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Dear Ruben,

SSE consultation response on treatment of white label providers in the domestic retail market

Thank you for providing SSE the opportunity to provide comment on this consultation. In general SSE welcomes the proposals outlined within the document as we believe the majority of the proposals will allow the white label market to develop and this will promote competition and customer engagement in the energy market. However we have serious concerns about the proposal to include the tariffs of our white labels in the calculation of the wide cheapest tariff message (CTM) as we do not agree that this is necessary and believe it may reduce competition as it will inhibit the degree to which new consumer brands will select and engage with the market. Also in our opinion it threatens the creation of a strong brand identity for the white label and therefore devalues the role that white label can play in fostering competition.

Please find attached our detailed answers to the consultation questions along with confidential appendices. If you would like to discuss any aspect of our response in more detail please do not hesitate to contact me.

Yours sincerely,

Louise Murphy
Regulation Manager, Markets

White Label Consultation Questions

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

In the main SSE strongly agrees with Ofgem's current assessment of white labels. Ofgem has stated that they want to promote competition and consumer engagement whilst providing appropriate consumer protection. Looking at the first aim, white labels can greatly promote competition in the market. This can be substantiated by the fact that white labels are very attractive to new entrants. An attractive way to enter the market will ensure that an increased number of strong consumer businesses will be interested in entering the market; this will result in an increase in offers in the market, which in turn will encourage competition.

White labels offer a speedy entry into the market, with a typical timescale of 4-6 months to market entry, this is viewed by new entrants as substantially quicker than the option of setting up a licenced energy company from scratch.

White labels also have the additional attraction to new entrants in that there is a reduction in set up costs and the margin of risk is lower than that of new suppliers. White label partnerships have a clear commercial model and a new entrant can benefit from supplier knowledge and understanding of the commercial and regulatory landscapes.

With regard to Ofgem's aim of promoting customer engagement, white labels are an excellent platform for encouraging customer engagement. New entrants can focus on sales and service as the white label model allows both partners to focus on their respective strengths. White labels have the ability to offer innovative propositions to consumers by combining energy with their primary products and services in a fresh way whilst enabling consumer confidence through the strength of their brand. White labels also have the opportunity to engage their customers in effective ways that are more in keeping with their customer base preference. This is supported by recent customer research from Moneysavingexpert.com (22nd September 2014) which showed that SSE white label brands performed better than SSE in terms of customer satisfaction. Ebico and M&S Energy were placed 2nd and 3rd respectively in comparison to SSE in 6th position.

SSE believes that appropriate consumer protection is in place as the ultimate responsibility is on the partner supplier to ensure that their white labels are compliant with all relevant regulation. However, SSE's approach to working with our white label partners is also to ensure that appropriate training and guidance is provided on regulatory responsibilities. This assists us in explaining to partners why we require that sales and customer service activities

be carried out in a certain way and also ensures that partners have a good level of general awareness, which can help when working together on new marketing propositions. We have found, for example, that our contacts in both of our white labels have become increasingly knowledgeable and engaged on energy regulatory issues as the commercial relationship has developed. This level of understanding and engagement from alternative market providers can only be of benefit to the market, especially in the case of organisations such as Marks and Spencer's and Sainsbury's who bring with them experience and insight from their core markets into the energy market.

White labels provide an effective way of reaching new customers and prompting them to engage with the market. (Please see Appendix 1 for detailed information relating to the number of acquisitions v service plan changes for SSE white labels).

White labels offer energy customers different methods of engaging such as face-to-face within store environments and provide access to trusted brands, providing reassurance to customers who may never have switched before and who have historically not been attracted to smaller providers. In this way, white labels can serve as a "gateway brand" for consumers who may go on to have the confidence to switch to smaller independent suppliers.

However, where we differ on Ofgem's current assessment on white label is that we do not agree that they have a limited benefit for price competition and that they exert less competitive pressure on existing suppliers than new suppliers. We believe that the nature of white label arrangements allows new entrants to come to the market quickly and they can then establish a large customer base using their brand value and their partner supplier's energy market experience. We agree that there is a business relationship with the partner supplier however due to the speed of market entry and their trusted brand value white labels very quickly exert a commercial and competitive pressure on other suppliers.

We recognise that commercial market pricing decisions are to some extent dependent on the partner supplier as this reflects that white labels are seeking the risk management services against the wholesale market. As the market develops and becomes more established then there is likely to be opportunities for this area to evolve and contracts to be agreed that allow a wider degree of freedom over pricing decisions.

It should also be noted that partner suppliers and white labels can vary greatly on tariff and pricing strategy (price point in the market, term time, rewards benefits, social tariffs, use of discounts etc). Examples of this can be seen with SSE white labels. SSE has worked with Ebico to develop a different pricing strategy within the market and provide a unique set of tariffs that harmonise discounts available for all consumers irrespective of their payment terms as well as the provision of a nil standing charge.

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

SSE welcome the opportunity for every white label to have up to 4 domestic core tariffs per fuel and meter type in each region as this puts white labels on an equal competitive basis as suppliers. This increase in competition should lead to innovation and distinct tariffs that will engage consumers in the market.

SSE is also supportive of the proposal not to have a restriction on the number of white labels a supplier can have. We believe this proposal will allow flexibility to suppliers but the associated regulatory requirements on the supplier will ensure that this proposal does not result in tariff proliferation. It therefore keeps this proposal in line with current RMR policy.

SSE strongly supports Ofgem's white label tariff proposals, as this removes the restriction to only offer the same surcharges, discounts, optional bundles and reward points as their partner supplier, which affected their ability to offer distinct tariffs and innovation. We welcome the opportunity that this flexibility will allow and believe this proposal will aid Ofgem's aim to promote competition and consumer engagement.

