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Dear Maxine,

### **White labels – call for evidence**

Thank you for the opportunity to respond to the call for evidence on white labels. SSE welcomes Ofgem's willingness to consider carefully the potential adverse unintended consequences that may result from the expiry of the exemption for white labels at the end of this year.

### **SSE's interest in white labels**

SSE currently has two white labels in the domestic market which are covered by the exemption: M&S Energy and Ebico. These two partnerships, which support over 700,000 customers, demonstrate the breadth of benefits which white labels can bring to the energy retail market. The details of these partnerships are described more fully in our answers to specific questions in the confidential annex to this response.

It is worth highlighting that the limit of four core tariffs will make it difficult for M&S Energy to continue to offer tariffs which differ from those offered under SSE brands.

Equally, given that the tariff cap creates an added pressure to generate return from each available tariff, it will be difficult for SSE to continue to support Ebico, as this could not be justified on commercial grounds alone.

### **Market context**

It is too early to assess whether the reforms introduced by the RMR will lead to an improvement in consumer trust. However, it is clear that rising prices and the heated nature of ongoing political and media comment have, in combination, led to consumer trust being further eroded over the course of the last twelve months.

With this in mind, SSE believes that it is extremely important to reassess the potentially harmful impact on consumer trust of the removal of the white label exemption. This exemption ensures that trusted brands can continue to offer customers in the retail market a choice that is meaningfully differentiated from tariffs offered by established suppliers - including those offered by their host supplier.

SSE is strongly of the view that Ofgem should not remove the exemption for white labels until there has been sufficient opportunity to fully assess the impact on consumer choice,

trust and engagement of the RMR measures which will be implemented by 30 June 2014. We would therefore propose that the existing exemption be extended until the review of the efficacy of RMR measures (due to take place by 2017) is complete.

Ofgem's recent State of the Market report again stated that a key problem in the GB energy market was the lack of confident consumer engagement. SSE believes that white label products are a positive presence and are well placed to encourage consumer engagement, by providing a clear and accessible prompt from a trusted source for customers to consider switching their energy supplier.

Both M&S Energy and Sainsbury's Energy have grown by promoting their products in retail outlets. A key reason for SSE's decision to offer a white label product was because we believe that, in this environment, customers may be more open-minded to making purchasing decisions than they would otherwise be in non-retail environments. Even where customers do not wish to sign up to a white label tariff, the very fact that there was a prompt to engage in the energy market may help to encourage previously passive customers to become more proactive. Ofgem's tracking surveys suggest that customers who have switched once are more likely to switch again in the future - they become more engaged consumers. This offers a significant overall benefit to the competitiveness of the market.

The proposed Market Investigation Reference (MIR) creates a further important consideration for Ofgem. Discussion in the MIR consultation document of the likely impact of Ofgem's regulatory actions states that it is not certain that the RMR reforms "could be expected to address" potentially harmful features of the market. It is very far from clear at this stage whether the CMA is likely to focus purely on structural remedies, or whether there will be further changes to the supply licence. Possible changes may include the removal or revision of elements of the RMR package, should the net impact of these rules be deemed harmful to competition.

If the white label exemption were to expire as planned and if the CMA should subsequently decide that a relaxation of the rules on white labels is appropriate, customers may have suffered unnecessary disruption – particularly if an existing white label should exit the market in the interim. It is therefore important that Ofgem does not prejudge the outcome of a market reference by removing the exemption at the end of the year.

## **Conclusion**

Given the uncertain impact of the RMR package and the ongoing regulatory uncertainty created by the proposed MIR, SSE firmly believes that the right course of action is for Ofgem to now extend the white label derogation at least until the review of the RMR measures in 2017 is complete.

Please do not hesitate to get in touch if you wish to discuss any of the points raised in this response.

Yours sincerely,

Roger Hutcheon  
**Regulation, Markets**