

## Written evidence submitted by EDF (WIN0045)

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.

While the energy crisis began before the Russian invasion of Ukraine in February 2022, as amongst other factors economies across the globe sought to reopen post Covid-19, events in Ukraine exacerbated the crisis in the UK and across Europe, laying bare the risks of dependency on volatile international gas markets. The Default Tariff Cap (DTC) peaked at c.£4,279 in Q1 2023 (while the Energy Price Guarantee was in effect) but remains stubbornly high at c.£2,074 for Q3 2023 and is forecast to remain roughly this level into 2024. This is a marked increase from previous typical bill costs, considering the DTC level at the start of 2021 was c.£1,042.

Government, with support from energy suppliers, rightly acted quickly in 2022 to put in place a significant bill support package for domestic and non-domestic customers last Winter. However, much of this vital support has now fallen away, or diminished significantly. Looking ahead to this winter, many customers are now also facing higher costs elsewhere due to inflation and interest rate rises. In addition, we are seeing the debt position of a significant proportion of our customers growing increasingly worse, leaving them ill-equipped to manage through the coming winter. Alongside others, including Citizens Advice, we are, therefore, urging Government to consider extending further targeted energy bill support to those customers struggling this winter.

While lots of focus is rightly given to the impact on households, it is also important to remember the significant challenges facing many non-domestic customers. The level of support currently available to most businesses under the Energy Bill Discount Scheme (EBDS) is significantly lower than that provided under the Energy Bill Relief Scheme (EBRS) last winter. EDF is working hard to support our businesses customers and has offered to reopen thousands of our fixed contracts to enable customers to spread their costs over a longer period.

Beyond this winter, it will be important that the ongoing Review of Electricity Market Arrangements (REMA) delivers a market framework in which continued investment in new low carbon generation assets can be maintained and supported at scale, as this will help to progressively reduce our dependence on international fossil fuels and the associated volatility in energy prices experienced in recent years. It is also clear that the energy retail market needs a reset, if we are to create a retail market where customers get the support they need, Net Zero is made easy, and customers get low carbon energy at fair value. To deliver this, we need a market that promotes fair competition, that can drive innovation, investment, and exceptional customer service. We, therefore, note the need for action on the following areas:

- **Consumer protection from 2024** – In the 2022 Autumn Statement, the Chancellor announced plans for targeted consumer protection from Spring 2024, including the potential introduction of a social tariff, alongside other reforms. Introducing a meaningful, government-funded social tariff to support those customers most in need must be a priority for Government.

- **Price cap reform** - Since 2021, there have been 31 supplier failures, directly impacting c.4 million customers (1.6m for Bulb alone) and adding billions in unpaid costs to consumer bills. For our part, EDF took responsibility for almost 600k customers via Ofgem's Supplier of Last Resort process. Most of these failures occurred during the period of record market volatility in 2021/22, where suppliers were unable to recover the costs of supplying domestic customers due to the constraints of the DTC. Since then, Ofgem has made changes to the cap methodology to address some of these issues, including allowing for the lagged recovery of some costs. However, the DTC is, ultimately, an imperfect instrument that drives additional costs, as well as benefits, for consumers. We agree with Ofgem CEO Jonathan Brearley's 14 August comments on the need for price control reform.
- **Policy costs** - Government must progress work to rebalance domestic legacy social and environmental policy costs which make up a significant proportion of households' electricity bills. It is increasingly unfeasible to continue to placing costs for new and existing schemes disproportionately onto domestic electricity bills if we are to also to support efforts to electrify heat and transport.
- **Energy efficiency and heat** - Part of reducing household energy costs is also enabling customers to better control and reduce their consumption. Improving the energy efficiency of UK housing stock and driving the adoption of low carbon technologies (e.g., heat pumps, batteries) must be ramped on a sharp trajectory to reduce emissions from buildings and minimise the UK's reliance on volatile international gas markets. EDF has also provided a response to the Committee's call for evidence on 'Heating our Homes' providing additional insight on this topic.
- **Smart meters** - GB's broader Net Zero ambitions also rely upon a smart and flexible energy system, for which a successful smart meter rollout is a prerequisite. The smart meter rollout has already achieved a great deal, and suppliers continue to strive to meet the ambitious targets. However, the current framework was set-up on the basis that most customers would willingly accept one and didn't take into consideration the ongoing upgrades that this technology will require. As the programme, therefore, enters a new phase, Government must agree a new framework to complete the rollout in the most efficient way. Possible options could include looking at how geographical-based approaches could drive efficiencies and keep costs low for customers.

