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Feed-in Tariffs scheme allowance methodology in the default tariff cap

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 and solar generation, 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 aims to help Britain achieve net zero by 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.

We welcome the opportunity to comment on Ofgem's proposals for how the Feed-in-Tariff (FIT) scheme allowance methodology will be determined within the Default Tariff Cap (DTC) from DTC period 6 onward.

Due to the reduction in overall demand during the COVID-19 pandemic, suppliers are now facing a materially higher £/MWh FIT scheme cost than anticipated or allowed for in the current DTC methodology. We welcome Ofgem's intention to account for any additional FIT costs resulting from COVID-19 and to minimise any lag period between actual FIT costs being incurred and their pass-through to the DTC allowance.

We support Ofgem's proposal to use the quarterly FIT invoices to calculate the FIT scheme allowance using actual FIT costs and actual demand ('Option A'). In our response¹ to Ofgem's June 2020 open letter on FIT scheme costs we proposed the use of actual costs and demand from the quarterly FIT invoices to calculate the FIT scheme allowance. This will enable suppliers to recover their actual costs incurred sooner by reducing the lag period between the actual FIT costs being incurred and their pass-through to the DTC allowance from 24 months to 18 months.

As proposed 'Option A' will use the actual level of exempt electricity supplied derived from the quarterly FIT invoices and will not make the same assumption on the exempt cap being breached each quarter as in the existing FIT scheme allowance methodology. However, there is usually a variance of around £0.10/MWh in FIT scheme costs between quarterly FIT invoices and the annual FIT invoice. This variance is largely attributable to the timing of suppliers submitting Guarantees of

¹ <https://www.ofgem.gov.uk/ofgem-publications/165418>

Origin (GoOs) resulting in the exempt supply cap being exceeded in annual FIT reports but not exceeded or accounted for in the quarterly FIT reports.² In order to simplify 'Option A' and ensure this variance in cost is accounted for, Ofgem should continue to assume that the exempt supply cap on renewable electricity sourced from outside the UK is breached for each scheme year when calculating the FIT scheme allowance.

Although the proposal to use quarterly FIT reports will reduce the lag between actual FIT costs and the pass through to the cap allowance, the combination of continually growing scheme costs and an 18 month lag period means that suppliers will continue to under-recover their costs over the remaining periods of the DTC. In light of this we are disappointed that Ofgem is now, in a change to its proposal set out in June 2020, proposing to not inflate costs that are being recovered on a lagged basis. We request that Ofgem reconsiders its proposal and introduces a mechanism to inflate the costs (using CPIH) as a means of reducing the deficit that suppliers would incur.

In summary, we support Ofgem's 'Option A' proposal to use actual FIT costs and actual demand derived from the quarterly FIT invoices to determine the FIT scheme allowance within the DTC. However, Ofgem should maintain the assumption that the cap on renewable electricity sourced from outside the UK is breached for each scheme year and should reconsider its proposal to not inflate FIT costs as mentioned above.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Keith Watson or myself. I confirm that this letter 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

² For example, [Ofgem's annual FIT report for 2018-2019](#) shows a total of 33,253,446 MWh of exempt renewable electricity sourced from outside the UK was submitted by suppliers, exceeding the exempt supply cap of 9,821,877 MWh. However, the exempt supply cap was not exceeded within any of Ofgem's quarterly FIT reports for the same FIT scheme year.