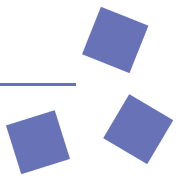


# Tariff Comparability Models

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Volume 1 - Consumer qualitative research findings



October 2011

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## Volume 1 - Consumer qualitative research findings

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Creative Research

Creative Research Ltd  
43 Broadway, London W13 9BP

Phone: 020 8567 6974  
Fax: 020 8567 6979

Email: [creative@creativeresearch.co.uk](mailto:creative@creativeresearch.co.uk)  
[www.createresearch.co.uk](http://www.createresearch.co.uk)



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# 1 Introduction

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## 1.1 Background

Following the recent recession, consumers are currently experiencing the biggest squeeze on their household income in the last 30 years due to a combination of pay freezes, higher taxes, domestic bills and inflation<sup>1</sup>. Over the same period, energy prices have increased sharply, for example, in the last few weeks all of the ‘big six’ energy companies have increased both their gas and electricity prices. In these circumstances, one might expect consumers to be keen to find the best deals possible in order to minimise the size of their energy bills. The fact that fewer than one in five customers switched in 2010, and that the number of customers switching in recent years appears to be declining<sup>2</sup>, suggests that something is going wrong. These same research data show that some 60% of energy customers are ‘sticky consumers’, that is, they choose not to switch, cannot switch due to their circumstances or are put off switching by other factors. It is felt that this state of affairs results in a less competitive market – the less willing consumers are to consider switching, the less the competitive pressure on suppliers to offer lower prices and/or better services.

Earlier this year, Ofgem published its latest review of the retail market which demonstrates that one of the key factors underpinning resistance to switching is the complexity of pricing information:

*“Consumers find it difficult to make a well-informed choice of supplier, and many customers are on standard evergreen products which lack any obvious decision or trigger points for engagement with the market.”<sup>3</sup>*

There is a strong body of evidence based both on Ofgem’s own research (such as findings from the Consumer First Panel and consumer engagement tracking research), as well as research carried out on behalf of other organisations (such as the OFT), to show that complex tariff information has a detrimental impact on consumers.

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<sup>1</sup> <http://www.bbc.co.uk/news/business-13948326>

<sup>2</sup>

[http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/IpsosMori\\_switching\\_omnibus\\_2011.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/IpsosMori_switching_omnibus_2011.pdf)

<sup>3</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>

This situation is exacerbated by other factors that underpin consumer behaviour.

Ofgem's research into behavioural economics has highlighted a number of 'biases' that affect how consumers make decisions about the choice of energy suppliers and tariffs<sup>4</sup>.

In its market review, Ofgem presents compelling evidence in support of the claim that consumers are confused by both the complexity of individual tariffs and the multiplicity of tariffs:

- **complexity of individual tariffs:** the range of features include 'standing charge vs. no standing charge', tiered rates with suppliers operating different thresholds and rates, single fuel vs. dual fuel, and various discounts and cash-back offers designed to attract new customers. These make it very difficult for consumers to understand how the cost of their energy is arrived at and how to evaluate and compare different tariffs
- **multiplicity:** examples include on and off-line, standard, capped/fixed rate, green, economy 7 and market tracker tariffs. According to Ofgem's analysis (see footnote 3), in the last three years, the number of different tariffs available to domestic consumers has almost doubled and at the start of this year stood at around 400. The number of different options available to consumers means it is extremely difficult for them to weigh up which represents the best choice.

This not only serves to deter consumers from switching in the first place (i.e. it encourages consumers to be 'sticky'), those who do choose to switch may end up making inappropriate choices. They might switch to a better rather than the best tariff for their circumstances or even end up on a worse tariff. Of those who have switched in 2010, around one in three did not know whether or not they were saving money as a result (see footnote 2).

Ofgem's principal duty is to protect the interests of consumers, wherever appropriate, by promoting competition. It also has a duty to take account of the interests of consumers who are disabled or chronically sick, those of pensionable age, on low incomes and those living in rural areas. They have a particular concern that these types of vulnerable customers may be more at risk than other customer segments.

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<sup>4</sup> Ofgem Discussion Paper: What can behavioural economics say about GB energy consumers?, March 2011

As part of the recent market review, Ofgem has published an initial proposal to make it easier for domestic consumers to compare prices and choose a better deal. This is summarised in Box 1.

#### Box 1: Summary of proposal

##### **For evergreen contracts (i.e. those with no termination date):**

- All suppliers limited to one evergreen product per payment method.
- Compulsory standardised element set annually by Ofgem and identified separately on consumers' bills.
- Standardised element designed to cover pass through costs, such as T&D charges and some environmental and social charges.
- All consumers in each region to have the same standardised element.
- All other revenue recovered through a single unit charge, set on a p/kWh format.

##### **For all other contracts**

- No limitation on number or type, but must all be fixed term, with clear end date and clear switching windows. Exit penalties allowed.
- Price information presented in an “evergreen equivalent” format for comparison purposes with evergreen contracts. One approach to do would be to subtract from the annual estimated bill of the fixed term contract, the annual cost of the relevant standardised element for a consumer in a particular region. This residual could then be presented on a p/kWh format to compare with the ‘price’ of suppliers’ evergreen contracts.
- All penalties and contract terms must be clear.
- No auto-rollovers: customers would default to evergreen contract terms if no positive assent given.
- No terms that allow adverse unilateral variations.
- Customer to receive statement ahead of switching date with rollover offer (to another fixed contract) and all switching prompts. Adequate switching window provided without penalty.
- Regular disclosure of suppliers’ weighted average fixed term product price on an “evergreen equivalent” basis to aid transparency between suppliers’ fixed term and standard evergreen product prices.

Initial research carried out on behalf of Ofgem suggests that tariff models based around the principles set out in Box 1 will be seen by consumers as an improvement over the current system<sup>5</sup> although there was also evidence to suggest that some vulnerable customers may continue to struggle to understand and engage with the suggested revised tariff models<sup>6</sup>.

<sup>5</sup>

[http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Ofgem\\_OpinionLeader\\_Tariff\\_Report\\_Final.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Ofgem_OpinionLeader_Tariff_Report_Final.pdf)

<sup>6</sup>

[http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Ofgem\\_vulnerable\\_customers\\_research\\_Final.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Ofgem_vulnerable_customers_research_Final.pdf)



Creative Research was commissioned to carry out further consumer research to gain in-depth reactions to a range of proposals for making it easier for domestic consumers to compare prices and choose a better deal.

