

## **Improving information for customers**

### **An occasional paper**

July 2004

## Summary

This document draws together a number of issues of potential concern about the information that gas and electricity customers have available to them to enable them to:

- ◆ make informed choices about their gas and electricity suppliers
- ◆ resolve queries about billing, and
- ◆ use energy more efficiently.

This concern arises from a number of sources. Ofgem's recently published Domestic Competitive Market Review published evidence that around one third of customers find it difficult to compare prices. Further information presented in this document shows evidence of high levels of customer dissatisfaction over how their bills are calculated, and with the frequency of electricity and gas meter reads. Over half of all complaints received by energywatch, the energy customer watchdog, relate to account or billing problems. Research for Ofgem's work on encouraging energy efficiency shows that customers would, given the right feedback, examine reasons for changes in their gas or electricity consumption and could be stimulated to take action to change their behaviour.

This document explains the key initiatives being taken forward by Ofgem, energywatch, and gas and electricity suppliers on these issues. It concludes that, it is appropriate at the moment for Ofgem to encourage actively the industry to work with energywatch to develop a billing standard that addresses these concerns and meets customers' needs. There are formal regulatory tools available to Ofgem that could be used to address these concerns. If it appears that substantial progress is not being made in a reasonable timescale, Ofgem will re-consider whether to use them .

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# 1. Introduction

- 1.1. This chapter begins by outlining the legal and regulatory framework that currently specifies the information that suppliers must currently provide customers. It then explains briefly alternative tools that could be used to improve the information customers receive.

## ***The regulatory and legal framework***

- 1.2. There are several areas where the provision of, and access to, information for domestic customers is regulated, particularly where customers and suppliers come into direct contact with each other. This section considers the following aspects of the regulatory framework:

- ◆ Standard Licence Conditions (set out in licences issued under the Gas Act 1986 and Electricity Act 1989)
- ◆ the Utilities Act 2000, and
- ◆ relevant European Union (EU) Directives.

## ***Standard Licence Conditions***

- 1.3. Standard Licence Conditions (SLCs) in gas and electricity supply licences are the principal means by which Ofgem can require suppliers to meet minimum requirements for the provision of information to customers.
- 1.4. There are several specific SLCs under which Ofgem regulates the provision of information to customers:
- ◆ SLC 40 (Information Given to Customers) requires, among other things, that suppliers inform their customers of the amount of gas or electricity used (or an estimated usage). This is usually through a bill or statement
  - ◆ SLC 42 (Contractual Terms – Methods of Payment) sets out, among other things, what information must be provided as part of a domestic supply contract. Under this SLC, suppliers must set out all the terms and conditions, including the price, on which the licensee will supply gas or

electricity. Where a supplier offers a domestic supply contract for both the supply of energy and the provision of other goods and services, the domestic supply contract must separately identify the charge for supply from the charge for the other goods and services. For instance, where a supplier is offering domestic supply bundled with an energy efficiency product or service (e.g. loft insulation), the charges for the energy efficiency product must be identified separately from charges for domestic supply in the bundled contract

- ◆ SLC 44 (Notification of Terms) requires, among other things, that suppliers take reasonable steps to draw to the attention of the customer the principal terms of the domestic supply contract, and that suppliers must notify customers within 10 days of variations to the terms and conditions that are disadvantageous to the customer (including price rises), and advise that customer of its right in these circumstances to terminate the domestic supply contracts, and
- ◆ SLC 48 (Marketing of Gas and Electricity to Domestic Customers) regulates the manner in which suppliers can market domestic supply contracts to existing or prospective customers.

1.5. Ofgem can investigate possible breaches of licence conditions and, if a breach is found, may impose a financial penalty on the licensee. For example, since its enforcement powers came into effect in April 2002, Ofgem has imposed financial penalties on four suppliers totalling almost £2.5 million.

1.6. Where changes are required to SLCs, Ofgem can seek to modify licences by collective licence modification (CLM). Section 23(1)(b) of the Gas Act 1986 (the Gas Act) and section 11A of the Electricity Act 1989 (the Electricity Act) make provision for Ofgem to make collective modifications of gas and electricity SLCs respectively. Ofgem has already successfully carried out CLMs for some SLCs<sup>1</sup>.

