

Domestic Retail Market Policy (c/o Ruben Pastor-Vicedo)
Ofgem
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Email to: white.labels@ofgem.gov.uk

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Treatment of white label providers in the domestic retail market

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy does not currently offer a white label tariff; however, we recognise the potential benefits of using known and trusted brands to engage different groups of consumers who might not otherwise engage in the energy market. We therefore believe that any permanent regulatory arrangements should be designed to facilitate the use of white labels but must also ensure they do not have unintended detrimental impacts on consumers or competition in the market.

We support Ofgem's ambition of a simple, clear and fair energy market for all consumers. We believe that the measures established under the Retail Market Review (RMR) will only deliver the intended benefits for all consumers if they are applied consistently across the market.

We believe that the principles of the RMR are currently being undermined through the use of white labels. The current arrangements are facilitating the fragmentation of the market with some incumbent brand customers being prevented from seeing cheaper prices available (via Cheapest Tariff Messaging) from the relevant white label. This is a material distortion of competition which needs to be resolved at the earliest possible date. It is essential that customers, and particularly less engaged customers, are protected by both the narrow and wide CTM applying across white labels and their partner suppliers.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Robin Healey on 01273 428 348, or myself. I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink that reads 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation

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Attachment

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EDF Energy's response to your questions

Questions in chapter 2

Q1: Do you agree with our current assessment of white labels? If not, please provide any evidence you have to support your views.

EDF Energy agrees that white labels could add value to the market in terms of choice, customer service and engagement.

We also agree that currently white labels provide limited benefit in terms of price competition on the basis of Ofgem's finding that white labels tend to decide jointly with their partner suppliers the price of white label tariffs.

However, we do not agree with Ofgem's conclusion that there is no evidence of white labels currently operating in a way that might be detrimental to the market. We believe that some suppliers are using the current exemptions to acquire new customers using white label tariffs at a discount to their own brand tariffs and thereby avoiding having to notify their existing customers of these lower prices through the CTM. This has two significant detrimental effects:

- (i) Customers are misled into paying more for their energy as a result of switching to their supplier's "cheapest tariff" (as notified through CTM) when their supplier is actually offering a cheaper tariff under a different brand. This may be of particular significance when customers are looking to renew a fixed term tariff but are not presented with the cheapest available tariff. EDF Energy believes this means that many consumers are not benefitting from the full effects of competition.
- (ii) Competition is distorted as a result of some suppliers being able to compete for new customers on cheaper prices without incurring the reduction in revenue that results from existing customers signing up to those cheaper prices. EDF Energy believes this represents a significant competitive advantage as some suppliers avoid the full cost of competition.

.We believe that the current exemptions are failing to deliver a simple, clear and fair market for all consumers and are materially distorting competition. Consequently, we urge Ofgem to ensure that its permanent regulatory framework for white labels addresses these issues in full and applies the principles of RMR consistently across the market.

Questions in chapter 3

Q2: What are your views on our tariff proposals? If you do not support our proposals on either the tariff cap or the other RMR tariff rules, please explain your reasoning.

EDF Energy supports Ofgem's proposals for the treatment of white label tariffs.

It is important that the enduring regulatory framework for white labels preserves the RMR rules on the structure of tariffs including surcharges, discounts, optional bundles and reward points in order to aid tariff comparability. Allowing white labels to be treated as separate from the partner supplier for these rules could undermine the ease of comparison between the tariffs of the partner supplier and its white label. However, we believe that this risk will be addressed if Ofgem ensures that both the wide and narrow CTM shows the cheapest relevant tariff for each customer irrespective of whether it is under the partner supplier brand or a white label.

The proposal to allow white labels to have up to four domestic core tariffs per fuel and meter type in each region will allow suppliers to tailor their tariff portfolio to different consumer groups. We note that applying the tariff cap separately between white labels and their partner suppliers will create an inequitable situation whereby some suppliers have four tariffs in the market whilst others will have eight or more. Competitive pressures will probably result in more suppliers entering into white label partnerships in order to increase the number and variety of tariffs they can offer.

While white labels provide limited economic benefit in terms of price competition, we believe that they can provide benefits in terms of increased choice. However, Ofgem needs to ensure its clearer information rules are applied consistently across suppliers and their white labels to ensure any increase in choice does not come at the expense of simplicity and clarity for consumers. Otherwise there is a risk that some consumers will be left vulnerable to segmentation as a result of not being made aware of the cheaper alternative tariffs available from their current supplier.

Q3: What are your views on our CTM proposals? If you do not support our CTM proposals, please explain your reasoning.

EDF Energy strongly supports Ofgem's proposal for the calculation of the wide CTM to include the tariffs of both the partner supplier and the white label(s).

However, the proposal not to follow the same approach for the narrow CTM is likely to perpetuate some of the current adverse impacts arising from cheaper white label tariffs not being presented equally to existing and new customers. For example, presenting a narrow CTM savings message for the partner supplier tariff followed by a wide CTM savings message showing a white label tariff is likely to create a customer perception of added cost or risk for the customer of moving to the white label. This will increase the likelihood of the customer accepting the lower level of saving presented under the narrow CTM in order to avoid a perceived risk of switching brand that is not real.

In addition to this, we are concerned that the proposal to apply the narrow CTM to white labels and their partner suppliers separately, will result in some groups of consumers receiving incomplete information of the tariffs which best suit their individual circumstances.

For example, a supplier may choose to offer a white label prepayment tariff at a lower price than its own brand prepayment tariff. Under Ofgem's current proposals an existing prepayment customer of the partner supplier would not be informed of the cheaper white label prepayment option. This is because available white label tariffs would only be presented to existing partner supplier customers through the wide CTM, which also includes savings by switching to lower cost payment method such as Direct Debit. The customer would therefore be unlikely to engage and access the available savings if they

have a strong preference to retain their pre-payment meter (e.g. in order to control spending on energy due to financial concerns).

We therefore believe that it is important that both the wide and narrow CTM provide a clear and transparent view of what the cheapest available tariff is for each consumer such that they can make a fully informed decision. We agree with Ofgem's conclusion that the provision of a statement alongside the CTM regarding the relationship between the partner supplier and the white label will reduce confusion for consumers.

We welcome Ofgem's statement that it would like its CTM proposals to be implemented at the earliest possible date. We believe that the current practice by some suppliers is creating material detriment to consumers and distorting competition in the market and therefore requires an urgent response.

EDF Energy also believes that the introduction of the CTM proposals should also be reflected in how partner suppliers and white labels respond to other customer enquiries on their cheapest available tariffs i.e. when contacted by phone or online. We believe this approach would be consistent with the requirements under the Standards of Conduct for suppliers to provide appropriate, transparent and complete information to customers.

Q4: If you are a partner supplier or a white label, how long do you envisage it will take you to implement our CTM proposals? Please explain the activities and timescales for implementation.

EDF Energy does not currently have any white label partners.

Q5: Do you think that we should require white labels to publish information setting out the value that they deliver to consumers? If you think so, please outline what information you think white labels should provide.

We do not believe the provision of information setting out the value that white labels provide to consumers should be mandatory. Value adding attributes such as good customer service are traditional differentiators between competing companies in many sectors and white labels should be free to market themselves based on their strengths without being compelled to do so.

Q6: Do you have any comments on our draft of proposed supply licence condition changes in Appendix 3?

We are satisfied that the draft supply licence conditions accurately reflect the policy intent expressed in the consultation document.

We note that there is no draft text relating to the requirement on white labels to publish information on the value they deliver to consumers. Should Ofgem decide this is necessary; a further consultation on this matter should be carried out.

**EDF Energy
November 2014**