## 1.2 Aims and Objectives

The overall aim of the research is to assist Ofgem in arriving at a clear view of consumer reactions to a range of tariff models and proposals. The aims and objectives are summarised in Box 2.

### Box 2: Summary of research aims and objectives

#### Aims:

1. Understand domestic consumers' reactions to the proposed models, drawing out differences between the reactions of more vulnerable groups of consumers and others
2. Establish which model would enable consumers to compare tariffs more readily, and
3. Understand whether they would be likely to switch supplier if a proposed model was introduced.

#### Objectives

1. Brief exploration of the understanding of key terms and concepts and an overview of current tariffs
2. Introduction of individual tariff proposals and initial spontaneous reactions to each.
3. More detailed explanation of the objective of each of the proposals followed by an in depth discussion to ascertain:-
  - a. If they understand what the proposal is attempting to do?
  - b. Does it meet this objective? Why/Why not?
  - c. Would the proposal enable them to easily compare tariffs?
  - d. Would the proposal encourage them to engage in the market?
  - e. How would they envisage consumers using the proposed model?
  - f. Do they think it would work for all customers?
  - g. How could the proposal be improved?
4. An overall consideration of each of the proposals to understand which one provides the 'best fit' for consumers in terms of comparability and ease of understanding. Views on whether introduction of the proposals would encourage them to engage in the market.

## 1.3 Methodology

### 1.3.1 Method and sample details

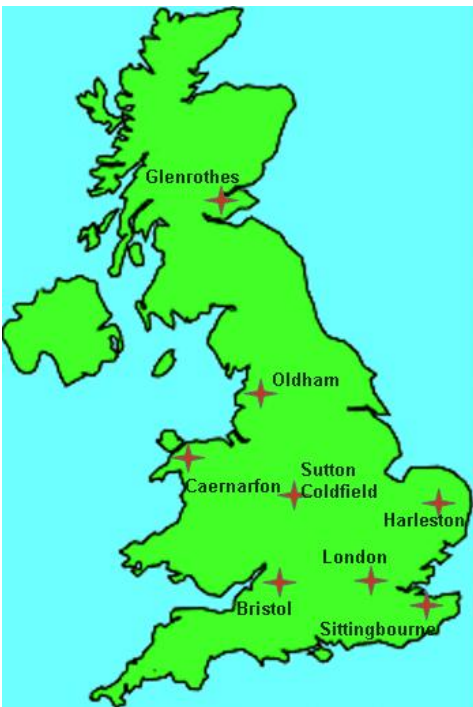
The research was conducted by means of a series of triads (three respondents), paired depths (two respondents) and individual interviews. Through the use of triads (three respondents interviewed together) and paired depths, we were able to both explore levels of individual comprehension and engagement as well as gaining additional insights that arise from people discussing their opinions with one another and responding to what each other has to say. Individual depth interviews were carried out with some of the disabled respondents where it was more appropriate for the researcher to visit people in their own homes (for example, with frail elderly respondents) or where

the nature of their condition meant a one-to-one interview was more appropriate (such as impaired vision).

The research was carried out at eight locations across England, Scotland and Wales (see Figure 1). 44 research sessions were conducted involving a total of 106 respondents<sup>7</sup>. The sample was divided into 68 ‘mainstream consumers’ and 38 ‘vulnerable consumers’.

We have summarised below the main sample profile details.

**Figure 1: Research locations**



**Table 1: Structure of mainstream sample**

Total	68
SEG	
ABC1	37 54%
C2DE	31 46%
Lifestage	
pre-family	19 28%
family	16 24%
post family	19 28%
retired	14 21%

The mainstream sample was structured by socio-economic group (SEG) and lifestage, with a good spread of respondents from SEGs ABC1 and C2DE and across the four main lifestages (see Table 1).

The vulnerable consumer sample was recruited from respondents from SEGs C2DE and was further structured to ensure we covered four main categories of vulnerable consumer:

- those on low incomes (including some where there was no one in the household in employment)

<sup>7</sup> Our aim had been to conduct 108 interviews however a small number dropped out and, due to the tight timescales in which the research was carried out, it was not always possible to find replacements.

- those with low levels of literacy and/or numeracy
- those with no or limited internet access
- and those with a disability.

**Table 2: Structure of the vulnerable sample**

	Total	Recruited as			
		Low Lit/Num	Low income	Limited internet	Disabled
Base	38	8	9	9	12
Type of vulnerability					
Low Literacy/Numeracy	13 34%	8 100%	1 11%	2 22%	2 17%
Low income	34 89%	8 100%	9 100%	8 89%	9 75%
Limited internet	29 76%	7 88%	6 67%	9 100%	7 58%
Disabled	20 53%	2 25%	2 22%	4 44%	12 100%

Although each respondent was recruited on the basis that s/he fell into a particular category of vulnerable consumer, the categories overlap to a considerable extent. This can be seen from Table 2. For example, nine respondents were recruited on the basis that their annual household income was less than £18,000; across the total sample of vulnerable consumers, 89% were on low incomes.

In relation to energy supply:

- the majority of respondents were using both gas and electricity (n=80; 75%); the remainder were electricity only customers (n=26; 25%) and this included a number who were 'off gas'
- a quarter of the sample were customers on day time/night time tariffs (n=26; 25%). Because different stimulus materials were needed for day time/night time tariff customers, these respondents were interviewed separately; thus some triads and paired depths were conducted with day time/night time tariff customers and the remainder were conducted with customers on other types of tariffs
- the sample included a good spread of customers of the 'big six' energy suppliers (see Table 3)

**Table 3: Supplier profile**

Base	106
Supplier Profile	
British Gas	39 37%
EDF	14 13%
E-ON	21 20%
npower	12 11%
Scottish Power	11 10%
SSE	19 18%

- the majority of respondents were with the same supplier for gas and electricity (n=70; 66%) and most of these were on a dual fuel tariff
- most respondents were paying for their energy either by direct debit (n=63; 59%) or by a pre-payment meter (n=34; 32%).

### 1.3.2 Pilot and interview details

A pilot consisting of two triads with mainstream consumers and two paired depths with vulnerable consumers was

conducted on 4<sup>th</sup> August at a viewing studio and was observed by members of the Ofgem team. A number of changes were introduced as a result of this partly in response to timing issues but also to simplify the stimulus materials by reducing the quantity of information in the tariff information tables:

- the interview length was extended from 75 to 90 minutes
- each respondent was shown three of the four tariff model proposals
- the stimulus materials were modified.

