

Matthew Collinson
Legal and Regulatory Affairs
Ovo Energy
Astley House
33 Notting Hill Gate
London WC11 3JQ

10 December 2014

Dear Mr Collinson,

Request for derogation – Ovo Interest Reward

This letter sets out the decision of the Gas and Electricity Markets Authority (the “**Authority**”) to grant Ovo Gas Limited (company number 06752915) and Ovo Electricity Limited (company number 06858121) (each a “**Licensee**” and collectively, “**Ovo**”) derogations from certain standard conditions of their respective gas and electricity supply licences. The derogations will enable Ovo to continue offering Direct Debit customers interest on credit balances (the “**Interest Reward**”).

The relevant Directions are attached. These will be published and shall remain in force in accordance with the terms of the Directions, unless revoked earlier or varied in writing by the Authority. Any change in circumstances relevant to the Directions must be reported to the Authority as soon as possible.

This letter constitutes the Notice, under section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986, of the reasons for the Authority’s decision to issue the attached Directions. Capitalised terms used in this letter, which are not defined herein, have the meaning given to them in the standard conditions of Ovo’s electricity and gas supply licences.

Background to Derogation Request

The Authority received a request from Ovo on 29 August 2014 for a derogation from paragraph 4 of standard licence condition (SLC) 22B. Ovo wishes to continue offering its monthly Interest Reward to Direct Debit customers who pay for their gas/electricity one month in advance and whose monthly energy statement (calculated one month in arrears) shows a positive credit balance. Ovo indicates that the interest rate applied in calculating the Interest Reward will continue to be the same for all eligible customers. It will make the Interest Reward available to all of its customers on evergreen and fixed term tariffs who pay by Direct Debit. Ovo will automatically credit the Interest Reward to customers’ accounts when the bill is calculated. Ovo also indicates that the customer must not make payment into their account with the sole intention of earning interest.

The Interest Reward constitutes a Discount (as defined in SLC 1). Paragraph 4 of SLC 22B prohibits licensed suppliers from providing any cash discount other than those expressly exempted from the prohibition in SLC 22B (ie Dual Fuel Discounts and Online Account Management Discounts).¹ Paragraph 36 of SLC 22B provides that the Authority may issue

¹ Licensed suppliers are prohibited from using any Discount which is: (i) pounds sterling or any currency of any other country; (ii) capable of being directly redeemed (rather than sold) for pounds sterling or any currency of any

directions relieving a licensee of its obligations to comply with SLC 22B to such extent and subject to such conditions as the Authority may direct.

Ovo stated in its application that it considers the Interest Reward to be innovative and beneficial to consumers. They consider that the Interest Reward compensates consumers for foregoing the opportunity to earn interest on money that would otherwise be in their bank accounts.

The Authority's Decision

Having regard to our principal objective and statutory duties, and based on the information submitted by Ovo, we consider that the Interest Reward is beneficial to consumers and does not undermine the objectives of the Retail Market Review (RMR). The RMR rules were introduced to increase consumer engagement in order to stimulate competition in the market, in part by reducing tariff complexity.² We do not consider that the Interest Reward significantly increases complexity in consumer decision making. It is not directly linked to the unit rate and standing charge. Rather, we consider it as a form of compensation for consumers who end up with positive credit balances once they have paid their bills at the end of the month. RMR rules already provide flexibility for compensating consumers under certain conditions.³

Suppliers are required to ensure that the calculation of a customer's regular Direct Debit payment amount is based on the best and most current information of the customer's past or expected future consumption.⁴ Suppliers are also required to refund accumulated credit in a timely manner whenever a request is made by a customer, unless it is fair and reasonable in all circumstances for the supplier not to do so.⁵ In such cases, the supplier must inform the customer about the reasons for withholding the credit. Nevertheless, customers may at times inadvertently accumulate credit balances, particularly where they do not regularly request or obtain a refund, and adjustments to Direct Debit amounts may take time to address the situation. Given this, the Interest Reward, however small, is of benefit for those customers whose money is being held by their supplier.

The Authority therefore grants the Licensees a derogation from paragraph 4 of SLC 22B in respect of the Interest Reward with effect from the date of, and subject to the terms of, the attached Directions. The Licensees may use the Interest Reward in accordance with the terms of the attached Directions, notwithstanding the prohibition in paragraph 4 of SLC 22B.

We also propose to exclude the Interest Reward from certain aspects of our tariff information requirements to avoid misleading customers about the real cost of their energy when comparing against other tariffs. The Interest Reward is not a core feature of the tariff and the amount a customer receives is inherently uncertain. As such, the Authority grants the Licensees derogations from certain SLCs, including the calculations of the Tariff Comparison Rate, the Tariff Information Label, Estimated Annual Costs and the customer's Estimated Annual Costs ("Personal Projection").

