Ofgem Consumer First Panel

Research Findings from the Third Events

October 2009

Contents

1. Executive Summary

The following summary is based on the findings from the third round of Ofgem's Consumer First Panel events which were held in June 2009. A total of five deliberative workshops, each lasting 3 hours, were held around in locations in Great Britain.

Key findings

The Energy Industry

The energy market remains a complex area for consumers to navigate, even for those who are part of the Panel and have previously discussed in detail topics such as tariffs and domestic usage. Nevertheless, Panel membership has generally increased interest and the willingness to engage with the energy market. Panellists remain particularly receptive to finding out how to contain and potentially reduce their energy costs and learn more about Ofgem's activities.

In this context, the need for an independent body supporting all consumers is apparent. Although the structure of the energy industry is loosely understood by Panellists, most lack knowledge of energy network companies and find it difficult to distinguish between energy transmission and distribution. As with previous events, consumers remain suspicious of industry profit making and are concerned that the more players involved in the supply chain, the more costs will befall the consumer. However, being given information about the energy supply chain structure can help to highlight the positives of having more than one organisation responsible for energy supply, and some Panellists appreciate that competition can be healthy and reap benefits for the consumer.

Billing Components

When asked to consider where their energy bill money goes to, Panellists demonstrate a good basic understanding of the costs incurred by energy companies – such as overheads, research and development and taxation - although many readily admit that this is more of an educated guess than a response based on knowledge of the industry. When asked to consider actual billing components, most underestimate supply costs and overestimate environmental costs. This arises, in part, from a lack of understanding about the distribution and transmission elements of supply costs as well as little awareness of how energy companies invest in the environment in practice (beyond renewables).

Price Control

Panellists' initial reactions to Price Control is that it is potentially too complex an area for consumers to understand and feed back on. There are some doubts about the benefits of involvement and many suggest that independent specialist organisations, such as Ofgem, and local councils are more suitably placed to respond on behalf of consumers. On the other hand involvement by those who can legitimately comment on behalf of consumers is welcomed, as is greater transparency about where money goes to generally. Panellists see that some topics under the remit of Price Control, for example protection for vulnerable customers and environmental investment, are of high interest to consumers

meaning that lay public involvement in these areas could be of real value. There are also suggestions that different groups of consumers with different levels of interest could be engaged in Price Control consultation at different levels of depth, with some involved in focus-group type discussions or workshops and others responding to simple questionnaires on energy bills.

Tariff structures

Tariffs remain a complex topic despite the fact that Panellists have discussed them in depth throughout the year. Tariff structures are generally perceived as being unlikely to have an impact on energy usage, primarily because for them to be useful consumers need to have a better understanding of, and interest in, their energy usage behaviour.

Most agree that tariffs need to be simple (easy to understand), have a consistent format and structure (across suppliers), be relevant to their usage behaviour, and be honest. Tariff structures which have, two different tiers of prices (with the second tier having a cheaper unit price) are felt by Panel members to run counter to encouraging energy efficiency. Having a standing charge is generally seen as unwelcome because low users are penalised, however, previous findings have highlighted that many of the elderly like the inclusion of a standing charge.

'Time of use' tariffs received a similar, mainly negative reaction due to the varying work patterns for many; however, this was felt to be a suitable and effective tariff for business customers rather than the domestic segment of the market.

'Rising block' tariffs are received positively and expected to increase efficiency. However, there are concerns about high-users being penalised (e.g. large families) and consumers feel tariffs and tiers need to relate to individual circumstances. Many would like to see greater visibility around when they are moving from one tier to another, possibly from a smart meter in order for these tariffs to be effective**.**

The Panel Experience

Overall, Panel members found the Consumer First Panel a positive experience. The possibility of influencing future service delivery for consumers and having a voice in the industry was seen as a key benefit of the Panel. Participants were also pleased to have the opportunity to learn about Ofgem and were impressed to see evidence that Ofgem is acting on the outcomes of the Panel events. The evidence of Ofgem acting on the findings from the workshops was felt to be both motivating and very pleasing to participants.

Many reported they enjoyed sharing opinions, hearing other people's views and making friends. As well as this there was a strong feeling among many that it had been a learning experience and a chance to gain new information and broaden knowledge, e.g. of the energy industry, switching, tariffs, reducing energy usage**.** The structure of sessions was generally well received and there was thought to be a good mix of team and individual work, learning and commentating and working and enjoyment.

2. Background and objectives

The Office of Gas and Electricity Markets (Ofgem) is the economic regulator for the electricity and downstream natural gas markets in Great Britain. It has the key objective of protecting the interests of present and future consumers. It does this by promoting competition where appropriate and regulating the monopoly businesses that exist in the transportation of gas and electricity. In recent years a number of issues surrounding the supply of energy to Britain's customers have introduced considerable challenges, for example dwindling natural resources, climate change, increasing energy prices and an uncertain economic outlook. In order to carry out its role as effectively as possible in the face of these challenges Ofgem recognises the importance of gaining clear understanding of the needs and expectations of domestic energy customers.

Ofgem launched the 'Consumer First' initiative, a programme that includes a range of primary market and social research to help the organisation ensure that policy development is consumer focused and that consultations are aligned with the abilities of consumers to respond effectively. As part of this programme, Ofgem has set up the 'Consumer First Panel', a diverse group of 100 domestic energy consumers recruited to take part in a series of research events and surveys and be 'the voice of the consumer' and a unique resource for Ofgem.

The Panel was designed to enable members to become 'expert' consumers – meaning that they are able to discuss issues from a consumer perspective with a rounded view of how the energy industry works and knowledge of the business models involved. Participants were called upon regularly to feed back on key energy topics and regulatory issues.

The overall programme was structured as follows:

This report details the findings from the third and final workshops.

3. Sample

Sample detail

In order to ensure a representative sample of consumers in Great Britain, and also to avoid many of the frequently researched population centres, participants were drawn from five locations.

The sample was constructed according to a number of key demographics:

- Gender
- Age
- Ethnicity
- Socio-Economic Group (SEG)
- Tenure
- Rural/Urban
- Fuel poverty
- Payment method

Minimum quotas were placed on being an electricity-only customer and also on the energy suppliers to whom participants are signed up to, including the following:

- British Gas
- npower
- Scottish Power
- EDF
- Eon/Powergen
- Scottish and Southern Energy

While the Panel sought demographically to be as nationally representative as possible, in each location certain demographics were raised or lowered according to the surrounding region (e.g. a greater number of rural participants in Beverley).

The Panel of 100 was increased by 10% to mitigate against any dropout over the course of the events. The overall sample was populated as follows (showing both those recruited and those that took part in the third event):

Panel sample – third event

	Achieved	Target
Gender		
Male	42	**55**
Female	42	**55**
Total	*84*	***110***
Age		
16-24	7	**15**
25-44	36	**40**
45-64	27	**33**
65+	14	**22**
Total	*84*	***110***
Ethnicity		
White British	73	**96**
White Other	4	**3**
Black or Minority Ethnic	7	**11**
Total	*84*	***110***
SEG		
AB	21	**25**
C1	27	**35**
C2	24	**25**
DE	12	**25**
Total	*84*	***110***
Tenure		
Owner occupied	56	**75**
Social rented	17	**21**
Private rented	11	**14**
Total	*84*	***110***
Rural vs urban		
Urban	67	**77**
Rural	17	**33**
Total	*84*	***110***
Fuel poverty		
Yes	16	**20**
No	68	**90**
Total	*84*	***110***

All Panel member details are held on a database by Opinion Leader, where all details on attendance and demographics are recorded.

In contrast to the second event, top-up recruitment was not undertaken to replace drop-outs for the third event, the rationale for this being that recruiting new Panel members to attend only one event at the end of the year would not be beneficial as they would lack the knowledge base of the ongoing Panel members. Although the there was some attrition throughout the year in terms of Panel membership, (a natural fall-out being expected due to the year-long commitment), the demographic mix for the third events was roughly the same as the original recruitment specification.

It should also be noted that for the final event, Beverley participants attended a new venue located centrally in Hull: this was in response to feedback from Panellists at the first and second events about difficulties accessing the first venue.

4. Methodology and topics for discussion

As with the preceding two events, the third event was set up as a three hour deliberative evening workshop. The main points for exploration were consumer involvement in Price Controls and how tariff structures could affect energy efficiency behaviour. During the workshop the following areas were covered in the group discussions:

- Spontaneous recall of energy industry structure
- Billing components
- Network companies and Price Control
- Tariff structures and their possible impact on energy efficiency behaviour
- Reflections on the Panel experience

Prior to the events, Panel members were asked to complete a short pre-event activity in order to encourage them to consider where the money goes when they pay their energy (beyond suppliers), and secondly, to record their thoughts about their experience as a Consumer Panel member.

The events included a presentation by Opinion Leader about network companies and Price Control, including an explanation of the transmission and distribution aspects of gas and electricity supply chains. Panellists took part in numerous collaborative group exercises, such as recalling the structure of the gas and electricity industries and designing their own tariff structures, and a few also had the opportunity to present to the whole room during plenary sessions. The full agenda and all content used at the workshops can be found in the appendices.

This report details the research findings from the Consumer First Panel across all five locations, which took place between 8th June and 18th June 2009.

5. Consumer Engagement in the energy industry

This section of the report outlines some key themes related to consumer engagement in the energy industry and reflects on the findings from all Panel events held over the past year.

