

Domestic Suppliers, holders of
price cap derogated tariffs

renewablederogations@ofgem.gov.uk

28 October 2024

Dear colleagues,

REQUEST FOR INFORMATION (RFI) TO MONITOR REQUIREMENTS FOR DEROGATED RENEWABLE STANDARD VARIABLE TARIFFS FROM THE DEFAULT TARIFF CAP

We issued the first RFI to monitor compliance of derogations granted from the default tariff cap ('cap') on 31 October 2023 to assess compliance¹ with Standard Licence Condition (SLC) SLC28AD.25 and SLC28AD.24² under section 3 (2) (b) of the Domestic Gas and Electricity (Tariff Cap) Act 2018, which enables the Licensee to charge independently from the maximum rates set by the default tariff cap for the Standard Variable Tariffs ("SVTs"), specifically relating to tariffs that are subject to a derogation from the default tariff cap. Alongside our decision to introduce a route for derogations in 2018 from the default tariff cap, we published guidance which sets out the process for requesting a derogation from the default tariff cap and how we assess applications.³ This letter sets out the changes we have made for this current periodic RFI.

Recap of Ofgem's view and requirements summary

We consider the introduction of the Energy Prices Act 2022 to support the case for more frequent monitoring of existing derogations, which we expect to improve transparency and compliance as per the terms of our derogation decisions. Therefore, as per section 2.16 of

¹ Ofgem (2023), Introduction of annual monitoring requirements for derogated renewable standard variable tariffs, from the default tariff cap. <https://www.ofgem.gov.uk/publications/introduction-annual-monitoring-requirements-derogated-renewable-standard-variable-tariffs-default-tariff-cap>

² Paragraph 25 of the SLC 28AD ("SLC 28AD.25") of the Electricity Supply Licence and paragraph 24 of the SLC 28AD ("SLC 28AD.24") of the Gas Supply Licence provides that the Authority may issue directions relieving the Licensee of its obligations to comply with standard condition 28AD to such extent and subject to such conditions as the Authority may direct.

³ <https://www.ofgem.gov.uk/publications/guidance-derogation-requests-renewable-tariffs-default-tariff-cap>

the Guidance⁴, we will continue annual monitoring requirements for any new or existing derogations. These monitoring requirements will continue to focus on ensuring any derogations remain eligible for a derogation, as per the decision letter,⁵ guidance and underlying legislation. For existing derogations, where the decision letter includes aspects that deviate from the guidance, the requirements in the decision letter will take precedence.

RFI overview

The RFI is applicable to all suppliers that have a tariff with a derogation from the price cap. It collects quantitative and qualitative information on suppliers with a derogated tariff's total and renewable costs. We note that we are gathering less data than is required when applying for a derogation to reduce the burden on suppliers whilst maintaining sufficient information to determine whether the tariff in question continues to meet the outcomes required to receive a derogation, as set out in our guidance.

Amendments to the annual monitoring RFI:

We have made the following changes to the RFI to improve the ongoing monitoring process going forward. This includes areas such as formatting, the addition of new questions, and changes to the way data is requested:

- **2a Tariff Information: Addition of columns to confirm if each tariff listed is derogated and a Standard Variable Tariff.** This change is to aid data validation and faster processing of entries.
- **2b Total Costs: Data requests simplified with only total and renewable costs requested. Where apportionment is necessary to provide domestic only costs, apportionment has been requested by customer accounts and by consumption.** This removes unnecessary data, making the RFI easier and quicker to complete. The request for customer and consumption apportionment will help provide a more reflective view of actual costs for domestic only. This apportionment will be used on a case-by-case basis as suppliers with domestic customers only will not require a method to separate domestic costs from non-domestic costs.
- **2e Supplementary Questions: Additional question on levelisation costs in derogated tariffs.** This question helps identify how the costs of levelisation

⁴ Ofgem maintains a record of derogations that have been granted and may in some cases decide to incorporate additional derogation monitoring activity (for example review periods):

https://www.ofgem.gov.uk/sites/default/files/docs/2018/11/guidance_-_derogation_requests_for_renewable_tariffs_from_the_default_tariff_cap.pdf

⁵ <https://www.ofgem.gov.uk/sites/default/files/2023-10/Ofgem%20Cap%20Derogation%20Monitoring%20Letter.pdf>

(implemented from April 2024) impact derogated tariffs. This question is applicable from the current compliance period, i.e. 2024 to 25.

In addition, based on feedback received on the draft RFI, we have made the following additional changes to the final RFI:

- **2b Total Costs:** Addition of review allocation method (consumption, customer, or average) for each cost category to make clear which measure will be used during the assessment.

Ofgem's benchmark calculation methodology

Since we introduced annual monitoring last year, we have made the following changes to the way in which we calculate 'Outcome 3'⁶ in our assessment.

