



Consumers and their  
representatives, DNOs, IDNOs,  
electricity suppliers and other  
interested parties

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*Promoting choice and  
value for all customers*

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Date: 25 July 2008

Dear Colleague

## **Consumer First research for DPCR5 – Quantitative findings**

This letter accompanies Accent's report published today on 'Expectations of DNOs and Willingness to Pay for Improvements in Service – July 2008' ("the quantitative report").

### **Background**

This work forms part of Ofgem's wider Consumer First initiative aimed at supporting greater engagement with consumers and ensuring that we capture consumer insight at every stage of our work.

As part of the preparatory work for the fifth price review (DPCR5), Ofgem appointed Accent to undertake a programme of consumer research with the purpose of identifying customers' service priorities and their willingness to pay ("WTP") for improvements. WTP research is a valuable input into price control reviews as it enables us to obtain a clear understanding of what customers want from their monopoly provider where there are no direct market signals. It is also increasingly important to understand customers' priorities in a climate of rising energy prices. The findings from the research will be used to help us understand what balance consumers would like between prices and delivering environmental measures and service improvements for DPCR5. The findings will be used together with other work, such as stakeholder engagement being carried out by the DNOs and our Consumer Challenge Group<sup>1</sup>, in developing the price control.

### **Methodology**

The programme of research entailed an initial qualitative phase<sup>2</sup> of discussion groups with customers which provided an overview of the aspects of quality of service that are important to customers and a quantitative stage which identified relative priorities and willingness to pay for service improvements.

The quantitative methodology used is a state of the art approach to understanding customers' priorities for improvements. Respondents were invited to choose between different packages of service levels and price. This approach focuses on the trade-offs customers make when comparing service levels with changes in bill sizes. Over 2000

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<sup>1</sup> Our Consumer Challenge Group consists of six consumer experts who are working with us to ensure that the consumer view is properly considered throughout the price control review

<sup>2</sup> See associated report 'Expectations of DNOs & Willingness to Pay for Improvements in Service, stage one: qualitative report' December 2007 [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

domestic customers and over 1000 business customers were interviewed as part of the quantitative stage.

### Key findings

The key findings from the quantitative report were:

- Customers value rapid restoration of supply and carbon reduction initiatives most highly;
- The lowest priorities for customers were improving compensation levels for the guaranteed standards of performance and increasing the notice period for planned interruptions;
- Willingness to pay for service improvements is markedly lower than when we conducted a similar research study in 2004; and
- Customers indicated low willingness to accept deterioration in service for the frequency and duration of power cuts, suggesting they are broadly satisfied with current service levels and that they would expect a significant reduction in bills for longer or more frequent power cuts.

### Next steps

As a follow up to this research we are planning to conduct repeated discussion forums with customers in October 2008 and 2009 to detect any shifts in consumers' priorities. This is particularly important given the anticipated increases in final energy bills. We also have a programme of focus groups underway to understand the particular priorities of worst-served customers<sup>3</sup>, the results of which will be published in September 2008.

In the lead up to the next policy paper for DPCR5, which will be published in December 2008, Ofgem will be giving detailed consideration to the treatment of these results and the price control implications. Further discussions will take place in the Quality of Service Working Group and the Consumer Research Working Group. We would welcome views from our stakeholders on:

- How should the research findings be interpreted and applied?
- What are the policy implications for DPCR5?

Responses to this letter and associated report should be sent by email to [QoS@ofgem.gov.uk](mailto:QoS@ofgem.gov.uk) by **Monday 8 September 2008**. Any questions about this research can be addressed to Laura Nell, Quality of Service Manager, Ofgem ([laura.nell@ofgem.gov.uk](mailto:laura.nell@ofgem.gov.uk) 020 7901 7147).

Yours faithfully,



Rachel Fletcher  
**Director, Distribution**

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<sup>3</sup> This research has focused on customers that have experienced a significant number of interruptions over the last three years. A definition of "worst-served customer" will be developed as part of this policy work.