



Making a positive difference  
for energy consumers

The Company Secretary

British Gas Trading Limited  
Registered address:  
Millstream Maidenhead Road  
Windsor, Berkshire  
SL4 5GD, UK

30 November 2015

Dear Sir/Madam

**Request for derogation from SLC 22B.2(b)(i) - [REDACTED]**

This letter sets out the decision of the Gas and Electricity Markets Authority (the "**Authority**") to grant British Gas Trading Limited (company number 03078711, the "**Licensee**") a temporary and limited derogation from paragraph 2(b)(i) of standard licence condition (SLC) 22B of its gas supply licence. This derogation will enable the Licensee to offer an additional gas tariff to its existing four core tariffs which will only be available to customers who sign up to its [REDACTED]

The Direction is attached and will be published. It shall be effective from 01 January 2016 and shall remain in force until 31 December 2016, unless revoked earlier or varied in writing by the Authority. Any change in circumstances relevant to the Direction must be reported to the Authority as soon as possible.

This letter constitutes the Notice, under section 38A of the Gas Act 1986, of the reasons for the Authority's decision to issue the attached Direction. Capitalised terms used in this letter, which are not defined herein, have the meaning given to them in the standard licence conditions (SLC) of gas supply licences.

**Background to Derogation Request**

We received a satisfactory submission on 11 June 2015 from the Licensee requesting a derogation from paragraph 2(b)(i) of SLC 22B of its gas supply licence. The Licensee wants to encourage the take up of smart meters. To help achieve this, it has designed [REDACTED]. The central element of the scheme is a Time-of-Use (ToU) electricity tariff which is offered to consumers with smart meters.<sup>1</sup>

ToU tariffs are energy tariffs with different prices at different times of the day. Consumers who sign up to the [REDACTED] will have an electricity smart meter installed at their premises.

<sup>1</sup> [REDACTED]

## MARKET SENSITIVE

The Licensee would like to make the offer a single Fixed Term dual fuel contract and therefore align the end dates of the ToU electricity tariff with a non-ToU gas tariff. It sees the benefits of this approach as follows:

- reducing search costs as consumers will receive End of Fixed Term Notices at the same date; and
- reducing switching costs as consumers will be able to arrange for new contracts for their gas and electricity supply at the same time.

The Licensee is however currently using all of its four Core Tariffs slots for the supply of gas to domestic consumers in the UK. It has therefore requested a derogation for an additional Fixed Term gas tariff under the Category A Metering Arrangement.<sup>2</sup> It has set out the following additional details of the offer:

- the additional gas tariff will only be available to customers who sign up to the ToU electricity tariff; and
- [REDACTED]. If the Licensee aligns the terms of the additional gas tariff to one of its existing Fixed Term tariffs, then the main difference between the two tariffs will be the end-dates.

Paragraph 2(b) of SLC 22B prohibits any supplier from offering more than four Core Tariffs to a Domestic Customer at any time and in any region throughout Great Britain, for any Metering Category.<sup>3</sup> Paragraph 36 of SLC 22B provides that the Authority may issue 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. Without a derogation from paragraph 2(b)(i) of SLC 22B, the proposed additional gas tariff for the [REDACTED] customers will increase the Licensee's Core Tariffs for the supply of gas above the four Core Tariffs cap and the Licensee would not be compliant with SLC 22B.

### **The Authority's Decision**

Having regard to our principal objective and statutory duties,<sup>4</sup> and based on the information submitted by the Licensee, we consider that an additional gas tariff which is only available to customers who sign up to the Licensee's [REDACTED] does not undermine the objectives of the Retail Market Review (RMR) reforms and would be beneficial to eligible consumers.

The RMR rules were introduced to increase consumer engagement in order to reduce complexity in the market and stimulate competition. In this case, we do not consider that the additional gas tariff would increase complexity in consumer decision making to the extent that it would have an adverse impact on consumer engagement in the market. Only consumers who sign up to the [REDACTED] would have access to this tariff.

We are also open to considering schemes which promote energy efficiency and sustainable development and have indicated in our published derogations guidance that pilot schemes for innovative products linked to smart metering constitute areas where derogation requests from RMR rules may be appropriate.<sup>5</sup> We have also highlighted in our 2015/2016

<sup>2</sup> Category A Metering Arrangement means using a Gas Meter on the basis of contractual arrangements whereby the Domestic Customer is required to pay for the Charges for the Supply of Gas on the basis of a single Unit Rate. Under [REDACTED], the electricity tariff will constitute a Core Tariff under Category B Metering Arrangement. This means using an Electricity Meter on the basis of any contractual arrangement (other than a Category C, D, or E Metering Arrangement) whereby the Domestic Customer is required to pay for the Charges for the Supply of Electricity on the basis of Time of Use Rates. Categories C, D and E Metering Arrangements are defined in SLC 1.

<sup>3</sup> This includes Metering Categories A and B for gas as specified under SLC 22B.2(a) and defined under SLC 1 of the gas supply licences. Prepayment is a payment method and not a metering category.

