencies with:

(i) Other stakeholders views of cost trends (including suppliers' own views), and

(ii) Realised supplier costs (as subsequently reported in the CSS)

Ofgem needs to ensure that the data supporting the estimates is accurate and that the assumptions, and any possible limitations of the estimates, are clearly set out. In particular, it is very important that the index is clearly presented as an estimate that may differ from actual costs and highlights the various elements of actual supplier costs that are not included. Otherwise, there is a significant risk that such inconsistencies will lead to confusion and undermine consumer and other stakeholders' trust in both Ofgem and the wider industry.

EDF Energy strongly believes that following publication of the CSS Ofgem should publish a reconciliation between the projected cost increases from the index and those realised in the year-on-year movements in the CSS. This would build stakeholder confidence in the cost index and provide Ofgem with an opportunity to investigate any differences and recalibrate the index if necessary.

In addition, we note that the proposed methodology will differ from that proposed for the prepayment cap, creating a further inconsistency whenever the prepayment (PPM) cap calculation is published. This has the potential to reduce customers' confidence in both the prepayment price cap and the estimated trends in suppliers' costs. However, we believe this risk would be reduced if the index for wholesale cost trends was based on a range of hedging trajectories, which would likely cover that proposed for the PPM cap calculation. The risk would be further mitigated if careful consideration was given to how and when the cost index information is presented, as noted above.

Q1.2: Did you use the SMI? What were its advantages and disadvantages?

EDF Energy did not use the SMI for any positive purpose.

The main disadvantage of the SMI was that it consistently predicted supplier profit margins significantly higher than the realised profits margins seen by EDF Energy, or of other major suppliers, as reported in the audited segmented statements. Ofgem, the media and politicians, often misused these inaccurate predictions as indicators of the excess profitability of major suppliers to support various proposals, with little subsequent recognition of the level of error when compared to the actual costs and profits being realised by suppliers. This significantly undermined EDF Energy's own efforts to improve transparency and consumer understanding of the actual costs (and profit) within a customer bill.

In order to respond to the various stakeholder challenges that arose from the publication of the SMI, EDF Energy regularly analysed the differences between the SMI and our internal view of the average revenue, costs and profits of our domestic supply customers.

Due to the above EDF Energy does not perceive any advantages of the SMI in its previous form.

Q1.3: Are there additional or alternative criteria that we should take into account in deciding on how to replace the SMI?

EDF Energy agrees with Ofgem's view that any replacement of the SMI should be reliable, transparent and easy to understand. It is important that the same principles apply to the commentary presented with the index, with the principle of transparency paramount.

In order to be transparent, the index should be representative of the costs associated with the wide range of suppliers and tariff types now available in the competitive market. As such, we believe that the index for wholesale energy costs should be based on a range of possible hedging strategies.

We also believe that whenever the index is presented or referenced, Ofgem must be clear that is based on estimates and that actual costs incurred by a supplier will vary for reasons, such as when the supplier has purchased wholesale energy for its customers, the impact of weather, and under/over recovery of policy costs. It will also be necessary to make clear the basis of the estimates and associated assumptions used, with any differences to other measures of changes in cost, such as the prepayment cap calculation, clearly reconciled.

CHAPTER: Two

Q2.1: Do you agree with our proposal to use a cost index? What do you see as the advantages and disadvantages of the alternative approach of calculating a £ estimate of costs per customer for a given level of consumption?

EDF Energy agrees with Ofgem's proposal to use a cost index; we believe this is a more effective way of showing trends in costs than a £/account movement. The use of a percentage change reduces the risk of error in trying to calculate an accurate £/account figure. Using an average £/account figure is also likely to mislead consumers as it will be inconsistent with the actual £/account figure for each consumer, which varies based on a number of factors, such as consumption or location.

We also strongly believe that it is important that the cost index identifies the percentage trends for electricity costs and gas costs separately. A material proportion of domestic consumers do not use

gas, or take electricity and gas from different suppliers. As such, it is important that consumers can clearly see the estimated trends in costs for each fuel separately.

Q2.2: How can we present trends in expected costs in a way that is easiest for stakeholders to understand? What, if any, charts should be included on our website?

