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By e-mail

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Dear Ruben,

White label providers

Thank you for the call for evidence. We have some experience of White Label provision through our relationship with Tesco and Age UK. In respect of Tesco our offer now falls within the rules for a bundled product and in respect of Age UK we have chosen to make this one of our four core tariffs. We believe this is consistent with the objectives of making the market simpler, fairer and clearer and are somewhat disappointed that the lengthy timescale given to adjust has allowed some suppliers to continue to use White Label as a means of segmenting the market. We accept that there would be benefits to the market in a true White Label product, where the licenced supplier role is the minimum necessary for customer protection. In order to ensure the white label is the key decision maker in the relationship two requirements are essential:

- that customers would be the white label's if the relationship breaks down. Industry arrangements must allow for there to be separate supplier and shipper IDs for a White Label arrangement and for these to be able to be transferred to another licenced supplier.
- that prices are genuinely set by the white label. It would be acceptable for the timing of any price change to be constrained by the service provider, as this can be an operational decision of capacity, but the level should be set by the white label.

We answer each specific question below.

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 offers would either:

- need to be based on the white label holding a supply licence and potentially therefore being a genuine white label, with no visibility to the customer of service provider; or

- the license supplier behind the white label would need to adopt a strategy more focused on white label and limit the number of their own brand tariff offers.

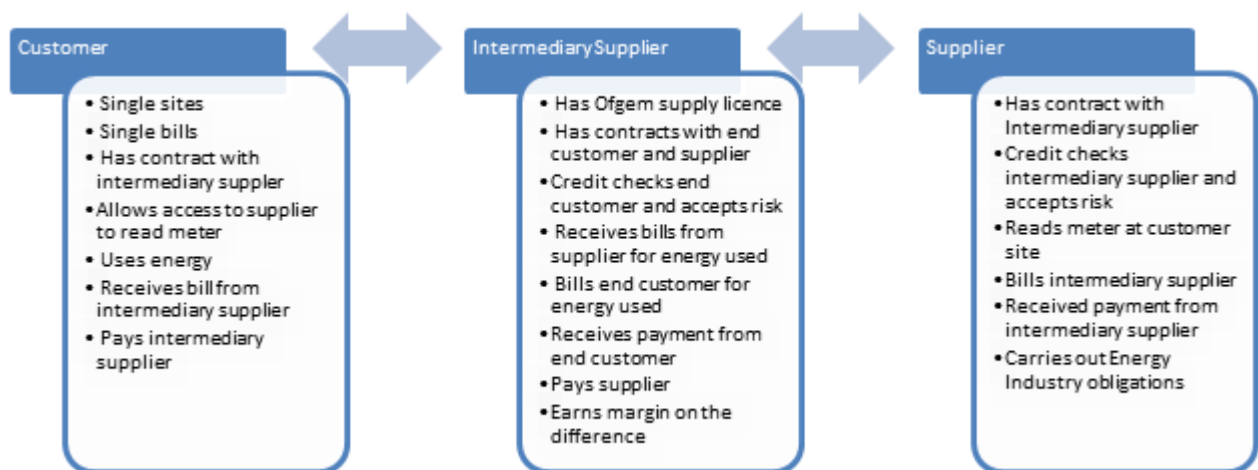
Both these outcomes are consistent with the RMR objectives of a simpler and clearer energy market, but are major commitments and hence taking no action would likely restrict the development of white label offers.

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

No. The challenge of developing an appropriate model for the domestic market is sufficient for now.

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

Yes. An intermediary supplier can have a supply licence and also rely on a licensed supplier for certain activities. The model is shown below.



Such an arrangement provides an easy entry, whilst also giving more direct customer protection (as the intermediary is a licenced supplier), but does not secure the core requirement for a true white label of the white label being able to relatively easy end the relationship (as the supplier IDs are held by the primary supplier).

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.*

We believe there are two quite distinct objectives:

- to gain more flexible entry to the market, by starting with a limited range of services and relying on an established market participant for others.
- by offering an additional or enhanced route to market for a licensed supplier, to take a share of the increased sales revenue.

It will be important in developing a regulatory framework to support Objective A that it does not undermine the objectives of making the market simpler, fairer and clearer, as would seem very likely

to arise from white labels based on Objective B if they do not fit the purer models we outlined in response to Question 1.

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

We do not know, but would suggest that the experience of small suppliers is a useful guide.

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

No comment.

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

Please see our introductory remarks. We believe that in joint pricing there is a distinction between the licenced supplier retaining the customers if the relationship breaks down and the white label would retain the customers as this could determine whether the pricing is truly joint or in reality is controlled by the licenced supplier.

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.*

We only have experience from the business market – please see question 3.

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

Our perception is that Ebico have introduced genuine differentiation through their PPM pricing policy, but that other white labels have tended to follow the model of Objective B in our answer to question 4. Customers who switch to the white label have benefitted from the market segmentation and increased competition this brings, but at the downside of increased complexity in the retail market.

In theory white label provides a means of staged entry into the energy market, but we are not aware of any successful examples of this model.

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

No. We believe the licensed supplier to be fully accountable and are unaware of any different standards being applied.

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

We do not have the information to answer this question. The test would be whether white label customers have any greater difficulty in knowing how to raise a complaint and in successfully pursuing. This would need customer research to establish.

If you require further information please do not hesitate to ask me or Lesley Queripel

Yours sincerely

Graham Kirby
Retail Regulation Manager

enc: Confidential Annex.