Consumer consultation in the energy market is particularly difficult

The Consumer First Panel has highlighted that, in general, the energy industry is a very complex subject matter for consumers. It is also a subject area that many consumers are not actively interested in, aside from how much their bill costs. However, many participants on the Panel now show evidence of more proactively engaging with the market, for example, they study and have a better understanding of their bills, and they are interested in media stories surrounding industry issues. However, this is largely due to their involvement in the Panel and the journey they have been on over the course of the Panel year. The complexity of the industry was highlighted across all the Panel workshops, and a number of reasons have been identified as to why consumers struggle with engagement in the industry.

Lack of contact with suppliers

Many consumers do not have frequent, direct contact with their energy suppliers. Most assume that when their bill arrives, suppliers' calculations are correct and few will check or have a reason or need to contact their supplier. Coupled with this, the majority of Panel members pay their bills via direct debit, which means when they receive an energy bill they don't need to do 'anything at all'.

Furthermore, many participants report they only contact their supplier when a problem arises, which tends to happen very infrequently. Many Panel members discuss that problems such as power cuts tend to be far less common than in the past, and due to their lack of knowledge about network companies and other players in the market, assume this is a supplier issue.

Technical nature of consumer-facing communications

Many Panellists also suggest that there are lots of technical words and phrases used in consumer-facing communications. For example, the second workshops highlighted that 'primary', 'secondary' and 'unrestricted' units are terms that many consumers do not understand. Participants report that the confusing language in communications from suppliers, contributes towards the number of consumers who are 'switched off' to the industry as a whole – assuming it too complex to be able to engage in.

Lack of knowledge about the industry structure

It can be a struggle for consumers to think beyond their experience of suppliers when considering the industry as a whole. Even by the third events, many participants struggled to understand the role and detail of other companies involved in the industry, particularly those involved in distribution and transmission. Interestingly, sources of gas and electricity appear to have more resonance than other areas of the industry structure.

Energy lacks 'tangibility' as a product

Some participants also allude to the fact that energy lacks tangibility as a product compared to other service industries. For example, a number of participants use the example of the relationship they have with their mobile phone supplier, with whom they have a greater continuous need for contact. Panel members comment more generally that the mobile phone market is more interesting to consumers than the energy market.

The level of engagement consumers have with the market is highly variable

Due to the complex nature and structure of the industry, the Panel has highlighted that the level of consumer engagement in the industry can differ greatly from one consumer to the next. Some consumers willingly make efforts to understand the technical detail of energy provision and billing, such as checking the suppliers' calculations on their bills, and they are also likely to be interested in media coverage of the industry. However, others are likely to lack confidence when they are presented with energy information or simply lack interest in understanding the marketplace.

However, it should be noted that cost remains a pertinent issue for all consumers and many are increasingly committed to reducing their expenditure and understanding more about domestic energy usage.

Taking into consideration the perceived complexity of the industry, coupled with varying levels of interest and engagement, the Panel proved a successful tool in giving the consumers the time and information they need to feel informed and confident to comment on aspects of the industry. At the third events, many Panel members commented on how pleased the were with the progress they had made over the year, and many now feel they have got to a standard where they can understand and comment on the industry, on both broad (for example, future consumer engagement) and specific (for example, billing and network businesses) areas.

The Panel also serves as a mechanism that allows consumers to speak from both a personal and a citizens' perspective, considering issues such as billing metrics and generation from both an individual and a community perspective. Thus, we believe the Consumer First Panel is a successful ongoing mechanism for Ofgem to consult with consumers, on an array of energy issues.

Consumers need representatives to act on their behalf

The Panel has highlighted the need for intermediaries who can represent the consumer, who can act as an aid in the understanding of complex topics and act as an advocate for consumer interests. Panellists perceived Ofgem's role in this regard as legitimate and very worthwhile. However, as with most regulators, which are not generally felt to be public facing, respondents were unlikely to know about Ofgem before the events. This also extended to Consumer Focus which was little known at the outset of the Panel events and rarely mentioned by Panellists without prompting.

Many participants felt that that it would be beneficial to have more accessible, user-friendly information available about Ofgem's policies and activities, especially since table discussions throughout the course of the Panel generated questions about Ofgem's power vis-à-vis suppliers.

6. Main Findings

6.1 Recall of the energy industry structure

At the first Panel event, participants discussed their knowledge of the energy market and were given a presentation outlining the industry structure. At that time, Panel members had awareness of energy suppliers but little knowledge of other specific organisations involved in energy supply. They were surprised at the number of 'players' in the energy market and the number of stages in the supply chain, concluding that these additional layers provided an explanation for higher energy costs.

At the third event, Panellists were asked to recall the energy industry structure (and draw diagrams of this in groups) in order to see how much information they could remember and to provide the background for a later presentation on network companies. At the third events:

- Participants had a reasonable recall of the industry structure overall but only a few had a very good understanding
- Extraction, generation, transportation, the National Grid and suppliers were most easily recalled, for both gas and electricity supply
- Some mentioned local or regional networks / distribution, although the majority struggled with this area
- A minority mentioned Transco for gas supply or gas shippers
- There was little mention of network companies and no mention of individual network companies by name

Energy structure recall

Most participants have a limited understanding of the energy industry structure and, given the complexity of the industry to most consumers, Panellists demonstrate a reasonable grasp of the overall structure -particularly for electricity.

However, many miss out regional distribution and although most mention the National Grid or a 'central grid' system for both gas and electricity supply, this is perceived by most as feeding in directly to suppliers who in turn provided energy directly to consumers. A minority recall Transco or shippers for gas supply and mention some type of network distribution, but individual distribution companies for both gas and electricity were not known by the vast majority.

Typical energy structure recall

Gas	Electricity
• **Source:** International and North Sea / Offshore supply (many mention Russia) • **Storage / refining** • **Wholesalers or Transco** (mentioned by a few) • **Piped to National Grid / Pipeline** • **(Some mention 'network' or distribution)** • **Suppliers** • **Consumers** – commercial and domestic	• **Source:** Raw materials e.g. nuclear, wind power, hydro, tidal, coal, oil/gas, solar • **Generation/power stations** • **National Grid** (not mentioned by all) / **Pylons** • **Suppliers** • **Consumers** - commercial and domestic

Advantages and disadvantages of the industry structure

After attempting to recall the structure of the industry, the actual energy supply chains (as used in the first events) were revealed. Participants generally show less of a concern about the number of players in the market than they had at previous events, perhaps evidence that gaining more information about the complexity of the energy market has influenced viewpoints. For example, some participants feel that given the inherent complexity and vastness of the industry it is to be expected that numerous parties are involved in energy supply. When prompted to consider if there are any benefits to the supply chain structure, some Panellists acknowledge that the number of businesses in the process can potentially encourage competition, innovation, efficiency and environmental benefits (through research and development and investment).

"For such a complex business, I think there are relatively few stages."

"It is so vast that one company being responsible for all would be too difficult."

"There are lots of people involved – might help with competition."

However, similar to the overall response during the first events, there is also a perception that as each organisation in the chain needs to make profit, this will result in higher prices for the end customer. And, without an explanation of the distribution sector, some Panellists question whether this element of the process as it appears to add another layer.

"Can you cut out distribution and cut costs?"

"At each stage of process they must take money."

"No wonder it so expensive if they all make a profit."

Therefore, views on the number of stages in the supply process are mixed. Despite having a greater appreciation of the complexity of the industry by the third event, many Panellists are dubious about too many opportunities existing for companies to profit. This highlights the desire for greater transparency around industry costs (which will be discussed in more detail in relation to Price Control), and an underlying lack of consensus amongst Panellists about whether or not a market based system with competition actually benefits energy consumers.

Panellists perceive fewer suppliers in the energy supply chain would create more opportunity for a monopoly, and the more companies can potentially charge customers. On the other hand, some participants – particularly older Panellists – recall the nationalised (monopolistic) model, and believe that this worked well and remain supportive of a nationalised system.

Thus there is debate over monopolies and their respective pros and cons. Panellists are unsure if a monopoly is good or bad thing in terms consumer interests and tend to base their judgements on past experiences and personal viewpoints. Overall, consumers feel that it is important that there is transparency in the energy supply chain, especially where few players are involved in supply.

"If one did the whole lot you'd have a monopoly."

"When it was a monopoly there was no competition. And competition can be healthy."

"Energy should be nationalised."

Conclusions – industry structure

Panel members have a good overall understanding of some of the more visible parts of the energy industry structure for both gas and electricity supply, particularly in terms of the different methods of energy generation - such as coal, oil, hydro and tidal power. However, the majority of Panellists do not naturally distinguish between transmission and distribution, although many cite the National Grid as being involved in supply. This is largely because Panellists have little contact with regional distribution companies and organisations above their suppliers.

There are mixed views about whether having numerous stages in the energy supply chain is positive or negative from a consumer perspective. There are a few Panellists that continue to advocate a nationalised system and see this as a simplified mode more beneficial to the consumer, whereas other Panellists perceive that a system with fewer companies results in a monopoly which may go against consumer interests. By the third event, however, Panellists demonstrated a greater understanding of the complexity of the supply chain and appeared less concerned about the numbers of players involved, despite remaining suspicious of company profit margins and the reasons behind high energy costs.

6.2 Bill components

As a lead in to the discussion about consumer involvement in Price Controls of the network elements of their bill, Panellists were asked to complete a pre-event activity before the third event in which there were asked to consider where the money for their energy bills goes to when they pay their bills. This was designed to encourage thought about where consumers' money went to, beyond their suppliers.

