

Date: 14 December 2017

Energy Suppliers, Third Party Intermediaries, Consumer Representatives, and other Interested Parties

Market-wide derogation - Statement of Renewal Terms

This publication sets out the decision of the Gas and Electricity Markets Authority (the "Authority") to grant all licenced suppliers, "the Licensees", a derogation from various elements of standard licence condition (SLC) 22C1 of their gas and electricity supply licences. This licence condition relates to the Statement of Renewal Terms (SORT). The objective of the derogation is to promote initiatives that improve customer engagement and the effectiveness of competition in the domestic retail market to achieve better outcomes for energy customers.

The end of a fixed-term tariff is a key engagement opportunity

Licensees are required to provide a SORT to their customers towards the end of their existing fixed-term contracts. For these customers it is a critical facilitator of engagement. The SORT notifies consumers that their tariff is coming to an end, prompts them to consider their options, informs them of what those options are (including switching suppliers) and gives them the tools to make an informed choice.

The importance of this engagement opportunity is increasing. More and more consumers are switching to fixed tariffs and a number of suppliers have announced their intention to phase out standard variable tariffs. So, it is important to ensure that the SORT is effective – encouraging and enabling consumers to make active, informed choices and not to default onto poor value tariffs at the end of their fixed-term tariffs.

Current rules require that if a Domestic Customer does not make an active choice of a new tariff or a new Licensee by the date their existing Fixed Term Supply Contract is due to end, they will default onto either the Relevant Cheapest Evergreen Tariff or a Relevant Fixed Term Default tariff². We want to see more consumers engaging and fewer rolling onto a default tariff, unless that meets their needs.

¹ https://epr.ofgem.gov.uk/Document

² Recent changes to our policy, published in our 11 October 2017 decision, allow a Licensee at the end of a fixed-term contract, to move a customer that has not made an active choice onto another fixed-term contract, as long as that further contract: (1) does not have any penalties for early termination; (2) is the same price or cheaper than the variable tariff that the consumer would otherwise have been rolled onto; and (3) is similar in nature to the customer's current tariff, taking into account their characteristics and preferences (including tariff type, online account management, meter type and payment method). Please see our decision published here: https://www.ofgem.gov.uk/system/files/docs/2017/10/decision letter - default tariffs for domestic customers at the end of fixed-term_tariffs.pdf

In November, we published an open letter³ setting out our next steps for prompting greater consumer engagement. This included enabling and encouraging suppliers to improve their communications at the end of fixed-term contracts. The letter set out our intention to issue a market-wide derogation. This derogation will provide Licensees the additional flexibility required to innovate on the content and format of the SORT. We expect suppliers taking advantage of this derogation to make improvements to their statement resulting in higher levels of consumer engagement at the time fixed term tariffs end.

The relevant Directions are attached to this decision. They shall be effective from 14 December 2017 and shall remain in force in accordance with the terms of the Directions until and including 13 December 2019 or until such time when they are revoked or varied by the Authority.

This publication 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

We indicated in our published derogation guidance⁴ that we would consider a market-wide derogation on our own initiative if there is sufficient reason to do so. This may involve a case where Licensees or other third parties suggest that a derogation from a specific aspect of the rules is necessary. We may also consider the need to grant a derogation to all Licensees as opposed to a specific Licensee or to amend the licence if appropriate.

Rules relating to the SORT currently contain some prescriptive requirements that may limit a Licensees' ability to develop and implement more engaging and innovative SORTs. A number of Licensees have approached us suggesting that additional flexibility in some of the specific obligations would benefit customers, as it would allow them to create SORTs that are more effective at engaging consumers. Evidence provided by Licensees includes feedback from their customers suggesting that the format of the SORT is too long, contains too much information and is difficult for customers to understand.

In addition, earlier this year we issued a temporary and time-limited derogation to a Licensee (Npower Group PLC, on 15 May 2017)⁵ which covered various elements of SLC 22C, to facilitate their trial to gather evidence to help understand the effectiveness of different non-compliant SORTs. The derogation allowed Npower to conduct a trial of a new version of its SORT on a limited number of its domestic gas and electricity customers. Npower shared the results of their trial with us.

