

The Company Secretary

Pure Planet Limited
Desk Lodge, 1 Temple Way, Bristol
BS2 0BY, UK

Date: 01 August 2017

Dear Sir/Madam

Derogation Decision – Flexible Unilateral Variation Notification

This letter sets out the decision of the Gas and Electricity Markets Authority (the “Authority”) to grant Pure Planet Limited (company number 09735688, the “Licensee”), a derogation from certain elements of Standard Licence Condition (SLC) 23 of its electricity and gas supply licences. This derogation will enable the Licensee to give less than the required 30 days notice, with a minimum of 14 days, to its customers for an increase in the Unit Rate (not the standing charge) of their contract to Supply Electricity or Gas to their Domestic Premises.

The relevant Directions are attached and will be published. They shall be effective from 01 August 2017 and shall remain in force in accordance with the terms of the Directions, unless revoked 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 10 April 2017 for a derogation to exempt the Licensee from the requirements to comply with certain elements of SLC 23. The Licensee wants to launch a variable tariff where the Unit Rate will match the costs of the energy supplied to its customers. This includes the wholesale price and any usage-based costs (eg TNUoS, DUoS, AAHEDC, RCRC, ROCs).¹

The derogation will allow the Licensee to give less than 30 days notice to its customers, with a minimum of 14 days, in advance of the date a variation of the Unit Rate will become effective. The Licensee considers that the derogation will allow it to quickly vary its prices to reflect variations in its costs of supply. It believes that this will help in addressing the public perception that energy suppliers are profiteering from fluctuating wholesale prices and not passing on the benefits of cost decreases to consumers.

¹ TNUoS is the Transmission Network Use of System charges, DUoS is the Distribution Use of System charges, AAHEDC is the Assistance for Areas with High Electricity Distribution Costs, RCRC is the Residual Cashflow Reallocation Cashflow, and ROCs is the Renewable Obligation Certificates.

The Licensee wants to make no profit from the underlying commodity. For the purposes of this derogation it intends to operate with a single tariff that will be offered to all credit-meter Domestic Customers throughout GB and across all consumer groups. It has designed this tariff as a two-part tariff with a Unit Rate and a Standing Charge. The Unit Rate is the profit-free pass-through element of the tariff. This Unit Rate will effectively be tracking its wholesale energy price and any usage-based costs. It will only make profits from the Standing Charge, which it considers as a membership fee. This Standing Charge will accrue daily and will be billed monthly.

The Licensee also indicates that the tariff will be competitive and its goal is to supply green energy cheaper than non-green energy. It indicates that following a price increase, customers who decide to switch tariffs or suppliers will be able to do so without incurring any costs, as the tariff has no exit fees. These customers will also remain on the current price during the switching period.

The Licensee notes that it will ensure that consumers understand the product before signing up to it. It will clearly communicate to customers that the tariff can vary up and down on a monthly or quarterly basis depending on the variations in its wholesale price and any usage-based costs. They will make the details of the tariff clear to the customer during the sign-up process, in their mobile application – the “window”, on their website and in the terms and conditions of the tariff. The tariff price including the Unit Rate will be constantly available to consumers through their mobile application through which customers will interact with the Licensee.

The Licensee intends to send its notification through the mobile application. If there are issues with the application, the Licensee will delay any price changes until the mobile application is fixed. If the customer has uninstalled the mobile application, the Licensee will contact the customer through other means as soon as possible. If a customer continues not to use the mobile application, then the Licensee will communicate with such customer via email. The Licensee has indicated that it will conduct a regular independent audit of its costs that make up its Unit Rate and of the corresponding revenues generated to ensure that the Unit Rate is effectively profit-free as promised. If the audit shows that the revenues from the Unit Rate are greater than the Unit-Rate-based costs, the Licensee indicates that it will establish a mechanism to ensure that the difference is returned to its customers. The licensee indicates that it would be able to share the high level results of the audit with its customers to allow them to see the costs that have gone into making up the price they have paid for their energy.

Without derogation from certain elements of SLC 23, the Licensee would not be able to offer its proposed tariff. More specifically, SLC23.3 requires that if the licensee increases the Charges for the Supply of Electricity or Gas to a Domestic Premises (including by making any reduction in the amount of a Discount that is applied to a Unit Rate or Standing Charge), or unilaterally varies any other term of the contract in any other way that is to the disadvantage of the Domestic Customer (Disadvantageous Unilateral Variation), the licensee must give Notice of that increase in the Charges to the Domestic Customer in accordance with paragraph 23.4. In this case, the relevant paragraph is 23.4 (a) which requires that the Notice referred to in SLC 23.3 must be given at least 30 days in advance of the date on which the increase in the Charges will become effective.