Overview of pre-task

The majority of Panellists demonstrate a good awareness of the areas that their billing costs go towards, predominately suggesting end-recipients such as energy suppliers, overseas supply (notably Russia), research and development, staff wages, maintenance and government taxation. Many admit, however, that this is simply an educated guess.

> *"Firstly the supplier. Also the pipeline owners, the transportation and the original supplier amongst others."(Extract from Pre-task)*

> *"I think the money I pay for my bills, gas and electricity go to the actual cost of the raw materials, administration and wages and profits to the owners." (Extract from pre-task)*

In total, the suggestions of where consumer payments go were numerous and comprehensive, as outlined by the list below. This is partly because Panellists have a greater understanding of the complexity of the supply chain and reason that all companies involved will have corresponding costs:

- Advertising, sales and marketing
- Efficiency of supply
- Extraction of raw materials
- Generation
- Government (business taxes, 'green' taxes, VAT)
- Industrial supplier / overseas supply
- Infrastructure
- Maintenance, investment and improvements (pipelines etc)
- Meters
- Ofgem
- Research & Development
- Renewables
- Shareholder dividends / profits
- Shippers
- Staff wages and overheads
- Suppliers
- Transmission

Interestingly, a few Panellists mentioned that 'rent' of pipes or pipelines – in addition to their maintenance - would incur costs although they did not refer to the transmission or distribution companies directly, with the exception of the National Grid.

Billing components

Once the broader billing areas had been discussed, Panellists were asked to make estimations of six billing components for gas and electricity: energy, supply costs and margin (suppliers own internal operating costs such as customer service staffing, IT, marketing, billing, bad debt costs and profit); distribution; transmission; VAT; environment; meter. Panellists were able to make fairly accurate estimations to the percentages allocated to each component (see figure 1).

However, many groups:

- Under-estimated energy, supply costs and margins
- Over-estimated environmental expenditure
- Over-estimated transmission costs
- Found it hard to distinguish between transmission and distribution costs

Figure 1 – Panel estimations and actual allocations (as of 18/05/2009)

Component	Typical % allocation by Panellists	Actual allocation – gas	Actual allocation - electricity
1. Energy, supply costs and margin	**50% – 65%**	**74%**	**69%**
2. Distribution	**20% – 30%**	**15%**	**15%**
3. Transmission	**20% – 30%**	**2%**	**3%**
4. VAT	**5% - 17.5%**	**5%**	**5%**
5. Environment	**5% - 10%**	**2%**	**7%**
6. Meter	**1% – 10%**	**2%**	**1%**

Energy, supply costs and margin:

Estimations of the energy, supply costs and margin component derive from the fact that Panellists perceive that suppliers' margins will take a large proportion of overall costs (often around 50-60%) and that the cost of producing electricity is particularly high. A minority give lower estimations – around 30% or under – that tended to be for gas supply or suggested from participants who think profits are lower than commonly thought.

Transmission and distribution

Transmission and distribution were interpreted as the infrastructure of the supply chain, such as pylons and pipes, and the process of transporting gas and electricity to consumers. Costs for transmission were thought to be high (typically around 20-30%) due to the maintenance of the infrastructure, such as putting in new pipelines, which was felt to be especially costly. A minority reasoned, however, that once pylons were in place these would take little maintenance so costs might not be as high as thought. Many Panellists thought that distribution and transmissions costs would be about the same, highlighting the fact that at this stage it was the minority that were able to make a clear distinction between transmission and the distribution aspects of the energy supply chain, for the majority however there was no clear distinction between the two.

Transmission costs were therefore largely over-estimated by nearly all Panellists, although distribution costs were more accurate (often at around 20-30%). Panellists thought that distribution costs would be high (at least 20%) because of the large distances that require coverage and the infrastructure that would need to be in place to support this.

VAT

The majority of Panellists knew that 5% went towards VAT on bills for both gas and electricity, although some thought it was higher at 10%, 15% or 17.5%. Some questioned whether energy companies paid higher VAT rates than consumers (some noted that VAT was 5% on their own bills) and if energy companies could claim this back or not. A few also wondered if VAT was paid at each part of the supply chain.

Environment

Environmental investment was thought to take a smaller proportion of billing costs; most Panellists thought it would be the same - around 5% - for gas and electricity supply, although a minority estimated an even lower percentage. As previously mentioned, Panellists were unaware of the detail of energy companies' environmental expenditures and tended to presume that this went into investment in renewables or 'cleaner' energy generation.

Panellists were therefore informed that environmental charges comprised of a Renewables Obligation Certificate (targets for energy suppliers to source increasing amounts of green electricity each year), and the Carbon Emissions Reduction Target (Government policy setting out targets for reducing carbon emissions by providing energy efficient measures to domestic customers). It was explained that suppliers then pass on these costs to customers. Most Panellists assumed that since the environment was high on the agenda at the present time, companies would be investing in methods to conserve more energy and would receive support from the government to do so, although ROCs and CERT were not mentioned spontaneously.

Interestingly, despite the high importance of the environmental agenda, Panellists thought that when it came to billing components, environmental costs would still be secondary to margins.

"Environmental which is at 10%... it's mainly recently that this has become an issue."

"Companies are more interested in profit than investment in the environment."

Meter provision

Meter costs are assumed to take the smallest proportion of total billing costs and many Panellists were accurate in their estimations, allocating between 1 and 10% for this billing component. Some panellists reasoned that these costs were low because maintenance of meters minimal and because they were read (in their experience) infrequently.

"May even be less than 5% - they hardly ever come out."

Responses to actual billing components

When shown the *actual* component breakdowns for gas and electricity bills, (see Appendix B), there was particular surprise that transmission did not take up a higher proportion of revenue. As outlined above, this was due to the fact transmission was felt to be the most 'complex' area of the chain with an extensive infrastructure, and many were confused about transmission and distribution processes within the supply chain.

However, once the actual proportion was revealed and explained, most Panellists could appreciate that transmission costs would be lower as the main infrastructure was already in place and that distribution could in fact involve more people.

"Looking at real allocation – transmission seems like it should be a lot more."

"[Transmission] – they don't have to maintain this, it's only really when there is a gale or a storm."

"[Transmission is] surprising – took it to be all the costs travelling all the way through from Russia – by ship or pipe. And costs of building pipes, building and securing them."

"We thought transmission would cost more as we thought there was a skill in this."

Despite allocating a fairly low proportion to environmental investment, Panellists thought investment in this area would actually be higher given the importance of the environmental agenda at the present time and its profile in the media.

"Environment is so low this is surprising - in this day and age we are told to be green so I would expect more money to go to this."

Many Panellists also did not expect energy, supply and margins costs to take up as much of the overall proportion as they did, and although a minority could see that this was in line with margins in other industries (e.g. retail), they felt that since energy is an essential service that this would have been lower.

"Bit of a shock that the energy supply costs are so high."

The billing component exercise therefore not only helped to illustrate that parts of the energy supply chain remained opaque to consumers, but also clarified industry charges even though many Panellists are able to provide reasonably accurate estimations of billing proportions.

"At home I just thought it went straight to the supplier - I knew there was more involved but I could not think who it was."

"You think people you are buying your electricity and gas off are the people making it"

Billing components - conclusions

Panellists are able to suggest numerous costs they believe are incurred by companies involved in the energy supply chain, such as overheads, taxation and research and development. When asked to consider billing components across six areas - energy, supply costs and margin; distribution; transmission; VAT; environment; meter - the majority of Panellists underestimate supply costs and overestimate transmission costs. However, when the industry structure is fully explained, Panellists can readily understand why transmission costs are lower than they anticipated, although many believe that environmental investment would be higher given the importance of the issue currently and its widespread discussion in the media.

6.3 Price control and Network companies

Ofgem is currently undertaking a two year project to review the workings of the current approach to regulating Great Britain's energy networks and develop future policy recommendations (the RPI-X@20 review). As part of this review, Ofgem is looking at the role of the consumer within the regulatory process.

A presentation was given to Panellists to familiarise them with the concept of Ofgem's role in relation to Price Control and network companies (see Appendix C). The presentation included detail on transmission and distribution and networks for both gas and electricity. Finally, Price Control was introduced in light of the fact that network companies are natural monopolies and there is no realistic means of introducing competition, hence Ofgem protects customers' interests by entering into negotiations with network companies about the allowances for expenditure that they need to allow them to continue to efficiently operate the networks.

The initial reaction of Panellists to Price Control was that it would be too confusing for consumers to understand. There was a concern amongst Panellists that consulting consumers on Price Control would be above and beyond 'non-expert' consumers and that the Panel could not presently comment on it in an intelligent way, despite their Panel membership.

However, once the concept of Price Control was understood and the different areas for consultation explained, Panellists could see the potential advantages of engagement, although they also thought that other parties should be involved.

Doubts about Benefits of Consumer Involvement

Many Panellists initially found it difficult to perceive advantages of consumers being consulted in a Price Control, partly because consumers have little or no direct contact with the industry (aside from their suppliers) and have a limited understanding of the industry. Consumers also do not tend to think about the companies operating beyond suppliers with any regularity - as demonstrated during the previous discussions on the energy industry structure and billing components. Questions also abounded about whether consumers would actually *want* to be consulted on the industry in such detail and would be interested in these issues. However, many of these early reactions were associated with the fact that Price Control remained a difficult procedure for many Panellists to grasp and they therefore doubted if they could offer a valid judgement or contribution about network companies' expenditure.