After considering the Npower trial results and other evidence, we believe there is a case for providing Licensees with greater control over the content and format of their SORTs. Through this derogation, we are providing flexibility in the relevant rules to give Licensees this freedom (details are set out below). This will allow Licensees to develop and implement more engaging SORTs that

³ Please see our Prompts to engage Open Letter dated 24 November 2017 available here

https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-work-trial-results-and-next-steps

⁴ The derogations guidance is available here: https://www.ofgem.gov.uk/publications-and-updates/guidance-derogation-requests-domestic-retail-market-review-rmr-licence-conditions

⁵ See our decision to Npower available here: https://www.ofgem.gov.uk/publications-and-updates/decision-grant-npower-group-plc-temporary-derogation-various-elements-standard-conditions-22c-and-31c-their-electricity-and-gas-supply-licences

more effectively encourage and enable their customers to engage at the end of their fixed-term contracts.

This derogation also links to our work to ensure suppliers provide clear and accessible customer communications. We are committed to reforming the rules relating to supplier-customer communications, placing greater reliance on enforceable principles rather than prescription. Today we have published a working paper⁶ that sets out our priority areas for reform and our current thinking. As the working paper explains, the SORT is a priority area where we are keen to enable greater flexibility and drive improved consumer outcomes. Where possible, we will seek to use evidence from Licensees who make use of this Derogation to inform this work.

This derogation is also an indication of the type and scope of the changes we are considering to the current rules. We strongly encourage that Licensees reflect on this and consider what this may mean for the way they engage with their customers at the end of their contracts and the effectiveness of this engagement. This derogation is a good opportunity for Licensees to develop and test new SORTs that are more effective at engaging consumers in advance of the changes we intend to make in the rules in Summer 2018. Licensees' use of the derogation will also give us insight into their ability to act in a more principles-based regulatory environment.

Rules that apply to this derogation and our expectation of Licensees

As set out earlier, the purpose of this derogation is to give Licensees the additional flexibility required to innovate on the content and format of the SORT. To achieve this, we have identified the following rules covered by this derogation.

- 22C.3 (b) which requires the Licensees to include a prominent title in the Statement of Renewal Terms that clearly informs the Domestic Customer that the fixed-term period of their existing Fixed Term Supply Contract is due to end and they need to consider their options.
- 22C.3 (c) which requires the Licensees to include in the Statement of Renewal Terms only the information listed in 22C.3 (c).
- 22C.3 (c) (ii) which requires the Licensee to include the following statement, "Remember it might be worth thinking about switching your tariff or supplier", in the Statement of Renewal Terms, and to present it in a manner which is readily distinguishable from the other text presented in the Statement of Renewal Terms.
- 22C.3 (c) (iv) which requires the Licensee to include a statement in the Statement of Renewal Terms explaining that if a Domestic Customer does not make an active choice to switch to a new tariff or a new supplier by the date their existing Fixed Term Supply Contract is due to end, they will default onto the Relevant Cheapest Evergreen Tariff.
- 22C.3 (c) (v) (1), which requires the Licensee to include a statement in the Statement of Renewal Terms, explaining that the Principal Terms that currently apply to the Domestic Customer are provided in a separate part of the Statement of Renewal Terms.
- 22C.3 (c) (viii) and (ix) which require the Licensee to include in the Statement of Renewal Terms, the Exact Tariff Names and Estimated Annual Savings of both the Relevant Cheapest Tariff and the Alternative Cheapest Tariff compared to the Relevant Cheapest Evergreen Tariff.