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 the required derogation to allow the Licensee to proceed

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.

with its proposed tariff would not undermine the objectives of our retail market policies. We introduced the information rules to promote effective consumer engagement in the market so that they can use the threat of switching tariffs or suppliers to constrain prices and promote competition. The 30 days advance notice was intended to ensure that consumers are informed about how their charges are planned to increase and that they are aware of their rights or responsibilities. This was intended to allow consumers the opportunity to avoid the new charges, provide an element of predictability and enable budgeting decisions.

There has been public concerns about price and cost transparency in the energy market, particularly the perceived concern that when the costs of supplying energy falls, suppliers do not pass the savings to customers. We support proposals that are designed to help address public trust in the energy sector by giving transparency to the way prices are related to costs. In this case, we expect that the Licensee's offer of a Unit Rate that is profit-free and that will track the underlying costs will ensure that when the costs vary (up or down), the effect is systematically passed through to consumers. It will also mitigate the perceived public concern that cost increases are passed through to consumers at a faster rate than costs decreases. The reduced notice period, in allowing the supplier to pass through costs more quickly, also enables the Licensee to offer an economically viable product. We also recognise the Licensee's goal to make the tariff competitive and to supply green energy cheaper than brown.

Whilst this derogation would amount to reducing the level of protection, Ofgem considers that it is appropriate in this context and notes that this derogation does not affect other important elements of the existing rules that apply to price increases. This include the rules that require that customers on Evergreen Contracts can never be charged a termination fee and in the event of a price increase, they can always switch away without penalty or otherwise being affected by the price increase.

Therefore, the Authority grants the Licensee a derogation from SLC 23.3 of its gas and electricity supply licences, to allow it to give its customers less than the 30 days notice in SLC 23.4, with a minimum of 14 days, for any increases in the Unit Rate of their contract to Supply Electricity or Gas to Domestic Customers.

We would like to note that this derogation only applies to the proposed tariff. It does not apply to any variations in the Standing Charge. We also remind the Licensee that it is a condition of this derogation that it reports any change of circumstances to Ofgem. We would therefore expect the Licensee to report to Ofgem in the event that it did not adopt the approach described in this decision in terms of auditing its costs, passing through costs reductions to consumers, and where applicable, varying its unit rate.

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

Yours faithfully,

Anthony Pygram

Partner, Consumers & Competition

Signed on behalf of the Authority and authorised for that purpose

ATTACHMENT 1: Electricity Supply Licence

**The Company Secretary
Pure Planet Limited
Deskledge, 1 Temple Way, Bristol
BS2 0BY, UK**

Direction issued to Pure Planet Limited (company number 09735688); the “Licensee” by the Gas and Electricity Markets Authority (the “Authority”)

1. The Authority issues this direction pursuant to Standard Licence Condition (“**SLC**”) 23 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. Paragraph 23.7 of SLC 23 provides that the Authority may issue directions relieving the Licensee of its obligations to comply with specified parts of paragraph 23.3 of SLC 23 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 01 August 2017.
5. The Authority directs that, in respect of the Unit Rate that applies to the Relevant Tariff, the licence may comply with paragraph 3 of SLC 23 on the basis that the words “*in accordance with paragraph 23.4*” are replaced with “*in accordance with paragraph 23.4 (except that sub-paragraph 23.4(a) is to be read as if the words “30 days” were replaced with “14 days”*”.
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. In this Direction, “the Relevant Tariff” means a single Tariff for an Evergreen Supply Contract which is offered by the licensee and for which all the Charges for Supply Activities are incorporated with a single Standing Charge and single Unit Rate.
8. This Direction shall take immediate effect and shall remain in force unless it is revoked or varied in writing by the Authority.

Dated: 01 August 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
Pure Planet Limited
Deskledge, 1 Temple Way, Bristol
BS2 0BY, UK**

Direction issued to Pure Planet Limited (company number 09735688); the “Licensee” by the Gas and Electricity Markets Authority (the “Authority”)

1. The Authority issues this direction pursuant to Standard Licence Condition (“SLC”) 23 of the gas 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 23.7 provides that the Authority may issue directions relieving the Licensee of its obligations to comply with specified parts of paragraph 23.3 of SLC 23 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 01 August 2017.
5. The Authority directs that, in respect of the Unit Rate that applies to the Relevant Tariff, the licence may comply with paragraph 3 of SLC 23 on the basis that the words *“in accordance with paragraph 23.4”* are replaced with *“in accordance with paragraph 23.4 (except that subparagraph 23.4(a) is to be read as if the words “30 days” were replaced with “14 days”)*”.
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. In this Direction, “the Relevant Tariff” means a single Tariff for an Evergreen Supply Contract which is offered by the licensee and for which all the Charges for Supply Activities are incorporated with a single Standing Charge and single Unit Rate.

This Direction shall take immediate effect and shall remain in force unless it is revoked or varied in writing by the Authority.

Dated: 01 August 2017

**Anthony Pygram
Partner, Consumers & Competition
Signed on behalf of the Authority and authorised for that purpose.**