"What right have we got to say – we have no idea about any of this – how to maintain a pylon, how would we know?"

"We still wouldn't know whether something was good value or not."

"Do we really want to know about what is happening across the industry?"

Barriers

Panellists immediate concerns centred on the following points:

- How consultation would work in practice and how consumers would be consulted
- Whether consumer involvement would cost a lot of money
- Whether too much choice / information could be overwhelming and put people off engagement
- Whether information on Price Control would be accessible
- Whether consumers would be able to fully understand the issues and form an objective opinion about them

Some Panellists made comparisons with other service industries when thinking about whether or not consumers should be consulted about Price Control. For example, they presumed that customers were not consulted on the cost of other utilities, such as water, or on banking charges.

The main barriers were therefore knowledge and information: a perceived lack of knowledge about how the industry works and Price Control more specifically, coupled with a concern that information about these would be over-burdensome to the 'average consumer'. In relation to the latter point, some Panellists drew attention to the fact that they were yet to change their energy tariff or supplier; some still did not know what tariff they were on, despite their involvement in the Panel. Many Panellists therefore considered that too much information and choice is not always desirable.

The issue of objectivity was also raised since it was felt that it might be difficult for consumers to offer an objective opinion on Price Control given their position as end users of energy; for example, would they set a fair level for companies. Nevertheless, Panellists felt that due to their involvement in the Consumer Panel they were likely to know more than the 'average consumer' and differentiated themselves as such, assuming that other people would not know as much as they do about the energy industry and would therefore be less interested in Price Control.

"We're not really qualified to make informed decisions – although we have more idea than the average consumer."

"[The] average consumer doesn't know what we [Panellists] are talking about."

Consultation with other groups

Given a lack of confidence in their ability to adequately contribute to Price Control decisions, added to a concern about having to make decisions without a thorough understanding of the issues, Panellists suggested that it would be more appropriate and worthwhile to consult other bodies or experts rather than lay consumers.

Although there were was no spontaneous mention from Panellists of specific consumer bodies - consultation with parties such as NGOs, local councils, the Government and Ofgem were suggested early on as it was felt that these organisations could make a more valuable and informed contribution. In particular, Ofgem's role and expertise was seen as pivotal and a few participants initially thought that perhaps Price Control should be left solely to Ofgem and the Government.

"I think councils should get involved – they own the roads, they should tell the network companies [about maintenance works etc]."

"The Government should be the ones to make recommendations."

Benefits of consultation about Price Control

Many Panellists were able to see benefits of consultation, particularly when they considered the fact that a natural monopoly was a factor in Price Control and as they became familiarised with the idea they thought consultation could be a good thing. It would also help to make the industry more transparent to consumers, and allow for consumer views to be represented. Some expressed interest in knowing more about how Ofgem was able to set incentives and limits on network companies as part of Price Control, the powers it has and the way it monitors the network companies in a more consumer friendly format.

Many Panellists were concerned that a monopoly was operational at the network level and, despite their doubts about being able to understand and comment on Price Control effectively without further knowledge, they thought it was important for someone to protect their interests and speak on their behalf, to guard against profiteering.

Moreover, the majority of Panellists say they want to know how money is spent, especially since some are very sceptical about company profits and find it hard to weigh up the benefits to customers of the current supply chain structure.

"What are the incentives they get and what does it cost the consumer? How are they passed on? [It] would be good for consumers to be involved …, but what would they understand? It would have to be broken down into layman terms."

"Need to know where the money has gone to in the past – a holistic approach, making sure they are not wasteful with money – look at where money has gone and that they justify their needs."

"The average consumer doesn't need to know any more than that there is a monopoly…. Monopoly is profit making. Consumers should have a say on that."

"[I'd] like to see a mission statement from them - what they propose to do with our money."

"I would like to know how efficient these companies are."

Therefore, greater transparency about expenditure in the industry is welcomed and Panellists see that consultation on Price Control is potentially beneficial, providing those involved are well informed of the issues.

Potential areas for consultation as part of Price Control

Panellists were presented with six topics that consumers could potentially be consulted on as part of the Price Control across the network industries. They were asked to rank these in order of importance to determine which topics they felt were priorities for consumer engagement - as outlined below:

- Social Objectives (highest priority)
- Low Carbon Economy
- Quality of Service
- Financing
- Maintaining and replacing assets
- Reliance and Security of Supplies (lowest priority)

Overall, interest in consultation about network companies was directly linked to understanding of the issues and personal relevance of the issues to Panellists themselves or other consumers, and as such some areas were felt more important to customers than others. However, after considering the six topics, there were some Panellists that came to the view that all areas were important in some degree, and worthy of consumer input.

Social objectives

Social objectives are deemed very important to the consumer, particularly in relation to vulnerable consumers such as elderly people, people with a disability and those with young families. Here, the tendency to take a 'citizens' perspective' was especially noticeable as Panellists reasoned that a system

should be in place that encourages fairness for all consumers and ensures that vulnerable groups get the best price possible for their energy and service should they encounter any problems.

Panellists feel that Government, network companies and suppliers have a role to play here, particularly in terms of fuel poverty and vulnerable customers. It was felt network companies and suppliers should know who these people are and offer protection in instances of power cuts by providing back ups.

Some participants also perceive an opportunity for community level involvement around social objectives and suggest that people in the community would know who the vulnerable persons are in their area. In terms of the way to engage, small, local consultations - possibly with other interest groups, such as charities (i.e. Age Concern / Help the Aged), social services or hospitals - were felt to be an appropriate method of consulting on the issue.

"Maybe it should be about the community, if you don't ask you don't get – the suppliers should know who is paying the bills so they know who is in the house, and if they need support."

"I think if there was more transparency for the vulnerable people this would help."

Low Carbon Economy

Low Carbon Economy was felt to be an area of high interest to consumers due to the importance of, interest in, and high media profile of the problem of high carbon emissions and their impact on the environment. Participants felt that waste should be prevented at the network company level and that environmental investment should not 'take a back seat' due to the present economic climate given the importance of controlling carbon emissions.

Some Panellists tended to direct responsibility for this area towards the Government and away from consumers; although others felt younger people could be interested in this area. NGOs, such as Greenpeace, were also cited as appropriate for consultation.

"As long as it's somebody who knows what they are doing then that's fine."

"This is far more important to the consumer - we are wasting some but the companies are wasting more."

"This is the government's responsibility – they have the obligations, consumers don't have a choice, maybe the government should enforce this. It needs expertise, plus it is a national target so the government will be penalised if they don't achieve those."

It is worth noting that environmental attitudes and governance were explored during the previous Panel event in the context of future LENS (Long Term Electricity Networks[1]) scenarios, where Panellists had discussed future methods of energy generation and different levels of intervention from industry and government. At these events, most Panellists said they anticipated increased Government intervention in the energy market, leading to greater protection for the environment and the consumer. The findings of the third event therefore reinforced earlier discussions about having Government involved in decision making about energy use and its impact on the environment.

Quality of Service

There was much support for consumer consultation on this area as quality of service was felt to impact on consumers (both business and domestic) directly. However, due to the lack of understanding about quality of service issues at the transmission and distribution stages of the chain, quality of service was interpreted by Panel members as 'customer service' from their supplier, and this was viewed as an important subject. Moreover, Panellists see that as consumers are paying for a service, they should be able to have a say on the quality of that service.

Many discussed good customer service as a good service with no interruptions, problems being fixed quickly, and the provision of good information. Panel members did not associate quality of service with the quality of their actual energy supply and also found it hard to understand the difference between quality of service and reliance and security of supply.

The majority of Panel members have no interruptions to their supply or need to complain about their service, thus they fail to see why they would need to consider or indeed contact the network companies. A few Panellists observed that that because suppliers are consumers' main point of contact, it would be difficult to comment on network companies' quality of service: not only do consumers not see who is behind the service, but information about network companies is not currently in a language that consumers are likely to understand. Retired experts such as engineers and energy professionals were deemed particularly appropriate persons for engagement in this area.

"So very important. Affects businesses as well! …We should be involved in all of this."

"Quality of service above suppliers is out of your hands – too high a level."

[1] Ofgem's Long Term Electricity Networks (LENS) is a project that aims to facilitate the development of a range of plausible electricity network scenarios for Great Britain for 2050.

Financing

Views on consumer consultation on financing were mixed. Some Panellists considered it a high priority especially given shareholder dividends and price increases, whereas for others, it was a topic too complex to be involved in. There were also those participants that believe that companies should be left to run their own finances. However, underpinning discussion on this area was the fact that consumers would like evidence of efficient use of money by network companies and in the industry at large and to know that there is control of spending given that companies enjoy a natural monopoly.

Panellists felt that Ofgem as the regulator had the chief role to play in relation to finance, but as previously mentioned, consumers are interested in information about company finances being available to the public – such as details of expenditure – and remain concerned about profit levels. Local business people were also thought suitable for consultation on this topic and some felt that shareholders or boards (of energy companies – such as suppliers and distribution network operators) could be involved in discussions alongside members of the public. In the workshops there was no spontaneous mention of consumer advocates or other bodies that could be involved.

"I think the information needs to be available. I think shareholders could be involved here."

"People should be informed about what their overheads are."

"You could have a board of directors, with some members of the public involved like a lay visitors scheme."

"I am drawn to financing as well as too much of the costs of running the business are not transparent."