⁶ Please see our working paper dated 14 December 2017

- 22C.3 (d) (i) which requires the Licensees to include in the Statement of Renewal Terms, a separate part, which provides the Principal Terms that currently apply to the Domestic Customer, in a form that is easily comparable and clearly illustrates, the main differences in the Principal Terms.
- 22C.3 (e) which requires the Licensee to include in the Statement of Renewal Terms, a separate part which contains the Tariff Information Label (TIL) for each set of Principal Terms provided.
- 31E.8 which requires the Licensee to include the TIL alongside the Principle Terms whenever provided.

Licensees will still be required to write to their customers 42-49 days in advance of their tariff ending.⁷

Our expectations

We are giving Licensees more flexibility regarding the format and content of the SORT, but Licensees will still be required to deliver the underlying policy intent. As such, a Licensee may only rely on this derogation if it complies with the following conditions:

- (a) it notifies the Authority in writing that it is relying on the derogation either in advance, or within 5 days, of doing so;
- (b) without prejudice to any additional information the Licensee may decide to include in or with an SLC 22C Statement of Renewal Terms, the Licensee must replace some of the information which (in the absence of this derogation) would have been required by condition 22C with prominent information which is designed in a manner best calculated to:
 - (i) prompt the Domestic Customer to engage, highlighting the ability to switch Licensee and the potential savings from switching to other tariffs offered by their current Licensee;
 - (ii) facilitate the Domestic Customer making an informed choice about, and comparison with, other Tariffs available from the Licensee; and
 - (iii) facilitate the Domestic Customer making an informed choice about switching to other (non-affiliated) Licensees.

The effect of the above condition (b) is that Licensees choosing to take advantage of the derogation to improve the effectiveness of the SORT must make sure that customers are aware that their tariff is coming to an end, the alternative of taking no action, are prompted to consider their options and have the information to make an informed choice about switching tariff or supplier.

A Licensee relying on the derogation to change the content and format of the SORT should make amendments in accordance with the above conditions and the Standards of Conduct⁸ to ensure that customers are provided or have access to relevant information required to engage and make an informed choice. For example, a Licensee who chooses to take advantage of the derogation will not be required to provide the Principal Terms that currently apply to the Domestic Customer in a separate part of the SORT. Nevertheless, to comply with the condition regarding facilitating an

⁷We have granted a derogation to Npower to conduct a time-limited trial of providing the SORT within 35 and 21 days prior to the end of the fixed term tariff contract

 $[\]frac{https://www.ofgem.gov.uk/publications-and-updates/decision-grant-npower-group-plc-temporary-and-limited-derogation-standard-licence-condition-slc-22c4-its-electricity-and-gas-supply-licences$

⁸ Please see our Final Decisions on Changes to the Standards of Conduct: https://www.ofgem.gov.uk/publications-and-updates/final-decision-standards-conduct-suppliers-retail-energy-market

informed choice by the consumer, a licensee should, for example, consider how best to make the Principle Terms available by other means. This could be by phone, a website link or other suitable means.

Another example would be that a Licensee who chooses to take advantage of the derogation will not be required to provide a Tariff Information Label (TIL) in the prescribed format for each set of Principal Terms provided. Nevertheless, Licensees, in accordance with the above conditions, the Standards of Conduct and the sales and marketing Informed Choices principles, should conduct their own assessment of what appropriate elements of the TIL should be provided and how to present these in a clear way to help customers make an informed choice.

We do not expect Licensees to provide tariff information of other Licensees in their SORT, nevertheless, the SORT must provide or give access to information required to compare their existing tariff with tariffs from other Licensees and/or to switch.

As set out above, condition (a) requires Licensees taking advantage of the derogation to inform Ofgem either in advance or within 5 days of doing so. While no prior approval is required to take advantage of the derogation, this will allow us to focus our monitoring in a targeted manner. We are keen to track the changes Licensees are making to see how effective these changes are in improving customer engagement rates.

