

The Company Secretary

Npower Group PLC
Windmill Hill Business Park
Whitehill Way, Swindon
Wiltshire SN5 6PB

29 November 2017

Dear Sir/Madam

Request for derogation – End of Fixed Term Notice Period trial

This letter sets out the decision of the Gas and Electricity Markets Authority (the “Authority”) to grant the following companies under Npower Group PLC: Npower Limited (company number 3653277); Npower Northern Limited (company number 3432100); Npower Northern Supply Limited (company number 2845740); Npower Yorkshire Limited (company number 3937808); Npower Yorkshire Supply Limited (company number 4212116); and Npower Gas Limited (company number 2999919), all together the “Licensee”, a temporary and limited derogation from standard licence condition (SLC) 22C.4 of its electricity and gas supply licences. This derogation will enable the Licensee to conduct a time-limited trial of providing its Statement of Renewal Terms to its domestic gas and electricity customers within 35 and 21 days prior to the end of the fixed term tariff contract.

The relevant Direction is attached and will be published. It shall be effective from 29 November 2017 and shall remain in force until 17 January 2018 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 licence conditions of gas and electricity supply licences.

Background to the derogation request

The Authority received a written application from the Licensee on 06 October 2017 for a derogation to exempt the Licensee from the requirement to comply with SLC 22C.4 to allow it to conduct a trial of providing its Statement of Renewal Terms (referred to by the Licensee in their application as the Product End Notification (PEN) letter), 35 to 21 days prior to the end of the fixed term tariff contract. SLC 22C.4 requires the Licensee to provide a Domestic Customer with a copy of the SLC 22C Statement of Renewal Terms which complies with paragraph 22C.3 no earlier than 49 days and no later than 42 days before the fixed term period of their Fixed Term Supply Contract is due to end.

The Licensee has indicated that it has received a broad spread of opinion on when customers would prefer to receive the Statement of Renewal Terms from its own research. It has submitted that more than 50% of customers expressed a preference within the range of five to three weeks prior to the fixed tariff ending which is later than the 42 to 49 day window in SLC 22C.4.

The Licensee therefore wants to run a trial to better understand if changing the timing of providing its Statement of Renewal Terms to its customers will increase engagement and reduce the number of fixed term customers rolling over to its Standard Variable Tariff (SVT). It wishes to test for consumer behavioural changes when it sends the Statement of Renewal Terms closer to the end date of the fixed term tariff and over a longer period of time, compared to the current one week window. The Licensee will measure the proportion of customers re-fixing or switching supplier, rather than rolling onto the SVT. It also wants to confirm its initial research which suggested that the majority of customers prefer the Statement of Renewal Terms to be provided closer to the end of their current fixed term tariff contract.

The derogation will enable the Licensee to conduct the test in a live environment and to produce further empirical evidence to support its enduring change from a ten page Statement of Renewal Terms to a four page document.¹ The licensee believes that providing the Statement of Renewal Terms closer to the end date of the contract will result in less customers procrastinating and forgetting to act. It considers that the proposed changes will deliver a better customer experience with more customers being able to access an agent in a timely manner, and will help it manage and reduce the strain on its customer call centre at peak times.

The Licensee has confirmed that it has designed its trial in accordance with the criteria set out by Ofgem in the open letter of 07 March 2016 and that it has identified a set of measurable outcomes, which it will track during the trial and share the information with Ofgem. As part of this transparency, the Licensee has shared its test methodology and its approach to measuring the outcomes with Ofgem. The Licensee has also confirmed that it will closely monitor customer responses and feedback to the trial to enable it to identify and address any negative impact. It has also indicated that it will ensure that the expected level of consumer protection and ethics are met and will mitigate any risks to customers.

The Authority's Decision

Having regard to our principal objective and statutory duties,² and based on the information submitted by the Licensee, we consider that granting a time-limited derogation to allow the Licensee to proceed with the trial to test the impact of providing the Statement of Renewal Terms closer to the end date of the fixed term tariff, and over a longer period of time, on consumer engagement does not undermine the objectives of our retail market policies.

Our retail market policies are intended to increase consumer engagement in order to stimulate competition in the energy market. In this case, we do not consider that the changes proposed by the Licensee will hamper the consumer decision-making process and our policy objective to help consumers make informed choices. We have recently made significant changes to our retail market rules following recommendations by the Competition and Markets Authority (CMA). In light of this, we indicated in our open letter on improving consumer communications and the value of trials that we are committed to ensuring that consumers have the information they need to fully engage with the market and to make well-informed decisions about their energy supply. The Licensee has

¹ See the Authority's decision of 15 May that granted the Licensee a derogation to allow the trial of its new version of its Statement of Renewal Terms:

https://www.ofgem.gov.uk/system/files/docs/2017/05/decision_to_grant_npower_group_plc_a_temporary_derogation_from_various_elements_of_standard_conditions_22c_and_31c_of_their_gas_and_electricity_licenses_15_05_2017_r_0.pdf

² Including, amongst other things, our duty to protect consumer interests, promote competition and consider the need to contribute to the achievement of sustainable development.

indicated that it will share the results of the trial with Ofgem, which would assist our ongoing policy work as we consider further changes to our retail market rules and as we implement our current policy to rely more on principles in the way we regulate the energy retail market.³

Therefore, the Authority grants the Licensee a temporary derogation from SLC 22C.4 of its gas and electricity supply licences to conduct its trial of providing its Statement of Renewal Terms to its domestic gas and electricity customers within 35 and 21 days prior to the end of the fixed term tariff contract with effect from the date of, and subject to the terms of, the attached Directions.

