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Dear Danny,

Energy price cap operating cost and debt allowances consultation

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 and offshore wind and solar generation, as well as energy storage. With over five and a half 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 for updating the operating cost and debt allowances in the Default Tariff Cap (DTC). EDF is committed to supporting all of our customers to save cash and save carbon. It is why we recently completed a successful migration to the Kraken platform, and why this winter are providing an additional £29m 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 4.7 out of 5.

We remain committed to working constructively with 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, investment and economic growth within Great Britain 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.

Operating cost review

EDF is supportive of Ofgem undertaking this review. The DTC Operating Cost Allowance has not been reviewed since the cap's introduction in 2019. Since then, numerous changes have impacted suppliers' cost bases, including those driven by Ofgem's own regulatory interventions. As a matter of principle, the level of allowance must be set to one that allows all efficient and resilient suppliers to not only cover costs and stay solvent, but also deliver the high quality and ever-increasing level of customer service that Ofgem expects[1] . This includes but is not limited to, supporting customers in vulnerable circumstances, managing and collecting debt, and installing and repairing smart meters.

It is also essential that individual topics such as the DTC Operating Cost Allowance are not considered in isolation, but rather within the context of Ofgem's wider objectives in relation to suppliers and the retail market and indeed supporting economic growth in Great Britain. To do otherwise, risks creating conflicting and overly complex interventions which then have unintended consequences for customers. For example, seeking to drive costs down to the lowest level possible, could encourage customer service being outsourced and minimum standards becoming the norm, if we are to regain customer trust and support growth this must be avoided as we move towards our collective net zero future.

Ultimately any change in the baseline allowance for operating costs should be taken and informed by actual costs based on recent data obtained from suppliers through appropriate information requests. We note that Ofgem's consultation process for this review has sought to achieve this through regular RFIs, consultations and bilateral engagement with stakeholders throughout 2024. We welcome this approach which has resulted in a sensible review timeline and allowed for a full and comprehensive review of the costs based on actual data as opposed to a shortened approach where early implementation is the key driver.

Core operating costs

The market has significantly evolved since the DTC was first established and it is important that looking forward there is the correct balance in further incentivising efficiency from suppliers whilst ensuring that high and innovative customer service standards are taken forward. The level of allowance must be one that allows all efficient and resilient suppliers, including small suppliers and those with innovative business models, to not only stay solvent, but deliver high quality customer service for customers and drive economic growth in Great Britain. On this basis Ofgem's proposal to move away from using a stringent lower quartile approach is welcome.

In determining what form of average benchmark (i.e. weighted or flat etc) should be adopted, it is important that Ofgem takes a fair industry view of any data provided. For example, the market currently has two very large retail suppliers and so utilising a simple weighted average across all suppliers could give an outsized impact from their approach which could distort any data that is aggregated at an industry level (potentially due to issues such as customer mix and scale advantages).

We acknowledge that establishing the right average approach (i.e. between weighted and flat average) is a balancing act. However, given the amount of published data that has been included within the consultation it is difficult to establish which is the most appropriate

[1] Ofgem Consumer Confidence: A step in standards – September 2024

approach. We are aware that Ofgem undertook a data room approach with a confidentiality rings as part of this consultation process. However, not all stakeholders have the resources to participate in such a process and, therefore, it is important that Ofgem do not then release less data in the public domain as a result. Consequently, in coming to its decision, Ofgem should provide further clarity on why a particular benchmark has been chosen so that stakeholders have a better understanding of Ofgem's decision making process.

Either way, we strongly disagree with Ofgem's assertion that the revised allowance will set a level of operating cost recovery that should allow efficient suppliers to be able to operate within it on an ongoing basis, and that the allowance will not require frequent adjustment. This review has undertaken a cost assessment at a particular point in time (i.e. the baseline is set using 2023 data). Supplier's regulatory requirements and consequential cost impacts continue to evolve over time which increases suppliers' costs. In addition, to those that have already being implemented Ofgem is concurrently consulting on new debt rules and has announced a wide ranging and ambitious package of work (the Consumer Confidence workstream) to make levels of customer service in energy retail 'best in class'. The costs of these additional requirements may not have yet materialised and as such it is important that Ofgem keep operating costs under review on an ongoing basis and appropriately consider the costs impacts of any and all new regulatory requirements. Where such costs diverge from the cap allowance Ofgem must assess the materiality of the difference and look to amend the cap as required. **EDF would suggest an annual review of suppliers' costs is required to determine whether the allowance should be updated.**

Debt related costs

Firstly, we fully support the proposed extension of the existing temporary additional debt allowance, until the implementation of the conclusions of this review. We also welcome the proposal to carry out a 'true-up' review of this allowance, with wider debt interventions, using actual data at a later date.

In terms of an ongoing debt related cost allowance, we are generally supportive of the approach proposed. We agree that in setting a forward-looking allowance it is important to use the latest actual data available. Ofgem acknowledge that where there is evidence of material changes in the level of debt-related costs (including consideration of leading indicators such as debt and arrears) that it will take this into account at decision stage. While we agree with this approach, it is also important that there is full transparency on this process so that stakeholders can understand any revised allowance.

We also welcome Ofgem's proposal to keep the allowance under close regular review. There remains great uncertainty on the future level of debt and associated costs. Given that energy costs are not falling further in any impactful way and people's ability to pay continues to be impacted by broader economic impacts, there is a realistic expectation that future debt costs will continue to increase. This is also exacerbated by the fact that there has not yet been any meaningful progress on additional social support (e.g. a social tariff/discount) for those who cannot afford their energy costs. Suppliers' debt costs could also increase due to new debt rules where they limit a supplier's ability to recover customer arrears. It is, therefore, vital that Ofgem keep costs under review and are ready to adjust the DTC where costs materially deviate from the debt related cost allowance, including the possibility of ex-post adjustments. **EDF would suggest that as a minimum an annual review of suppliers' costs is required to determine whether the allowance should be updated.**

Smart metering costs

A full and separate review of how smart meter costs are captured under the price cap must take place alongside a resetting of the current hard target-based rollout framework by DESNZ that is required this year. The roll-out costs now far exceed those which are encapsulated within the price cap methodology, which is why a full resetting of the impact assessment and how costs are captured within the Operating Allowance is required. **We, therefore, welcome Ofgem's proposal to consider future changes required to adapt the price cap once a post 2025 framework is developed.**

In the meantime, we agree with Ofgem's proposal to adapt the current SMNCC approach to reflect the updated operating costs baseline (that includes updated metering related costs). EDF also continues to support Ofgem's proposal of moving to a simpler approach to modelling the transitional costs of the smart meter rollout relative to the revised operating cost baseline in advance of a fuller review once the post 2025 framework has been established. The primary aim should be to ensure that the revised baseline correctly reflects the latest metering related costs; this would then allow a revised SMNCC model to focus on those cost components that are uncertain and or likely to vary significantly year on year.

Industry charges

Ofgem's proposal to introduce a new pass-through allowance for industry costs that will be based on charging statements and regularly updated is very welcome. EDF has consistently called for Ofgem action on the industry costs as these have significantly diverged from the allowances provided for under the current cap methodology. Therefore, we are pleased to see that this will be taken forward as part of this review.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre, or myself.

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

Yours sincerely

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