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Dear Ruben,

WHITE LABEL PROVIDERS – CALL FOR EVIDENCE

Thank you for the opportunity to provide our views on white labels, to help inform the appropriate regulatory framework to manage these organisations under the RMR.

We agree with Ofgem's view that white labels have the potential to deliver greater consumer choice and competition. We see the 'white label' option as the first step in the journey for some new entrants. White label options allow prospective new entrants to try the market before taking the next step towards obtaining a supply licence. This is particularly true for established household brand names who might be thinking of expanding their current portfolio of services but wish to 'test and learn' their approach initially.

We are concerned that, if no changes to the RMR framework are allowed for white labels, these market benefits would not be realised. We would favour giving some additional flexibility for white label energy products, as without it, we do not believe that partner suppliers have sufficient room within their core tariff cap to offer white labels a distinct tariff offering. We also think that the bundle rules are unduly restrictive in this respect. Under current rules, if a white label bundles its energy tariff with other non-energy products or services that it provides, the partner supplier would be obliged to offer the same bundle to its own customers. This is unlikely to be commercially viable and could constrain the development of white label businesses. We therefore think there is a case for allowing white-label-specific bundles.

The expansion of 'non-energy' brands into the energy market can also have a positive effect on trust in the market, with survey data suggesting that customers are typically more satisfied with such brands than with the partner supplier – even though the product and service levels are the same¹. Consequently, it is also important that the framework is clear and sufficient to prevent the positive effects of the RMR in building that trust being undermined.

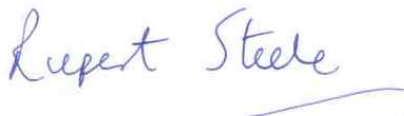
¹ Which? 2014 Customer Satisfaction survey results indicate that White Label energy offers have a higher customer satisfaction score than the scores of their relevant partner suppliers (<http://www.which.co.uk/switch/energy-suppliers/energy-companies-rated>)

A balance needs to be struck which provides sufficient commercial freedom to white labels to harness the potential consumer benefits, but without unduly compromising the RMR objective of simplicity – or opening up the rules to gaming. With this in mind, we would propose the following key principles to underpin the regulatory framework for white label offerings:

- **Exception to the tariff cap.** We would suggest that the RMR tariff rules be expanded to allow an additional cap of up to two core tariffs for white label offerings only, in addition to a supplier's own core tariffs. This would allow for some additional flexibility in tariff offerings, while still restricting the number of tariffs available in the market.
- **Separation of bundles.** While we agree that some rules should still apply to white label tariff bundles to limit complexity of tariff choice, we believe the rules should apply separately to white label bundles and bundles offered by the partner supplier. For example, if the white label offers an optional bundle across its branded tariffs with the partner supplier, the partner supplier should not also need to offer that optional bundle across its own branded tariffs, and vice versa. However, the optional bundle rules should still apply to all the tariffs associated with that white label. Similarly, it should be possible for a tied bundle tariff to be one of the white label's additional core tariffs without the partner supplier having to offer the same tied bundle (or avoid a similar tied bundle).
- **Other RMR rules.** Similar considerations could apply to surcharges, dual fuel discount and online discount which could be separate for a white label. The same logic would also apply (if the white label has two or more live tariffs) to the default tariff at the end of a fixed term contract, dead tariffs and cheapest tariff information.
- **Further consideration of enforcing the regulatory framework.** As a starting point, it is right that the white label falls within the licence of the partner supplier and is therefore covered by the same regulatory requirements. However, it may be worth considering whether there would be any merit in variants of the 'licence lite' model under which some of the regulatory obligations are transferred direct to the white label, as an intermediate step towards acquiring a full supply licence.

We have provided answers to your specific questions in the Annex to this letter. We would be pleased to discuss these points with you in further detail.

Yours sincerely,



Rupert Steele
Director of Regulation

**WHITE LABEL PROVIDERS – CALL FOR EVIDENCE:
SCOTTISHPOWER RESPONSE TO CONSULTATION QUESTIONS**

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?

We are concerned that, if no changes are allowed to the RMR framework for white labels, opportunities for white labels in the market will be limited. For example, we do not believe that partner suppliers have sufficient room within their core tariff cap to allow white labels to offer a distinct tariff offering. While partner suppliers would still be able to replicate their existing tariffs for white labels (effectively co-branding an existing tariff), this would limit the number of tariff choices in the market and would limit the opportunity for white labels to influence tariffs to meet their particular brand or customer need, as opposed to being driven by the partner supplier.

We are also concerned that customers would lose faith in white labels as a concept if they see the same tariff being offered by both the partner supplier and white label with just a different name, raising the question of why choose a white label offering in the first place. This restricts the white label's ability to promote their individual brand and target tariffs to niche customer groups.

