

Confidential or commercially sensitive information has been redacted from this response. An unredacted version of this response has been submitted to Ofgem.



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Dear Maxine,

White label providers – call for evidence

1. Thank you for this opportunity to provide evidence on the future of white label providers. White label providers perform an important role in the energy market due to their potential to increase consumer choice, offer bespoke tariffs and products that meet customer needs, and develop alternative customer service models. White label providers generally exhibit high levels of awareness and trust in their brand. The participation of these white label providers in the energy market increases the number of suppliers and competition in the market overall.
2. We support a permanent extension of the exemption from SLC 22B for white label providers. White label providers have created a popular route into the energy market and have created a more vibrant competitive environment. The white label arrangement has also proven more popular with prospective entrants than alternative models such as “licence lite”.
3. If the current exemption for white label providers is allowed to expire on 31st December 2014 as planned, we have real concerns that white label providers, including Sainsbury’s Energy, will cease to operate in the market. The prevailing balance of return against the various reputational and financial risks highlighted in the Ofgem State of the Market Assessment¹, including political and media attention, will be material deterrents to them entering the market themselves. We also believe that the constraints of the four tariff cap will not make it possible for us to offer Sainsbury’s Energy a differentiated product range that is a fundamental need for them. It will therefore prevent them from operating as a white label provider without continuation of the current exemption. Allowing the current exemption to expire would therefore have a material and detrimental impact on competition in the retail market.
4. We also believe this would cause substantial disruption to consumers and create significant customer dissatisfaction. In the event of withdrawal, Sainsbury’s Energy will need to notify approximately 190,000 customers that their current Sainsbury’s Energy relationship is ending. Some of these tariffs run until 2016 and customers will be dissatisfied with the loss of their fixed price tariff and the resulting enforced change of supplier. We also have concerns that the removal of the current exemption may ultimately harm the future prospects for new market entry. Retailers benefit from white label partnerships learning about the industry without incurring significant capital and collateral costs. For the reasons above, we consider that the end to the current exemptions is likely to end white label provider arrangements, and thus prevent potential new suppliers testing the market through future white label arrangements.

¹ 5.45, Pg. 87, State of the Market Assessment, Ofgem

5. To avoid the above consequences, Ofgem should extend the white label provider exemption indefinitely to encourage further participation of more white label providers. We set out our views in more detail in Appendix A but to summarise:
- I. White label providers should be able to offer their own 4 tariffs and eligible propositions. White label providers' tariffs should not fall within the tariff cap of the supplier with which they are partnering. Instead, white label providers should operate under their own four tariff cap and be free to offer their own bespoke bundles and reward schemes. This would increase consumer choice and enhance competition.
 - II. Suppliers should be able to arrange multiple white label partnerships. Suppliers may find that it is commercially viable to develop a business model based on establishing partnerships with more than one white label provider (as MBNA did in the credit card market). Ofgem should therefore remove the current restriction in SLC 31D, which prevent white label providers benefitting from the exemption unless they had a tariff in market before 1st March 2013. Provided they are genuine white label partnerships, this would enable a level playing field for all suppliers, create more consumer choice and support healthier retail competition.
 - III. White label providers should be able to hold their own brand identity. Retailers such as Sainsbury's are highly trusted and are in possession of popular brand identities with which customers are likely to have positive associations. We recognise that transparency is valued by consumers and white label providers should make clear their relationship with the main supplier. However, Ofgem should allow white label providers to hold their own brand identity, for example without referencing the main supplier in the Tariff Information Label. This would increase consumer interest in the white label provider and increase overall engagement in the energy market.
6. Further details of our response are provided in Appendix A.
7. If you have any questions regarding any aspect of our response, please do not hesitate to telephone me on 07789 570501.

Yours sincerely

David Watson
Head of Market Design & New Energy
British Gas

Appendix A – Call for Evidence – White label providers

We have set out below our comments on the specific questions asked in the Call for Evidence of 7th March 2014.

Question 1: What will be the impact of the RMR rules on white labels if we do not modify the regulatory framework for white labels before the exemption expires?

White label providers bring many benefits to the energy market. White label providers increase consumer choice, offering different service levels, different bundles and different products. White label providers are well-placed to innovate and experiment and may target different customer groups to the main supplier. For instance, the white label provider could offer niche tariffs such as a tariff with a low standing charge. We support white label providers being able to offer their own tariffs and products to their customers.