Finally, we note that heading into winter 23/24, security of supply must also remain a key focus for Government, Ofgem and industry. We welcome the publication of National Grid's Winter Outlook Early View, which states that winter 23/24 margins are expected to be adequate and within the Reliability Standard under normal market conditions. However, as National Grid states, its analysis is subject to change and is dependent on uncertain conditions such as consumer demand and winter weather. Therefore, it is vital that we continue to have robust and resilient arrangements in place and that we are as prepared as we can be for the unexpected, such as serious adverse weather.

We have set out in the attachment below our detailed responses to the questions posed by the Committee. EDF looks forward to giving oral evidence to the Committee on 6th September.

## **Attachment**

### ***Detailed response to the inquiry's questions***

#### **1. What role did the UK grid play in the high domestic prices of winter 2022-23?**

The core driver of increased domestic prices in 2022, into 2023, was high global gas prices, driven by amongst other factors the war in Ukraine, lower levels of gas storage across Europe, and economies reopening globally following the Covid-19 pandemic.

We note that these market conditions directly impacted the costs of operating and balancing the electricity grid throughout winter 2022-23. The independent Performance Panel which reviews National Grid's performance as the Electricity System Operator (ESO) recently published its End of Scheme Report which covers the winter 2022-23 period. This concluded that external market conditions (such as high global gas prices) were a primary driver of increased costs and were ultimately outside of National Grid's control. However, the Panel noted that balancing costs were still higher than would reasonably be expected and certain improvements could have been implemented to reduce these costs. Therefore, the operation of the grid likely contributed to some of the high prices experienced in winter 2022-23 but played a lesser role than general market conditions.

Supporting the expansion of low carbon generation technologies, such as nuclear, solar, and wind, remains a key long-term enabler for reducing the UK's exposure to volatile international gas prices and ensuring decarbonisation, affordability, and energy security. The Government must resist the temptation to embed future fossil fuel-based generation in the UK's energy mix, at the expense of low carbon sources, and must ensure that achieving Net Zero remains a core ambition.

## **2. What more could have been done to prevent price shocks being passed to consumer bills?**

We acknowledge that in late 2022, Government worked extremely quickly, in collaboration with industry and other stakeholders to establish a necessary package of energy bill support that played a vital role in shielding nearly all domestic and non-domestic customers from the worst potential impacts of the energy-crisis.

Prior to Covid-19 and the impacts of the Ukraine war, we must, however, remember the energy retail market was already facing significant challenges, driven in part by the structure of the DTC, policy makers excessive focus on switching as a measure of success and low barriers to entry. This framework, encouraged numerous under-capitalised companies to enter and build their customer portfolios through unsustainable pricing and business models that were ill-prepared for the unprecedented wholesale volatility seen in late 2021 and 2022, precipitating widespread supplier failures. These failures have served to further exacerbate energy bill costs in 2022 and 2023, as they led to the mutualisation of billions of pounds of outstanding scheme obligations and unpaid customer credit balances across all customers' bills.

The Government and Ofgem has now acted to address some of these problems, by, for example, amending the price cap to allow it to reflect wholesale prices more quickly, and implementing a suite of reforms to improve the financial resilience of those suppliers remaining in the market. It is vital that these reforms and new requirements, particularly with regards to capital adequacy and the use of customer credit balances, are now properly enforced by Ofgem to ensure they appropriately mitigate future risks and promote fair competition.

More can and should have also been done to help households and businesses to better control and reduce their consumption and, therefore, their energy bills. Going further and faster in improving the energy efficiency of UK housing stock and driving the adoption of low carbon technologies (e.g., heat pumps, batteries) has the potential to not only significantly reduce emissions from buildings, but also minimise the UK's reliance on volatile international gas markets. EDF has provided a

response to the Committee's call for evidence on 'Heating our Homes' which provides additional insight on this topic.

### **3. How should energy companies respond if customers cannot pay their bills and what actions should they not have recourse to?**

EDF takes our responsibility to our customers very seriously, particularly vulnerable customers and those in payment difficulty.

As soon as we identify signs of payment difficulty, we attempt to proactively engage with customers to offer support and prevent the build-up of debt, including ensuring those using a prepayment meter receive the additional support they may need. We do this using our Right Track platform, which enables us to provide communications and tailor treatments based on individual customer needs and preferences, across a range of contact channels, including email, text, letter, and outbound calls.