The bundle rules are also particularly restrictive in this respect, by not currently allowing white label-specific bundles. Allowing such bundles would enable the white label to bundle its energy tariff with other non-energy products or services that it provides, without obliging the partner supplier to offer the same bundle to customers who do not take the white label tariff (which is an otherwise expensive option and unlikely to be commercially attractive).

- **Exception to the tariff cap.** If white label offerings are to be effective in encouraging innovative offerings and allowing non-energy brands to 'dip their toe' in the energy retail market, then there needs to be sufficient flexibility in the tariff options available to them to incentivise their interest. Similarly, suppliers need to be given some opportunity to protect their existing core tariffs. Suppliers are unlikely to have sufficient room within the cap of 4 tariffs to dedicate one or more tariffs to a white label option. Intuitively, it does not feel fair to consumers that the majority of tariffs offered by a white label are actually the same as an existing supplier's tariff with the exception of the name. We would therefore suggest an additional cap of up to 2 core tariffs for white label offerings only, in addition to the supplier's own core tariffs. This would allow for some additional flexibility in tariff offerings, while still restricting the number of tariffs available in the market. A similar extension could be made for the other tariff rules (structure, discounts and payment method differentials).
- **Separation of bundles.** While we agree that some rules should apply to bundles of white labels to prevent additional complexity of tariff choice, we believe that these should be separated from the bundles offered by the partner supplier. White labels may have partnerships with other industries or organisations which would allow them to offering attractive bundles to customers. However, it does not make commercial sense for a partner supplier to make this available to all of its customers, regardless of whether they take that white label tariff or not. Similarly, a supplier's ability to offer appealing bundles is impacted by having to make these available equally to all customers, especially those that are part of a separate commercial agreement.

- **Cheapest tariff messaging.** We do think that the inclusion of white label and partner supplier tariffs within the cheapest tariff messaging remains important, as it will ensure that customers are given full and proper information about their options at key points in the customer journey, including when their current white label tariff comes to an end. However, we think that there is a case to be made for relaxing the cheapest tariff messaging rules when the white label offers 2 or more live core tariffs. This would ensure that consumer protections were retained, while still allowing the white label to protect its distinct brand offering.

The table below sets out what we think that the framework should look like in practice.

	Partner Supplier	White Label
Tariff Rules	4 core tariffs, which may or may not include white label brand tariffs (partner supplier co-branded core tariffs)	Up to 2 additional white label-specific core tariffs; may also use partner supplier's core tariffs, but always subject to an overall cap of 4 core tariffs. Tariff structure rules could apply separately across all tariffs offered by white label supplier
Bundle Rules	Bundles rules are specific to the partner supplier bundles. All optional and tied bundle rules apply the tariffs of that partner supplier.	Bundles rules are specific to the white label bundles. All optional and tied bundle rules apply to the tariffs of that white label supplier.
Relevant / Alternative Cheapest Tariff Messaging	Cheapest tariff messaging would consider all core tariffs of the partner supplier. Would not consider white label tariffs.	Where the white label has at least 2 live core tariff offerings, the Relevant and Alternative cheapest tariff messaging would consider only the white label branded tariffs. Where the white label has a single core tariff offering, the Relevant and Alternative cheapest tariff messaging would consider the white label tariff plus the partner supplier's core tariffs.
Relevant Evergreen Cheapest Tariff Messaging	Cheapest tariff messaging would consider all core tariffs of the partner supplier. Would not consider white label tariffs.	Where the white label has at least one evergreen tariff option (either a partner supplier co-branded core tariff or white label additional core tariff), the cheapest tariff messaging would consider only the white label tariffs. Where the white label has no evergreen tariff option, the cheapest tariff messaging would consider all of the white label tariffs plus partner supplier's core tariffs.

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

We think that Ofgem's initial review should focus on white labels in the domestic market only. We consider that this is appropriate in light of the RMR impacts and the higher prominence of white label offerings in the domestic market. Non-domestic white labels may

have different considerations and therefore it would seem more straightforward to contain the initial scope of the review to the domestic sphere.

However, in the longer term non-domestic white labels could be similarly valuable for competition and consumers in that market, and it would seem sensible to keep this area under review as a future deliverable.

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

No, we think that the distinction between a white label (which presents its own supply offerings to the market) and a TPI (which in general acts to promote or facilitate the offers or services available from more than one supplier) is clear. We consider that these two business models are quite distinct and should therefore be treated that way within the regulatory framework.

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

We see the different business models outlined within Ofgem's consultation document as representing a 'journey' into the energy market. Within that context, the white label model offers some organisations a valuable opportunity to test their proposition, and understand consumer demand for it, without having to develop full systems and processes necessary in order to operate in the market at any level. This model allows a well-known brand to expand on their current operations without needing to establish a new business unit and develop expensive IT and compliance systems which may not ultimately be used longer term.