1. Inclusion of seasonality: Seasonal demand weights have been added to provide a weighted annual price cap average. These demand weights are from industry data and have been used as a part of wider price cap calculations, therefore have precedent as an estimate of demand split. We have included these weights in response to stakeholder feedback that a using flat average of all relevant price cap periods does not fairly reflect the average unit price given that energy usage, particularly of gas, is seasonal. Therefore, using demand weights gives more weight to the cap price during the period of greatest usage.
2. Volumetric (consumption) and customer apportionment in total domestic costs: Following stakeholder feedback and analysis in the previous RFI monitoring period, we concluded that a purely volumetric or customer account-based apportionment of total costs (where there are non-domestic and domestic costs) to domestic only may not be reflective of actual costs. As a result, we have moved forward with a joint apportionment approach for the next periodic RFI, with categories using either volume, customer, or an average of both apportionments based on previous supplier designation in the RFI, and how these categories function in the price cap.

⁶ As per the decision letter and guidance: Outcome 3 refers to "the cost to the Licensee of supplying electricity/gas by virtue of the particular tariff relating to that Evergreen Supply Contract is materially greater than the Relevant Maximum Charge (as those terms are defined under SLC 28AD) for reasons that are directly attributable to the support that the tariff provides to the generation of electricity / production of gas from renewable sources."

Next steps

The requirements set out in this letter applies to all existing derogations for the preceding year (1 April 2023 to 31 March 2024). A submission is required to be made to renewablederogations@ofgem.gov.uk using the template provided and as set out in Annex 1 and 2, with information provided using the requirements.

If you have any questions concerning this information request or require more information, please contact renewablederogations@ofgem.gov.uk.

We require your response relating to the compliance year 1 April 2023 – 31 March 2024 by **6 January 2025**.

Yours faithfully,



Daniel Newport
Deputy Director, Retail Market Policy

**Annex 1 – Relevant extracts from SLC 28AD of the gas and electricity licence
Direction for the purposes of section 3(2)(b) of the Act (Renewable Tariff
Exemption)**

28AD.23 The licensee may apply to the Authority to request a direction that a particular Tariff complies with section 3(2)(b) of the Act such that this condition 28AD does not apply pursuant to paragraph 28AD.4(b).

28AD.24 The Authority may issue a direction following an application made pursuant to paragraph 28AD.23, where the licensee can provide evidence to the reasonable satisfaction of the Authority that all of the following conditions are met:

- (a) the Domestic Customer has chosen an Evergreen Supply Contract;
- (b) the Tariff relating to that Evergreen Supply Contract supports the production of gas from renewable sources to an extent that is materially greater than that which may otherwise be brought about as a result of subsidies, obligations or other mandatory mechanisms; and
- (c) the cost to the licensee of supplying gas by virtue of the particular Tariff relating to that Evergreen Supply Contract is materially greater than the Relevant Maximum Charge for reasons that are directly attributable to the support that Tariff provides to the production of gas from renewable sources.

28AD.25 The Authority may refuse to issue a direction pursuant to paragraph 28AD.24 where it is not satisfied that the materially greater cost referred to at paragraph 28AD.24(c) reflects an efficient level of the costs associated with licensee's supply of gas by virtue of the particular Tariff.

28AD.26 The licensee must comply at all times with the terms of any direction issued pursuant to paragraph 28AD.24.

28AD.27 The licensee must ensure that any information provided to the Authority pursuant to paragraph 28AD.23, 28AD.24 and/or 28AD.28 is accurate, and must immediately notify the Authority upon becoming aware that any such information is false and/or misleading.

28AD.28 The licensee must give the Authority any information that it reasonably requests about the licensee's compliance with any direction issued pursuant to paragraph 28AD.24 as soon as reasonably practicable after receiving a request.

28AD.29 The Authority may at any time revoke any direction issued pursuant to paragraph 28AD.24 where:

- (a) it appears to the Authority that any information provided by the licensee pursuant to paragraph 28AD.24 is inaccurate; and
- (b) the licensee is unable promptly to provide information which the Authority considers is evidence to its reasonable satisfaction that each of the conditions set out at paragraphs 28AD.24(a)-(c) are met.

28AD.30 The Authority may issue a direction pursuant to paragraph 28AD.24 in accordance with guidance issued by the Authority from time to time.

Annex 2 - Relevant extracts from SLC 5 of the gas and electricity supply licence

Condition 5. Provision of Information to Authority and data retention -

5.1 After receiving a request from the Authority for Information that it may reasonably require or that it considers may be necessary to enable it to perform any functions given or transferred to it by or under any legislation, including any functions conferred on the Authority by or under the Regulation, the licensee must give that Information to the Authority when and in the form requested.

5.2 The licensee is not required to comply with paragraph 5.1 if the licensee could not be compelled to produce or give the Information in evidence in civil proceedings before a court.

5.3 After receiving a request from the Authority for reasoned comments on the accuracy and text of any Information relating to the licensee's activities under or pursuant to this licence which the Authority proposes to publish under section 35 of the Gas Act 1986 and section 48 of the Electricity Act 1989, the licensee must give such comments to the Authority when and in the form requested.

5.4 The Authority's power to request Information under this condition is additional to its power to call for information under or pursuant to any other condition of this licence.