EDF Energy believes that any method used to present costs trends should be easy for users to understand. As stated above, we believe it is important to show gas and electricity cost movements separately. It is also essential that the parameters of the index are made clear as there is a risk that any charts are used by stakeholders without appreciating the relevant context. For example, the illustrative examples shown in Figure 2.1 are valid examples of supporting charts, but would need to clearly state that they do not include all supplier costs, are based on estimates and will differ from actual costs incurred by suppliers.

Q2.3: Is quarterly an appropriate frequency for our updates?

EDF Energy agrees that quarterly is an appropriate frequency for the updates.

It is essential that different indicators (which purport to say the same thing but have been prepared in different ways for different purposes) do not confuse customers/stakeholders. To ensure this does not happen, Ofgem should publish any information relevant to price or trends on the same date each quarter. This would require co-ordination of the updates to the quarterly trends data with the date of the six monthly updates to the PPM cap and any information or analysis relating to the segmental statements. Doing so would allow Ofgem to clarify the information being published, and explain any inconsistencies in the measures. We note that our suggested inclusion of ranges for areas such as wholesale energy hedging would reduce the risk of Ofgem producing contradictory messages.

Q2.4: What information on trends in suppliers' prices should we provide alongside the cost index?

EDF Energy strongly believes that the cost index should not refer to any trends in suppliers' prices, as it is likely to lead to users incorrectly inferring a profit margin. This would not be accurate as the proposed cost index does not reflect all supplier costs, does not reflect possible differences in how suppliers have hedged for tariffs, and ignores the impact of weather.

In addition, Ofgem's proposed index would be based on a forecast movement in costs between two periods. This may not necessarily be consistent with the relevant cost periods for supplier prices as there may be timing differences between changes in costs and corresponding changes in supplier prices, for example resulting from differences in the hedging strategy followed by different suppliers for different tariff types. This variation is likely to widen significantly as the relaxation of the simpler tariff rules leads to a wider range of tariff types.

In addition, there are over forty suppliers in the market offering a wide range of tariffs with different features. Providing a view of trends in prices is likely to be inaccurate for the majority of suppliers. As the range of tariff types on offer increases following the relaxation of the Simpler Tariff rules it will become increasingly difficult for Ofgem to provide an accurate view of trends in like-for-like prices.

If Ofgem decides to present any information on supplier prices and/or comment on prices in the context of the cost index, then it should clearly explain why the comparison might not be valid.

Q2.5: What, if any, additional information should we provide about trends in the individual categories of suppliers' costs?

EDF Energy believes that the inclusion of contextual information around each cost would help consumers build a deeper understanding of what the costs relate to, how these costs are set, and the level of control that suppliers have over them. This provides a great opportunity to make the energy market more transparent and facilitate consumer engagement.

EDF Energy also notes that the current cost index excludes the cost to suppliers of the smart meter programme and other industry change projects such as half-hourly settlements. We strongly believe these cost should be included in the cost index as they are significant and obligatory costs faced by suppliers over the coming years.

Q2.6: How should we choose the base period relative to which the index is calculated, and how frequently should we update this?

EDF Energy is satisfied with the initial base period proposed by Ofgem against which the index would be calculated, i.e. based on costs for 1 year starting Jan 2015 (in order to use the splits from the published 2015 CSSs). We believe that this should be updated on an annual basis, as soon as possible after the publication of the CSS, rather than waiting for January to update. This would reduce the risk of inaccuracy due to the use of outdated baseline data.

Q2.7: Do you agree with our proposal to no longer estimate a rolling expected margin throughout the year? If you disagree, how should expected margins be calculated?

EDF Energy strongly agrees with the proposal to no longer estimate profit margins. As already noted, the estimated margin was consistently significantly higher than the actual realised profits seen by EDF Energy or other suppliers per the CSSs. We believe this had an adverse impact on the trust and confidence that consumers and other stakeholders had in Ofgem and Suppliers.

We continue to believe that the most appropriate basis for any analysis on supplier margins is using the actual realised margins as reported in the CSS in their current form.

Q2.8: What do you see as the implications of the prepayment price cap on how the SMI should be replaced? Would publishing the indices used to update the cap every six months be sufficient on its own to provide the necessary transparency around trends in suppliers' expected costs?