Despite these changes, the content of the interviews did not change significantly and the findings from the pilot interviews have been incorporated into the main data set.

Copies of the topic guide, respondent handouts and stimulus materials are provided in the appendices (see Vol 2). We have summarised below the key elements of the interview process.

During the course of the interviews, the researchers provided information about the current situation regarding energy tariffs, along with an explanation of the proposed changes, using a series of PowerPoint charts. This enabled us to gradually build up a picture, both in terms of what happens at the moment and how this might change, without swamping respondents with information. Respondents also had handouts which were used to encourage respondents to engage with, and attempt to interpret, the tariff

information tables, for example, by seeing if they could identify the cheapest and most expensive tariffs on display.

The four tariff models illustrated in Figure 2 were explored.

**Figure 2: Summary of the four proposed tariff models**

<p><b>Option A</b></p> <p><b>Standard tariffs</b></p> <ul style="list-style-type: none"> <li>standing charge + unit rate method; Ofgem sets standing charge</li> </ul> <p><b>Non Standard tariffs</b></p> <ul style="list-style-type: none"> <li>unlimited number and no restriction on charging method</li> <li>fixed duration with no automatic rollover</li> </ul> <p><b>Price information</b></p> <ul style="list-style-type: none"> <li>displayed either as 'standard tariff equivalent' (p/kWh) or as 'monthly cost' (£/month) for Low/Medium/High use</li> </ul>	<p><b>Option B</b></p> <p><b>Standard tariffs</b></p> <ul style="list-style-type: none"> <li>standing charge + unit rate method</li> </ul> <p><b>Non Standard tariffs</b></p> <ul style="list-style-type: none"> <li>unlimited number and no restriction on charging method</li> <li>fixed duration with no automatic rollover</li> </ul> <p><b>Price information</b></p> <ul style="list-style-type: none"> <li>displayed as 'monthly cost' (£/month) for Low/Medium/High use</li> </ul>
<p><b>Option C</b></p> <p>No changes to tariff structure</p> <p>All tariffs to be presented to show 'monthly cost' (£/month) for Low/Medium/High use</p>	<p><b>Option D</b></p> <p>Similar to Option A/B except customers can opt to add extra features to a standard tariff</p>

The structure of the interviews is summarised in Box 3.

### Box 3: Summary of interview structure

- Awareness of how much respondents were currently paying for their energy as well as whether they knew how much energy they used and what tariff they were currently on
- Level of awareness and understanding of a number of terms typically used by suppliers when talking about tariffs and the cost of energy
- The meaning of 'tariff' was explored and respondents were taken through a brief summary of the different types of tariffs, including Ofgem's estimate that some 400 tariffs are currently available. Reactions to this information
- A simplified version of a tariff information table was shown and respondents were asked if they could work out the cheapest and most expensive tariffs
- All respondents were then given a brief explanation of Option C; this represents the least degree of change from the current situation. Reactions to this option were explored including the method of displaying tariff information based on £ per month and £ per year for a consumer with low, medium and high levels of consumption
- Respondents then either saw Option A or B (these two options only differ in relation to the standing charge element of standard tariffs) and their response was explored
- All respondents then saw Option D (this is similar to Options A and B with the addition that consumers can choose to add in a small number of extra features to a standard tariff)
- For dual fuel customers, reactions to this tariff no longer being available were discussed
- Respondents were asked to sum up their preferences with respect to the three new tariff models they had seen, as well as leaving things as they are and they were invited to suggest any improvements to their preferred option(s)
- Finally, the idea of suppliers giving a guarantee that if a customer switched to one of their tariffs, prices would not change for a set period (1, 3 or 6 months) was explored.

### 1.3.3 Interpreting the findings

The research employed a qualitative methodology to enable us to explore detailed reactions to the different tariff options in an open-ended manner. We also collected individual data from respondents on a number of key issues. We have included a number of tables and charts that summarise these individual responses. We have reported both the number of respondents giving a particular answer as well as the percentage of the sample or sub-group. The percentages provide a convenient way of comparing sub-groups that are made up of different numbers of respondents. However, it is important that all the numerical data are treated qualitatively – they provide an indication of the overall pattern of responses within our sample but they may not necessarily be indicative of a larger group of respondents. We have also provided a range of verbatims on key issues in order that consumers' views can be expressed in their own words. We have attributed these according to whether they are from mainstream or vulnerable consumers. Where a verbatim involves comments from two or more respondents, this is shown by the use of '...' at the beginning and end of each respondent's comments. Comments made by the researcher are shown in bold. The start and end of an attribution is indicated by the use of opening/closing double speech marks.

## 2 Management Summary

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### 2.1 Introduction

- This research set out to explore reactions to a range of proposals for making it easier for domestic consumers to compare tariff prices and to choose a better deal.
- Four options were considered; these are summarised in Figure 2. In addition, we also explored reactions to the idea that dual fuel tariffs be withdrawn as well as the likely impact on switching behaviour if suppliers guaranteed not to increase prices for a minimum period when a customer switches to one of their tariffs.
- The research was conducted by means of a series of triads (three respondents), paired depths (two respondents) and individual interviews with a total of 106 consumers. This included 68 'mainstream' consumers and 38 'vulnerable' consumers. Further details of the method and sample can be found in section 1.3 and the appendices (Vol 2). Interviews took place during the first half of August 2011.
- The key findings, together with our conclusions and recommendations (indicated by the use of italics) are summarised below.

### 2.2 Tariff Proposals

#### 2.2.1 Overall reactions to tariff proposals (see section 4.2)

##### **Key Findings**

- The findings were very consistent across all parts of the sample and all research locations. The main difference between the mainstream and vulnerable consumer samples was that vulnerable consumers often struggled more to understand what they were shown.
- All respondents were of the view that something needs to be done to reduce the number of tariffs and to make it easier for consumers to compare tariffs in order to identify the most suitable tariff for their circumstances. Most respondents felt that all four proposals went some way towards achieving this.
- Option C was the least preferred of the four options, partly because there was no reduction in the overall number of tariffs but also because the tariff pricing

information tables were more complicated compared to those used for Options A, B and D.

- Options A and B came next in the hierarchy of preferences. Both of these result in a reduction in the number of standard tariff options. This, in turn, resulted in less complicated tariff pricing information tables. The tables shown were based on the 'standing charge + unit rate' method only.
- Option D was preferred over the other options. The tariff information table associated with Option D was visually the least complicated of all those shown. This option also highlighted ways in which a consumer could seek to lower their bill by choosing features that resulted in a saving.

