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28 July 2023

Dear Dan

Price Cap: Consultation on technical changes to the price cap methodology

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.

EDF welcomes the opportunity to provide comments on Ofgem's proposals to make a number of technical changes to the way in which it processes modelling inputs used in the calculation of the price cap.

Changes to the data and timing of CfD inputs

Ofgem has recognised the risks faced by suppliers in managing their hedging strategy as a result of the interaction between the forecasts of the Supplier Obligation Levy that funds CfD payments by the Low Carbon Contracts Company (LCCC) and the current price cap methodology. However, even with the introduction of this proposed change Ofgem has failed to appropriately address the supplier risks that arise from LCCC forecasts being materially different to outturn rates and the ability of suppliers to recover/payback their CfD costs/benefits under the cap. In fact, it could be argued that this proposal introduces greater uncertainty for suppliers as they will have no clarity on the potential for an adjustment to the CfD forecast published by the LCCC.

These significant risks arise through a combination of suppliers being exposed to reductions in wind generation which cannot be hedged away and LCCC forecast errors which could be material. For instance, for 2022/23 year there was c. 17TWh on wind generation from stations accredited to the CfD scheme. If suppliers had anticipated this amount of generation and hedged it on a quarterly baseload basis and then traded the shape at day-ahead this would see a c. £310m loss across the industry

EDF considers these risks are material and systemic and should therefore be addressed by changes to the price cap methodology. EDF has previously[1] put forward an approach that would better mitigate the forecast risk while at the same time ensuring that the CfD allowance methodology better reflects the costs faced by suppliers in all instances. We continue to call on Ofgem to consider introducing a reconciliation approach which would apply an initial rate of LCCC forecast with an adjustment for previous under/over recovery in most recent available cap period. As the allowance would be based on actual costs this would mitigate any forecasting errors for both suppliers and consumers.

Unidentified Gas
In addition to the above, we are also concerned with the manner in which forecast UIG will be used within the price cap methodology. Ofgem's proposals if implemented will use the Total UIG figures from the GWh table for domestic users produced by the Allocation of Unidentified Gas Expert (AUGE) with the total forecast consumption for domestic users also produced by the AUGE. We are concerned that by using the first set of numbers Ofgem will understate in the DTC outturn UIG. In fact, AUGE suggest themselves that the GWh UIG numbers are below historic outturn and likely miss some causes of UIG which will be present at outturn. We are, therefore, concerned that using these forecasts, compared to using actual outturn values, may lead to significant under recovery by suppliers.

For both the CfD allowance and UIG we would welcome the opportunity to discuss this further with Ofgem through a bilateral meeting where we can discuss further the variants between forecasts and actuals and how this could be addressed through alternative approaches.

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

John Mason
Senior Manager (Price Regulation and Market Dynamics)

[1] Price Cap – Consultation on amending the methodology for setting the Contracts for Difference (CfD) allowance – EDF Response dated 17 May 2022