The prepayment price cap and the cost index are addressing separate objectives and therefore it is appropriate for there to be some differences between the two calculations. However, there is a risk that inconsistencies in the size and direction of changes in the cap and the cost index will reduce stakeholder confidence in the two measures.

EDF Energy therefore believes that it would be appropriate to align the timing of the quarterly index update with the six monthly update to the cap and publish a transparent reconciliation between the two measures that provides stakeholders with an easy to understand explanation of the differences.

EDF Energy recognises that there will be expected differences between changes in the cap and the index for reasons such as the different assumptions used for calculating wholesale energy costs between the two measures. However, as noted above, this risk would be significantly reduced if the cost index reported on a range of wholesale hedging trajectories. The PPM cap wholesale

energy movement would be expected to fall within the range reported in the cost index, thereby giving consumers and other stakeholders confidence in the veracity of both the PPM cap and the cost index.

We also note there are likely to be variations due to differences in the proposed methodology for calculating some of the cost measures. One such area is policy costs, where the proposed methodology for the PPMprice cap is based on the total forecast industry cost as per the Office for Budget Responsibility's (OBR) calcualtions, whereas the methodology used in the trends in suppliers costs takes a bottom up view of each individual policy cost. The methodology proposed for the cost index is likely to be the more accurate of the two and, if being performed for the cost index, it would appear sensible to use the same method for the PPM cap.

If there are any differences in method between the two measures then as part of its reconciliation between the two Ofgem should clearly explain the impact of these differences to ensure consumers can understand, and have confidence in, the two measures.

CHAPTER: Three

Q3.1: Should the supplier cost index include suppliers' operating costs? If so, how should these be estimated?

The cost of smart meters and wider industry transformation costs are not currently included in the proposed index. The level of industry transformation that will be delivered over the next few years mean that such costs need to be incorporated if any publication on trends is to accurately reflect the increase in costs that suppliers are having to pass through to consumer bills. As noted above, it may be appropriate for Ofgem to request information from suppliers on the projected expenditure on such programmes if the government impact assessments prove to be inaccurate.

Q3.2: Do you agree with our proposal to hold consumption fixed over time at medium TDCVs in estimating trends in expected costs?

EDF Energy agrees with Ofgem's proposal to hold consumption fixed over time. If Ofgem does decide at any point to change the consumption used (for example when updating TDCV's) Ofgem needs to ensure that the change is applied consistently throughout the calculation, including the relevant base period calculations.

Q3.3: Do you agree with our proposal to rely on the most recent CSS to calibrate the relative importance of different elements of suppliers' costs?

EDF Energy agrees in general that the most recent CSS should be used as an indicator of the size of different elements of suppliers' costs, and as this is audited, it helps to demonstrate the accuracy of the information used. It is important to note that there are some limitations to this methodology:

- It is representative of actual costs incurred by major suppliers, and so reflects the actual hedged energy costs incurred by suppliers (not wholesale costs) and ECO costs based on the rollout profiles of suppliers.
- The cost splits in the CSS will be representative of the average level and profile of consumption of the customers of that supplier. This may vary significantly from the bill splits for a typical customer.

- The CSS will also show a blended view of costs for all electricity meter types. PC1 and PC2 customers have very different cost breakdowns, due to the significant variation in wholesale energy and network charges with different times of use.
- The CSS would not be representative of the bill splits expected for small suppliers that are exempt from government obligations such as ECO and WHD.

Ofgem should make it clear to users that, whilst the cost movement shown in the index highlights the general movement seen in costs, it does not necessarily reflect the actual cost movement seen by individual suppliers or for individual customers.

In addition, in relation to the use of the CSS to calibrate the different proportions of the cost elements, EDF Energy believes that Ofgem should calibrate the accuracy of its cost indexation methodology against the realised costs reported in the CSS. We see two steps:

- Firstly, prior to launching the proposed index, Ofgem should recreate the index for the period 2013 to 2015 with the data that would have been available at the time. The cost index can then be compared to the percentage movements in realised costs between 2013, 2014 and 2015 as reported in the CSS, with any persistent or material error investigated and addressed.
- Secondly, Ofgem should repeat the above comparison on an ongoing basis as the CSS is published each year. This would give a clear comparison between what the cost index indicated the cost movement would be and what the actual realised year-on-year cost movement is in the latest CSSs. This would provide reassurance to consumers and other stakeholders that the cost index was robust and provide an opportunity for Ofgem to investigate any differences and recalibrate the index methodology if required.