From a regulatory perspective, there is a significant number of Licence Conditions with which an organisation which is new to the market would need to comply, which would require systems compliance (including billing systems designed to produce certain information) and process compliance. Existing suppliers already operate in this arena and should be well placed to advise white labels on these compliance points, rather than having to learn the process from the ground up (which for an established organisation looking to expand its current portfolio at a reasonable level may well make more commercial sense).

Established brands may also find value in adopting a white label approach that allows them to offer their customers a wider suite of options, which customers will find appealing for convenience, without the need to establish their own supply business.

Finally, given the current political uncertainty and media scrutiny in the current market, some organisations may be reluctant to set up their own energy business due to uncertainty of return or reward, whereas a white label opportunity can provide some protection against that uncertainty.

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

We expect that the costs and timings for a white label will depend on the individual business model for that white label and its system readiness.

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

We do not currently have a white label partner agreement and so do not cover any such activity.

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

We are not aware of any approaches to the pricing of white label tariffs that have not already been identified in Ofgem's assessment.

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.

In our own experience, billing-related customer-related activities generally tend to be performed by the partner supplier on behalf of the white label, since the partner supplier will already have a suitable billing system. As such, these billing activities tend to be the same, or very similar, for customers of both the white label and the partner supplier.

We have no direct evidence of the non-billing related customer activities. For customer service and customer facing communications (such as websites), our experience is that the partner supplier is likely to provide these services, as they may already have the relevant systems and expertise in this area.

The area where white labels are most likely to perform their own customer-related activity is marketing and sales. This is because the white label will likely have its own view of brand and values, and will be keen to align these to the model used in its core business area. From a sales or marketing perspective, we think that white labels may also be keen to use their own existing sales force where available and to maintain a separate focus on marketing from that of the partner supplier, which will have a different incentive to promote its own tariffs.

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

We think that white labels can add real value to the retail market, particularly in relation to building consumer trust and engagement in the market and in presenting new and attractive offers for consumers.

Much of this value is driven from consumer perceptions of existing white labels, and the positive consumer attitudes towards established organisations outwith the energy sector. Our own brand index (supplied by YouGov) indicates that white labels generally have a higher customer satisfaction level than those of energy suppliers generally, and particularly the relevant partner suppliers. This is often supported by the fact that other industries tend to score much higher in terms of customer satisfaction than the energy sector.

These findings are supported by the customer satisfaction surveys conducted by Which?² These surveys show a 6% increase in satisfaction for Sainsbury's Energy over its supplier

² Which? 2014 Customer Satisfaction survey <http://www.which.co.uk/switch/energy-suppliers/energy-companies-rated>

(British Gas) and 10% for M&S Energy over its supplier (SSE). Both Sainsbury's Energy and M&S Energy also scored higher than the average score for larger domestic suppliers. The findings suggest that:

1. There are financial or other tangible benefits, coupled with an emotional benefit, of being associated with certain non-energy brands eg a favoured or trusted retailer
2. There is a customer perception that they receive better service from the white label provider than from the partner supplier. For example, M&S were perceived better than SSE in spite of using the same call centres and website functionality.³

Evidence therefore suggests that reasons why customers choose white labels over partner suppliers include:

- tangible benefits received, eg M&S vouchers and Sainsbury's Nectar points
- in-store energy advice
- higher level of trust and value associated with the white label brand

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

We are not aware of any specific consumer protection concerns at the present time. We do agree that it is important to give further consideration to enforcing the regulatory framework where issues arise as a result of white label activity.

As a starting point, it is right that the white label falls within the licence of the partner supplier and is therefore covered by the same regulatory requirements. However, it may be worth considering whether there would be any merit in variants of the 'licence lite' model under which some of the regulatory obligations are transferred direct to the white label, as an intermediate step towards acquiring a full supply licence.

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

We agree that it is important that there is transparency around the relationship between a white label and a partner supplier, so that customers are able to make an informed choice about their tariff provider. However, there is a balance to be struck here, as stringent information requirements create a risk that a white label will be unable to distinguish its brand enough to build on its trusted relationship within the market.

Generally speaking, we think that the requirements around the information that white labels and their partner suppliers should provide to consumers on their relationship is sufficient to strike that balance. The identity of the partner supplier should be apparent to the customer from the start of the relationship with the white label, but it shouldn't be so prominent so as to over-shadow the white label's own brand and reputation, which is likely to have attracted customers to it in the first place.

ScottishPower
4 April 2014

³ <http://www.which.co.uk/energy/saving-money/guides/small-energy-companies/mands-energy/>