

Dan Norton
Ofgem
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Email: RetailPriceRegulation@ofgem.gov.uk

1 March 2023

Dear Dan,

Price Cap: Call for Input on Additional Wholesale Allowances Review

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewable generation, including onshore, offshore wind and solar generation, and energy storage. We have around six 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.

Suppliers continue to operate in a financially challenging environment and face increasing risks because of continued market volatility and high prices, and operating under the Default Tariff Cap. EDF remains committed to working constructively with both BEIS and Ofgem to develop and introduce measures that promote a healthy, well-functioning market that allows efficient and sustainable businesses to attain a fair margin and enable continued innovation and investment to the benefit of consumers.

We are pleased to have the opportunity to provide comments on Ofgem's Call for Input on the need for a review of the additional wholesale allowance. This is both in regard to the recent short-term impacts over the current winter period and a more enduring review of the overarching methodology given that market conditions are now different to those experienced at the time the current methodology was developed.

Considering a review for short-term issues

EDF is supportive of Ofgem conducting a review of short-term issues that may have impacted efficient supplier costs relative to the additional wholesale allowance set under the DTC, with a focus on the current winter period. We note that Ofgem plan to issue a mandatory RFI to suppliers to gain evidence and inform its consideration of the need for a review and we support this approach.

However, in terms of timing for the RFI, and indeed in terms of any review of additional wholesale costs for this winter, we are concerned that Ofgem currently intends to start collecting data before the current winter has ended. Such an approach means suppliers will need to make numerous assumptions to answer the questions Ofgem pose, which may not lead to the most accurate or comparable information being provided across the supplier community. Ofgem should instead issue the RFI at a point in time when the full winter period has ended, and suppliers have a complete data set available in order to obtain a fuller picture of costs across the current winter e.g. after March.

With regards to key considerations as part of any short-term review, demand destruction has been an exceptional issue over the current winter period that has led to significant volatility and variation in costs. While there is always an element of uncertainty and risk around demand volatility, supplier's experiences this winter have been exceptional and over and above any built in risk allowance within the DTC methodology. This has led to an exceptional cost exposure for suppliers, especially with the market price falling in early 2023; resulting in having to sell back some energy at a substantially lower cost.

Enduring review

EDF recommends that Ofgem should undertake a short-term review first, subject to our comments above, which will inform the need and appropriate timing for a further enduring review of additional wholesale allowance, if required.

We accept that in the event the current price cap approach continues for a number of years there will be a need for Ofgem to review many elements of the methodology in order to ensure it remains fit for purpose. For example, future proofing for market developments such as Market-wide Half Hourly Settlement and a potentially a more extensive take up of Time of Use tariffs. We consider any such longer term review should be undertaken as a broader piece of work, not in a piecemeal approach, and in a timely manner. Establishing the most effective time to do so and areas to cover will not be able to be effectively decided until such time as the learnings from the short-term review are fully absorbed.

When Ofgem does decide to undertake a more enduring review of the Additional Wholesale Allowance, we would, from the two approach options set out in the call for input, recommend Approach 2 - a full review of the methodology. This would ensure that the overall methodology, and not just the input data, is appropriate and better reflects the current and future energy market.

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 that this letter may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, appearing to be "John Mason", written over a light grey rectangular background.

John Mason
Senior Manager (Price Regulation and Market Dynamics)