Q3.4: Do you agree with our proposed approach to estimating trends in wholesale costs?

EDF Energy has the following concerns with the proposed approach for estimating trends on wholesale costs:

- The index is based on wholesale energy costs from the month of publication. However, this will not not reflect the costs incurred by suppliers. Each supplier has its own hedging strategies, which may differ between tariffs and using a single view of changes in wholesale costs does not reflect this. In particular, for customers where the commitment to supply has been entered some time ago (e.g. fixed price tariffs) the prices from the most recent month would not be relevant.
- As with the proposed splitting of energy cost into 'opportunity' and 'residual' costs for the CSS, the publication by regulators of cost indices runs the risk that suppliers will change behaviour in order to attempt to align their costs to such indices. This could result in more volatile prices for consumers.
- Finally, the methodology proposed by Ofgem differs to the CMA's proposed methodology in its prepayment price cap. While we do not think the methodology necessarily needs to be the same, Ofgem should be aware that inconsistent messages resulting from differing methodologies could cause confusion and undermine consumers' confidence both in the prepayment price cap and the cost index.

As stated above, EDF Energy believes that the index of trends in costs should include a range of possible changes in energy costs reflective of the possible range in wholesale energy for different tariff types and by different suppliers.

If a range is not introduced for wholesale energy costs, then it is very important that Ofgem make it clear to users that the cost index does not necessarily reflect the actual cost movement seen by individual suppliers or for different tariffs.

Q3.5: What, if any, regular information should we provide on suppliers' purchasing strategies, and what these mean for suppliers' costs?

EDF Energy does not believe Ofgem should comment on the purchasing strategies used by individual suppliers. Purchasing strategies are commercially sensitive and vary between suppliers and over time.

However, we strongly believe that the index should present a range of possible wholesale cost movements that represents the changes seen from the range of possible purchasing strategies employed for different tariffs and by different suppliers. If this is incorporated then it would be appropriate for Ofgem to provide some commentary as to why there is a range in purchasing strategies, and that as a result the changes in cost over time may vary as shown in the range.

If the index remains based on Ofgem'sproposed method, then it would be crucial that Ofgem is clear and transparent that the figures shown do not represent the actual movements in cost that would be arising from the valid range in purchasing strategies employed by suppliers for differing tariffs.

Q3.6: Does our proposed approach accurately reflect the expected annual network charges faced by a supplier for a typical domestic customer?

EDF Energy agrees with Ofgem's proposed approach for reflecting network charges faced by a customer, however it notes that the average cost movement seen by individual suppliers may vary to the cost index depending on the geographical bias of its customers. This is likely to become apparent with any reconciliation between the index and the realised cost movements of suppliers.

Q3.7: Are there additional information sources or alternative assumptions that we could use to improve our estimates?

EDF Energy agrees with the information sources proposed by Ofgem for network charges, and notes that it is consistent with that used in the prepayment price cap. We recommend the accuracy is reviewed on a regular basis and as noted above we believe it is essential that Ofgem retrospectively reconciles its projected cost index with the year-on-year movements in realised costs reported in the CSS.

Q3.8: Should we also seek to provide information on trends in costs for customers with non-standard electricity meters?

EDF Energy does not believe that showing a separate index for non-standard meters would add significant value to the cost trend (rather it would add complexity to both the process and the presentation of information). Given the proposed trend in suppliers' costs will be based on an index and show gas and electricity separately, we consider that the index shown for standard electricity would give a good approximation for non-standard meters. However, Ofgem should make any limitations of the cost index clear to users including the limitation of its use for non-standard electricity meters.

Q3.9: Do you agree with our proposed approach to estimating the cost to suppliers of the Renewables Obligation scheme? Is there additional or alternative information that we should use to estimate these costs?

In principle, EDF Energy agrees with the methodology proposed by Ofgem, but recommends that where forecast rates are used (i.e. where the forecast period extends beyond the period for which rates have been published), these forecast rates are subsequently compared to the actual rates once these are known in order to review the accuracy and reliability of this methodology. It is essential that the most accurate information is used at all times in relation to such costs.