## Conclusions and Recommendations

- *The findings demonstrate that respondents preferred to deal with tables based on a small number of tariff options.*
- *It should be noted that the research does not provide a true test of the preference for Option A or B over C because, in reality, under Options A and B, non-standard tariffs might also incorporate the two tier unit rate method of charging and this, in turn, would mean the tariff pricing information tables would be more complex than the ones used in the research.*
- *Although there was a preference in terms of the options with Option D having particular appeal, it would be wrong to assume it necessarily represents the best way forward. We have concerns that when it is fully worked up it may fail to live up to its promise. If Option D is to be taken forward, a more fully worked up version should be explored. A modified version of Option A or B also has potential and should be explored further.<sup>8</sup>*
- *The four Options incorporated a number of changes to current energy tariffs. The research has provided a clear indication of the value and likely impact of these changes which are considered in the following sections (2.2.2 – 2.2.5).*

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<sup>8</sup> The effect of the presentations of the different tariff options was noted by the Ofgem team and informed the design of the subsequent quantitative element of the research.



## 2.2.2 Proposed changes to standard tariffs (see section 4.3)

### Key Findings

- Restricting standard tariffs to the 'standing charge + unit rate' method of charging and dropping the two tier unit rate method was considered to be a helpful change as most respondents were unaware of the two tier method and, when it was explained, they found it more complicated to understand.
- Having an Ofgem-set standing charge such that it would be the same across all standard tariffs was also welcomed as it gave reassurance that some aspect of charging is being controlled. Some respondents even appreciated before they saw tariff information tables that this meant one could directly compare the cost of such tariffs by looking at just the unit rate. Those on day time/night time tariffs still need to compare two values although this was considered to be better than trying to compare three.
- The principle of adding on features to a standard tariff that could lower one's bill had considerable appeal, especially if Ofgem determined the number and the type of features that suppliers could offer.

### Conclusions and Recommendations

- *The changes to standard tariffs were non-controversial and were felt to offer some consumer benefits. In particular, the benefits of Ofgem setting the standing charge are most apparent if consumers try to compare tariffs on the basis of unit rates only. However, our findings seem to suggest that most consumers would rather use pounds per month as their point of comparison (see section 2.2.5 below).*
- *Although the idea of adding on features to a standard tariff had some appeal, as a number of respondents commented (see section 4.3.3), it is difficult to see how this would reduce the number or the complexity of tariffs.*

## 2.2.3 Proposed changes to non-standard tariffs (see section 4.4)

### Key Findings

- The suggestion that all non-standard tariffs should be of fixed duration was not well received. This change was not felt to offer any obvious benefits to the consumer. While it was acknowledged that this would encourage more shopping around, many respondents were reluctant to do this.

- Many assumed that fixed duration meant **fixed price**. This was an attractive proposition until it was explained this was not necessarily the case. There were also concerns that a fixed term contract meant customers would be **locked in** for the term.
- It will be important that suppliers are required to proactively contact customers when a fixed term contract comes to an end and allow them sufficient time to decide what to do. The default option of being put on a standard tariff when a fixed term contract comes to an end was considered acceptable provided that customers are not going to find themselves worse off.

## Conclusions and Recommendations

- *Consumers will need to have the benefits of the proposed changes to non-standard tariffs explained to them and it will be important to communicate the difference between a fixed term and a fixed price contract. However, many sticky consumers may be put off by the idea of fixed term tariffs; as a result, such a change may encourage them to stay on (or change to) a standard tariff.*

### 2.2.4 Other proposed changes (see section 4.5)

## Key Findings

- When exploring consumer reaction to the idea of withdrawing dual fuel tariffs respondents could not see how this would be in their interest, especially if they could continue to have both gas and electricity from the same supplier. Such a move would only be acceptable if it had no detrimental impact on their overall energy costs.
- A price guarantee for a customer who switches to a new supplier/tariff could have a positive impact on consumers' propensity to switch provided it was for a period of 6 months (or longer).

## Conclusions and Recommendations

- *Shorter guarantee periods may have the opposite effect, possibly because the promise not to increase prices can be interpreted that prices will go up as soon as the guarantee period comes to an end.*

## 2.2.5 Presenting tariff pricing information (see section 4.6)

### Key Findings

- Although having a set standing charge for standard tariffs allows consumers to see from the unit rate alone the relative cost of such tariffs, it is necessary to compute 'standard tariff equivalents' for non-standard tariffs. This was difficult for respondents to understand and, as a result, undermined their confidence in accepting the figures. Expressing tariff pricing information in unit rates does not provide any sense of how much one's bill will come to; it also means that the difference in the cost of each tariff is shown as a few pence which, for many respondents, was not enough to make them think about switching.
- The cost in pounds per month overcomes these issues. 'Pounds per month' was preferred over 'pounds per year' mainly because people tend to organise their finances on a monthly rather than an annual basis. However, when it comes to encouraging switching, displaying costs on an annual basis is likely to be more effective as the size of the potential savings is much greater.
- Tariff pricing information tables that display both the tariff components and the monthly cost for a low, medium and high user contain a lot of information which can mean some consumers will be reluctant to engage with it or will be distracted from the key information, namely, the monthly cost. There is also the danger that consumers use inappropriate 'rules of thumb' to decide which price point most closely reflects their own consumption level. Someone who falls in between any of the price points may inadvertently base their decision making on one of the displayed price points without realising their own bill will be higher or lower than that shown.

