

OVO Energy response to Ofgem consultation: Treatment of white label providers in the domestic retail market

Key points

1. OVO Energy ('OVO') entered the UK energy retail market in 2009 with the intention of offering a fairer, simpler and more competitively priced service to customers. OVO is now one of the UK's fastest growing independent suppliers, with more than 400,000 customers and 600 staff. Whilst continuing to champion the core values on which the business was founded, OVO is focusing increasingly on improving customer experience and engagement through technology and innovation. Our goal is to reach one million customers by 2017 and to be the most trusted energy company in the UK.
2. OVO currently offers one 'conventional' white label, in partnership with the Woodland Trust ('Woodland Trust Energy'). We are also developing a package of community tariffs with local authorities, housing associations and community groups, under the umbrella of 'OVO Communities'.
3. Currently each OVO Communities partnership (the purpose of which is to facilitate more competition in the retail market by enabling local organisations to become energy suppliers) has to apply for a derogation from Ofgem in order to be able to offer our Communities partners the ability to set their own tariffs. This is the lynchpin of the OVO Communities offering as it allows these organisations to tailor tariffs to local needs and preferences.
4. While Ofgem have been helpful in this process so far, we think it would be preferable that the appropriateness of the tariff is decided by the market rather than the regulator. We are aiming to set up 500 of these partnership over the coming years. It seems over-burdensome that we have to apply for a derogation for each one.
5. OVO opposed the limits on tariffs in the Retail Market Review (RMR), and has done so in the Competition and Market Assessment (CMA) inquiry into the energy industry. While well-intentioned, we do not think the measure to limit tariffs is helpful to consumers. We think it stifles innovation and risks limiting the ability of companies to take advantage of innovations such as community energy and smart meters. Our preference would be for the four-tariff rule to be removed entirely.
6. It seems unclear how Ofgem's stated aims in RMR fit with the proposals to allow a free-for-all in the white label market. It would be much simpler to simply remove the four tariff rule and focus on what we think has been and continues to be a more important issue for competition in the energy market: the proliferation of short-term protective tariffs by incumbent suppliers who are able to segment their market because of their large group of inactive customers. In

fact, we think the proposed treatment of white labels risk making it easier for the large incumbent suppliers to do exactly this. There has been some evidence of this happening in the market in recent months.

7. We would prefer greater scrutiny of whether aggressive, short-term tariffs reflect the underlying costs of supplying energy. We are pleased this is one of the areas under scrutiny by the CMA. Moreover, because white label arrangements effectively allow energy companies to market their products under the banner of a trusted brand, we would urge the regulator to take a particularly active stance in scrutinising whether such tariffs are being used as short-term protective tariffs.

Answers to specific questions

Q1. Do you agree with our assessment of white labels?

8. We agree with Ofgem's assessment that white labels have the potential to add to choice, customer service and engagement for customers, but have a limited benefit for price competition.
9. However, we are concerned that the current and proposed white label rules combined with RMR continue to allow short-term, protective tariffs into the market. While this provides price competition of a sort, we remain unconvinced it is of wider benefit to consumers. The real purpose of such tariffs appears to be defensive; to squeeze out small suppliers. We think this is a much wider risk for the energy supply market than the issue of apparent simplicity that RMR was meant to solve.
10. The large incumbent suppliers are able to segment their market because they retain a large group of inactive customers. White labels should not offer another avenue for such suppliers to take advantage of this position.

Q2. What are your views on our tariff proposals?

11. We do not agree that suppliers should be limited to four tariffs. We think such an arrangement stifles innovation without benefiting customers.
12. We agree with the proposals about increased flexibility around white labels and that a derogation would not be required for each new white label. We think they are a source of innovation in the industry and can help reach customers who are not currently active in the market. We do not think it is necessary to limit the potential tariffs within a white label.

Q3. What are your views on our CTM proposals?

13. We agree with most of Ofgem's CTM proposals. We think customers with the 'home supplier' should be told if they could get a cheaper tariff with a white label partner (or vice versa).

14. However, we also think white label customers should be told if other white labels linked to the partner supplier are cheaper. This is the fairest approach for customers and gives the most transparency. As a result customers would be in an informed position to make decisions about their energy supplier. The risk of the current proposal by Ofgem is further fragmentation of the market, without any benefit for customers. The principle of making things as transparent as possible for customers should be followed and we see this as a pro-competitive position.