

6th November 2014

For the attention of: Ruben Pastor-Vicedo

First Utility's response to Ofgem's consultation, Treatment of white label providers in the domestic retail market ("White Label proposals")

This paper sets out First Utility's response to the White Label proposals below.

First Utility appreciates the opportunity to comment on the White Label proposals. We are the largest independent domestic supplier in the UK. With over 600, 000 dual fuel domestic customers, we have gained substantial experience of issues affecting the energy market today.

As we set out in our response to the Retail Market Review ("RMR") proposals on 23 April 2013, we agree with the overall intent of the RMR. We had specific concerns about the "temporary arrangements for suppliers with white labels in the domestic retail market", as described in the White Label proposals, and in particular, the proposed 12 month grace period for the then current white labels which was part of the original RMR proposals. We considered that this grace period, which exempted those white labels from the full force of RMR, would unduly favour those white label providers and their partner suppliers as against other white label providers and their suppliers.

We recognise that white labels have a role in providing consumers with choice from brands that they know and interact with in other contexts, as well as potentially encouraging households to compare all tariffs and consider switching. We support the inclusion of white labels within the overall RMR framework and agree with Ofgem's tariff proposals for white labels and their partner suppliers. We also agree with including details of cheaper white label tariffs for partner supplier customers and white label customers (Ofgem's "wide CTM" proposals).

For white label customers though, we have some concern that not including details of cheaper tariffs from other white labels partnered with the same supplier could cause confusion for customers. It leaves out a piece of the overall picture of tariffs available from that supplier, whether directly or indirectly, and differentiates between customers who are in fact contracting with the same entity, the partner supplier. This could be addressed by the partner supplier providing details of their white labels elsewhere so that their customers can consider further if interested. If this aspect is not addressed, there is a risk of incentivising a proliferation of tariffs through a proliferation of white labels.

Overall, these proposals address what we consider to be a distortion in the current retail rules, where white labels in place prior to 1 March 2013 are not included in the overall RMR requirements. We noted this in our 23 April response on RMR, when the proposal at the time was for a 12 month grace period. With the extension to December 2015, this grace period has already lasted longer than anticipated. We urge Ofgem to conclude this consultation as quickly as practicable in accordance with all due process so as to address this. We consider that this is also a relevant factor to be taken into account in setting any implementation period.

In terms of information that could be published by white label providers, it is difficult to consider the implications of this aspect of the proposals without a clearer idea of the type of information to be provided. It is not clear whether there is any research around, or customer demand for, this category of general information in this context, e.g. from other industries where white labels are a feature of the market.

RMR is intended to ensure customers are treated fairly, with simpler and clearer information being made available regularly to help them make appropriate choices of supplier and tariff for themselves. Notwithstanding a recent claim by British Gas of an active customer base, we believe that there continues to be a high level of unengaged users within the Big Six customer bases.¹ These issues could be addressed, in part, by increasing the frequency of billing or other appropriate customer contact around pricing and available tariffs, including in particular the supplier cheapest tariff to ensure the maximum benefit for customers and their engagement in the market.

We also note with concern the price differentials between standard and fixed tariffs amongst some of the incumbent providers. Npower's new tariff at £999 as at 26th October 2014, for example, is around 17% discounted from their standard variable rate and EON's £965 online tariff (announced on 29th October 2014) is a discount of some 16% from their standard rate. In our view, this raises the question of whether the information remedies included as part of RMR are in fact working. It also exacerbates our concerns around the current white label arrangements, the impact on RMR and the potential proliferation of white labels and tariffs mentioned above.

We would urge Ofgem to consider these more fundamental aspects of RMR, in light of recent research and of experience over the last year or so, and the more recent pricing behaviour of the some of the incumbent providers.

We have not reviewed the draft of the proposed supply licence condition changes in Appendix 3 of the White Label proposals in any detail so have no comments at this time, although we may have comments as the consultation proposals progress.

¹ Ian Peters' speech at the Utility Week Congress, on competition and innovation in the energy market, 14 October 2014.



If you would like any further information or have any questions on this response or any related matter, please contact:

Natasha Hobday (Head of Policy and Regulation)
natasha.hobday@first-utility.com