Maintaining and replacing assets

Questions arose about how consumers could make an informed decision on such a technical area as maintaining and replacing assets. Panellists comment that it is taken as a given that this is done and to ask for input into this area would be a challenge as it is beyond most people's understanding.

"We don't know how much this costs, would we be able to make an informed decision, this sounds quite technical?"

"One feels that maintaining and replacing assets is not something to be consulted on."

However, some Panellists say they would like reassurance that money is in place if replacements are required and that that pipelines are well maintained. Again, Ofgem and Government were felt to be more appropriate decision makers in this area, as well as industry experts and local councils.

"We are not to know how much this costs, but I guess this is where the most money should be spent. Ofgem should control this."

"If it needs to be done, it needs to be done, therefore doesn't need to be consulted on."

"Rely on Ofgem and Government to decide how much it is going to cost and maintain."

Reliance and Security of Supplies

Most Panel members found this a hard topic to grasp and too technical a subject for consumer involvement. Some assumed that reliance and security of supplies referred to energy interruptions or security of global energy resources, rather than losses of energy from the network per se, therefore confusing this topic with maintenance or quality of service areas as mentioned previously. Also, because Panellists report that their energy supply tends to be consistent and dependable, it was difficult for them to comment on reliance and security of supplies.

However, security of supply was felt to be important, and Panellists do not want to be without supply. They also want reassurance that energy is not wasted and appropriate investment takes place to ensure that supply is reliable. Consumer consultation on reliance was thus viewed as a lower priority overall than other topics as Panellists were unable to see how consumers could have an impact on this area. This could be due in part to the fact that energy supply is typically very good and Panellists did not report any regular problems with power cuts. However, it was suggested that penalties could be in place if supply was not reliable.

Similar to maintaining and replacing assets, it was felt that industry experts and Ofgem should have responsibility for decisions related to this area.

Suggestions for consumer involvement

Consumers felt consultation on Price Control would need to be supported by a widespread media campaign (such as a road show around the country or TV advertising) to raise awareness of the issues and educate the larger public. Improving transparency of the industry was felt to be of value and Panellists felt that consulting with the public about Price Control was one way to make the industry more open. Most agreed that involvement in a consultation on Price Control should be optional for consumers, but noted that it was important that any consultation was inclusive and promoted widely - such as via energy bills or a website - to give everybody an equal chance of participation.

It was therefore suggested that there should be different opt-in mechanisms for consumer consultation, the depth of enquiry spanning simple feedback mechanisms - such as a few questions on the bill or telephone interviewing, through to the more complex – longer questionnaires, in-depth focus groups and panel discussions.

"Simple form [included] with your bill – give you the opportunity to answer some questions and a form to ask you if you would like to take this further."

As mentioned, there was also the suggestion of running small consultation groups with other partners and interest groups, such as local councils and charities. Involving retired lay experts (especially engineers and technical professionals) was thought to be a good idea on technical areas particularly as many Panellists felt that most people would not be aware of network companies (unless they had experienced a problem) and would not know how to improve their effectiveness and efficiency.

A few participants debated whether consumers would have to be incentivised to get involved, particularly given the likelihood that many might not be interested in energy issues, and many Panellists assumed that Price Control would not be an area of interest for many members of the public. It was suggested that TV advertising or a prize draw could be used in order to encourage participation, and there was also a suggestion of having members of the public employed on a full- or part-time basis (such as monthly) around the country, given that there would be a great deal to understand.

"Most people would need to be incentivised, for them to take part."

"Consumers won't be proactive."

There was widespread support for consumer panels and workshops as a forum for feeding back (like the panel participants have been involved in), and it was agreed that the Panel membership had sparked interest and a desire to be involved in consumer issues about the energy industry. Given the complexity of the subject matter of Price Control and the complexity of the industry, participants thought that Panels were a good way of ensuring ample time was given to people to understand the issue they were being consulted about.

"People will not make informed choices if it is stuck on the back of the bill."

"This type of thing is brilliant… it's got me thinking anyway".

"But from coming to these groups I think we know more about the industry and we are more likely to want to be involved."

Panellists expressed interest in finding out more about Ofgem's role and activities and felt that these could be better communicated with consumers than they are presently, particularly since some Panellists felt that Ofgem could play a greater role in capturing consumers' views and being an overt consumer advocate in the future.

This was especially relevant when Panellists considered Price Control. They commented that they were unlikely to trust network companies and that consultation would have to be facilitated by an independent organisation. Trust in Ofgem amongst Panellists was however evident and many saw Ofgem playing a valued role in representing consumer viewpoints and protecting consumers' interests.

Nevertheless, there was a perception amongst some Panellists that Ofgem currently lacks sufficient power to take action against suppliers and network companies. This stems from the fact that, currently, consumers lack knowledge about exactly what powers Ofgem *does* have in relation to energy companies and the actions that it can take if companies are not performing optimally or in accordance with Ofgem's regulations and standards, such as Price Control. Thus, although Panellists see that Ofgem regulates and monitor energy companies in order to protect consumers, they do not understand in detail how it can act on their behalf.

"Ofgem should have more powers to enforce things. Have more say."

"Network businesses… they are too involved and too busy looking after their own interest"

"I would not trust the agenda of the network business, the nature of their business is not to speak to people – it would be a cost that gets added to our bill."

There was also agreement that Ofgem would need the support of expert consultants (for example, engineers) for discussions around certain technical areas of part of Price Control. This was felt to be important to ensure that there is enough technical knowledge available to Ofgem.

Conclusions – consumer engagement

If consumers are to be consulted about Price Control, they need to be well informed about how the energy industry works beyond suppliers. At the present time, most Panellists lack knowledge of distribution and network operators and therefore doubt the contribution they can make about technical aspects of Price Control.

On account of their Panel membership, Panellists assume that those who have not been involved in a similar process are more likely to be disinterested in issues such as Price Control, despite it being an important area for the paying consumer and a means of encouraging greater transparency of the energy industry. Lack of knowledge is thus a critical barrier to meaningful consumer involvement on Price Control, coupled with the fact that most consumers are likely to be primarily concerned with the amount energy is costing them, as found in previous panel events.

However, the Panel demonstrates that consumers are willing to participate in consultation on complex topics, where they have incentives to do so, and many now feel they know more about the energy industry than before. Consumers who take part in the Panel journey are more able to comment on complex areas of the industry through continued learning and engagement, despite still not being energy industry experts. They are receptive to hearing more about Ofgem's activities and differentiate themselves from other consumers because they are now more broadly aware of the industry structure, as well as topics such as energy usage and tariffs.

Representing the consumer about Price Control is therefore likely to require intermediaries who can aid understanding of complex topics and potentially act as an advocate for consumer interests, as well as interest groups who understand the local area.

6.4 Energy efficiency and tariff structures

The second half of the workshops explored the idea of tariff structures, with a focus on types of tariff structures and the affect they may have on energy efficiency. Discussions were centred on different kind of tariff structures and their impact of encouraging consumers to consider their energy usage more.

As with previous workshops, it is observed that there is continued confusion surrounding energy tariff structures, despite the fact that that Panel members have discussed tariffs in depth at previous panel events. Thus, this appears to be a particularly complicated area for consumers to understand and comment on.

Confusion surrounding energy tariffs

This confusion surrounding tariffs appears to relate to a number of issues that are detailed below.

Most Panel members do not understand their current pricing plans and report that they are not aware of the tariff they are currently on; they even voice surprise when told they have a choice of tariff. Tariffs structured around different times of day appear to have slightly more resonance, for example, 'Economy 7'. Some participants also discussed dual fuel and a minority mentioned smart meters, fixed term, and low / high rates, assuming these are tariff types.

Early on in the discussion about tariff structures, a number of Panellists bought up the subject of social tariffs. There is an assumption that these do exist for certain vulnerable groups in society, such that they get payment support or special discounts on their energy bills.

"When I have looked at tariffs, I just couldn't understand them."

"Nobody knows what tariff they use. The only thing I know is that when I see the amount I panic. Nobody really understands tariffs at all!"

Coupled with this, there is a perception that tariff information (structure and presentation) is inconsistent across suppliers, which fuels the resistance to engaging with tariffs. This means that people say they are less likely to be able to make an informed choice, and many will simply disregard the information where it is seen as having no tangible meaning to them. There also remains an assumption amongst Panel members that the difference between tariffs is quite marginal. This viewpoint appears to be strongly related to the current perceived complexity of tariffs, which leads to an expectation that savings

from switching will not be significant, or would be just be too confusing to calculate. The majority of participants feel that changing tariff *'is not really worth it'.*

An important element of this scepticism and resistance to switching and engaging with tariffs relates to the lack of faith Panellists have in suppliers to advise them on the best tariff for them, unlike mobile phone companies who are felt to do this well.

"Tariffs are supposed to have an effect on your bills, but [I] don't think they really do."

"I think the differences between them is marginal, probably lots of them."

The impact of tariff structures on energy usage behaviour

The majority feel that the general lack of consumer understanding about the amount of energy people use in their homes and the difference between appliances in terms of consumption makes it hard to understand and, importantly, compare different tariff structures. Most state that consumers need to understand more about their usage before they can make an accurate judgement about tariffs, and understand the impact different structures might have on behaviour.

As with the last workshops, Panellists are still uncertain as to what constitutes high / low energy usage, they are also unaware of their average usage and there is a lack of awareness of different tiers and cost thresholds within these. In the workshops, there was a widespread view that for tariffs to be both useful and used properly, consumers need to know and understand their energy usage.