Establishing a white label arrangement allows established brands such as Sainsbury's to enter the energy market and learn about the industry through an arrangement that minimises the risk of non-compliance with existing regulations. The current arrangement provides the white label provider with as much control over their brand identity and products and offers as is possible without actually becoming a supplier. The white label provider can use the white label arrangement to evaluate the potential for entering the market in their own right; the white label arrangement may prove to be a stepping stone to becoming a fully fledged supplier.

If the current exemption for white label providers is allowed to expire, then we believe that existing white label providers will exit the energy market. Competition will be reduced and consumer choice curtailed. Approximately [redacted] existing Sainsbury's Energy customers are likely to be forced to choose another supplier, as will customers served by other white label providers. The reduction in choice and competition will reduce trust in the retail market.

White label providers need to be able to exercise some control over their tariffs and products, differentiating their products in line with their brand identity. The confines of a four tariff cap mean that it is neither practically possible nor commercially viable for an energy supplier to sacrifice one of their own four tariff slots to allow this control and differentiation to occur. The effect of the four tariff cap on white label partnerships is evidenced by the fact that white label providers only exist under the current exemption and no new white label arrangements have been established.

We recognise that white label providers can continue to operate by using one of the host supplier's own tariffs, however we understand from our experience that the lack of differentiation that this would allow for would be highly likely to lead to white label providers exiting the market entirely. This in turn will harm retail market competition and prove detrimental for the customers impacted.

Given the benefits white label providers bring to the energy market, and the negative consequences which would follow their exit, we believe that all suppliers should be able to establish white label arrangements. There is a strong case for allowing the competitive market to decide how many white label arrangements are created and in what form. For instance, it may only be commercially viable for a single supplier to work with multiple white label partners. Ofgem should therefore seek to extend the current exemptions in licence indefinitely, and remove the restriction which defines white label providers as only those with tariffs in market as of 1st March 2013.

Question 2: Should the scope of our work cover white labels in the non-domestic market? Please provide reasons for your answer.

There are arrangements in the non-domestic market which appear to be similar to white label partnerships, for example 'resellers'. These are third parties who front themselves as a supplier,

contract with and invoice the end consumer for the energy, while procuring the energy from a licensed supplier. The actions of these third parties are, out of necessity, monitored by suppliers, who are ultimately responsible for meeting their licence obligations. To a large extent, the relationship between supplier and reseller is more akin to that between supplier and Third Party Intermediary (TPI). On that basis, rather than extend the scope of this work to the non-domestic market at this time, it may be more appropriate for Ofgem to explore further through their non-domestic TPI work programme.

Question 3: Are there any business models in the retail market where the distinction between white label and TPI is unclear?

We believe that the white label models currently operated in the domestic retail market are clear and are consistent with the definition of white label provided within Licence².

As outlined in our response to question 2 above, we believe that this is not necessarily the case in the non-domestic market, where some parties operate in the space between white label and TPI. The introduction of a code of practice for non-domestic TPIs later this year could help to clarify the relationship.

Question 4: What considerations might make it preferable for an organisation to operate as a white label? Please cover regulatory, commercial, financial and any other relevant aspects.

Organisations may seek to operate as a white label provider for a number of reasons, however we consider from our experience that an important consideration is the ability to leverage the expertise of an existing market player. This leads to a number of benefits for the organisation in question, notably reducing the cost and risk associated with establishing a market presence. Specifically, a white label relationship allows organisations to enter the energy retail market without committing the significant capital and investment normally required to become a licensed supplier. The white label provider can rely on the existing player to purchase energy in wholesale markets and hedge on their behalf, while the costs of new billing and customer management systems are also minimised.

The white label provider can also use the regulatory, commercial and legal expertise of an existing supplier to support their transition into the market. This minimises the regulatory and compliance risk and ensures that products are sufficiently tested, designed and delivered.

Question 5: What would be the cost and timing involved for white labels in becoming licensed?

There are material costs and risks associated with a white label provider becoming a licensed supplier. These range from the capital and credit requirements noted above, to the costs associated with new bespoke systems.

The credit and collateral requirements associated with purchasing hedging wholesale gas and electricity and establishing billing systems would be material for a retailer seeking large scale new entry, or rapid account growth. If the financial hurdles were navigated, the retailer would need to establish an organisation with the necessary skills to operate in the energy commodity markets. While this activity can be outsourced to another supplier under a commercial contract, this may not be a sustainable arrangement for a retailer pursuing growth.

