

FAO: Dan Norton
Retail Pricing Strategy
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Email to: StandingCharges@ofgem.gov.uk

Dear Dan,

Standing charges: domestic retail options

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 renewables, including onshore, offshore wind and solar generation, and energy storage. With 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.

We welcome the opportunity to comment on Ofgem's standing charges working paper. EDF is committed to supporting all of its customers to save cash and save carbon. It is why we recently completed a successful migration to the Kraken platform. It is why for 2 years running we have been the best performing large supplier on smart installs, and why last winter we provided an additional £27m of support to help our customers most in need in response to the ongoing Cost of Living crisis. This commitment to our customers is reflected in our Trustpilot score, recently increasing to 4.5 out of 5.

Summary of overarching position

EDF supports Ofgem's focus on consumer affordability in the domestic retail market. However, reform to standing charges alone will not address the broader affordability challenge customers and the sector face. Government, with Ofgem's support, must instead bring forward proposals for targeted price support for low income and vulnerable consumers (i.e. a social tariff).

EDF acknowledges the concerns of consumers and consumer groups regarding the impact of standing charges on bill affordability. But, as Ofgem highlights in this option paper, standing charges reflect legitimate fixed costs which must be recovered, and, of the options considered in this paper, each comes with undesirable consequences that Ofgem is not able or well suited to mitigate. In particular, Ofgem's impact assessment and accompanying distributional analysis indicates that a significant number of domestic consumers, including low income and vulnerable consumers, will be left worse off by the changes discussed in this paper, regardless

of the scale or method of redistribution of fixed costs from standing charges to unit rates. Any potential intervention, in the context of these options, requires Ofgem to choose financial winners and losers, and as such is a question of social policy, not energy market regulation.

Fundamentally the affordability challenge must be confronted directly, via targeted price support for those consumers most in need, i.e. a social tariff. EDF supports a direct p/kWh discount, limited to low income and vulnerable consumers identified by government-led targeting, using government-held data. This is the most appropriate approach to ensure consistency for a single scheme mandated across all suppliers, to achieve equal treatment of customers, and is supportive of fair competition.

Standing charge changes in the price cap

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental purpose of the cap: to ensure the price of domestic default tariffs reflect the fair and efficient cost of energy, and ensure suppliers are able to recover costs in a sustainable way and make reasonable returns.

For these reasons EDF does not support any redistribution of costs between standing charge and unit rates at this time due to the lack of evidence that this would have a significant positive impact for consumers.

Ofgem has previously acknowledged that the default tariff cap, in its current form, is an imperfect instrument. Rather than making incremental or piecemeal changes to reallocate smaller cost elements, EDF supports fundamental reform of the default tariff cap. This should focus on enabling Ofgem to better engage with the current and future market challenges, and develop measures that promote a healthy, well-functioning market. It is critical that Ofgem, together with Government, urgently explores regulatory change to ensure robust, future-proofed consumer protections are implemented, and to provide confidence to responsible investors that an appropriate and fair return can be made in this market.

Requiring suppliers to offer low/no standing charge tariffs

EDF also does not support mandating suppliers to offer low/no standing charge tariffs in the domestic retail market, largely for the reasons identified by Ofgem itself in the working paper.

Tariff offerings must be led by consumer demand, balanced against financially responsible commercial analysis. EDF already offers domestic tariffs with either no standing charge, or a discounted standing charge, and we understand other suppliers offer similar products. Ofgem should not intervene to force suppliers to offer tariffs which may not be in the best interests of some customers, and could exacerbate risks to suppliers' financial stability. We note that DESNZ has recently conducted a call for evidence on domestic default tariffs in light of the impending implementation of Market-wide Half Hourly Settlement. This consultation acknowledged that demand for flexible and smart tariffs in the domestic market is likely to

expand significantly in the near future. This will offer consumers a greater range of choice and cost-saving opportunities in the fixed tariff market, and also potentially precipitate changes for evergreen/default/variable tariff offerings.

Prepayment customers

EDF acknowledges the specific circumstances which impact customers who pay for their energy via a prepayment meter (PPM), and the greater likelihood that these customers will be subject to affordability challenges.