In general Panellists feel tariffs are unlikely to have an impact on energy usage behaviour. This is due to an assumption that few consumers have an accurate understanding of how their energy usage behaviour impacts on cost. Even the obvious point that when consumers use less energy their bill will decrease is not entirely convincing to all, due to rising prices of energy more generally and the general scepticism that surrounds suppliers. Many feel that although they try to cut back on their energy usage, it is difficult to gauge the impact specific behaviours have on cost savings with any accuracy - therefore changing behaviour to get the most out of their tariff choice seems a stretch for most, as the diagram (2) below outlines.

Diagram 2 – consumer journey

Many state it would only be worth making the journey if cost savings were substantial, and obvious (for example, no calculation necessary). Panel members suggested that if consumers had a tool which helped them monitor their energy usage, it might encourage them to engage with tariffs as they would be able to understand more about their energy usage, and it would be clear to see when they move between tariff tiers. A few respondents suggested that widespread smart metering would help with this, however, only a minority of Panel members appeared to be aware that smart meters are going to become far more common in the future. Others suggested more creative forms of notification, such as text alerts, would be useful in making tariffs more user friendly.

"Smart metering should be more widespread – when will they be more common?"

Environmental tariffs

As found in previous workshops, environmental impacts are a secondary consideration for most, with price prevailing. Thus, consumers signing up to a tariff which is better for the environment is also felt to be unlikely for most Panel members unless these environmental benefits were explicitly linked to a substantial cost saving.

"You generally do not think in terms of efficiency and tariffs. More about saving money and rebates"

Tariff options

A small proportion of respondents feel there should be no choice of tariff as it adds to the complication of understanding your bills and makes it even harder to compare different suppliers. However, the majority disagree with this view.When participants were shown an example of a current tariff structure, and asked to design their own tariffs to encourage people to adopt a more efficient approach to their energy use,, it became clear that a choice of clear tariff structure is appealing to many.

However, it is important to note that the benefits of a choice of tariff structure tended to surround the consumer saving money and giving the consumer choice, rather than the tariff having a direct impact on energy usage behaviour overall. For example, Panellists agree that consumers should have the option of picking a tariff structure that is most suited to their personal circumstances and energy usage, so that

they have the option to be on an energy tariff that can save them money. Some also suggested at this point in the discussion that consumers should be offered an edited choice, as too much choice could be confusing and overwhelming. Ideally consumers should have an element of flexibility without having to make a complex decision between lots of options.

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"Can't just be one tariff for everybody. Need more flexibility and choice."

Many Panel members struggled to see a direct relationship between tariff structures and energy efficiency behaviour. Participants suggest that tariffs should be structured to reward customers who are energy efficient or make cut backs to their usage, and most felt this is an obvious point about tariff structures. Some also feel that having a choice of tariff might encourage consumers to be more aware of their energy usage behaviour, and importantly, make cut backs to the amount of energy they use.

Tariff rewards and penalties

In the creative exercise, Panellists were tasked with designing a tariff structure that would encourage people to consider their energy usage more. It quickly highlighted that when it comes to energy tariffs, one size does not fit all. Many immediately recommended flipping the example 2-tier tariff structure around (suggest a cheaper tier first), so the more energy you use the more you pay (proportionately). There was widespread acknowledgement amongst Panel members that energy consumption differs across consumers. Panellists also feel that tariffs should be structured so that they reward customers for efficient energy usage. Given these two beliefs, some suggested that the 2nd (higher) tier should kick in when the consumer moves above the 'average' usage for their particular living situation or individual circumstances.

They should reverse it – it would make people more efficient."

This exercise demonstrated for tariff structures to have an impact on energy usage, it must be clear to know where the tier cut off points are, for example, when you move from one tier to the next (from low to high).

However, it is important to note that only the minority consider a tariff structures in light of the impact it will have on energy usage and the environment. Most are far more likely to consider the impact certain tariff structures will have on the price of their bill.

"Great idea to turn it around, so it is more expensive the more you use, above the average. It would reward economising and make people careful about their usage. I think it would drive consumption down and be a brilliant idea."

"Rebates for low consumption if below the average."

Some Panel members took this 'citizens' view further, and considered how the different tariff structures would suit / impact on different people in society, particularly vulnerable groups. Many feel strongly that rewards / penalties related to inefficient energy usage should be relative to individual circumstances, Many participants voice concern about penalising some high users, such as those with a big family but a low income, those with medical conditions that require equipment, or the elderly.

In light of this most Panellists agree that being a high energy user does not always correlate with being an inefficient energy user.

"OAPs should be able to claim an energy allowance without a means test."

"Being a high user doesn't necessarily make you irresponsible!"

"[There should be] two tariffs – one for housebound/vulnerable and one for general consumers."

Only the minority of groups at the workshop struggled to design their own tariffs – and these tended to be the individuals that feel a choice of tariff is not necessary, and that there should be one rate, at all times, for everyone.

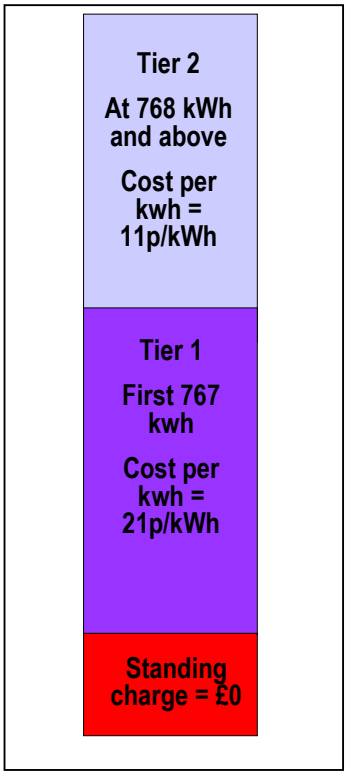
Reaction to tariff options

Once participants had designed and discussed their own tariffs, they were shown a number of other tariff options and asked for their views, with a particular focus on the impact the tariff would have on energy usage behaviour.

Most Panel members did not discuss the over-riding obvious fact, that with most of the tariff options shown, the less you use the less you pay (regardless of unit prices and the tariff structure you are on, the more energy you use the more you pay for it). This was not discussed by the majority, and based on findings from previous workshops this is felt to be for a number of reasons:

- Most Panel members do not know if they are a high or low user, so assume they are the latter, and conduct their tariffs analysis with this assumption in mind.
- Some Panel members do not necessarily believe 'the less you use the less you pay' as they have made concerted efforts to cut back on their usership, but have still seen an increase in their bill, due to rising energy prices.
- Some Panellists considered this fact to be a given.

Current tariff (below)



Participants were shown and shared their thoughts on an example of a current tariff. All felt this tariff offers no clear message about energy efficiency, and agreed that it offers no incentive to use less energy. However, this tariff is not a disincentive to energy efficiency as such.

Many were sceptical about the benefits of this tariff and suggest it is a way of suppliers hiding the standing charge. Some also feel the current tariff is stacked in favour of the suppliers and is structured to maximise profits. These consumers struggle to describe how this pricing model works but are generally sceptical about the actions of suppliers, On the fringes, some suggested that this tariff is designed to reward those that use more energy, as the high users get to benefit from cheaper rates,

As previously stated, many Panellists suggest if the tariff was flipped around, it would be more logical as the more energy consumers use the more expensive it becomes. This structure would also support Panel members' views that low user consumers should benefit from the cheaper tiers.

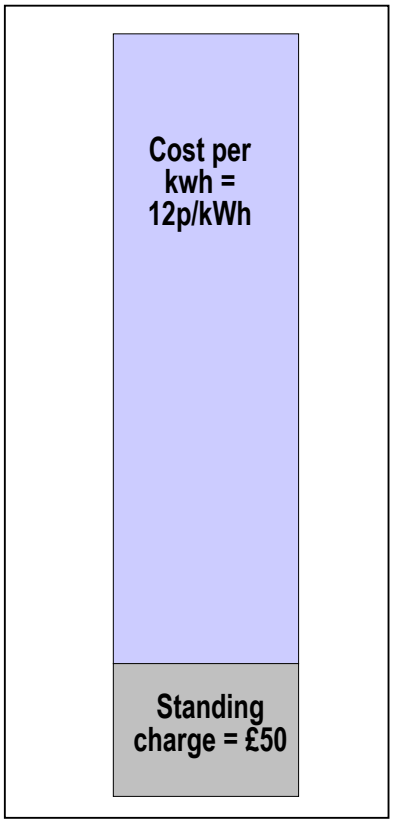
"This was introduced when standing charge was abolished, really a way of hiding standing charge."

"The incentive should be the other way round – stays cheaper the less you use – incentives."

"There is no logic to this, apart from profit, it is designed to make you use more."

"It's no incentive to use more, but certainly not to use less."

Standing charge tariff (below)



The standing charge tariff was well liked by some participants, particularly the older respondents who like the idea of a standing charge, as it means their bills are consistent and easy to understand (as found in previous workshops). It was also well received by those who have less of an understanding about their energy usage, as it is the most simple option and very little knowledge about bills or energy usage patterns are required to understand it.

A number of Panellists feel this tariff would not be suitable for them, as they want to be rewarded for being a low user, but suggest it should be one of a number of options. Most feel it should be included as an option as they recognise it offers transparency, is easy to use, simple, and helps for ease of comparison across suppliers.

"This is simple so you can have 3 companies in front of you and you can compare easily and we can make a choice."