Q3.10: Do you agree with our proposed approach to estimating the expected costs associated with the ECO scheme? Is there additional or alternative information which we should use to estimate these costs?

Ofgem's proposed methodology (splitting the estimated cost of the ECO programme equally over all domestic accounts) is not consistent with how the obligation, and cost, of the programme is actually incurred. The ECO obligation is split equally between the gas and electricity markets, and then each half of the obligation is apportioned based on the supplier's share of the total demand of obligated suppliers for electricity/gas in each year. As there are more electricity accounts in the UK the average £/account cost for an electricity customer is lower than that of a gas customer. Although we recognise that correcting the methodology may make little difference to the indexed percentage change it would be appropriate to use a methodology consistent with the actual one used for the obligation.

Whilst we can understand why Ofgem may have to rely on Government or wider estimates for some of the costs at certain times, it is essential that effort is made to reflect accurate costs as soon as these become available. For example, the Government's Impact Assessment for costs for some obligations is necessarily based on estimates on how schemes will be developed. These can diverge quite considerately from the delivery costs that suppliers face in reality. It may be appropriate for Ofgem to include a range around the impact assessment figure that represents the variation seen in the realised costs of suppliers.

We also note that each supplier has its own phasing of delivery of the ECO scheme, meaning costs may fluctuate in each year and will differ between suppliers, and so the actual cost incurred by suppliers will not necessarily reflect the movement shown by the cost trend. Ofgem should note this clearly as a potential limitation of the estimates for the cost of ECO.

Q3.11: What are the pros and cons of using information collected from suppliers on their forecast ECO costs to estimate the expected costs of the programme?

As stated above, while we can understand why Ofgem may have to rely on Government or wider estimates for some of the costs at certain times, it is essential that efforts are made to reflect accurate costs as soon as these become available. For example, the Government's Impact Assessment for costs for some obligations is necessarily based on estimates on how schemes will be developed. These can diverge quite considerately from the delivery costs that suppliers face in reality, and as such we believe it would be more appropriate to show a range of possible costs around any central estimate. This would also have the benefit of reducing the likely discrepancy with suppliers' actual cost of delivery arising from variation in the phasing of delivery of measures under the scheme.

Q3.12: Do you agree with our proposed approach to estimating the expected costs associated with the FiT scheme? Is there additional or alternative information which we should use to estimate these costs?

As with other obligations, EDF Energy is wary of using government impact assessments to forecast the increase in FiT costs, as historically we have repeatedly seen uptake exceed forecast. EDF Energy agrees with Energy UK's suggestion that deployment rates, as per BIES monthly FiT statistics, may represent a more accurate real time data source.

Q3.13: Does our proposed methodology accurately reflect the expected costs faced by customers relating to the WHD scheme? Is there additional or alternative information which we should use to estimate these costs?

EDF Energy agrees with Ofgem's proposed methodology.

Q3.14: Does our proposed methodology accurately reflect the expected costs faced by suppliers in meeting the supplier obligation with respect to Contracts for Difference? Is there additional or alternative information which we should use to estimate these costs?

EDF Energy is concerned the methodology proposed by Ofgem will not accurately reflect the costs faced by suppliers. The cost of the CfD scheme is linked to wholesale energy prices and EDF Energy is concerned that the forecasts from the LCCC will be based on a different snapshot to the wholesale energy costs used in the cost index.

EDF Energy believes that, for historic periods, the cost of the CfD scheme should be based on the actual cost of the scheme to suppliers (i.e. the difference between strike prices and market reference price). The forecast cost for future periods should be based on a snapshot date aligned with wholesale costs used in the index.

EDF Energy recommends Ofgem reconcile on a regular basis the actual cost of the CfD scheme to the forecasts costs used to ensure the methodology used is accurate/reliable and any persistent inaccuracy in the estimates is corrected.

Q3.15: Do you agree that reserve payments to the TRA should be excluded for the purposes of calculating the cost index?

EDF Energy agrees that, if Ofgem proceeds with its proposed methodology, it excludes payments made to the TRA from the cost index.

Q3.16: Does our proposed methodology accurately reflect the expected costs that suppliers will face in meeting the supplier obligation with respect to capacity market payments? Is there additional or alternative information which we should use to estimate these costs?

EDF Energy agrees with Ofgem's proposed methodology.

EDF Energy

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