Furthermore, we consider that the political and regulatory risks Ofgem themselves noted in their State of the Market assessment provide a significant barrier to entry, for example “the high level of political and media attention that the sector faces”³. These risks are likely to increase in the run up to the next

² SLC31D.31

³ 5.45, Pg. 87, State of the Market Assessment, Ofgem

General Election, while the retailer would be required to quickly establish the capability to comply with, what we consider to be, a highly complex regulatory framework.

Given the level of investment, risk and complexity at stake, we also consider that the relatively low retail margins in the retail market today⁴ are insufficient to encourage those organisations currently active as white label providers to enter the market in their own right.

Nevertheless, were a white label provider to seek to enter the market, we estimate that the process of establishing a supply business could be as long as 18 to 24 months. We consequentially believe that the current exemption will expire before any white label provider could become a supplier in their own right. Without an extension of the white label exemption therefore, white label providers would need to stop selling their tariffs in the next 6 months. White label providers and suppliers will then need to contact customers about the end of their existing tariff. The customer experience is likely to be poor, with customers being compelled to choose a new tariff with a new supplier.

Question 6: What activities related to the purchase of energy in the wholesale market do partner suppliers cover on behalf of their white labels?

[redacted]

Question 7: Are there any approaches to the pricing of white label tariffs that are not covered in our classification?

No.

Question 8: Do you have any evidence on the customer-related activities performed by white labels? Please cover both billing-related and non-billing-related customer activities.

White label providers offer an opportunity for innovation in customer service. Sainsbury's Energy operates a completely different customer service model to British Gas, with different team structures, service level agreements and corporate culture. White label providers may engage consumers in different and innovative ways, such as promoting products in their stores. Similarly, billing can provide an opportunity for white label providers to differentiate themselves or build on the expertise of an existing supplier. [redacted].

As already noted, white label providers offer additional products and propositions for consumers to choose from. White label providers should continue to be able to offer bundles and reward schemes which differ to those offered by the main supplier.

Question 9: What value do white labels add to the retail market? Please cover any benefits on competition and innovation.

White label providers offer choice to customers. White label providers can act as a trusted player in the market, targeting different customer groups, offering bespoke products and propositions to segments. As this has the potential to widen the range of products and suppliers in the energy market, it is more likely that a customer will find the energy package that meets their needs. If suppliers meet the needs of customers, this increases consumer engagement and overall satisfaction in the market. Overall, the existence of white label providers acts to strengthen competition in the retail market.

As noted above, the white label arrangement also provides a mechanism for potential new entrants to explore and learn about the energy market. By working with an established player, this can be achieved in a low risk manner with small upfront investment as a means to overcome any barriers to

⁴ The Consolidated Segmental Statements for 2012 suggest an average dual fuel margin of 3.6%.

entry arising from regulatory requirement. Compliance with energy regulations and rules may be of particular importance for established retailers with brand reputations to protect.

White label providers bring different perspectives to the energy market and the learning process can be two-ways. Existing suppliers may benefit from the knowledge about technology, customer service models or product design brought into the market by the white label arrangement.

Question 10: Are there any consumer protection concerns arising from the way in which white labels and their partner suppliers currently operate?

No. Consumers benefit from increased choice from more products that are more likely to meet their specific needs. Both the white label and the supplier comply with all consumer protection laws. As above, we accept that consumers should be aware of the relationship between the white label provider and the main supplier but do not believe this needs to be set out on every piece of correspondence.

Question 11: Is the information that white labels and their partner suppliers provide to consumers on their relationship and their tariffs sufficient?

Sainsbury's Energy is co-branded with British Gas, so consumers are aware of our involvement in the partnership. Consumers are made aware of our involvement when they agree the energy supply contract and this message is repeated on all subsequent correspondence. The Tariff Information Label will clearly state that the customer is with "Sainsbury's Energy (British Gas Trading Limited)".

We believe that it would be beneficial for consumers if white label providers did not need to set out their relationship with an existing supplier on every piece of correspondence. The co-branding may weaken the separate brand identity of the white label and may act as a barrier to other retailers exploring the white label arrangement.

We also recommend that Cheapest Tariff Messaging continues to be brand specific, as per the current exemptions offered by SLC 31D.20 and SLC 31D.21. Consumers signing up to white label provider's tariff would not expect or welcome tariff offers from another supplier.