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<sup>1</sup> For example, the collective modification of the Gas Supply SLC 46 to introduce the debt assignment protocol modified on 27 October 2003.

## **The Utilities Act 2000**

- 1.7. The Utilities Act 2000 (the Utilities Act) provided for the creation of energywatch, and its powers to produce advice, including information, to customers.
- 1.8. energywatch has the function of making proposals, or providing advice and information, about consumer matters (including matters affecting consumers in different areas)<sup>2</sup>.
- 1.9. energywatch can provide information about consumer matters, in such forms as appears to energywatch to be most useful to recipients. This function may be exercised by:
- ◆ publishing information in any manner energywatch thinks appropriate for the purpose of bringing it to the attention of those likely to be interested, or
  - ◆ furnishing information to any customer<sup>3</sup>.
- 1.10. If it appears to energywatch that the publication of any advice and information about consumer matters (including information about the views of consumers on such matters) would promote the interests of consumers, energywatch may publish that advice or information in such manner as it thinks fit<sup>4</sup>.

## **EU Directive on fuel mix disclosure**

- 1.11. The European Directive on Common Rules for the Internal Market in Electricity<sup>5</sup>, which comes into force in July 2004, includes a requirement that all suppliers must provide their customers with information on the proportion of different fuels that are used to generate their electricity. They must also provide at least a reference to existing sources where information on the environmental impact of the electricity produced by the overall fuel mix is available.

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<sup>2</sup> Utilities Act 2000, section 19.

<sup>3</sup> Utilities Act 2000, section 20. Under this section energywatch can also exercise its function through publishing statistical information about standards of performance.

<sup>4</sup> Utilities Act 2000 section 21.

<sup>5</sup> Directive 2003/54/EC

1.12. Responsibility for implementing this requirement rests with the Department of Trade and Industry which has recently announced its decisions on how to implement this provision<sup>6</sup>. Ofgem is assisting this work as it is proposed to be implemented via a new condition in electricity supply licences. Ofgem considers that suppliers should be required to:

- ◆ provide information on the fuel mix by using an electricity label with a specific content and design
- ◆ distribute this to their customers, and
- ◆ verify the accuracy of this information.

### **EU Directive concerning energy end-use efficiency and energy services**

1.13. The European Commission published in December 2003 a Communication on Energy Infrastructure and Security of Supply. This included, among other things, a proposal for a Directive concerning the promotion of energy end-use efficiency and energy services ('Energy services Directive')<sup>7</sup>. This, it states, is due to be transposed into each Member State's national law by 1 June 2006.

1.14. Article 13 on Metering and informative billing of energy consumption states that:

- ◆ End use customers must be provided with competitively priced individual meters that accurately reflect the customer's actual energy consumption and actual time of use;
- ◆ Billing reflects actual consumption in understandable terms, meter reads carried out frequently enough to enable customers to regulate their own energy consumption.
- ◆ In or with bills and promotional materials, the following information should be available to final customers:
  - current actual prices and, where appropriate, actual consumption

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<sup>6</sup> *Implementation of EU Directive 2003/54 concerning common rules for the internal market in electricity*  
DTI March 2004

<sup>7</sup> This can be found at : [www.europa.eu.int/comm/energy/en/com\\_2003\\_0739\\_en.pdf](http://www.europa.eu.int/comm/energy/en/com_2003_0739_en.pdf)

- where appropriate, comparisons of the consumer's current energy consumption with consumption for the same period in the previous year, in graphical form
- comparisons with an average normalised or benchmarked user of energy of the same category
- environmental impact, such as CO<sub>2</sub>, of energy distributed or sold for consumption, and
- contact information, including websites, where information on available energy services, energy efficiency programmes and other energy efficiency measures, as well as technical specifications for energy-using equipment, may be obtained.

1.15. The proposed Directive, should it enter law in its present form, would raise some significant issues for Ofgem and present policy. Ofgem has written to the Department of Environment, Food and Rural Affairs who are consulting on the proposed Directive outlining these issues.