### Conclusions and Recommendations

- *The findings make a good case for presenting tariff pricing information in terms of pounds per month/pounds per year using the three price points of low, medium and high consumption levels. This is because the one element of their energy bill of which most consumers have some understanding is how much they are paying. It provides them with an anchor point.*
- *However, if this approach is to be effective, consumers will need clear guidance about how to use the monthly cost data including:*

- *how to find out whether they are low, medium or high consumers or somewhere in between,*
- *how to use the table if they fall in between low, medium or high consumption points, and*
- *how to recognise and/or understand that the information represents an average monthly cost and actual costs will be higher in winter and lower in summer (unless paying by fixed direct debit).*
- *While it appears to offer considerable promise, this approach needs to be ‘stress tested’*
  - *if a consumer falls somewhere between the price points:*
    - *is it possible for them to end up selecting a less than ideal tariff?*
    - *could they end up with bills that are considerably higher than they would expect?*<sup>9</sup>

## 2.3 The Current State of Affairs

### 2.3.1 Stickiness and engagement (see section 3.2)

- Ofgem’s segmentation of consumers based on switching behaviour suggests that as many as 60% of all energy consumers have never switched (or have forgotten that they have done so). About half of these do not rule out the possibility of doing so in the future (category: ‘disengaged’ or ‘never, maybe’), with the remainder claiming they are unlikely to do so under any conditions (category: ‘permanently disengaged’ or ‘never, ever’). A further 20-30% are classed as ‘passive’ or ‘not recent switchers’; they report switching in the past but not in the last three years. These three categories are considered to represent ‘sticky’ consumers<sup>10</sup>.
- The tariff proposals are aimed at reducing levels of stickiness by making it easier for all consumers to engage with the market and to consider switching if they find tariffs that are more attractive to their circumstances. For this reason, our sample was recruited from consumers who had either never switched (‘never, ever’ and

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<sup>9</sup> This was explored in the subsequent quantitative research.

<sup>10</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>; para. 2.47, p29.

‘never, maybe’) or who had not done so within the last three years (‘not recent switchers’).

### **Key Findings**

- Although they were all recruited to meet Ofgem’s definition of stickiness, the majority of respondents had gas and electricity from the same supplier which suggests many of them would have switched supplier on at least one occasion in the past. Nevertheless, based on their attitudes to switching, most if not all the sample displayed varying degrees of stickiness.
- Levels of engagement with the subject of the research varied across the sample but was typically on the low side due to a combination of:
  - negative attitudes towards, and low levels of interest in, switching
  - difficulty in understanding most of the terms used by suppliers when talking about tariffs and bills and how these are calculated
  - linked to this, limited understanding of energy costs and how these are derived
  - limited literacy and numeracy skills, not just among many of the more vulnerable respondents but also among some mainstream consumers.

#### **2.3.2 Language and terminology (see section 3.3)**

### **Key Findings**

- There was low awareness and limited understanding of most terms used by suppliers to describe tariffs and bills and how these are calculated. Levels were lowest among more vulnerable customers but many mainstream customers also had limited understanding.

### **Conclusions and Recommendations**

- *The only element most customers have a good appreciation of is how much they are paying for their energy; this provides an anchor point in a sea of uncertainty.*

### 2.3.3 What happens at the moment (see section 3.4)

#### Key Findings

- The current state of affairs, with some 400+ tariffs, was often used as a justification for why respondents had not switched because of the difficulty in finding a tariff that is most suited to their circumstances. It was also deemed unsatisfactory – respondents were clear that something needs to be done to make the choice simpler.
- When shown a table of tariff information, the majority of respondents correctly felt that they could not identify the cheapest and most expensive tariffs (respondents would have needed to know their annual consumption in order to work out the cost of each tariff). Those who felt they could work it out typically tried to identify the ‘best’ combination of standing charge and unit rate or 1st tier level and 1st and 2nd tier rates. At least one respondent added together the standing charge and unit rate and someone else thought you would multiple the two values together. Although some tariffs stood out as potentially the cheapest/most expensive, every tariff in the table was selected at least once - implying a high degree of guesswork. The situation is more complex for day/night tariffs but a similar pattern emerged.

#### Conclusions and Recommendations

- *As things stand, it is likely that most consumers will struggle to identify the best tariff to suit their particular needs.*

### 2.4 Summing Up

#### Conclusions and Recommendations

- All four options have the potential to go some way to encourage consumers to consider switching by making it easier for consumers to see the relative cost of different tariffs.
- *An important caveat to this conclusion is that this research has focused on the extent to which the different Options make it easier for consumers to compare and contrast tariffs; it has not addressed the question of how to encourage sticky consumers to engage with tariff pricing information tables in the first place.*
- *The features that have the greatest potential to encouraging switching are summarised below (and underlined):*

- *there is a clear case for presenting tariff pricing information in a monetary form, either in terms of pounds per month or pounds per year. While the majority of consumers are likely to prefer to see the information displayed on a monthly basis, there is evidence that annual costs are likely to be more effective in encouraging switching.*
- *although requiring all non-standard tariffs to be for a fixed duration will encourage those on such tariffs to consider switching on a more regular basis, it could have the opposite effect on sticky consumers – they may decide to opt for (or stay on) a standard contract even if this is not the 'best' deal for them, to avoid the need to shop around.*
- *a six month price guarantee may increase consumer confidence that it is worth switching; shorter time periods might be counter-productive as these can signal an intent to increase prices as soon as the time period is up.*
- *While all four options were felt to offer some improvement over the status quo, there were also some difficulties associated with each one. If these are not addressed, the changes could end up reinforcing levels of stickiness if consumers find them too difficult to understand:*
  - *a number of the suggested changes appear to lack any immediate consumer benefit (non-standard tariffs to be of fixed duration, withdrawal of the dual fuel tariff option)*
  - *consumer education and communication will be needed to overcome potential misunderstandings (e.g. that fixed duration = fixed price) and to address concerns (e.g. will customers be locked into a fixed duration contract?)*
  - *while the use of price points for low, medium and high consumption levels was largely welcomed by respondents, our research has highlighted ways in which this information could be misinterpreted*
  - *the strength of the preference for price points displayed as monthly costs and the differential impact of monthly vs. annual data on switching propensity should be examined further*
  - *while on the face of it, Option D (where consumers can add extra features to a standard contract) had appeal, it is questionable whether it addresses or compounds the main problem – the complexity and comparability of tariffs*
  - *consumers on day time/night time rates face particular problems that need to be addressed.*

## 3 The Current State of Affairs

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### 3.1 Introduction

We begin this section by considering the levels of ‘stickiness’ displayed by the consumers in our sample and the extent to which they were willing and able to engage with the issues under consideration. We also look at their levels of awareness and understanding of a range of key terms that are typically used by suppliers when talking about the cost of energy. We end this section by considering respondents’ reactions to the information they were given about the range of tariffs currently available to domestic energy consumers.