Most Panellists agree this tariff would be most suited to high users. Some Panel members point out that the unit rate is quite low, so the overall bill might end up being cheaper for high users.

"You know what you are paying…looks like a fairly cheap pence rate."

They discuss that very low users on this tariff would be penalised by still having to pay a standing charge. There is additional concern that these low users may be single person households and elderly people. When reflecting on the example shown in the workshop, some feel the standing charge is in place to guarantee and protect the profit margins of the energy companies.

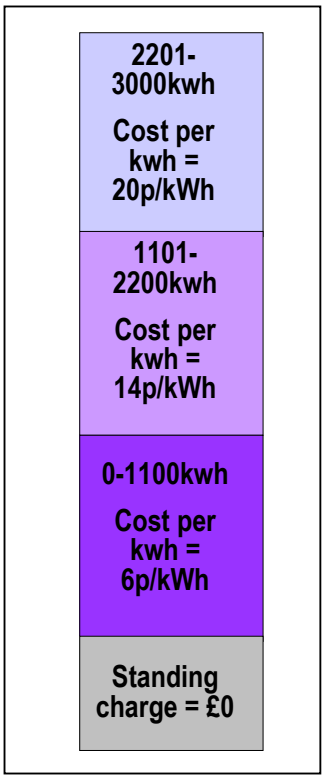
"Low users would suffer having to pay standing charge, I am not sure that is fair."

Across the workshops, there was agreement that the standing charge tariff is unlikely to make a difference to energy usage behaviour. A small minority of participants actually suggested that this tariff could encourage respondents to use more energy to make sure they make the most out of paying the standing charge.

"It's not going to encourage cut backs – it's the same price however much [you] use, but your overall bill will come down if you use less."

"No encouragement – you are paying a lot upfront. My first unit is £50.12!"

Rising block tariff (below)



A number of participants felt that this is a very worthwhile tariff option, as it taps into the strong view that low users should be rewarded - the more you use, the per unit rate increases and high users will be penalised as the more you use the more you pay. This in turn led to conversations in the workshops about this tariff being the best for the environment as it encourages consumers to reduce their usage. Many also suggest this structure seems to be a logical option as the supplier gets paid more as the consumer uses more.

"'If you are willing to be careful you should be rewarded".

Most participants felt this tariff would be a good option for low users, however, a number of Panel members point out that this tariff would penalise high users, and again they are concerned about circumstantial high users, such as those with large families or with medical conditions that require the use of machinery. A minority also mentioned that this tariff would not be suitable for electricity only customers as it would be likely to mean their bills would increase.

Some participants also suggest that having 3 tiers, means it would be particularly hard to keep control of which tier you are on. This is because there are a greater number of tiers in this example of a rising block tariff than seen in the previous two examples. Some feel that it would be complicated to keep track of, and understand which tier you are on at any given point in time. As previously mentioned,

some suggested smart meters might be a good way of monitoring this, as an alternative text alerts are felt to be a good option.

"You would need to know when you move between tiers."

"With this it's still harder to keep control, they would need to make it really clear and visible which block you are in – meter on top of TV!"

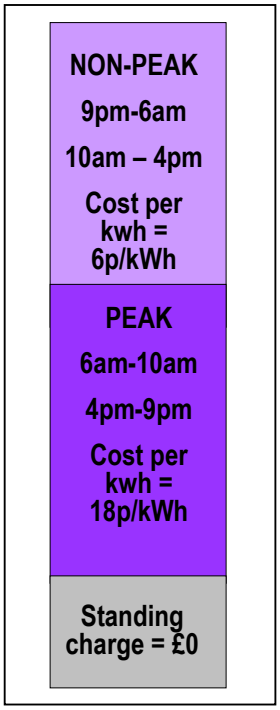
A minority compare this tariff to a mobile phone tariff that includes a set amount of free or cheap minutes, before you move onto the more expensive rates.

As with any tiered tariff, many felt suppliers would have to follow a set of guidelines that dictate where one tier ends and another starts, so that consumers can compare accurately across suppliers. Consumers would also need to have a very sound understanding of their energy usage to be able to decide if this tariff was suitable for them.

"Gives you an incentive to use less – but the companies have to all use the same tiers so you can compare them."

"You would need to know how many KwH you use a week"

Time of use tariff (below)



Overall, across all the workshops there was an element of resistance to this tariff. Many participants feel peak and non-peak hours are something of the past and that working hours are more flexible these days.

"[I] don't think this would work as so many people have different lifestyles!"

Many suggest they would need to make substantial behaviour changes, such as having appliances on a timer, or changing the time of day when they do their cooking or washing, to make cost savings on this tariff. Most Panel members agree that these changes are too substantial and too much effort for most, making this tariff quite undesirable to the majority.

"Why should 9-5 people be penalised? It's hard enough if you are working!"

People's lifestyles and technology just don't work like that any more!"

Some Panellists suggest the time of use tariff will be of benefit to businesses and those that are at home during the day, and thus might be more suited to business customers and elderly people (however some considered it could also be confusing for an elderly person).

"Will benefit business – depends who you are trying to help cut back. It would be better as a business tariff."

There is a limited understanding that this tariff aims to spread the overall demand for energy generation more evenly.

"Tries to spread the demand – for the industry – helps to spread the usage".

Conclusions – tariffs

Due to the lack of understanding of how energy usage behaviour can affect cost, many feel giving consumers a choice of tariff is unlikely to impact their energy usage behaviour as currently it is difficult to gauge the reason for any cost savings on energy bills with any accuracy.

However, many concluded that a choice of tariff structure is a good thing, as it may encourage consumers to understand their energy usage behaviour, save money and help the environment. There is also a strong perception that low users, or users that make efforts to cut back should be rewarded. However, for different tariff structures such as rising block tariffs to be useful, consumers would like to see greater visibility around when they are moving from one tier to another, possibly via a smart meter.

There were some guidelines that participants felt should apply to tariffs, most agreed that tariffs should be simple to understand, consistent across suppliers and honest. Many also feel strongly that consumers individual circumstances must be taken into account, as some high users should not be penalised, such as those with large families.

Tariff options – summary chart

Tariff	Benefits	Drawbacks	Impact on behaviour
Current tariff	Lower prices for high users	Low users are penalised Stacked against the consumer	Low – no financial incentive to use less energy
Standing charge tariff	Transparency and ease of use	Low users are penalised	None (could even have a negative effect!)
Rising block tariff	Rewards low users Consumer driven	Circumstantial high users (e.g. large families) are penalised No visibility of when you are moving from one tier to the other	High – clear incentive to use less energy
Time of use tariff	Spreads the demand for energy Well suited to business customers Easy to understand when you are moving from one tier to the other	Requires fundamental changes to behaviour to make savings	Low – too much bother for most

7. Appendix

Appendix A – Agenda

Ofgem Consumer Panel – Event 3 Agenda

- PRE TASK – Participants asked to
  - Think about your energy bills – who do you think the money goes to? (hint) this might not be your supplier
  - Record some initial thoughts about their Panel experience – best bits / worse bits / what they have learnt

Timing	Item
17.45-18.00	**Arrival and Registration**
18.00-18.10	**IN PLENARY: Welcome and housekeeping (Opinion Leader lead facilitator)** • Welcome back • Details of refreshments • Toilets, health and safety regulations • Mobiles off • Introduction of Ofgem staff • Presentation/recap of results of previous event results • Short presentation from Ofgem to thank members for input into probe

Timing	Item
18.10-18.30 Handout 1 - Energy industry structure / supply chain	**BREAKOUT GROUPS: Spontaneous recall of energy industry structure -** an exercise to 'warm up' and see how much Panel members recall about the structure of the energy market. – Each table split into groups of four and map out the industry from raw materials/extraction/generation through to domestic supply – Explain this just needs to be an overview and keep brief **IN PLENARY:** – • Present their structure back to room their structure – prize for most accurate model **BREAKOUT GROUPS:** • Refresh hand outs of energy industry structure • Any surprises about the structure of the industry? • If Panel members comment 'too many are involved' probe: – Why are so many involved in the process? – Probe: benefits, innovation, different areas of expertise etc

Timing	Item
18.35-18.50 Large pieces of paper, post it notes with bill allocation areas written on Handout 2 – bill components	**BREAKOUT GROUPS: Bill components** • Thinking now about the money you pay for your gas and electric bills • Who do you think are the receivers of the money? If struggling – who do you *ultimately* pay via your supplier • If not discussed spontaneously, explain it is distributed across the following areas… *(energy, supply costs and margin, distribution, transmission, VAT, environmental, meter provision)* • Any surprises? – Allow for spontaneous discussion • QUIZ: *Give each table a 2 pieces of paper with a circle drawn on it, as well the following on post-its (energy, supply costs and margin, distribution, transmission, VAT, environmental, meter provision)* ◦ Ask participants to allocate each factor a percentage of the pie ◦ **Ask one group to do gas and one to do electric** ◦ Discuss reasons for allocation • Reveal real allocation and discuss – *Moderator note: environmental charges are* – *ROCs – Renewables Obligation – sets energy suppliers targets to source increasing amounts of green electricity each year* – *CERT – Carbon Emissions reduction target – Government policy that sets energy suppliers targets for reducing carbon emissions by providing energy efficient measures to domestic customers. Suppliers pass on these costs to customers*