## ***Alternative forms of regulation***

### **Overall and prescribed standards of performance**

- 1.16. The Authority may determine overall standards of performance in connection with the provision of gas and electricity supply services by gas and electricity suppliers<sup>8</sup>. At present, there are no overall standards in place for supply licensees.
- 1.17. The Authority may make regulations prescribing standards of performance in connection with the activities of gas and electricity suppliers in individual cases. If the company fails to provide the level of service required it must make a payment to the affected customer(s).
- 1.18. The Authority, with the consent of the Secretary of State, may make separate regulations for prescribed standards of performance<sup>9</sup>. There is one prescribed standard in place for electricity supply licensees<sup>10</sup>. This standard requires ex-Public Electricity Suppliers (ex-PES) to respond to in-area customer queries about charges and payments within 5 working days. A supplier that fails to do so must pay £20 to the customer.

### **Self-regulation, co-regulation, and voluntary standards or codes**

- 1.19. A number of other alternatives to direct regulation have been developed:
- ◆ self-regulation involves establishing an independent organisation to oversee a particular area of work
  - ◆ co-regulation describes a regime where industry parties themselves devise and police the detail of the rules, although the statutory regulator remains involved as a sponsor and enforcer of last resort, and
  - ◆ voluntary standards and codes are developed by the relevant parties but are not enforced by any regulatory regime.

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<sup>8</sup> The Gas Act, section 33B and the Electricity Act, section 40,

<sup>9</sup> The Gas Act, section 33A and the Electricity Act, section 39.

<sup>10</sup> Condition 13 of the Electricity (Standards of Performance) Regulations 2001, Statutory Instrument 2001, number 3265.

## ***Structure of this document***

1.20. The rest of this document is structured in the following way:

- ◆ Chapter 2 Analysis of available information
- ◆ Chapter 3 Discussion and the way forward

1.21. Although this document is not a formal consultation document, Ofgem would welcome any comments, views or additional information on the issues discussed in it. These should be sent by 6 August 2004 to:

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## 2. Analysis of available information

- 2.1. This chapter draws on information in Ofgem's recently published review of domestic supply competition<sup>11</sup> (the DCMR) and other sources to put into context its concerns about the information that customers currently have about aspects of their gas or electricity supply and the implications that this may have for customer behaviour, particularly in relation to switching and energy efficiency. The chapter adds to the analysis in the DCMR by providing more information about customers' attitudes to information on bills and towards meter reading. It explains some of Ofgem's work on energy efficiency and outlines some recent research into customers' attitudes to consumption information.

### ***Information from the DCMR***

- 2.2. The DCMR reviewed a number of indicators to analyse the development of domestic competition. This section summarises the relevant results from the DCMR analysis of customers' experiences of competition and customer switching behaviour.

### ***Customers' experiences of competition***

#### **Transparency of pricing information**

- 2.3. The DCMR provided evidence that around 30 per cent of customers find it 'not very easy' or 'not at all easy' to compare different suppliers' prices<sup>12</sup>. This proportion has hardly changed since 2001. Ofgem has carried out further analysis based on customer survey data prepared by JD Power and Associates<sup>13</sup>, which does not identify obvious 'target' groups for which a specific campaign could be undertaken. Tables 3.1 and 3.2 illustrate the results.

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<sup>11</sup> Domestic Competitive Market Review. A review document and Appendices. Ofgem 78/04, April 2004.

<sup>12</sup> DCMR Tables 2.13 and 2.15

<sup>13</sup> All reported findings are for sample sizes of 100 or more.

**Table 3.1 Ease of comparing prices among key demographic groups - gas**

Response (%)	Non-switcher	Switcher	Social Group				Payment Type		
			AB	C1	C2	DE	DD	SC	PPM
Very easy/Fairly easy	65	69	57	71	69	67	68	62	81
Not very easy/ Not at all easy	29	29	40	24	28	29	29	33	14
Don't know	6	3	3	5	3	4	3	4	4

Source: JD Power and Associates (2003)  
rounding of response categories may lead to column totals not equalling 100.