Customers can engage with us through a variety of channels to access support – all our advisors are trained to support customers in line with our CARE+ framework and customers requiring additional support will be transferred to our Extra Support team who are specially trained to provide customers with a tailored package of support.

Our comprehensive support packages, which are tailored to the customers circumstances and payment method, include:

- Helping Hands – regular top up contributions for customers using a Prepayment meter who are unable to cover the full cost of their energy.
- Fresh Start – clearance of debt to help some of our most vulnerable customers impacted by the cost-of-living crisis.
- Flexible repayment plans – our repayment plans are based on the customer's ability to pay and can be revised at any time should the customers circumstances change.

We also work with a range of trusted and respected third party organisations to ensure all our customers can access the support which covers their needs. This ranges from income maximisation support, debt advice and debt relief, tailored energy savings plans and help replacing faulty or inefficient appliances.

In recent months, we have also been proactive in reaching out to thousands of our non-domestic customers, who had agreed contracts in late 2022, to offer them the opportunity to extend their contracts and blend higher existing contract rates with new extended lower rates, and to pay them over an extended contract length.

Like any responsible creditor, we do, however, also have a responsibility to help prevent our customers from building up unmanageable debts. We also have a duty to our wider customer base to ensure debt is collected in a sympathetic but effective manner. If an ever-increasing number of customers do not pay for a service they are receiving, ultimately the costs for all customers will rise, placing more pressure on households.

With this in mind, we note that the moratorium on involuntary prepayment switches, following concerns earlier this year, has increased the number of customers we currently see with an unsecured and growing debt. EDF, like other suppliers, has signed up to the Ofgem-led code of

practice for involuntary PPM installations and we support Ofgem's efforts to incorporate this Code into the supply licence. We are currently working towards meeting Ofgem's five conditions for restarting involuntary prepayment installs and mode switches. While we agree that the installation of a PPM should always be the last resort and only ever done where a supplier is confident it is safe and practicable, it is important to recognise that prepayment does play a vital role in helping millions of households budget their energy costs, and in keeping down levels of bad debt and bills in the interest of all other customers. It is, therefore, vital that suppliers can restart installing smart prepayment meters for debt in line with Ofgem new rules, as soon as possible.

#### **4. Has Ofgem got its priorities right in addressing customer protection?**

Please see the comments in our covering letter and our answer to Questions 2 and 6. It is essential that Government and Ofgem work together, with support from suppliers and other stakeholders to ensure the right support is in place for customers this winter and on an ongoing basis, via the introduction of a meaningful, government-funded social tariff. We must also ensure that the DTC, or any other future price control mechanism, is fit for purpose.

We welcome Ofgem looking at whether existing consumer protections also need strengthening through their work on improving customer service standards and their review of the non-domestic market. However, in the case of improved customer service standards there is a risk that, due to the lack of an impact assessment and a thorough cost-benefit analysis of the proposals, Ofgem proceed with implementing changes that may not be the most cost-effective, desirable, or impactful for customers.

#### **5. How effective is the Government's approach towards supporting the sector and delivering a functioning energy market?**

Beyond this winter, it will be important that the ongoing Review of Electricity Market Arrangements (REMA) delivers a market framework in which continued investment in new low carbon generation assets can be maintained and supported at scale, as this will help to progressively reduce our dependence on international fossil fuels and the associated volatility in energy prices experienced in recent years. However, it is also clear that the energy retail market also needs a reset. We need a market that promotes fair competition, that can drive innovation, investment, and exceptional customer service.

#### **6. Is the legislative framework on pricing controls suitable for protecting consumers?**

It is essential that Government and Ofgem work together, with support from suppliers and other stakeholders to ensure the DTC, or any future price control mechanism, is fit for purpose. Going forward we need an approach to 'backstop' price regulation that a) ensures energy costs are fair for consumers and b) allows financially resilient and responsible suppliers to attract the long-term investment necessary to support net zero.

It is also important to reflect on the original purpose of the DTC. The cap was intended to ensure that all customers paid a fair price for their energy use, by ensuring suppliers are only able to recover efficiently incurred costs. It is ill-suited, and was never intended, to be a mechanism to help ensure energy bills are affordable. This is why it is vital that deliberation on the future of the DTC must take place alongside the development of meaningful, government-funded social tariff to properly support those in vulnerable circumstances.

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