### 3.2 Stickiness and Engagement

#### 3.2.1 Levels of stickiness

Ofgem’s segmentation of consumers based on switching behaviour suggests that as many as 60% of all energy consumers have never switched (or have forgotten that they have done so); while about half of these do not rule out the possibility of doing so in the future (category: ‘disengaged’ or ‘never, maybe’), the remainder claim they are unlikely to do so under any conditions (category: ‘permanently disengaged’ or ‘never, ever’). A further 20-30% are classed as ‘passive’ or ‘not recently’; they report switching in the past but not in the last three years. Many of them have switched just the once, typically to gain the discounts associated with a dual fuel offer. Finally, some 10-20% of consumers are likely to have switched in the last year; half of these (category: ‘reactive’) have done so in response to an encounter with a sales agent while the remainder (category: ‘proactive’) have sought out information themselves and switched supplier on the basis of the information they have found<sup>11</sup>.

Our sample was recruited from consumers who had either never switched (‘never, ever’ and ‘never, maybe’) or who had not done so within the last three years (‘not recently’). Our aim was to recruit roughly equal numbers from across these three segments although, as Figure 3 below indicates, we ended up with fewer ‘never, ever’s’. We have mapped on to each segment the number of respondents who were ‘dual fuel’ customers.<sup>12</sup>

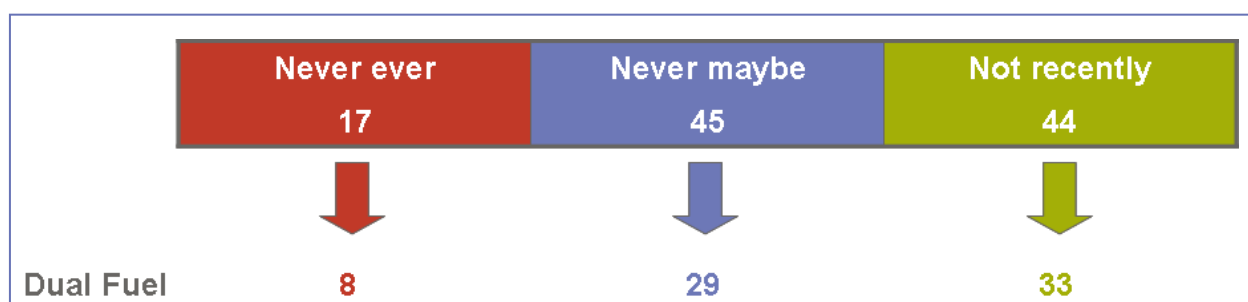
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<sup>11</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>; para. 2.47, p29.

<sup>12</sup> We are using the term ‘dual fuel’ as a convenient shorthand. We cannot be certain that they were all on a dual fuel tariff (we did not include this as a question on the recruitment screener), as opposed to having



**Figure 3: Levels of stickiness**



The numbers in the boxes represent the number of respondents who claimed to fall into each category of 'stickiness'; thus, 17 respondents said they had never switched energy supplier and they were very unlikely to do so in the future. The numbers below the boxes are the number of respondents who had both their gas and electricity from the same supplier; thus, 8 of the 17 respondents classified as 'never ever' reported that they had a single supplier for both gas and electricity.

This suggests that a proportion of those who claim to be 'never, ever' and 'never, maybes' may have actually switched supplier at least once. In some cases, their 'dual fuel' status came about because they had no choice in the matter. For example, some respondents living in rented accommodation told us that their landlord had installed prepayment meters and they had no choice of supplier. It is also possible that some pre-family respondents had become energy customers for the first time and had opted for a dual fuel arrangement from the start. Having said this, it was also clear that a number of respondents, who described themselves as never having switched energy supplier, had in fact done so. This suggests that some of them may not consider that consolidating their energy under a single, known supplier constitutes switching.

Despite the fact that some 'non-switchers' had actually switched in the past, based on their attitudes towards switching (expressed at different times during the course of the interviews), it was clear that most, if not all, the respondents in our sample, displayed varying degrees of stickiness. This was often a reflection of their own experience (for example, having been confused and put off by sales people knocking on their door) and other people's experiences (for example, knowing of family or friends who had switched only to then regret having done so). Levels of stickiness were broadly the same across our mainstream and vulnerable samples.

*"I'm sick of people knocking on the door saying they are the cheapest and you have not got a clue whether they are or not. You go with them and you end up paying more." (Vulnerable, low literacy/numeracy)*

two separate contracts with the same supplier, but this does not detract from the fact that they may have switched on at least one occasion.

*“I just want to know what I’m saving. I have changed and been paying more but it is a hassle to change so I didn’t change back.” (Mainstream, C2D, post-family)*

*“I have a payment meter and that’s how I want it. I’ve never thought about changing because I can’t be messing around. I just put money in the meter. According to my yearly thing, I spend over £600.” (Mainstream, C2D, family)*

### 3.2.2 Levels of engagement

Levels of engagement with the subject matter of the research varied across the sample but were typically low for a number of reasons:

- as mentioned above, attitudes towards and interest in, switching were often negative/low respectively
- many of the terms used by suppliers to describe the cost of energy represent a ‘foreign language’ (see section 3.3.)
- the understanding of energy costs and how these are derived was limited
- numeracy skills were often not up to the task of interpreting the tariff information tables; while we might expect this to be the case for some vulnerable consumers (particularly those recruited on this basis), many of the respondents displayed varying degrees of difficulty with numeracy including a proportion of those in our mainstream sample.

Ofgem and the research team between them took steps to try and make the materials as simple as possible in advance of the main study. This included:

- having the language and terms used in the research materials checked out independently in advance of the research<sup>13</sup>
- explaining the tariff models a step at a time by having the researcher talk respondents through the materials
- using simplified tariff information tables: these were based on just four fictional suppliers with each supplier being limited to one standard and one non-standard tariff and a single payment method.

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<sup>13</sup> This was carried out by the COI.

Nevertheless, many respondents struggled to get to grips with the information they saw and, in a few cases, they gave up. For example, when asked if they could work out the cheapest tariff on display, a number of respondents quickly resorted to selecting the 'not sure' option. Although vulnerable respondents were often more likely to do this, a number of mainstream respondents also chose this response.