Moreover, we consider that Ovo can and should do more to communicate to its customers the details around the Interest Reward. We would like to emphasise Ovo's regulatory requirements, including under the Standards of Conduct, to act transparently and to treat customers fairly.⁶ For example, customers should be informed in a fair and transparent manner:

other country; (iii) in any way applied to a Unit Rate or Standing Charge; or (iv) in any way capable of being applied to (rather than incorporated within) a Unit Rate or Standing Charge by a Domestic Customer.

² In this document we use the term "market" as shorthand for referring to different segments of the energy sector. For the avoidance of doubt, these terms are not intended to describe or otherwise suggest the approach that may be taken by Ofgem for the purposes of market definition in competition law investigations.

³ As set out in the definition of Compensation Payment in SLC 1.

⁴ As set out in SLC 27.15.

⁵ As set out in SLC 27.16.

⁶ As set out in SLC 25C.

- how the Interest Reward accrues – one option could be to include an illustrative example of the details of the calculation;
- that the Interest Reward is calculated by reference to credit as opposed to Direct Debit amounts;
- that the Interest Reward begins to accrue from the first monthly statement provided in arrears which indicates that the customer's account is in credit; and
- that customers may request a refund of any accumulated credit in accordance with Ovo's refund policy and the precise conditions which apply in respect of such refunds.

If you would like to discuss any aspects of this letter, please contact Jibirila Leinyuy on 0207 901 7000 or Derogations@ofgem.gov.uk.

Yours sincerely,

Neil Barnes
Associate Partner, Retail Markets

ATTACHMENT 1: Electricity Supply Licence

The Company Secretary
Ovo Electricity Limited
Registered address:
The Core
40 St Thomas Street
Bristol BS1 6JX

Direction issued to Ovo Electricity Limited (company number 06858121, the "Licensee") by the Gas and Electricity Markets Authority – Interest Reward

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to Standard Licence Conditions (SLC) 22B.36, 22C.10, 23.7, 31A.6A, 31A.15, 31B.12, 31C.9 and 31E.17 of the electricity supply licence granted to the Licensee under section 6(1)(d) of the Electricity Act 1989 (the "Licence").
2. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the SLC.
3. SLC 22B.36, 22C.10, 23.7, 31A.6A, 31A.15, 31B.12, 31C.9 and 31E.17 of the Licence provide that the Authority may issue directions relieving the Licensee of its obligations to comply with SLC 22B, 22C, 23, 31A (sections A and B), 31B, 31C and 31E (respectively) to such extent and subject to such conditions as the Authority may direct.
4. The considerations and rationale of the Authority's decision are set out in the accompanying letter to the Licensee, dated 10 December 2014.
5. The Authority hereby directs that the Licensee is permitted to use the Interest Reward (as defined below), notwithstanding the general prohibition against certain Discounts contained in paragraph 4 of SLC 22B.
6. The Authority also directs that for the purposes of SLC 22B.2, the Interest Reward shall not form part of the Core Tariff.
7. The Authority furthermore directs that, notwithstanding the Interest Reward constitutes a Discount, where the Licensee is required to calculate the Tariff Comparison Rate, the TIL Estimated Annual Costs or a Domestic Customer's Estimated Annual Costs (Personal Projection) for the purposes of compliance with SLC 22C, 23, 31A (sections A and B), 31B, 31C or 31E, the Licensee must exclude the Interest Reward from such calculations.
8. This Direction is without prejudice to the Licensee's continuing obligation to adhere to the Standards of Conduct in SLC 25C, which require licensed suppliers to act transparently and to treat Domestic Customers fairly. At a minimum, we would expect the Licensee to inform current and potential Domestic Customers in a fair and transparent manner:
 - a. of how the Interest Reward accrues and is calculated, including an explanation that the Interest Reward is calculated by reference to any outstanding Credit (as defined in SLC 27.16) as at the date of the Domestic Customer's monthly statement (and not by reference to Direct Debit payments, which are payable in advance of consumption);
 - b. that the Interest Reward begins to accrue from the Domestic Customer's first monthly statement which indicates that the Domestic Customer's account is in Credit;