We also believe that the proposals for the end of fixed term tariffs and expensive dead tariffs respects the preferences of consumers over their choice of white label or partner supplier.

This proposal to treat white label and partner supplier as separate organisations (e.g. different level of discounts, no rollover across white label and partner supplier) brings more choice to consumers, whilst retaining the aim for simpler choices (e.g. the same level of discounts across white label tariffs). This proposal allows for a more genuine competition between white label and partner supplier. This increased competition will be beneficial for the energy market.

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

The expansion of CTM to cover supplier to white labels in our view does not recognise that consumers have pro-actively engaged with the market and have made an informed decision to switch to that white label or partner supplier - a decision which may be based on factors

beyond that of price. This is irrespective of whether they switched via an Internet Comparison Site, over the Web or via Telephony.

Explicitly there is no direct relationship between white labels who may work with the same supplier of choice, and we welcome the proposal from Ofgem that recognises what is a clear distinction between brands.

Engagement from customers around CTM is in its infancy; we believe it is too early to understand whether Ofgem's aims to promote competition and consumer engagement whilst providing appropriate consumer protection will be met by the current approach. Given the limited understanding of the value of the current CTM conditions with customers at this point in time ; we do not agree with the principle from Ofgem that we include the wide CTM between white label and suppliers, namely as:

White label brings competition to the market and act independently of suppliers

As evidenced in Appendix (1) you can see that there have been enduring differences between SSE and M & S Energy in pricing and tariff strategies. This re-enforces our view as a partner supplier that we enable white labels to operate as independent market entrants, and that they in turn act as competitors to all within the energy sector.

In joining a white label a customer makes an informed choice and importantly they have not chosen to select the partner supplier brand. We recognise that price is an important factor, however there is a broad range of criteria through which a consumer selects their product; for example, strength of customer service, price certainty and rewards and incentives.

The proposal to include white label and supplier partner within the CTM does not reflect the customer's selection of an independent competitor from the whole of market. They have pro-actively chosen to join that white label brand, of which they may have a strong affinity or trust, based on their own independent selection criteria. We believe this is reinforced by the additional proposal from Ofgem requiring white labels to publish information setting out the value that they deliver to consumers.

In addition, we believe that the proposals are not in line with Ofgem's other tariff proposals in which it is encouraged for partner suppliers and white labels to act independently of each other. It seems counter-intuitive to encourage white labels to act as independent suppliers and then instruct them to deliver a CTM with tariffs of their partner supplier.

We believe that white labels are independent; customers select them in their own right and have made the decision that their best interests are met by being with that white label.

This is reflected in differences with services provided to customers and recent customer research from Moneysavingexpert.com (22nd September 2014) showed that our white label

brands performed better than SSE. Ebico and M & S Energy were placed 2nd and 3rd respectively in comparison to SSE in 6th position.

CTM poses market restrictions on new supplier entrants

In previous responses we have consistently stated that a white label offers the ability to attract new entrants into the market, which in turn encourages a healthy competitive market with good consumer choice.

It is our opinion that the principle of CTM for white label places the energy sector at a disadvantage when compared to other regulated markets, such as financial services, where white labels have brought enhanced customer choice and selection.

For example, the UK insurance sector is serviced by a number of underwriting firms who work with white labels and these are seen as independent competitors, notably acting in direct competition with their underwriting firms. There is no such condition within this industry for white label to share information on their underwriter's products, and vice-versa.

In our view the CTM proposal for white label greatly inhibit the degree to which new consumer brands would select and engage with the energy sector. As an example, SSE has previously engaged in detailed business and commercial discussions with a number of high interest consumer brands that were giving serious consideration to entering into a white label arrangement. This interest was withdrawn as a consequence of ongoing uncertainties regarding the future of white label arrangements at the time, and we believe the additional requirements of CTM would be a further deterrent.

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.

In order for SSE to implement the IT changes to incorporate the requirements of the wide CTM between SSE and our white labels, we would need to undertake the following activities from the time that the consultation is concluded and definitive direction and timescales published.

- Gather detailed business requirements.
- Design & Code the Technical Solution.
- Test & Implement Technical Solution.

All of the above tasks will have discreet timelines that accompany them, unfortunately these proposed IT changes will also be impacted by a number of incoming Ofgem and DECC policies relating to billing and billing information which SSE needs to manage to ensure compliance, for instance: QR Codes, Energy Efficiency Directive requirements, potentially midata, further work on improving processes for faster switching, and notably Project NEXUS. Furthermore, SSE is also active in the telecommunications sector and there is significant regulatory change required in connection with switching processes in that sector as well, which also places pressure on SSE's IT resource. These examples are by no means an exhaustive list.

Any proposed timescale should be sensitive to delivering good customer service and avoid suppliers having to rush through system or process changes. Please see Appendix 2 for details on timelines required to implement the wide CTM requirements.

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.

SSE supports the proposals for white labels to publish information setting out the value they deliver to customers. We believe this should be done annually to strike the right balance between updating the customer regularly and giving them meaningful information.

We believe the information could use the following:

The value that has been delivered by the white label for customers - this could include details around customer service achievements, improved ways of engagement e.g. In store energy efficiency advice within M&S or in the case of Ebico the development of a new tariff strategy that delivers socially responsible tariffs.

In addition we also see value to look forward and use white label to engage openly in the key topics for the energy sector and in particular those aspects that are important to consumers e.g. simple billing.

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

SSE has no comments on the draft proposed condition changes in Appendix 3 of the consultation document.