*"It's all figures and I'm not very good with figures." (Vulnerable, low literacy/numeracy)*

*"You have to be a mathematician to follow that and work it out." (Vulnerable, retired disabled)*

*"You need a comparison, someone doing it for you, and then you could compare that to what you actually use. Ofgem must look at something different, it is too complicated for the normal person." (Vulnerable, retired disabled)*

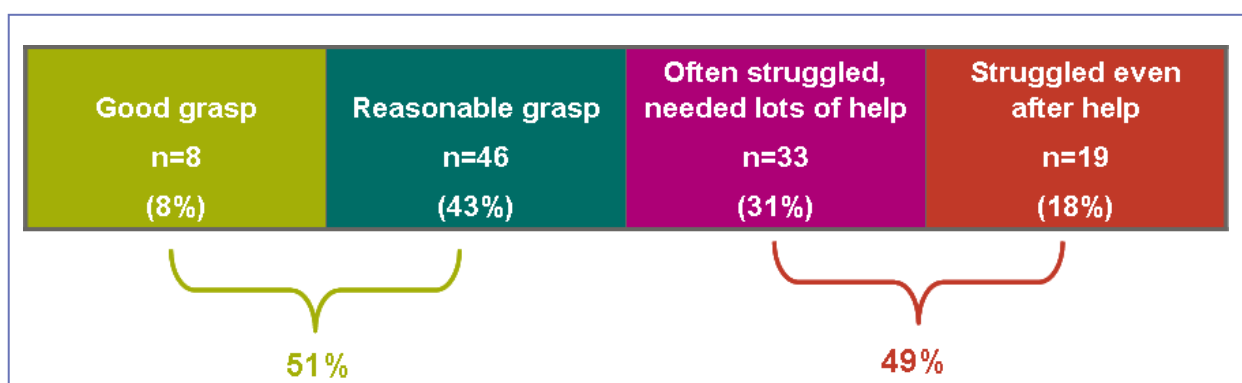
In order to get an idea of the extent to which respondents were able to engage with the subject matter, each one was rated by the researchers on a simple four point scale. The findings are illustrated in Figure 4 and Table 4.

Half the sample was rated as having at least a reasonable grasp of the subject matter, although only 8 respondents were felt to have a really good grasp. The other half struggled with the materials; nearly one in five were felt still to be struggling even after they had been given help and further explanations by the researchers. 27 of the 38 vulnerable consumers (71%) were rated as struggling. This was particularly true of those with literacy and/or numeracy problems: 7 of the 8 respondents who were recruited on this basis were rated as struggling even after being helped.

Over a third of the mainstream audience were also rated as struggling. Although the bases are small, there was some suggestion that among the mainstream sample, respondents from SEGs C2DE and retired respondents were more likely to struggle to interpret the materials.

*"I'm not good with numbers so it would take me a while to work out even though it's probably quite straightforward." (Mainstream, C2D, family)*

**Figure 4: Levels of engagement with subject matter**



The numbers (%) in the boxes represent the number (percentage) of respondents who were rated by the researchers as demonstrating a given level of understanding of the subject matter. 51% were rated as demonstrating either a good or a reasonable grasp. 49% were rated as struggling and needing help.

**Table 4: Ability to engage with the subject matter**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	106	68	38
Rate respondent on the scale below to show the extent to which s/he was able to understand and appreciate the different options			
Respondent had a good grasp of the options and what they conveyed and only needed the occasional prompting/explanation	8 8%	8 12%	- -
Respondent had a reasonable grasp of the options and what they conveyed but needed some prompting/explanation	46 43%	35 51%	11 29%
Respondent often struggled to grasp the options and what they conveyed and required a considerable amount of prompting and explaining; even then s/he did not always seem to fully grasp it	33 31%	17 25%	16 42%
Respondent found it difficult to grasp the options and what they conveyed; s/he needed lots of prompting and explaining but still was unable to grasp it	19 18%	8 12%	11 29%

### 3.3 Language and Terminology

Respondents were shown a number of terms used by suppliers when talking about the cost of energy and how bills are calculated. For each term, they were asked to indicate:

- any they had not come across before
- those terms they recognised but where they were unsure of the meaning
- the terms they felt they knew the meaning of and could explain to someone else.

Their replies are illustrated in Table 5 and Figure 5 below. ‘Day time/night time tariff’ was only explored among respondents who were on this type of tariff. All other terms were explored across the entire sample.

Levels of awareness and understanding were typically low.

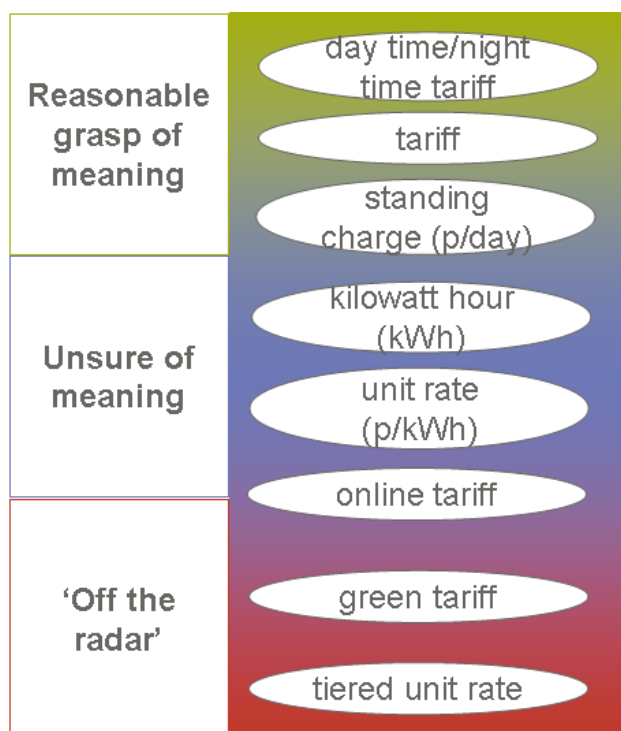
*“I don’t know what any of the phrases mean, it’s all rubbish to me, they don’t put anything in plain English so the ordinary person knows what they are dealing with.” (Vulnerable, retired disabled)*

*“I don’t understand watts, kilowatts, joules, all those things, so I’ve absolutely no idea. I read the meter and send it in.” (Mainstream, ABC1, retired)*

**Table 5: Awareness of and familiarity with terms**

	Total	No	Unsure	Yes
day time/night time tariff	25	1 4%	2 8%	22 88%
tariff	106	13 12%	30 28%	63 59%
standing charge (p/day)	103	22 21%	22 21%	59 57%
kilowatt hour (kWh)	106	20 19%	44 42%	42 40%
unit rate (p/kWh)	103	27 26%	35 34%	41 40%
online tariff	105	48 46%	21 20%	36 34%
green tariff	104	60 58%	34 33%	10 10%
tiered unit rate	105	66 63%	32 30%	7 7%

**Figure 5: Awareness of and familiarity with terms**



Starting with those terms that were 'off the radar', '**tiered unit rate**' was a largely unfamiliar term; it was sometimes confused with 'day and night unit rate'.

