



Ruben Pastor-Vicedo
Domestic Retail Market Policy
Ofgem
9 Milbank
London
SW1P 9GE

By email only
Richard Vernon
Regulation
RWE Npower Group plc
2 Princes Way, Solihull, West
Midlands, B91 3ES
07866241147
richard.vernon@npower.com

5th November 2014

Treatment Of White Label Providers In The Domestic Retail Market

Dear Ruben,

Thank you for the opportunity to respond to this consultation on White Label (WL) arrangements. Whilst npower do not currently have WL arrangements and do not act as a Parent Supplier (PS) for other organisations at present, we do have an interest in the proposed framework being fair to customers. We have experience with previous WL arrangements and may consider entering into such an arrangement again, should the regulatory framework be robust and predictable.

Broadly, we support the views of Ofgem in this matter and believe the proposed framework should deliver benefits to the customer in a fair way. A clear and predictable framework may actually promote new organisations, currently external to the industry, to enter into white label arrangements. There are benefits to consumers, particularly in terms of increased engagement, should this happen.

Where we do not agree with the Ofgem proposals is the requirement for the WL or PS to display a Cheapest Tariff Message (CTM) on the customer bill. In answer to question three we provide reasoning why the adverse impacts of a WL CTM is more detrimental to the consumer and competition than any benefit CTM provides in a WL scenario

We would be happy to discuss this matter further at your convenience. Full answers to all consultation questions are within the appendix.

Yours sincerely,

Richard Vernon



Appendix

Question 1: Do you agree with our current assessment of white labels? If not, please provide any evidence you have to support your views.

We agree with your current assessment that WLs have the potential to add to choice, customer service and engagement in the retail market.

We also support your views on WLs offering limited benefit for price competition as WL prices will mostly be influenced by the PS. However, there could be a wide spectrum of WL arrangements within the market that could mitigate this limitation. We have provided more detail on this in our response to question three.

Question 2: 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.

We support the Ofgem proposals on tariff cap and other RMR (Retail Market Review) tariff rules; we discuss each element below in more detail.

To apply the four core tariff cap for each WL separately i.e. each WL can have up to 4 core domestic tariffs per fuel

Applying the four core tariff cap separately will allow for new WL arrangements to enter the market place with little impact on the PS core business, we believe this is positive as it will give customers greater choice in products. The cap is fair as it allows WL arrangements to develop brand offerings under the same rules as full suppliers.

Adding a robust and predictable framework to this area of the market may have positive impacts on competition and increase engagement with new customers through existing brands. It could also allow for an increase in innovative new products related to these arrangements.

Whilst we are supportive of a robust WL framework, there will of course be limitations to what can be achieved in traditional WL arrangements. For example, introduction of super discount WL brands may not be possible due to the pricing arrangement of the WL being so interlinked with that of the PS. This could be overcome to some degree by allowing the greatest possible separation between the PS and WL in terms of final product offering.



To not set a limit on the number of WLs

Again, we are supportive of this element, the principle not limiting the number of WLs a PS can enter into arrangements with. An arbitrary maximum number of WL arrangements per PS at this stage of the WL framework development would make little sense and could damage or limit the positive elements that the framework could bring. Long term, there is a risk that the market becomes saturated with very similar WL style arrangements and corresponding products which have very little differentiation in terms of customer interaction or price. The regulator may need to monitor and investigate should there be any perceived adverse impact to customers or competition.

To treat WL as separate from their PS in RMR tariff rules (surcharges, discounts, optional bundles, reward points)

We agree that WLs should be treated separately from the PS for RMR tariff rules. Without this distinction and degree of separation from the PS there could be impacts to the level of innovation that WL can attain. Additionally, from a customer's perspective it could be confusing when comparing the merits of the WL to other products.

Question 3: What are your views on our CTM proposals? If you do not support our CTM proposals, please explain your reasoning.