For the avoidance of doubt, this derogation does not in any way affect the Licensee's obligations under paragraph 24.8(b) of SLC 24. In summary, this rule prohibits suppliers from requiring a Domestic Customer to pay a Termination Fee during (and after) the last 49 days of a Fixed Term Supply Contract.

We would like to emphasise that we expect the Licensee to meet the conditions specified for open trials in our 07 March open letter. This includes our expectation that suppliers monitor closely the impact of trials on consumers so that any negative impact on consumers is quickly identified and addressed. Particularly when this involves vulnerable customers.

If you have any questions about this decision, please contact my colleague, Jibirila Leinyuy on 0203 263 7000 or Jibirila.Leinyuy@ofgem.gov.uk.

Yours faithfully,

Anthony Pygram

Partner, Consumers & Competition

Signed on behalf of the Authority and authorised for that purpose

³ See Ofgem's decision of 27 April 2017 - Final Decision: Enabling consumers to make informed choices, <https://www.ofgem.gov.uk/publications-and-updates/final-decision-enabling-consumers-make-informed-choices> .

ATTACHMENT 1: Electricity Supply Licence

The Company Secretary, Npower Group PLC
Windmill Hill Business Park
Whitehill Way, Swindon
Wiltshire SN5 6PB

Direction issued to Npower Limited (company number 3653277); Npower Northern Limited (company number 3432100); Npower Northern Supply Limited (company number 2845740); Npower Yorkshire Limited (company number 3937808); Npower Yorkshire Supply Limited (company number 4212116), all together the “Licensee” by the Gas and Electricity Markets Authority (the “Authority”)

1. The Authority issues this direction pursuant to Standard Licence Condition (“SLC”) 22C.10 of the electricity supply licence granted under section 6(1)(d) of the Electricity Act 1989 to the Licensee.
2. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the Licence.
3. SLC 22C.10 provides that the Authority may issue directions relieving the Licensee of its obligations to comply with specified parts of SLC 22C 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 29 November 2017.
5. The Authority directs that, in respect of providing a Domestic Customer with a copy of the SLC 22C Statement of Renewal Terms which complies with paragraph 22C.3, the licence may comply with sub-paragraph 22C.4(a) on the basis that the words “no earlier than 49 days and no later than 42 days before the fixed term period of their Fixed Term Supply Contract is due to end” are replaced with “no earlier than 35 days and no later than 21 days before the fixed term period of their Fixed Term Supply Contract is due to end”.
6. It is a condition of this Direction that the Licensee is required to report any change of circumstances relevant to this Direction to the Authority without delay
7. This Direction shall be effective from 29 November 2017 and shall remain in force until and including 17 January 2018, unless revoked earlier or varied in writing by the Authority.

Dated: 29 November 2017

Anthony Pygram

Partner, Consumers & Competition

Signed on behalf of the Authority and authorised for that purpose.

ATTACHMENT 2: Gas Supply Licence

The Company Secretary, Npower Group PLC
Windmill Hill Business Park
Whitehill Way, Swindon
Wiltshire SN5 6PB

Direction issued to Npower Gas Limited (company number 2999919), Npower Northern Limited (company number 3432100), Npower Yorkshire Limited (company number 3937808), together the “Licensee” by the Gas and Electricity Markets Authority (the “Authority”)

1. The Authority issues this direction pursuant to Standard Licence Condition (“SLC”) 22C.10 of the electricity supply licence granted under section 7A(1) of the Gas Act 1986 to the Licensee.
2. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the Licence.
3. SLC 22C.10 provides that the Authority may issue directions relieving the Licensee of its obligations to comply with specified parts of SLC 22C to such extent and subject to such conditions as the Authority may direct.
8. The considerations and rationale of the Authority’s decision are set out in the accompanying letter to the Licensee, dated 29 November 2017.
9. The Authority directs that, in respect of providing a Domestic Customer with a copy of the SLC 22C Statement of Renewal Terms which complies with paragraph 22C.3, the licence may comply with sub-paragraph 22C.4(a) on the basis that the words “no earlier than 49 days and no later than 42 days before the fixed term period of their Fixed Term Supply Contract is due to end” are replaced with “no earlier than 35 days and no later than 21 days before the fixed term period of their Fixed Term Supply Contract is due to end”.
10. It is a condition of this Direction that the Licensee is required to report any change of circumstances relevant to this Direction to the Authority without delay
11. This Direction shall be effective from 29 November 2017 and shall remain in force until and including 17 January 2018, unless revoked earlier or varied in writing by the Authority.

Dated: 29 November 2017

Anthony Pygram

Partner, Consumers & Competition

Signed on behalf of the Authority and authorised for that purpose.