We would like to emphasise that we expect Licensees to monitor closely the impact of any changes they make to their SORT on customers so that any negative impact on customers is quickly identified and addressed, particularly when this involves vulnerable customers. We would also like to remind Licensees (including their representatives) to ensure compliance with the Standards of Conduct and the Informed Choices principles. These require that domestic energy customers are treated fairly and that their actions do not significantly favour the Licensees' interest to the detriment of the customer. The Standards of Conduct require Licensees and their representatives to behave and carry out their activities in a fair, honest, transparent, appropriate and professional manner. It also requires the information to be complete, accurate and not misleading, communicated in plain and intelligible language and sufficient to enable the customer to make informed choices. The information also needs to be appropriate and effective for customers in vulnerable situations.

We also expect the results of any trials or monitoring activities to be shared with Ofgem to inform and support our policy development.

The Authority's Decision

Having regard to our principal objective and statutory duties,⁹ we consider that granting a market-wide derogation to allow the Licensees to make changes to their SORT will help further our objective of promoting customer engagement in the market and helping customers to make informed decisions.

Therefore, the Authority grants a derogation to all Licensees from SLC 22C.3 (b), 22C.3 (c), 22C.3 (c) (ii), 22C.3 (c) (iv), 22C.3 (c) (v) (1), 22C.3(c) (viii), and 22C.3(c) (ix) 22C.3 (d) (i), 22C.3 (e), and 31E.8 of their gas and electricity supply licences to allow them to make changes to improve or to conduct trials to improve various elements of their SORT with effect from the date of, and subject to the terms of, the attached Directions.

⁹ Including, amongst other things, our duty to protect customer interests, promote competition and consider the need to contribute to the achievement of sustainable development.

If you have any questions about our customer communications policy work or would like to notify your intention to rely on this derogation, please contact my colleague, Ayena Gupta (Ayena.Gupta@ofgem.gov.uk). If you have any questions about our derogation process, other granted derogations or future derogations, please contact my colleague, Jibirila Leinyuy (Jibirila.Leinyuy@ofgem.gov.uk) on 0203 263 7000.

Yours faithfully,

MABames.

Neil Barnes

Associate Partner, Consumers & Competition
Signed on behalf of the Authority and authorised for that purpose

ATTACHMENT 1: Electricity Supply Licence

The Company Secretary,

Direction issued to all holders of an electricity supply licence who are authorised to supply domestic premises, each a Licensee and all together the "Licensees", 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 14 December 2017.
- 5. Subject to the conditions in this Direction specified in paragraph 6 below, and those highlighted as underlined in the Schedule hereto, the Authority directs that in relation to the Market Wide Statement of Renewal Terms derogation the Licensee is relieved on a temporary basis of certain obligations of its Licence, as described in the Schedule hereto.
- 6. A Licensee may only rely on this derogation if it complies with the following conditions:
 - a. it notifies the Authority in writing that it is relying on the derogation either in advance, or within 5 days, of doing so;
 - b. without prejudice to any additional information the Licensee may decide to include in or with an SLC 22C Statement of Renewal Terms, the Licensee must replace some of the information which (in the absence of this derogation) would have been required by condition 22C with prominent information which is designed in a manner best calculated to:
 - (iv) prompt the Domestic Customer to engage, highlighting the ability to switch Licensee and the potential savings from switching to other tariffs offered by their current Licensee;
 - (v) facilitate the Domestic Customer making an informed choice about, and comparison with, other Tariffs available from the Licensee; and
 - (vi) facilitate the Domestic Customer making an informed choice about switching to other (non-affiliated) Licensees
- 7. In this Direction, "Market Wide Statement of Renewal Terms Derogation" means the Licensee's use of a new format for the SLC 22C Statement of Renewal Terms, in accordance with the schedule attached.

8. This Direction shall be effective from 14 December 2017 and shall remain in force until and including 13 December 2019, unless revoked earlier or varied in writing by the Authority.

Dated: 14 December 2017

MaBames.