- c. that they may request a refund of any accumulated Credit in accordance with the Licensee's refund policy, which is subject to the requirements of SLC 27.16; and
 - d. the precise conditions which apply in respect of Credit and Interest Reward refunds, such conditions being Principal Terms of the Domestic Supply Contract.
9. This Direction is also granted on the condition that the material provided by the Licensee to the Authority in its application and related correspondence is accurate in all material respects. The Licensee must report any change of circumstances relevant to this Direction to the Authority.
10. For the purposes of this Direction, the term "**Interest Reward**" means a Discount which:
- a. accrues to the Licensee's Domestic Customers who pay by Direct Debit in advance of consumption, whom the Licensee calculates are in Credit, in accordance with the terms of the Domestic Supply Contract;
 - b. is calculated as a percentage of a Domestic Customers' outstanding Credit;
 - c. is offered and available with all the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs;
 - d. accrues at the same percentage rate throughout Great Britain in respect of the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs; and
 - e. is subject to the same terms and conditions throughout Great Britain in respect of the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs.
11. This Direction shall take immediate effect and shall remain in force until and unless it is revoked or varied in writing by the Authority.

Dated: 10 December 2014

Neil Barnes

Associate Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose

ATTACHMENT 2: Gas Supply Licence

The Company Secretary
Ovo Gas Limited
Registered address:
The Core
40 St Thomas Street
Bristol BS1 6JX

Direction issued to Ovo Gas Limited (company number 06752915, the "Licensee") by the Gas and Electricity Markets Authority – Interest Reward

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to Standard Licence Conditions (SLC) 22B.36, 22C.10, 23.7, 31A.6A, 31A.15, 31B.12, 31C.9 and 31E.17 of the gas supply licence granted to the Licensee under section 7A(1) of the Gas Act 1986 (the "Licence").
2. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the SLC.
3. SLC 22B.36, 22C.10, 23.7, 31A.6A, 31A.15, 31B.12, 31C.9 and 31E.17 of the Licence provide that the Authority may issue directions relieving the Licensee of its obligations to comply with SLC 22B, 22C, 23, 31A (sections A and B), 31B, 31C and 31E (respectively) to such extent and subject to such conditions as the Authority may direct.
4. The considerations and rationale of the Authority's decision are set out in the accompanying letter to the Licensee, dated 10 December 2014.
5. The Authority hereby directs that the Licensee is permitted to use the Interest Reward (as defined below), notwithstanding the general prohibition against certain Discounts contained in paragraph 4 of SLC 22B.
6. The Authority also directs that for the purposes of SLC 22B.2, the Interest Reward shall not form part of the Core Tariff.
7. The Authority furthermore directs that, notwithstanding the Interest Reward constitutes a Discount, where the Licensee is required to calculate the Tariff Comparison Rate, the TIL Estimated Annual Costs or a Domestic Customer's Estimated Annual Costs (Personal Projection) for the purposes of compliance with SLC 22C, 23, 31A (sections A and B), 31B, 31C or 31E, the Licensee must exclude the Interest Reward from such calculations.
8. This Direction is without prejudice to the Licensee's continuing obligation to adhere to the Standards of Conduct in SLC 25C, which require licensed suppliers to act transparently and to treat Domestic Customers fairly. At a minimum, we would expect the Licensee to inform current and potential Domestic Customers in a fair and transparent manner:
 - a. of how the Interest Reward accrues and is calculated, including an explanation that the Interest Reward is calculated by reference to any outstanding Credit (as defined in SLC 27.16) as at the date of the Domestic Customer's monthly statement (and not by reference to Direct Debit payments, which are payable in advance of consumption);
 - b. that the Interest Reward begins to accrue from the Domestic Customer's first monthly statement which indicates that the Domestic Customer's account is in Credit;

- c. that they may request a refund of any accumulated Credit in accordance with the Licensee's refund policy, which is subject to the requirements of SLC 27.16; and
 - d. the precise conditions which apply in respect of Credit and Interest Reward refunds, such conditions being Principal Terms of the Domestic Supply Contract.
9. This Direction is also granted on the condition that the material provided by the Licensee to the Authority in its application and related correspondence is accurate in all material respects. The Licensee must report any change of circumstances relevant to this Direction to the Authority.
10. For the purposes of this Direction, the term "**Interest Reward**" means a Discount which:
- a. accrues to the Licensee's Domestic Customers who pay by Direct Debit in advance of consumption, whom the Licensee calculates are in Credit, in accordance with the terms of the Domestic Supply Contract;
 - b. is calculated as a percentage of a Domestic Customers' outstanding Credit;
 - c. is offered and available with all the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs;
 - d. accrues at the same percentage rate throughout Great Britain in respect of the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs; and
 - e. is subject to the same terms and conditions throughout Great Britain in respect of the Licensee's Live Evergreen Tariffs, Live Fixed Term Tariffs and Dead Tariffs.
11. This Direction shall take immediate effect and shall remain in force until and unless it is revoked or varied in writing by the Authority.

Dated: 10 December 2014

Neil Barnes

Associate Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose