



DEEMED RATES POLICY

Summary of the Note on Implementation of the Maxen Power Deemed Rates Pricing Policy

Maxen Power's Deemed Rates Pricing Policy has been formally implemented following a comprehensive review process. This policy ensures fair, transparent, and customer-focused pricing for deemed energy supply contracts, fully aligned with OFGEM's guidelines dated 30 November 2023 (which give guidance on SLC 7.3 and 7.4, and are required to be taken into account under SLC 7.14.).

The extant Guidance is at the time of writing to be found at:

<https://www.ofgem.gov.uk/sites/default/files/2023-11/Guidance%20on%20Deemed%20Contracts.pdf>

In carrying out the regular reviews of deemed rates as envisaged in the guidance and in this policy, that link should first be checked to ensure no further changes have been made by OFGEM, and if so, those changes should be considered as part of this policy.

Development and Approval Process

Drafting and Analysis:

The policy was crafted to balance commercial sustainability with customer protection, focusing on compliance with industry standards, including energy procurement costs, operational expenses, and profit margins.

Pricing Committee Review:

The policy underwent rigorous evaluation (including external legal scrutiny) to ensure adherence to OFGEM guidelines, fairness in pricing, and benchmarking against competitor rates.

Executive Management and Compliance Review:

Senior management and the Compliance Committee validated the governance framework, ensuring robust oversight and regulatory compliance.

Implementation Steps:

- 1 Finalisation:** Feedback from internal reviews was incorporated into the approved policy.
- 2 System Updates:** Billing systems and customer communication templates were updated to reflect the new structure and provide transparent guidance.
- 3 Training:** Relevant teams were trained to ensure accurate implementation and customer support.
- 4 Monitoring:** A quarterly monitoring framework and internal audits was established to ensure ongoing compliance.

Commitment to Compliance and Customer Protection:

The policy ensures deemed rates are fair and transparent, shielding customers from excessive charges while offering clear pathways to transition to better terms. Any deemed prices will be reviewed quarterly to address regulatory or market changes.

Whilst OFGEM does not require notification of deemed rates from time to time, records of steps taken within Maxen Power must be kept in case OFGEM requires sight of steps taken (the deemed prices guidance envisages not only the taking of steps by companies, but the ability of the company to explain its methodology on a case by case basis (see Guidance, 2.24 second bullet point for instance, referencing “whether there is a clear, thought out process, with consideration given to the relevance of the deemed charge to the type of customer (e.g. I&C, SME) and their geographical location [i.e. differences in network charges by area]”).

Maxen Power remains dedicated to responsible pricing, operational integrity, and fostering trust through fairness and transparency in customer interactions. In the event any questions are raised either by customers regarding the transparency or level of deemed rates, these queries must be escalated to Senior Management.

Maxen Power Deemed Rates Pricing Policy

Introduction

In accordance with the approved minutes from the Pricing Committee meeting of Maxen Power Supply Limited, held on 15th November 2024 at 11:00 at Maxen Power Office, the following policy was approved. It has since undergone further external legal review and subsequent sign off by Senior Management.

This policy outlines Maxen Power’s approach to setting deemed rates for energy supply contracts. Its goal is to ensure that these rates are fair, transparent, and not unduly burdensome, and that Maxen Power takes all reasonable steps to maintain this position. The policy is intended to be in alignment with OFGEM's guidelines (as amended from time to time) and reflects Maxen Power’s commitment to responsible pricing practices.

Definition of “Not Unduly Onerous”

While OFGEM’s Guidance (SLC 7.4) outlines examples and considerations for identifying when the terms of a deemed contract may be unduly onerous, it does not provide an exhaustive list. In the context of this policy, “not unduly onerous” means that deemed rates:

- (a)** Reflect the genuine costs and risks incurred by Maxen Power, including wholesale energy costs, operational expenses, and a reasonable profit margin, without excessive markups.
- (b)** Are proportional to the risks and complexities associated with deemed contracts, avoiding any unfair penalties for customers who did not actively choose these terms.
- (c)** Are benchmarked regularly against market competitors to prevent significantly higher rates compared to similar offerings (this is not in itself sufficient, but gives a prompt for further examination if for some reason Maxen Power’s rates are significantly higher: the question as to why has to be firmly established – see OFGEM Guidance at 2.24 final bullet point: OFGEM will focus on the difference between Maxen Power’s deemed vs in contract rates, and not the deemed rates of other suppliers).
- (d)** Include clear and transparent breakdowns, enabling customers to understand their charges. This will include publishing the deemed rates on our website and drawing attention to it in the key communications with the customer.

(e) Offer pathways for deemed customers to transition to more favourable terms, whether with us or with another supplier, ensuring fair treatment.

Pricing Policy Framework

1 Objective and Scope

(a) Deemed rates will cover the cost of energy procurement, operational expenses, and a reasonable profit margin while adhering to the principle of not being unduly onerous.

(b) The policy applies to all Maxen Power customers on deemed rates.

2 Principles

(a) Fairness: Rates avoid undue financial burden on customers.

(b) Transparency: Customers receive detailed explanations of pricing components.

(c) Compliance: Rates adhere to OFGEM's standards and consumer protection principles.

(d) Assessment insofar as possible as to different rates for different customer/risk profiles (for instance I&C or SME) or cost differences (such as regional network charge differences).

(d) Regular review: the methodology is part of an ongoing process, and its application should be routinely reviewed at least annually (see OFGEM Guidance at 2.24)

(f) Regular review of deemed rates: OFGEM advises at least quarterly (Guidance at 2.36). This review should be documented even if it involves no change. Further, in times of very significant fluctuations in the wholesale market, more regular reviews may be necessary.

3 Key Pricing Components

Deemed rates are calculated using:

(a) Energy Costs: Averaged wholesale market prices, including a modest risk premium for volatility.