**Table 3.2 Ease of comparing prices among key demographic groups - electricity**

Response (%)	Non-switcher	Switcher	Social Group				Payment Type		
			AB	C1	C2	DE	DD	SC	PPM
Very easy/Fairly easy	64	71	62	70	72	72	68	66	76
Not very easy/ Not at all easy	31	26	33	28	26	24	30	29	21
Don't know	5	2	4	2	2	3	2	5	3

Source: JD Power and Associates (2003)  
rounding of response categories may lead to column totals not equalling 100.

2.4. In addition, 60 per cent of gas customers and 70 per cent of electricity customers get pricing information from suppliers, although an increasing number (12 per cent in gas and 10 per cent in electricity) are using the internet to obtain information about gas and electricity suppliers<sup>14</sup>.

### Reasons for switching or not switching

2.5. For customers who have switched supplier, 65 per cent say that price was the main reason for switching<sup>15</sup>. However, even though suppliers have no control over power quality or reliability (because it is the responsibility of separate network companies), 21 per cent of gas non-switchers and 15 per cent of electricity non-switchers gave this as their reason for not switching<sup>16</sup>. Ofgem has carried out further analysis since publishing the DCMR which shows that there is no significant pattern for this particular result across demographic groups. Tables

<sup>14</sup> DCMR Tables 2.14 and 2.16, p 36, p 37.

<sup>15</sup> DCMR Tables 2.21 and 2.24, p 42, p 45.

<sup>16</sup> DCMR Tables 2.22 and 2.25, p 43, p 45.

3.3 and 3.4 illustrate the breakdown of responses for social groups and payment types<sup>17</sup>.

**Table 3.3 Main reasons for not switching in key demographic groups - gas**

Response (%)	Social Group				Payment Type		
	AB	C1	C2	DE	DD	SC	PPM
Price	31	33	38	27	38	29	26
I didn't want to change	31	22	32	27	26	31	29
Supply quality and reliability	16	24	25	17	20	21	22

Source: JD Power and Associates (2002)

**Table 3.4 Main reasons for not switching in key demographic groups - electricity**

Response (%)	Social Group				Payment Type		
	AB	C1	C2	DE	DD	SC	PPM
Price	31	37	31	34	37	33	25
I didn't want to change	25	23	25	23	22	27	23
Supply quality and reliability	16	14	16	14	16	13	17

Source: JD Power and Associates (2002)

2.6. Prepayment meter (PPM) customers switch less than customers who use other payment types. Around 30 per cent of gas PPM customers have switched (compared to the average of 47 per cent) and around 40 per cent of electricity PPM customers have switched (compared to the average of 51 per cent)<sup>18</sup>. Many electricity suppliers charge lower prices to PPM customers in their former monopoly areas. For customers using other payment types electricity suppliers charge higher prices to these 'in-area' customers. In gas, fewer suppliers offer savings relative to British Gas Trading (BGT), compared to other payment types.

### ***Customer switching behaviour***

2.7. The DCMR's analysis of customer switching behaviour highlighted the following:

<sup>17</sup> For those aged 65 or over, 21 per cent of gas and 14 per cent of electricity customers cite supply quality and reliability as reasons for saving with their present supplier. These results are not significantly different to the national averages of 21 per cent and 15 per cent, respectively.

<sup>18</sup> DCMR Tables 2.23 and 2.26, p 43, p 46.

- ◆ although customers say that price is the main reason for switching, a substantial amount of switching takes place to suppliers that may offer some savings but are not necessarily the cheapest offer, and
  - ◆ the supplier brands most strongly associated with gaining such switchers are BGT and the ex-PESs.
- 2.8. The DCMR concluded that these facts could indicate that customers switch in reaction to information from suppliers, rather than maximising their savings by shopping around. This raises concerns as to whether the information currently available to customers about their consumption levels, current bill or the other choices available is inadequate to underpin their ability to maximise their savings.

## ***Information from other sources***

### **Ofgem's previous work on price comparisons**

- 2.9. In March 2001 Ofgem published the results of MORI<sup>19</sup> research into comparative price information<sup>20</sup>. Using the concept of the Annual Percentage Rate (APR) from the financial sector, part of the research considered whether a standard indicator of an average bill (an 'Energy Cost Index' (ECI)) would help customers to compare prices. The research found that although customers supported the concept of an average cost indicator, in practice the trade off between accuracy and simplicity meant that such an index did not help them to compare prices. Switchers were more cautious about accepting the ECI figures, although non-switchers were attracted by its apparent simplicity. One of the main impacts of the ECI was to emphasise the relative costs of different payment methods.
- 2.10. The research also found that there was overwhelming support from customers for having annual consumption data on bills. However most people who knew how to use the information to obtain accurate price comparisons also knew how to calculate annual consumption data themselves from their previous bills.

