

DPC Working Group – Assessing Customers Willingness to Pay

Meeting 1 – 30 August 2002

Introduction

The group opened with a short description of the aim of the group from Ofgem's perspective, namely to discuss and establish best practice for carrying out research into customer willingness to pay for improvements in the quality of service they receive, so that this practice could be implemented in research conducted by any party.

What service attributes to measure

A key question in assessing customers' valuation of improvements is the scope of attributes of the service for which to evaluate customers' willingness to pay (WTP). Discussions of customers' WTP often focus on their valuation of a reduction in the frequency and duration of interruptions. However, the group recognised that customers potentially are concerned with a much wider range of service attributes, which could be included in a survey to assess WTP. The group came up with a number of such attributes, while bearing in mind that customers are not a homogenous group:

- Interruptions
 - Duration and frequency
 - Transient interruptions
 - Different views of planned vs. unplanned interruptions
- Information given to consumers regarding interruptions
 - Is there a preference for certain methods, e.g. automated response vs. human being
 - Accuracy of information on how and when supplies will be restored
 - What customers view as exceptional will vary with their own experience
- Overall supply qualities
 - Harmonics and variations
 - Cleanliness
- Environmental considerations
 - Visual amenity – wires above/below ground
 - Maintenance e.g. digging up ground/deforestation
- Losses
 - At DNO level
 - Energy efficient equipment
- Distributed generation
 - Link to both losses and visual amenity – while distributed generation can reduce losses, its siting may arouse concerns.

- Renewable Generation vs. distributed – the group saw that the distinction between these two would need to be carefully drawn in seeking customers views', as not all renewable generation is distributed and vice versa.
- Societal valuation – extent to which customers are concerned for other customers
 - investment in network integrity
 - stability of prices - over medium term – and the potential to invest more as insurance?
 - environmental considerations
- Automatic Compensation for GS/OS
 - Trade-Off between compensation with payment and WTP for no interruption

Finally, the group identified that many customers may chiefly be concerned with not experiencing any reduction in their current level of service, rather than seeking improvements. The group recognised that common areas of complaint could help identify service attributes that mattered to customers.

Factors to consider in devising a survey

Following this discussion of what service attributes to measure, the group identified a number of factors that need to be considered when seeking to measure customers' WTP.

First, many of the factors identified can be classed as demographic factors, which may mean customers have different attitudes and concerns which any assessment of WTP should take into consideration:

- Geographic differences
 - Rural vs. Urban
 - Between regions, e.g. "North vs. South"
 - Within regions
- Domestic vs. Business (and Industrial vs. Commercial)
- Socio-economic groups

Secondly, the group considered that a crucial point for any survey (and the way it is applied) to take into account is the focus of individual customers on their own experience, rather than the experience of customers on average:

- There may be differences between perceived and actual experience, which may occur in particular before and after an interruption or with different baseline experience;
- Timing - when interruptions occur will affect their impact and may influence WTP – for example if an interruption occurs on 25 December; and
- Baseline - the group emphasised the importance of establishing a baseline service when seeking to assess for what customers are willing to pay additional for, given that different consumers will have different perceptions of normal service.

In addition, the group believed that the potential for customers to be willing to pay for improvements that might not directly benefit themselves, but would be of wider benefit to society, should also be considered, for example are customers willing to pay for network investments which may have future

returns or returns to other customers (e.g. for the environment, or those in rural areas or the less well-off).

As a final point, the group considered it necessary to give consideration to the potential for cost differentials to arise for the same level improvement made in different areas.

Interaction with existing schemes

For the next distribution price control review, DNO representatives on the group wanted to see a clear set of outputs that Ofgem would expect DNOs to deliver. The DNO representatives considered it necessary for Ofgem to clarify the way in which any assessment of customer WTP would fit with the Quality of Supply targets, the Information and Incentives Programme and the Asset Risk Management project. The DNO representatives considered that, in the present DNO price control, there was not a clear expectation of what should be delivered for the additional expenditure allowed per customer for quality improvements. The group also noted that there were likely to be implications for this work resulting from the government's Energy Policy Review.

The group briefly touched on methodologies, and who would be carrying out any survey for the next distribution price control review. In this context, the Ofgem representative said that Ofgem would share with industry the terms of reference it provided to those carrying out its survey and would welcome reciprocation from the DNOs for any surveys they carry out.

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