However, to our understanding, Ofgem has not performed a PPM-specific distributional analysis at this time, in relation to the options discussed in this paper. Without being able to review such analysis EDF is unable to provide a view on the possible merits of the options presented at this time – as it is not clear on the potential winners and losers amongst consumers, and also whether there is consumer appetite for initiatives such as greater recovery of standing charges in summer over winter. We would welcome further consideration of these once this evidence is available.

System costs review

EDF welcomes Ofgem's commitment to review the allocation of system costs, and in particular its continued work with government to rebalance domestic legacy social and environmental policy costs away from electricity bills. Not only could this contribute to alleviating affordability challenges for consumers, if a proportion of the costs are taken into general taxation; this vital work will improve the price signals needed for decarbonisation and the efficient use of energy.

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 Mark Hatton or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely

A handwritten signature in blue ink, appearing to read "John Mason", enclosed within a thin black rectangular border.

John Mason
Senior Manager - Senior Manager (Price Regulation and Market Dynamics)

Attachment

Standing charges: domestic retail options

EDF's response to your questions

Q1. Do you have any views on our case for change?

EDF supports Ofgem's focus on consumer affordability in the domestic retail market. However, reform to standing charges alone will not address the broader affordability challenge, and, as Ofgem highlights in this option paper, standing charges reflect legitimate fixed costs which must be recovered. Government, with Ofgem's support, must bring forward proposals for targeted price support for low income and vulnerable consumers, i.e. a social tariff. EDF supports a direct p/kWh discount, limited to low income and vulnerable consumers identified by government-led targeting, using government-held data. This is the most appropriate approach to ensure consistency for a single scheme mandated across all suppliers, ensure equal treatment of customers, and is supportive of fair competition.

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental purpose of the cap, to ensure the price of domestic default tariffs reflect the fair and efficient cost of energy, and ensure suppliers are able to recover costs in a sustainable way and make reasonable returns. Ofgem has previously acknowledged the default tariff cap, in its current form, is an imperfect instrument. Rather than making incremental or piecemeal changes to reallocate smaller cost elements, EDF supports fundamental reform of the default tariff cap to enable Ofgem to better engage with the current and future market challenges, and develop measures that promote a healthy, well-functioning market.

For these reasons EDF does not support any redistribution of costs between standing charge and unit rates at this time due to the lack of evidence that this would have an impactful positive impact for consumers.

Ofgem sets out in this paper that '*...the primary cause of increased standing charges on domestic contracts has been the reallocation of electricity network costs following the Targeted Charging Review.*' At the time of Ofgem's TCR decision, EDF supported the policy intent of the TCR, and recognised that the reforms provide the right incentives for customers and generators to operate on a fairer playing field. While this has not changed, we support Ofgem's commitment to review the allocation of network and policy costs.

Finally, we also welcome Ofgem's continued work with government to rebalance domestic legacy social and environmental policy costs away from electricity bills. Not only could this contribute to alleviating affordability challenges for consumers if a proportion of the costs are taken into general taxation; this vital work will improve the price signals needed for decarbonisation and the efficient use of energy.

Q2. What are your views on the range (£20-£100) of operating costs we are considering shifting from standing charges to unit rates? Should it be higher? Within this range, is there a value you would favour and why?

As set out in our response to Q1, EDF does not support any redistribution of costs between standing charge and unit rates.

However, if Ofgem does take forward this proposal we would note that a £20 shift would have the most beneficial distributional impact of the varying options considered (as Ofgem's own evidence highlights).

As we have set out in our accompanying letter, we do not believe the proposed measure is sufficient or appropriate to address the affordability challenges faced by domestic consumers. Additionally, as Ofgem acknowledges, any change will have a negative impact on a significant number of domestic consumers, including low income and vulnerable consumers.

We urge Ofgem to work with the government on the development of targeted support for low income and vulnerable consumers, in the form of a social tariff, or similar measure.

