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Dear Marcus

Price Cap: Statutory consultation on introducing an allowance for bad debt associated with Additional Support Credit

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. The ability of suppliers to recover their efficient operating costs in meeting their regulatory requirements and the needs of their customers forms a vital part of this work.

On this basis we are supportive of Ofgem considering the impact of an anticipated increase in the provision of Additional Support Credit (ASC) and the ability of suppliers to recover their efficient costs of bad debt associated with it.

Adjustment to the price cap

EDF is supportive of Ofgem initially introducing an initial 12-month allowance for bad debt associated with the provision of ASC, to the cap from October 2023. Ofgem has already gained evidence on a material increase in 2022/23 in both the overall level of ASC issued and the level of bad debt associated with ASC provision. There is a reasonable expectation that ASC and related bad debt will increase this winter given the introduction of new regulatory requirements on PPM services, together with continued affordability pressures associated

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with energy and the wider cost of living. Consequently, we agree that these increased costs are material and systemic for the purposes of the cap.

In terms of the initial 12-month adjustment allowance, Ofgem adopting its central scenario to calculating the allowance level seems reasonable. However, there is not yet certainty of the impact of the new PPM regulatory requirements or the level of customer need that will require ASC support this winter. Therefore, Ofgem should not draw any conclusion on the level of support that is provided versus that which is estimated at this point in time.

We note that Ofgem propose to take an option to adjust the initial allowance at a later stage if evidence suggests that actual costs differ significantly from the ex-ante allowance (i.e., a true-up approach). EDF is not opposed to a true-up approach for a temporary adjustment but recognise that it can be timely and complex, as demonstrated through the COVID-19 true-up process. Therefore, Ofgem should work with suppliers to ensure any such process is efficient and timely. This must be balanced with ensuring that efficient suppliers who deliver on their regulatory requirements for PPM customers have confidence that they will be able to recover the costs of providing ASC.

EDF acknowledges the principle behind allocating the proposed adjustment allowance in full to the PPM cap on the basis that ASC bad debt is attributed to the PPM payment method. Further, in doing so there is expectation that PPM customers will not pay more this winter (as a result of the allowance) comparable to DD customers given the alignment of charges for comparable DD and PPM customers under the Government's Energy Price Guarantee scheme. However, this is expected to end by 31 March 2024. It is important that PPM customers do not face higher costs than other payment methods, especially PAYG, and therefore Ofgem must ensure they implement a levelisation approach in time for the EPG ending so as to avoid the costs of this temporary allowance falling directly on PPM customers from April 2024.

Alternative approach to cost recovery
In the short term it is important that any changes needed to ensure efficient suppliers can fairly recover the additional costs they have or likely to face from ASC provision are quickly and effectively undertaken. However, continuing to use the price cap as a means for suppliers to recover their efficient bad debt costs is flawed. EDF in its response to Ofgem's recent call for input on allowance for debt-related costs[1] called for consideration of a levy approach that would address two key moral hazards (i.e., customers moving to fixed tariffs and avoiding costs or suppliers unable to fully recover costs through customers moving to other suppliers) that could be realised as the market reopens and more competitive tariffs and switching levels resume.

Consequently, we continue to urge Ofgem to undertake a much broader review of the need for an enduring solution to the recovery of debt-related costs that better protects the interests of both suppliers and all customers.

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[1] Price Cap: Call for Input on the allowance for debt-related costs – EDF Response; 15 May 2023

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)