(b) Network and Policy Costs: Regulated costs (e.g., distribution, transmission, and environmental charges).

(c) Operational Costs: Expenses for metering, billing, and customer service.

(d) Reasonable Margin: Industry-standard profit margins (e.g., 5%, 10%).

(e) OFGEM has recognised that deemed customers do typically incur higher costs to serve (for example due to bad debt/risk of non payment and the inability to hedge in the wholesale market).

(f) Maxen Power will seek to identify those customer groups which are generally at a higher credit risk than others; to the extent customers have paid security deposits in advance, this should be taken into account (as reducing or mitigating the risk of non-payment).

4 Customer Support

- (a) Deemed customers are offered guidance and tools to transition to fixed-term agreements (including that they may choose another supplier).
- (b) Dedicated support ensures customers can access the best-suited options.
- (c) In cases of bad debt arising, a reasonable plan to pay down the debt shall be sought. If possible, customers shall in such cases be put on a contract where that enables a lower rate than deemed rates to apply, so that the customer is not trapped on high rates.

Governance and Monitoring

1 Internal Governance

- (a) Pricing decisions are reviewed by Maxen Power's Compliance and Risk Committees.
- (b) Documentation of all calculations ensures transparency and are auditable.

2 OFGEM Oversight

Compliance with this policy is likely to be subject to ongoing review by OFGEM as it has been agreed as part of an "Alternative Action" settlement. Whilst all decisions should be properly considered, regularly reviewed (at least every quarter) and documented in any event, it will be helpful to make the documentation readily accessible/understandable to OFGEM. The ongoing expectation by OFGEM to keep records of decisions on rates and any changes or reviews is set out in the OFGEM Guidance at 2.37.

3 Adjustments

- (a) Adjustments will be made promptly if rates deviate from the policy principles, including in particular if a customer complaint is made and their deemed rates are not justifiable (or risks can be mitigated, for instance by a security deposit, credit check or moving to a contract rate whilst paying off any outstanding debt).

Steps to Generate Deemed Rates

1 Data Collection

- (a) Market Data: Real-time wholesale energy prices are gathered and analysed over 36 months.
- (b) Regulated Costs: Obtain charges for transmission, distribution, and environmental levies.
- (c) Operational Costs: Compile data on expenses for customer service, billing, and metering, including by customer type.

2 Cost Analysis and Calculation

The calculation of deemed rates is based on a structured approach to ensure transparency, fairness, and compliance with regulatory standards. The following components are considered:

(a) Base Energy Cost: Wholesale energy costs account for 30% of the total rate, representing the average market price over the last quarter, adjusted for a risk premium to account for market volatility.

(b) Network and Policy Costs: Regulated charges, such as industrial distribution and environmental levies, are included at 17% of the total rate.

(c) Operational Overheads: Costs associated with running the business, including metering, billing, customer service, and credit risk assessments, are factored in at 20% of the total rate.

(d) Debt: 25%

(e) Reasonable Profit Margin: A profit margin of 8% is applied, reflecting an industry-standard approach that ensures commercial sustainability while avoiding undue financial burdens on customers.

This cost analysis framework (and average figures, for example as to network costs, credit risks, and debt) shall be applied at a more granular level (for instance distinguishing HH billing customers from others; considering whether I&C customers have a lower debt risk than SME customers; considering whether regional differences are sufficient to distinguish customers by area) where it is sensible to do so (i.e. if the cohort of customers on deemed contracts supplied by Maxen Power is sufficient to enable such distinctions to be made – see OFGEM Guidance at 2.33 for example).

3 Benchmarking – a cross-check

(a) Compare calculated rates with at least three competitors' deemed and default tariffs.

(b) Ensure Maxen Power rates are proportional and not significantly higher than market averages.

(c) NB that this does not in itself ensure compliance (OFGEM Guidance 2.39) but is useful as a cross-check in case Maxen Power's analysis leads to widely differing results (which would then prompt further analysis).

4 Customer Impact Analysis

(a) Simulate the impact of proposed rates on customer bills at different consumption levels (low, medium, high).

(b) Ensure rates are fair and proportionate, in light of costs (including risks and debt) incurred by Maxen Power in respect of its customers (and where feasible customer groups within its portfolio).

5 Transparency and Communication

(a) Provide customers with a detailed breakdown of rates and their calculation upon request.

(b) Notify customers at least 30 days in advance of any rate changes.

(c) Amended deemed rates would also be published on Maxen Power's website as well.

6 Governance and Approval

- (a) Compliance and Risk Committees review all deemed rates calculations.
- (b) Ensure supporting documentation is clear, transparent, and available for audit purposes.

7 Implementation and Monitoring

- (a) Update billing systems to reflect approved rates.
- (b) Conduct quarterly reviews to adjust for market conditions or regulatory changes (and any other relevant changes, for instance levels of bad debt within certain groups; the use of security deposits or credit checks).

Key Customer Protections

1. To safeguard SME customers, Maxen Power's deemed and default rates will remain same.
2. Risk premiums will reflect actual risk exposure, avoiding arbitrary surcharges.
3. Customers will have access to tailored guidance and tools to transition to more favourable agreements (including being made aware that they may choose an alternative supplier).

Policy Review and Updates

This policy will be reviewed annually (See OFGEM Guidance at 2.24 second paragraph) to ensure ongoing compliance with OFGEM's guidelines and market conditions. Any major updates will be incorporated into Maxen Power's processes promptly.

Distribution List

- Pricing Team
- Compliance and Risk Team
- Executive and Senior Management
- Customer Service Team
- Billing and IT Teams
- Sales and Account Management Teams
- Legal and Regulatory Affairs Team
- Marketing and Communications Team
- Training and Development Team