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<sup>19</sup> Market and Opinion Research International.

<sup>20</sup> Making gas and electricity price comparisons easier. A decision document. Ofgem 19/01, and Attitudes to price information, qualitative and quantitative research. Research study conducted for Ofgem. Ofgem 21/01. Improving information for customers  
Office of Gas and Electricity Markets

Some non-switchers in focus groups could see no value in having annual consumption information and were unable or unwilling to use it.

## **energywatch's work**

### *Developing a billing standard*

- 2.11. Customer complaints about billing and accounts make up 56 per cent of energywatch's complaints. energywatch considers that "bills are so complicated or inaccurate that many consumers don't know what they are consuming and at what price"<sup>21</sup>. Some complaints involve customers who have not been billed for long periods of time.
- 2.12. In May 2004 energywatch convened a meeting with Ofgem, suppliers, the British Standards Institute (BSI) and other parties to discuss implementing a nationally recognised standard in billing that reflects customers' needs. This would not lead to the introduction of a standard bill. Its aim would be to outline best practice for billing gas and electricity customers which suppliers could follow if they wished.
- 2.13. energywatch also says that it will campaign for the introduction of an annual statement of actual energy consumption for each customer to enable them to assess what they spend and the savings they could make by switching supplier or through energy efficiency measures<sup>22</sup>.

### *Price comparison information*

- 2.14. energywatch's price comparison worksheets illustrate competing suppliers' bills in each distribution region, for each payment type, for high, medium and low consumption. The factsheets provide customers with a useful source of information to assess savings available from switching to a new supplier.
- 2.15. energywatch estimates that 525,000 customers requested price comparison worksheets in 2003/04. energywatch also oversees a voluntary code of practice for companies providing price comparison services on the internet (ie services that calculate customer savings that can be made by switching to a new

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<sup>21</sup> energywatch Work Plan 2004 p 11

<sup>22</sup> energywatch Work Plan 2004 p 12  
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supplier). Services that are signed up to the code of practice must conform to nine requirements and are tested and monitored by energywatch to ensure that they are comparing accurate and up to date prices and that they are fully independent of any gas or electricity suppliers.

### **Experience of customer information in other jurisdictions**

- 2.16. Ofgem has considered the issue of customer information in the context of the experience of other jurisdictions.
- 2.17. For example, in Norway, legislative provisions on suppliers (since 1999) require households with an expected annual electricity consumption on excess of 8,000kWh to be invoiced by suppliers in arrears at least every third month on the basis of meter readings. In Norway it is common that the customer reads the meter and sends the meter readings to the network company, by mail, phone or the Internet. If the customer for some reason does not hand in the meter reading, the network company can stipulate the consumption in the period.
- 2.18. Furthermore, invoices are required to contain a graphic comparison of the year's consumption in each settlement period with the same period of the previous year.
- 2.19. In Australia, in the State of Victoria, if suppliers do not bill customers for a year, they cannot recover the money. As part of its joint work with energywatch on debt prevention, Ofgem is monitoring development by suppliers of best practice on minimising billing errors. Ofgem will be keeping experience in Australia under review in this context, to consider whether any lessons could be applied to the GB market.
- 2.20. In Northern Ireland, an initial study of the introduction of keypad meters indicates that this feedback consumption information and other more explicit consumption information does stimulate prepayment customers to save energy (an average consumption saving of 11 per cent).

## ***Further evidence about customer perceptions***

2.21. This section outlines additional evidence to that presented in the DCMR, and provides insights into how customers perceive the transparency, accuracy and reliability of information related to aspects of billing and consumption.