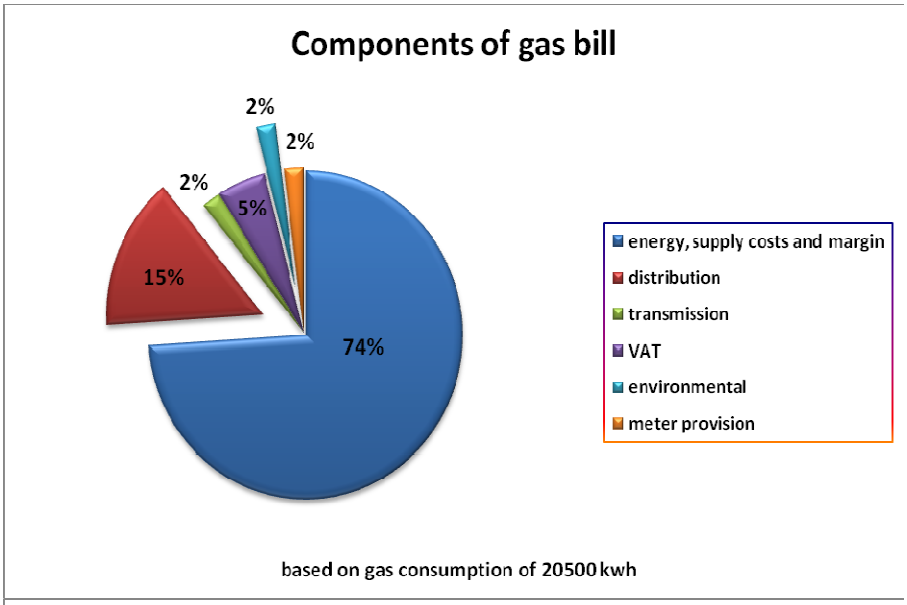
Timing	Item
18.50 – 19.00	**IN PLENARY: Presentation introducing network companies and price control, to include:** • Introduce network companies • Introduce Ofgem's duty to consult all interested parties when developing policy decisions, which protect consumers – *E.g. Consumer rep groups* – *E.g. Other parties such as friends of the earth* – *E.g. Green peace* – *E.g. Friends of the lake district* – *E.g. local council* • Introduce the idea of Price Control - that Ofgem decides how much money the network companies receive (thus how much they get to spend) (e.g information currently in handouts 3-4a)
19.00 – 19.15	**BREAKOUT GROUPS: Use handout to introduce price control** • Do you think consumers should be consulted as part of the price control across the network industries? – *Why/why not?* – *What are the areas in which consumers should have a say regarding network businesses?* – *(If struggling spontaneously here move onto next section with handout prompt of the different areas*)

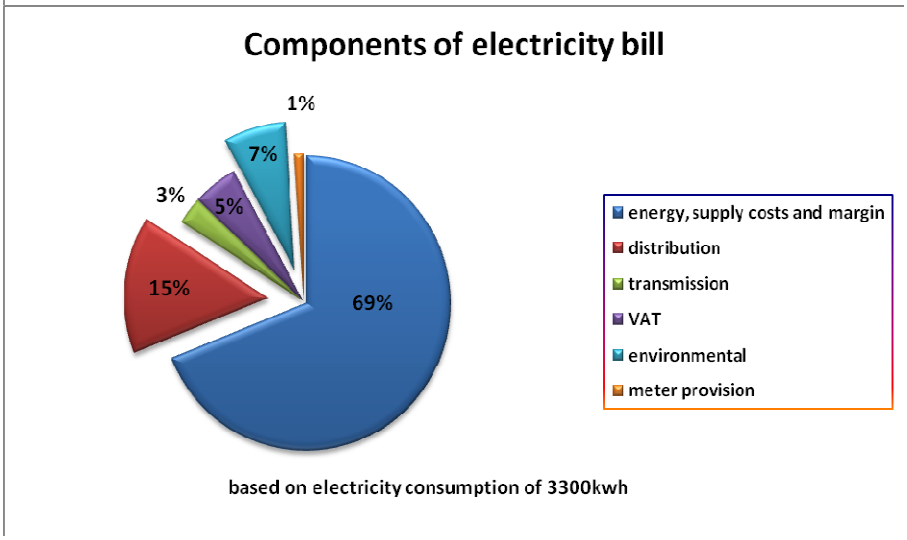
Timing	Item
19.15 - 19.35 Showcards of handout 4a	• Now we have seen the potential areas consumers could be consulted on as part of the price control across the network industries, lets consider them in turn (have each on cards) – *Financing* – *Quality of Service* – *Maintaining and replacing assets* – *Low Carbon Economy* – *Reliance and Security of Supplies* – *Social Objectives* • For each of the following probe – *Should consumers be consulted?* – *Should they be consulted overall or just on specific issues only? What issues?* – *Are there any other areas you think you consumers should be consulted on? (write these on cards)* – *Use a sorting exercise to determine most through to least important areas of consultation – moderator note: be sure to do this!* • What kind of input do you think consumers can reasonably have? – What sort of powers should consumers have in the process? • **Fully** probe how this could work in practice: – How would it work? – How should the information be solicited? E.g Expert Panel or larger scale consultation? – Who should be spoken to? – Who should represent consumer views? – How should the information get back to Ofgem? (from the network companies / independent consultants?) • What are the main responsibilities of network businesses to their customers? – What extent should network businesses involve customers in making decisions about their network spend and investments? – What are the main things that network businesses should take into account when thinking about their customers? • What do you think are the main investments that network businesses need to make?

Timing	Item
	• Whom do you feel should consult with customers about the activities of network businesses? – Network businesses themselves – Ofgem – Consumer Focus – Suppliers – MP's – Local councils How should network businesses consider the needs of/what are the most important considerations for: • Low income families/fuel poor • Rural/Urban consumers • Future consumers (e.g your children if you have them) • Environmental issues *Each group to prepare short presentation on:* – The main issues that consumers should be should be consulted on as part of a Price Control and why – Who should be spoken to – How they should be spoken to • **IN PLENARY:** present to the room, prize for most thoughtful presentation
19.35-19.55	**COMFORT BREAK**
20.55-20.30 Hand out 5 – current tariff structure	**BREAKOUT GROUPS: Block tariffs and tariff structures** • Does your tariff have any effect on the amount of energy you use? • How do current tariffs work in the context of energy efficiency? What are the drawbacks / benefits of this system? (flipchart) • Are you aware of your current tariff? How is this structured? If unsure - show current tariff structure with 1st and 2nd tier costs What message does this system give to consumers about energy usage? What impact would do you think this system has on energy efficiency / usage? • What kind of tariffs do you think would encourage people to consider their energy usage more? *Split table in to 2 for a creative exercise to design tariffs – how would they work, what would the benefits be, what impact would it have on behaviour? Flip chart ideas* Fully probe ideas and suggestions as well as impact they would have on

Timing	Item
Hand out 6 (a-c) - Example tariffs hand outs	behaviour, are they feasible / practical • Would you be interested in having a choice of tariff? Why? • What would the advantages / drawbacks be? • Show examples of tariffs: Standing Charge Tariff Rising Block Tariff Time of Use Tariff (if needed compare peak / off peak to mobile tariffs / train ticket prices) • Initial thoughts about each tariff • What impact would these have on usage? • What impact would these have on behaviour? • What information would people need to be able to make a choice about tariffs? • Who should provide consumers with this information
20.30-20.50	**Reflection on the year** **IN PLENARY: Feedback and reflection exercise** *At home we asked you to think about the best and worst bits of being on the Panel, and what you have learnt. As a group, please put together a short presentation outlining the best / worst bits of being on the Panel, as well as the most interesting things you have learnt that you would be keen to tell others about* • Present to the room –
20.05-21.00 Post workshop q're	**IN PLENARY: Sum up, thanks and close** • Explain closure of Panel year 1 and thanks for all their help

Appendix B - Bill components





As at 18/5/09

Network Companies

Energy is delivered to your home via a network of pipes and cables

Transmission (National)

The National Grid - responsible for the maintenance and operations for the High Voltage electricity and high pressure gas network

- 3 — Network companies run electricity transmission networks
- 1 — Network company runs the gas transmission network

Distribution (Regional)

There are other distribution companies responsible for your local area, these companies are responsible for the distribution of gas and electricity from the National Grid's network to your home via a local network

- 7 — Network companies run the regional electricity networks
- 5 — Network companies own the local gas distribution networks.

Suppliers

Customers

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Local Distribution Networks

Your local electricity distribution network….

- Glasgow- Scottish Power
- Leicester- Central Networks
- Caernarfon – Scottish Power
- Beverley – CE Electric (YEDL)
- London- EDF

Your local gas distribution network….

- Glasgow – Scotland Gas Networks
- Leicester – National Grid (distribution network for gas as well as transmission)
- Caernarfon – Wales and West Utilities
- Beverley – Northern Gas Networks
- London – National Grid

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Price Control

- Due to the costs of putting the network infrastructure in place, energy network companies are natural monopolies and there is no realistic means of introducing competition.
- The companies have a lot of power as monopoly companies . So, Ofgem protects customers' interests by deciding how much money these companies should receive, through:

Price control – limits on the amount of revenue network companies can make through the charges they levy on users (suppliers and generators)

Restrictions on expenditure

Incentives to be efficient and provide a good quality of service

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When Ofgem reviews the price controls every five years it looks to balance….

The need to **allow the companies appropriate resources** to be able to operate an economic and efficient system

The need to **protect customers' interests**

It is Ofgem's duty to consult all interested parties when developing policy decisions. We are interested to know the extent to which consumers should be consulted on these price control decisions

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