Q3. What are your views on the trade-offs and impacts we have identified for consumers and suppliers? Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

Ofgem's impact assessment and accompanying distributional analysis indicates that a significant number of domestic consumers, including low income and vulnerable consumers, will be left worse off by the changes discussed in this paper, regardless of the scale or method of redistribution of fixed costs from standing charges to unit rates. Any potential intervention, in the context of these options, requires Ofgem to choose winners and losers, and as such is a question of social policy.

Additionally, we note that Ofgem has not performed a PPM-specific distributional analysis at this time. EDF urges Ofgem to complete such an impact assessment, focusing on quantifying PPM consumer impacts, should it choose to proceed further with these options. Ofgem has referred to this as part of the ongoing operating costs review.

Fundamentally the affordability challenge must be confronted directly, via targeted price support for the consumers most in need, i.e. a social tariff. EDF supports a direct p/kWh discount, limited to low income and vulnerable consumers identified by government-led targeting, using government-held data. This is the most appropriate approach to ensure consistency for a single scheme mandated across all suppliers, ensure equal treatment of customers, and is supportive of fair competition.

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental

purpose of the cap, to ensure the price of domestic default tariffs reflect the fair cost of energy, and ensure efficient suppliers are able to recover their reasonable costs in a sustainable way.

Q4. What are the changes required, if any, to the price cap to facilitate a reduction in the level of the operating costs charged through the standing charge?

Ofgem has set out how it could amend the price cap to transfer a proportion of fixed costs from standing charges to volumetric recovery. However, as Ofgem has previously acknowledged, the default tariff cap, in its current form, is an imperfect instrument. Rather than making incremental or piecemeal changes to reallocate smaller cost elements, EDF supports fundamental reform of the default tariff cap to enable Ofgem to better engage with the current and future market challenges, and develop measures that promote a healthy, well-functioning market. It is critical that Ofgem, together with Government, urgently explores regulatory change to ensure robust, future-proofed consumer protections are implemented, and to provide confidence to responsible investors that an appropriate and fair return can be made in this market.

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental purpose of the cap, to ensure the price of domestic default tariffs reflect the fair and efficient cost of energy, and ensure suppliers are able to recover their reasonable costs in a sustainable way.

Q5. Could mandating suppliers to have at least one low or no standing charge tariff available to customers help promote competition in this area of the market?

EDF does not support mandating suppliers to offer low/no standing charge tariffs in the domestic retail market.

Tariff offerings in the market must be led by consumer demand, balanced against financially responsible commercial analysis. EDF already offers domestic tariffs with either no standing charge, or a discounted standing charge. We understand other suppliers offer similar products. Ofgem should not intervene to force suppliers to offer tariffs which may not be in the best interests of some customers, and which could exacerbate risks to suppliers' financial stability.

We note that DESNZ has recently conducted a call for evidence on domestic default tariffs in light of the impending implementation of Market-wide half Hourly Settlement. This consultation acknowledged that demand for flexible and smart tariffs in the domestic market is likely to expand significantly in the near future. This will offer consumers a greater range of choice and cost-saving opportunities in the fixed tariff market, and potentially precipitate change in the evergreen/default/variable tariff market.

Q6. How could we create flexibility in how costs are recovered between the unit rate and standing charge without reducing the protection provided by the cap?

Ofgem has previously acknowledged the default tariff cap, in its current form, is an imperfect instrument. Rather than making incremental or piecemeal changes to reallocate smaller cost elements, EDF supports fundamental reform of the default tariff cap to enable Ofgem to better engage with the current and future market challenges, and develop measures that promote a healthy, well-functioning market. It is critical that Ofgem, together with Government, urgently explores regulatory change to ensure robust, future-proofed consumer protections are implemented, and to provide confidence to responsible investors that an appropriate and fair return can be made in this market.

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental purpose of the cap, to ensure the price of domestic default tariffs reflect the fair cost of energy, and ensure efficient suppliers are able to recover their reasonable costs in a sustainable way.

Q7. In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

Utilising the default tariff cap to transfer costs from one consumer group to another (based on consumption profile), as an affordability measure, does not reflect the fundamental purpose of the cap, to ensure the price of domestic default tariffs reflect the fair cost of energy, and ensure efficient suppliers are able to recover their reasonable costs in a sustainable way.