Neil Barnes

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

Schedule – Derogations from electricity supply Standard Licence Conditions

Area	Standard Condition	Effect of derogation direction in respect of the Statement of Renewal Terms
Title informing the customers that the fixed term period is coming to an end	22C.3(b)	The Licensee is permitted to use alternative wording in the title instead of a reference to the customer considering their options.
Information to be included in the SLC 22C Statement of Renewal Terms	22C.3(c)	The Licensee is permitted to provide additional information in the Statement of Renewal Terms letter beyond that specified in SLC 22C.3(c)
Prompt to change supplier	22C.3(c)(ii)	The Licensee is permitted to use an alternative statement instead of "Remember – it might be worth thinking about switching your tariff or supplier"
Consequences if the Domestic Customer does nothing	22C.3(c)(iv)	The Licensee is permitted to use an alternative statement, instead of referring to the specific circumstances that would result in the Domestic Customer being subject to the Relevant Cheapest Evergreen Tariff, which are: if a Domestic Customer does not change supplier or does not expressly agree to a new Evergreen Supply Contract, a new Fixed Term Supply Contract or a further fixed term period for a Fixed Term Supply Contract by the date the fixed term period of the existing Fixed Term Supply contract is due to end.
Statement that Principal Terms are to be provided for the tariff that currently applies	22C.3(c)(v)(1)	The Licensee is permitted not to include a statement that the Principal Terms that currently apply to the Domestic Customer are available in a separate part of the Statement of Renewal Terms. The Licensee must specify where the Domestic Customer can find the Principal Terms.
Cheapest tariff savings message	22C.3(c)(viii) and 22C.3(c)(ix)	The Licensee is permitted to only show the Exact Tariff Name of the cheaper of either the Domestic Customer's

		Relevant Cheapest Tariff or the Domestic Customer's Alternative Cheapest Tariff. The Licensee is permitted to only show the Domestic Customer's Estimated Annual Savings for the cheaper of either the Domestic Customer's Relevant Cheapest Tariff or the Domestic Customer's Alternative Cheapest Tariff, based on the premise that the Domestic Customer is now subject to the Relevant Cheapest Evergreen Tariff. If the Licensee includes information relating to the cheaper of either the Domestic Customer's Relevant Cheapest Tariff or the Domestic Customer's Alternative Cheapest Tariff, as described above, the Licensee is permitted to not include information on the more expensive of the two tariffs.
Principal Terms of the current tariff to be provided in Statement of Renewal Terms	22C.3(d)(i)	The Licensee is permitted to omit from the Statement of Renewal Terms letter, the Principal Terms that currently apply to the Domestic Customer, provided that the Licensee has included a statement in the letter explaining where the Principal Terms are available in line with the Licensee's derogation from SLC 22C.3(c)(v)(1) above.
Tariff Information Labels	22C.3(e)	The Licensee is permitted not to provide a separate part of the Statement of Renewal Terms containing the Tariff Information Label for each set of Principal Terms provided under 22C.3(d).
Provision of TIL at the same Time as Principal Terms	31E.8	The Licensee is permitted not to provide the TIL at the same time as the Principal Terms only when those Principal Terms are provided as a separate part of the Statement of Renewal Terms under SLC 22C.3(d).

ATTACHMENT 2: Gas Supply Licence

The Company Secretary,

Direction issued to all holders of a gas supply licence who are authorised to supply domestic premises, each a Licensee and all together the "Licensees", 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 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 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 14 December 2017.
- 5. Subject to the conditions in this Direction specified in paragraph 6 below, and those highlighted as underlined in the Schedule hereto, the Authority directs that in relation to the Market Wide Statement of Renewal Terms derogation the Licensee is relieved on a temporary basis of certain obligations of its Licence, as described in the Schedule hereto.
- 6. A Licensee may only rely on this derogation if it complies with the following conditions:
 - a. it notifies the Authority in writing that it is relying on the derogation either in advance, or within 5 days, of doing so;
 - b. without prejudice to any additional information the Licensee may decide to include in or with an SLC 22C Statement of Renewal Terms, the Licensee must replace some of the information which (in the absence of this derogation) would have been required by condition 22C with prominent information which is designed in a manner best calculated to:
 - prompt the Domestic Customer to engage, highlighting the ability to switch Licensee and the potential savings from switching to other tariffs offered by their current Licensee;
 - ii. facilitate the Domestic Customer making an informed choice about, and comparison with, other Tariffs available from the Licensee; and
 - iii. facilitate the Domestic Customer making an informed choice about switching to other (non-affiliated) Licensees.
- 7. In this Direction, "Market Wide Statement of Renewal Terms Derogation" means the Licensee's use of a new format for the SLC 22C Statement of Renewal Terms, in accordance with the schedule attached.