<sup>4</sup> Including, amongst other things, our duty to protect consumer interests, promote competition and consider the need to contribute to the achievement of sustainable development.

<sup>5</sup> See our derogation guidance at

[https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/guidance\\_for\\_derogation\\_requests\\_from\\_domestic\\_retail\\_market\\_review\\_licence\\_conditions\\_version\\_2\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/guidance_for_derogation_requests_from_domestic_retail_market_review_licence_conditions_version_2_0.pdf)

Forward Work Programme that we will consider derogations from the RMR rules to facilitate the transition to a smarter energy market.<sup>6</sup>

Smart meters enable the development of tariffs that provide incentives for consumers to shift consumption away from peak periods and as such have significant potential to reduce customer bills, enhance security of supply and contribute to sustainable development. They also allow consumers to take control of their energy usage by providing easily accessible information on their consumption. This can help consumers make informed choices about how they buy and use energy and drive competition in the energy market. Smart meters can also create new opportunities for innovation in business models, products and services, as well the potential for faster and easier switching between suppliers which would drive competition in the market.<sup>7</sup>

We consider that the proposed [REDACTED] is consistent with our objectives in this area and will contribute to achieving our wider consumer outcomes.<sup>8</sup> This particularly includes the impacts on bills, quality of service and the environment. On balance, we consider that any potential detrimental impact on consumers from granting the required derogation to allow the Licensee to offer an additional gas tariff [REDACTED] would likely be outweighed by the benefits to the consumers targeted by the scheme.

Therefore, the Authority grants the Licensee a temporary derogation from paragraph 2(b)(i) of SLC 22B in respect of the additional gas tariff as part of [REDACTED] with effect from 01 January 2016, and subject to the terms of the attached Direction. The effect of this derogation is that the additional gas tariff [REDACTED] will not count towards the Core Tariff cap imposed by paragraph 2(b)(i) of SLC 22B.

The Licensee should consider how it explains [REDACTED] to consumers to enable them to make a fully informed choice, providing sufficient information to assess whether this tariff best suits their needs when they are signing up to the scheme.

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

Yours faithfully

**Neil Barnes**

**Associate Partner, Retail Markets**

Signed on behalf of the Authority and authorised for that purpose

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<sup>6</sup> See paragraph 2.15 of our Forward Work Programme 2015-16, published on 25 March 2015: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward\\_work\\_programme\\_2015-16\\_25march2015\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward_work_programme_2015-16_25march2015_0.pdf)

<sup>7</sup> Please see our open letter on the potential impacts of Time of Use (ToU) tariffs on domestic electricity customers: Smarter Markets Programme, at <https://www.ofgem.gov.uk/ofgem-publications/87360/distributionalanalysis-openletterfinal-pdf>

<sup>8</sup> Our desired consumer outcomes are set out our corporate strategy. See "Ofgem: Our Strategy" published on 18 December 2014 at <https://www.ofgem.gov.uk/publications-and-updates/corporate-strategy>

**ATTACHMENT: Gas Supply Licence**

The Company Secretary

British Gas Trading Limited  
Registered address:  
Millstream Maidenhead Road  
Windsor, Berkshire, SL4 5GD, UK

**Direction issued to British Gas Trading Limited (company number 03078711) (the Licensee) by the Gas and Electricity Markets Authority: [REDACTED]**

1. This Direction is issued by the Gas and Electricity Markets Authority (the **Authority**) pursuant to paragraph 36 of Standard Licence Condition (**SLC**) 22B 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 SLC 1 of the Licence.
3. SLC 22B.36 of the Licence provides that the Authority may issue directions relieving the Licensee of its obligations to comply with SLC 22B 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 30 November 2015.
5. The Authority hereby directs that the Licensee is temporarily relieved of its obligations under paragraph 2(b)(i) of SLC 22B in respect of the gas tariff it proposes to make available under a Category A Metering Arrangement to eligible customers supplied with electricity under its [REDACTED] (as described below). The effect of this paragraph is that the gas tariff shall not count towards the maximum limit on the number of Core Tariffs which, pursuant to paragraph 2(b)(i) of SLC 22B, the Licensee may make available to a Domestic Customer in any Region and in relation to any category of metering arrangement permitted under the Licence.
6. For the purposes of this Direction, [REDACTED] means the dual fuel tariff which includes the Time-of-Use electricity tariff (in Category B Metering Arrangement) and the additional gas tariff (in Category A Metering Arrangement), as described in the Licensee's application to the Authority.
7. The Licensee is required to report any change of circumstances relevant to this Direction to the Authority.
8. This Direction shall be effective from 01 January 2016 and shall remain in force until 31 December 2016, unless revoked earlier or varied in writing by the Authority.

Dated: 30 November 2015

**Neil Barnes**  
**Associate Partner, Retail Markets**

Signed on behalf of the Authority and authorised for that purpose