We do not support the majority of the CTM proposals that are being consulted on. We agree with the proposal that WL suppliers need not inform their customers about other WL organisations under the same PS when they are the cheapest. The reasoning for this equally applies to the other CTM proposals, which if implemented could undermine both the benefits and innovation potential of the proposed framework.

In our view the adverse impact of a WL CTM is more detrimental to the consumer and competition than the benefit CTM provides, particularly given that a WL customer would have already moved products at some point in the past, therefore more likely to do so again, as being already 'engaged' with the energy market. We see no harm in the alternate suggestion, which broadly informs customers that they may wish to consider alternate tariffs of the PS or WL.

Many customers who wish to switch, do so through switching websites or similar services where they are able to compare a greater number of services and products more easily.

In response to question two of this consultation, we give our support to treat WLs as separate from their PS for RMR tariff rules. Any comparison between WL and PS products (which could be very different), may be misleading and above all else have the potential to confuse customers.

It may be difficult for the customer to take into account the difference in discounts / reward points and so on, when it is only the price that is in focus. There is also a risk where some customers may switch based on price alone to a product, which is not suitable for their needs, e.g. a super-economy WL product.



In our view, there could be a wide spectrum of WL arrangements within the market. Factors that differentiate WL arrangements within this spectrum could be:

- ▲ WL specific product proposition
- ▲ WL branding
- ▲ Whose systems generate the bill? (PS or WL)
- ▲ Who are the people that interact with the customer? (PS or WL)
- ▲ How independent is the WL / PS decision making and strategy?

Should the answers to these questions be more directed towards the WL, there is a much greater chance that the WL organisation could move to becoming a fully licensed supplier or perhaps a licence lite supplier, thus increasing the overall number of suppliers in the market. The requirement to include a CTM could narrow this spectrum, as it would be impractical (or impossible) to include if different billing system were utilised. We believe that WL arrangements where the WL is further separated from the PS will have greater control over price and therefore the potential to be more competitive on this comparator.

Additionally to the above, we believe the CTM requirement could damage the level of innovation that WLs could bring to the market. For example, certain products may be less likely to appear:

Combined Products – A non-supplier organisation wishes to enter the market to offer a product where the customer receives solar panels up front, which are paid for through an extended supply deal. The CTM would not be helpful for the customer and may actually be a barrier to the non-supplier organisation in entering such an arrangement. This would equally apply to other bundled products such as combined television / broadband with energy.

Green Products - A non-supplier organisation wishes to enter the market to offer a product where the customer is supplied by 100% green energy, which may have a higher cost than other standard products. The CTM would detract from the key product, potentially confuse the customers and again make this arrangement less appealing for the non-supplier organisation.

To encourage organisations to enter the market as a WL, the conditions must be right and the CTM could become a brand risk, which may undermine interest by those who could be interested.

In summary, we believe the addition of a CTM reduces the value of and weakens what appears to be a robust and reasonable framework.

Question 4: 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.



Although currently not acting as a PS we believe that a sensible timeframe can be established, balancing any required system changes and the benefits that a robust white label framework will bring. Clearly, the extent of change required in the final proposal will dictate how long parties will need to comply without causing detriment to the customer or incurring excessive costs.

Question 5: 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.

There is a natural commercial incentive for WL suppliers to make clear what value they deliver to the customer. There is a risk that any overly prescriptive reporting requirements could increase cost, potentially cause customer confusion and restrict more innovative WL arrangements. Additionally, it would not be in line with the other WL proposals in the sense that they are treated as separate entities for the majority of RMR requirements. We do not believe a requirement to make clear on a WL website that they are a WL supplier would be onerous or unreasonable as this should be clear to the customer. Above this, we do not support a requirement to publish information.

Question 6: Do you have any comments on our draft of proposed supply licence condition changes in Appendix 3?

The proposed supply licence conditions match the intent of the white label framework as it stands in its current format.