With regard to vulnerable consumers, a single cross-sector Priority Services Register (PSR) based on government-held data would offer significant advantages for ensuring these consumers are consistently identified, and appropriately served. This could support the provision of existing or new price support (i.e. a social tariff) to this cohort. This would also help with the identification of vulnerable customers for other purposes, such as identifying vulnerable customers where it would not be safe or practicable to install a PPM. We welcome the recent work by the Department for Business and Trade to explore how best to establish a single cross-sector PSR.

Q8. What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?

EDF acknowledges the specific circumstances which impact customers who pay for their energy via a PPM, and the greater likelihood that these customers will be subject to affordability challenges.

We note, over the last several years, Ofgem has significantly strengthened protective measures for PPM customers, including the levelisation of standing charges across payments methods under the default tariff cap, Emergency Credit, Friendly-hours Credit, Additional Support Credit, self-disconnection monitoring and outreach, a moratorium on involuntary PPM installation, followed by revised protective measures for the recovery of debt. EDF takes our engagement with customers who are struggling financially extremely seriously, including prepayment customers. We have developed and implemented a successful debt pathway, the CARE + framework, for our customers, which produces positive, customer-centric outcomes with solutions tailored to customers' needs and circumstances. We have gone over and above our regulatory obligations in providing direct support to indebted EDF customers over winter periods, including specific measures for PPM customers, and targeted discounts to standing charges.

However, the reform of standing charges, or supplier-led initiatives, will not address the broader affordability challenge particularly felt by PPM customers. Government, with Ofgem's support, must bring forward proposals for targeted price support for low income and vulnerable consumers (i.e. a social tariff), which we expect will include a significant proportion of PPM customers.

As we set out above, and as Ofgem has acknowledged, the measures discussed in the options paper will create winners and losers amongst the broader domestic retail customer population. The PPM-specific options will also create the same winner and loser dynamic. Not just because of varying consumption profiles, but also due to the inherent functionality of PPMs (Legacy/SMETS1/SMETS2 and Elec/Gas), and different customer behaviours, e.g. differing top-up patterns.

As we have discussed with Ofgem previously, universal measures which assume homogenous behaviour on the part of PPM customers will create negative outcomes. In the context of the seasonal smoothing suggestion, we note that while some PPM customers may welcome the transfer of some winter standing charge costs to the summer period to lessen peak costs, many customers who do not top-up their gas PPM frequently, or at all, over the summer will face an increased bill shock when they come to reengage with their heating when the weather becomes colder.

Additionally, such a measure could result in some consumers taking the opportunity to move between tariffs to avoid higher summer charges, while taking advantage of lower winter charges. This could significantly increase the risk to suppliers of under-recovering fixed costs from this cohort, which could then confer an additional socialised cost for other domestic consumers, and potentially damage the financial stability of some suppliers.

To our understanding, Ofgem has not performed a PPM-specific distributional analysis at this time, in relation to the options discussed in this paper. EDF urges Ofgem to complete such an impact assessment, focusing on quantifying PPM consumer impacts, should it choose to proceed further with these options. Ofgem has referred to this as part of the ongoing

operating costs review. Ofgem must also take sufficient time with stakeholders for robust assessment of the technical feasibility of any potential changes, particularly given the continued prevalence of legacy prepayment infrastructure, which is less amenable to change than smart PAYG. In addition, it would be useful to carry out customer insight on whether some of these proposals have broad customer support, e.g. greater recovery of standing charges in summer rather than winter.

Q9. Do you have any views on our considerations for the allocation of network and policy costs?

EDF supports Ofgem's commitment to review the allocation of network and policy costs. In particular, we welcome Ofgem's continued work with government to rebalance domestic legacy social and environmental policy costs away from electricity bills. Not only could this contribute to alleviating affordability challenges for consumers if a proportion of the costs are taken into general taxation; this vital work will improve the price signals needed for decarbonisation and the efficient use of energy.

EDF
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