2.22. Ofgem's DCMR looked at several areas of customers' experiences, including perceived transparency of comparative pricing information, contact with suppliers, and reasons for switching or not switching. This section presents additional data and evidence for three areas of customers' experiences of information in the market:

- ◆ general billing information
- ◆ meter reading and consumption information on bills, and
- ◆ customer preferences for improving consumption information feedback.

### **General billing information**

2.23. Survey statistics provide insights into how customers respond to receiving bills and statements. For example, 19 per cent of gas customers 'just pay their bills' with 16 per cent indicating that they 'thoroughly study and analyse the bill'. In electricity, similar responses are found.

**Table 3.5: 'Which of the following most accurately describes how you usually handle for gas/electricity bill or statement?'**

Response	Gas (%)	Electricity (%)
I just pay it	19	19
I scan to see if there is anything unusual	34	34
I read the bill thoroughly	30	30
I thoroughly study and analyse the bill	16	16
Don't know	1	2

J.D. Power and Associates (2003)

rounding of response categories may lead to column totals not equalling 100.

2.24. For information included with a customer's bill or statement, the majority of customers scan leaflets for anything of interest (52 per cent in gas and 56 per cent in electricity). However, 29 per cent of gas customers and 26 per cent of electricity customers express a preference for removing and throwing away

additional information inserted with their gas and electricity bills and statements.

Table 3.6 illustrates percentages reported for each response category.

**Table 3.6** 'Which of the following statements most accurately describes how you usually handle the additional information inserted with your gas bill or statement?'

Response	Gas (%)	Electricity (%)
I just throw the leaflets and brochures away	29	26
I scan the leaflets to see if there is anything interesting	52	56
I read the leaflets and brochures thoroughly	17	16
Other method	1	0*
Don't know	1	1

Source: J.D. Power and Associates (2003). (\*) rounded to zero  
rounding of response categories may lead to column totals not equalling 100.

2.25. Taking the responses in Tables 3.5 and 3.6 together, it would appear that the majority of customers do look at their bills, some thoroughly, while others look for anything unusual. A significant minority of other customers pay their bills without checking them. A majority of customers are interested in scanning information included with their bill or statement for anything interesting.

2.26. The vast majority of customers in both gas and electricity rate suppliers' provision of billing information as fair to excellent, (89 per cent and 86 per cent, respectively). Table 3.7 illustrates the results in three categories excellent (8-10), fair (6-7), and disappointing (1-5).

**Table 3.7** 'How would you rate your gas and electricity supplier's billing and payment process overall?'

Response	Gas (%)	Electricity (%)
Excellent (8-10)	70	66
Fair (6-7)	19	20
Disappointing (1-5)	9	11
Don't know	3	3

Source: J.D. Power and Associates (2003)  
rounding of response categories may lead to column totals not equalling 100.

2.27. However there are several areas where lower ratings appear for specific areas of customer billing, relative to the overall rating. For instance, in gas, although only 9 per cent of customers are disappointed overall with billing information, when asked specifically about the 'Explanation of how the bill or statement was calculated', disappointment levels rise to 20 per cent. A similar result is seen in

relation to the 'Ease of understanding your gas bill or statement' where 20 per cent of customers are disappointed.

- 2.28. In electricity overall disappointment with billing was 11 per cent. However 22 per cent of customers are disappointed with the explanation of how the bill is calculated and 20 per cent are disappointed with the ease of understanding bills.

### **Meter reading**

- 2.29. Accurate consumption information on customers' bills depends on accurate meter reads. Without accurate information about consumption, customers will not know whether they owe money to their supplier or whether they are in credit, nor will they necessarily be able to make accurate price comparisons, or take informed decisions about energy efficiency. Ofgem has therefore carried out more analysis about customers' views on meter reading.
- 2.30. Although 80 per cent of gas and electricity customers rate suppliers' meter reading as fair to excellent (see Table 3.8), many suppliers receive lower ratings for specific aspects of meter reading services.

**Table 3.8 'How would you rate your gas and electricity supplier's meter reading process overall?'**

Response	Gas (%)	Electricity (%)
Excellent (8-10)	60	60
Fair (6-7)	20	19
Disappointing (1-5)	16	18
Don't know	4	3

Source: J.D. Power and Associates (2003)

- 2.31. For instance in gas, although overall disappointment with meter reading by suppliers was 16 per cent, when customers were asked to rate suppliers for 'frequency of meter reads', 27 per cent were disappointed.
- 2.32. In electricity, although overall disappointment was 18 per cent, this rises to 26 per cent when asked to rate suppliers on the frequency of meter reads.