9. This Direction shall be effective from 14 December 2017 and shall remain in force until and including 13 December 2019, unless revoked earlier or varied in writing by the Authority.

Dated: 14 December 2017

MaBames.

Neil Barnes

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

Schedule – Derogations from gas supply Standard Licence Conditions

Area	Standard Condition	Effect of derogation direction in respect of the Statement of Renewal Terms
Title informing the customers that the fixed term period is coming to an end	22C.3(b)	The Licensee is permitted to use alternative wording in the title instead of a reference to the customer considering their options.
Information to be included in the SLC 22C Statement of Renewal Terms	22C.3(c)	The Licensee is permitted to provide additional information in the Statement of Renewal Terms letter beyond that specified in SLC 22C.3(c)
Prompt to change supplier	22C.3(c)(ii)	The Licensee is permitted to use an alternative statement instead of "Remember – it might be worth thinking about switching your tariff or supplier"
Consequences if the Domestic Customer does nothing	22C.3(c)(iv)	The Licensee is permitted to use an alternative statement, instead of referring to the specific circumstances that would result in the Domestic Customer being subject to the Relevant Cheapest Evergreen Tariff, which are: if a Domestic Customer does not change supplier or does not expressly agree to a new Evergreen Supply Contract, a new Fixed Term Supply Contract or a further fixed term period for a Fixed Term Supply Contract by the date the fixed term period of the existing Fixed Term Supply contract is due to end.
Statement that Principal Terms are to be provided for the tariff that currently applies	22C.3(c)(v)(1)	The Licensee is permitted not to include a statement that the Principal Terms that currently apply to the Domestic Customer are available in a separate part of the Statement of Renewal Terms. The Licensee must specify where the Domestic Customer can find the Principal Terms.

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Cheapest tariff	22C.3(c)(viii)	The Licensee is permitted to only show the Exact Tariff
savings	and	Name of the cheaper of either the Domestic Customer's
message	22C.3(c)(ix)	Relevant Cheapest Tariff or the Domestic Customer's
		Alternative Cheapest Tariff.
		The Licensee is permitted to only show the Domestic Customer's Estimated Annual Savings for the cheaper of either the Domestic Customer's Relevant Cheapest Tariff or the Domestic Customer's Alternative Cheapest Tariff, based on the premise that the Domestic Customer is now subject to the Relevant Cheapest Evergreen Tariff. If the Licensee includes information relating to the cheaper of either the Domestic Customer's Relevant Cheapest Tariff or the Domestic Customer's Alternative Cheapest Tariff, as described above, the Licensee is permitted to not include
		information on the more expensive of the two tariffs.
Principal Terms of the current tariff to be provided in Statement of Renewal Terms	22C.3(d)(i)	The Licensee is permitted to omit from the Statement of Renewal Terms letter, the Principal Terms that currently apply to the Domestic Customer, provided that the Licensee has included a statement in the letter explaining where the Principal Terms are available in line with the Licensee's derogation from SLC 22C.3(c)(v)(1) above.
Tariff	22C.3(e)	The Licensee is permitted not to provide a separate part of
Information Labels	220.5(0)	the Statement of Renewal Terms containing the Tariff Information Label for each set of Principal Terms provided
		under 22C.3(d).
Provision of	31E.8	The Licensee is permitted not to provide the TIL at the same
TIL at the		time as the Principal Terms only when those Principal Terms
same Time as		are provided as a separate part of the Statement of Renewal
Principal		Terms under SLC 22C.3(d).
Terms		