## ***Ofgem's current work on energy efficiency***

### **Consumer preferences for improving consumption information feedback**

- 2.33. Ofgem is investigating options for improving consumption information to customers and is working through a programme of research in this area. The first phase of this program examined the existing work on billing from other countries and whether energy savings were achieved as a result of this information<sup>23</sup>. Evidence from other countries such as Norway shows that consumption information can motivate customers to reduce their energy use and thereby save money and reduce pollution.
- 2.34. Ofgem subsequently commissioned research into customer preferences for on-bill feedback about their energy consumption. The research for this phase, which was completed in May 2004, has identified customer preferences for and against a range of possible consumption feedback information, including:
- ◆ a general dislike of comparison of household consumption against national averages or other homes
  - ◆ a strong preference for simple bar charts on bills to compare energy use in the most recent quarter with either the same quarter the previous year or the whole of that year
  - ◆ an interest in receiving feedback as part of an annual or bi-annual energy report, and
  - ◆ that, given the right feedback, customers would examine the reasons for changes in consumption and may take action to reduce it.
- 2.35. Interest was also shown in improved messages on bills about energy saving. Customers were also prepared to read their own meters (though preferably in return for some incentive).
- 2.36. The research suggested that customers do check their bills to see what they owe, and if it is an estimate. However in contrast to information in paragraph 2.24

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<sup>23</sup> Roberts S. and Baker W. Towards effective energy information a report to Ofgem Centre for Sustainable

this study indicated that customers tend to ignore other information sent with their bill.

- 2.37. The research concluded that consumption feedback information is most effective when it is immediate, prominent, accessible and specific to the consumer. The manner of presentation of the feedback information to customers is a core consideration.
- 2.38. The research to identify preferred options for presenting consumption information on bills is close to completion and a finalised report is expected to be published on the Ofgem website in July 2004. A workshop will be held with suppliers in early July to discuss options for taking the work forward. The next step would be to hold a trial of a small number of presentation options, depending on supplier participation.
- 2.39. In addition to this research, Ofgem hosted an industry workshop on 24 February 2004 to raise awareness and receive feedback from suppliers on this issue. Copies of the presentations can be found on Ofgem's website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).
- 2.40. The results of this research will help to inform Ofgem's policy and future work on consumption information.

### ***Other issues***

#### **Marketing Licence Condition**

- 2.41. Gas and electricity suppliers are largely regulated through licences granted by Ofgem. Standard licence condition 48 in both the Gas Suppliers Licence and the Electricity Suppliers Licence deal with the issue of marketing of gas or electricity to customers.
- 2.42. In December 2003, Ofgem put forward proposals for changes to the licence condition that controls most suppliers' marketing activities<sup>24</sup>. The proposals included prohibitions (for example to prevent suppliers giving misleading

information or selling to minors) and obligations (such as providing written confirmation information for customers). Although customer groups were happy with the proposals, other responses suggested that more work is needed on the relationship between licence enforcement and self-regulation. Ofgem has therefore decided to roll over the existing condition for a further two years until March 2006 and in the meantime to seek to identify a practical solution that delivers real customer benefit.

### **Review of supply standard licence conditions**

- 2.43. Ofgem's Corporate Plan 2004 - 2007 proposes to review the Supply SLCs with the objective of improving the targeting and effectiveness of regulation and to reduce barriers to entry. Ofgem will consult fully with stakeholders on the framework for such a review.

### **Social Action Plan**

- 2.44. Ofgem has supported a pilot by the London Borough of Camden to raise awareness about competition and energy efficiency among ethnic minority groups. This involved providing information and training to volunteers from local ethnic minority community groups about how to save energy and switch supplier. The volunteers then provided advice and information to members of their communities. Ofgem will be reviewing the outcome of the pilot, to see if the approach taken in Camden could be extended to other local authorities.

### 3. Discussion and the way forward

- 3.1. This Chapter discusses the various themes in this document and outlines Ofgem's preferred way forward on the issue of customer information.

#### ***Discussion***

- 3.2. Ofgem considers that informed customers are a pre-requisite for the efficient operation of a competitive market.
- 3.3. Although a considerable number of customers find it difficult to compare prices, there is no clearly defined 'target group' of customers for which Ofgem and/or energywatch could direct an information campaign. Ofgem does not have any information about the reasons why some customers find price comparisons difficult. There are many possible reasons for this (which are not mutually exclusive). For example, these customers:
- ◆ may not know what information they need
  - ◆ may be able to find or calculate some information but not all of it (eg their annual consumption)
  - ◆ may consider that their needs do not match those of the "average" customer generally used in price comparisons, and
  - ◆ may be put off making comparisons by the perceived complexity of the process.
- 3.4. It is possible that further customer research could provide a better understanding of the difficulties facing these customers. But this type of research is likely to be expensive and it may not provide any clear basis for developing policy initiatives to help them.
- 3.5. In addition, it seems that most people who switch do so in response to contact from a supplier, often on the doorstep. On this basis many customers may consider that they do not need to know detailed information about their current prices or consumption – they are content to make a decision on the basis of information from a sales agent or a supplier's literature or advertising. So it is

not clear that providing more information will help to change customer switching behaviour.

- 3.6. What is known, however, is that a considerable number of customers have billing problems, often related to inaccurate and/or estimated meter reads. Minimising the customer dissatisfaction and the number of complaints would ease the burden on both suppliers and energywatch in dealing with these complaints and thereby free up resources which could be deployed on other initiatives. Ofgem's evidence indicates quite high levels of customer dissatisfaction with particular aspects of billing information (ie meter reading and clarity of bill calculation), although this is against a background of high overall satisfaction with billing. Information from energy efficiency and other work seems to indicate a high level of customer support for accurate consumption information.
- 3.7. Although there is currently no licence condition that specifically covers billing issues, such a condition could be introduced by the CLM process. If a sufficient number of suppliers object to a CLM Ofgem can refer it to the Competition Commission if it believes that matters relating to the carrying on of activities have or are expected to have an adverse effect on the public interest and that the proposed modification will remedy or prevent the adverse effect. An alternative approach would be to introduce a prescribed standard of performance or an overall standard of performance. However Ofgem believes that this may be an area where customers' needs may be better met by other initiatives such as energywatch's billing standard. The standard could provide a commercial incentive for suppliers to provide a minimum standard for billing whilst still enabling them to exceed the standard if they wanted to. This type of standard can be amended relatively easily which means that it could be more responsive to changing requirements than, say, a licence condition. Ofgem is committed to applying the Better Regulation Taskforce principles of good regulation to all areas it regulates. The decision to implement voluntary, mandatory or other forms of regulation of information for customers will be based on these principles.

## ***The way forward***

- 3.8. Ofgem will work with energywatch, suppliers and other interested parties to develop a voluntary billing standard that meets customers' needs. energywatch has set a target of Q3 2004 - 05 for the formation of a BSI full standard committee to develop a national standard for billing<sup>25</sup>. It is possible that the inclusion of an annual statement in such a standard could also meet the requirements of the energy efficiency work examining appropriate consumption feedback information. However this will need to be considered in more detail as work on the standard and on the energy efficiency work progresses.
- 3.9. In addition Ofgem will keep under review progress in this area and has not ruled out proposing the introduction of compulsory regulatory measures if this appears necessary to protect customers.
- 3.10. The research to identify preferred options for presenting consumption information on bills is close to completion and a finalised report is expected to be published on the Ofgem website in July 2004. A workshop will be held with suppliers in early July to discuss options for taking the work forward. The next step would be to hold a trial of a small number of presentation options, but this is dependent on one or more suppliers being willing to participate.
- 3.11. Ofgem will continue to conduct targeted information campaigns where appropriate. Ofgem will also continue its research on issues surrounding supply and distribution branding, in particular whether common branding may affect customers' switching decision.

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<sup>25</sup> energywatch Work Plan 2004 p 12  
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Office of Gas and Electricity Markets