Very few respondents were familiar with a '**green tariff**'; a number of people assumed it was somehow linked to environmental issues although not always in a correct manner. For example, one respondent felt it would be linked to using energy in a more efficient way and might therefore attract a discount.

'**Online tariff**' met a more mixed

response; a third of our sample was familiar with the term and some of these had opted for such a tariff, however, the majority had either never come across the term before or were unsure what it meant.

'**Unit rate**' was a widely recognised term although not everyone felt able to explain what it meant.

*"It's how much you pay per unit. It's how many units multiplied by that."*  
(Mainstream, C2D, post-family)

*"The unit rate – what's a unit? When you switch on the light, is that one unit? I've got no idea what a unit is or how long a unit lasts."* (Vulnerable, working age disabled)

When asked on an unprompted basis what energy is measured in, many respondents struggled to provide an answer. A number spontaneously mentioned kilowatt hours however watts and kilowatts were also often suggested, together with a number of other possible measures including units, joules, therms, BTUs, metric tonnes, calorific value and cubic metres.

When shown the term '**kilowatt hour**' it was often recognised as the unit of energy; 82% of respondents said they recognised the term but over half of these were unsure what it means (see Table 5). When asked what a kilowatt hour represents in terms of an

'amount of energy', there were a few references to using appliances such as 60W bulbs or 1kW electric fires however, no one had any real appreciation of how much energy a kWh represents.

Perhaps in part for this reason, no one had any idea how much energy they were consuming. A handful of respondents spoke about having received a plug-in energy monitor which they could use to see how much they were using but none of these respondents were able to cite an amount.

**'Standing charge', 'tariff' and 'day time/night time tariff'** (among those on this type of tariff) were the only terms where a majority of respondents felt they had a good grasp of the meaning but even here their explanations often highlighted misunderstandings and confusions. For example, a number of those on day time/night time tariffs assumed that the lower, night time rate kicked in during the evening rather than after midnight. Similarly, some thought they were on a standing charge but were not always sure exactly what this meant.

*"[Standing charge] I'm not sure - is it how much you pay per day?"*

Having explained what a standing charge is, we explored which method of expressing the standing charge respondents found most helpful. Most found that the typical method of expressing it in terms of 'pence per day' was largely meaningless (for example, what does 22.55 p/day mean in relation to the overall size of the bill especially when many people pay their bills either monthly or quarterly?) and potentially confusing (for example, what does 0.55 pence mean?). Most respondents would prefer to see it expressed either in terms of 'pounds per month' (n=65, 61%) or quarterly (n=26; 25%), (see Table 6).

*"22.55 pence a day means nothing, it's like another language to me but if I know from the get go that the standing charge is going to be £82 I can compare that. If another company knocks on the door, I can say, 'what is your yearly standing charge?'" (Mainstream, ABC1, post-family)*

*"I'm on quarterly [billing] so it would be quarterly for me, I don't have it per month." (Vulnerable, retired disabled)*

**Table 6: Preferences for how to express the standing charge**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	106	68	38
The standing charge can be shown in a number of different ways. When it comes to thinking about how much you are being charged for your energy, which of the following is more helpful? Tick all that apply			
pence per day e.g. 22.55p/day	28 26%	15 22%	13 34%
pounds per month e.g. £6.86/month	65 61%	40 59%	25 66%
pounds per quarter e.g. £20.58/quarter	26 25%	17 25%	9 24%
pounds per year e.g. £82.32/year	13 12%	10 15%	3 8%

Columns sum to more than 100% as respondents could select more than one answer

Having said this, around a quarter of the sample opted for seeing the standing charge expressed in pence per day; this included a number of those on prepayment meters as well as those who were budgeting on a daily or weekly basis.

*"Pence per day, it's easy to see what you use every day..."*

*...I'd go £ per month because I get paid monthly as I can see what chunk of my wages is going." (Mainstream, C2D, pre-family)*

We had not included the option of 'pounds per week' and it is likely that a number of these respondents may have opted for this if it had been included.

*"Why have they missed out per week, because the majority of OAP's get their pension per week so that's what we base our money on?" (Mainstream, C2D, retired)*

The most common explanation of **'tariff'** was that it represents 'the amount you pay' although it was sometimes confused with 'unit rate'.

*"It's like the contract that you've got and the rate that you are getting."*  
(Mainstream, C2D, family)

A number of respondents compared it with mobile phone packages including the idea that there may be additional features (analogous to a number of free minutes or texts)



and some defined it in relation to their own tariff, such as an online tariff which means the consumer does not receive bills in the post.

*“Is the tariff what you use every quarter?” (Vulnerable, low literacy/numeracy)*

*“It’s like your phone, just a standard tariff and anything extra.” (Mainstream, C2D, pre-family)*

The following quote illustrates how some respondents had some level of understanding but how they could also get easily confused (the respondent was confused over the different charging methods); his attitude to engaging with the complexities of the situation was also fairly typical.

*“There are lots of different tariffs and that’s the confusing bit, which tariff to decide upon. Because you decide upon your energy provider and, when you’ve done that, then you’ve got three or four or maybe five different tariffs to choose from, which becomes very confusing...”*

**...So what would be the difference between those different tariffs?...<sup>14</sup>**

*...The standing charge for the first so many units alter and then the charge after you’ve used up those so many units is different. So you just have to try and work out – you know, if you know how much you’ve used, you’d have to go out and look at your meter and you just can’t be bothered. It’s just ridiculous.”  
(Mainstream, ABC1, retired)*

Most respondents were unaware of the particular tariff they were on. The main exceptions were those on day time/night time tariffs, although this may have been a function of being asked this as part of the recruitment process, and a number who were on non-standard tariffs such as online or capped tariffs. For example, one vulnerable respondent knew he was on British Gas’s Essentials tariff as this had been sold to him as the best deal for someone in his particular circumstances.

With very few exceptions, respondents were unaware of the fact that they should now receive an annual statement that notifies them both of the tariff they are on and their previous 12 months’ consumption. This does not mean that they were not receiving annual statements but it does suggest that many consumers are completely unaware of their existence. For example, three respondents showed their bills to one of the researchers who noticed that it displayed information about the previous 12 months’ consumption; however the respondents were completely oblivious to this.

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<sup>14</sup> Researcher comments are shown in emboldened text in verbatims.

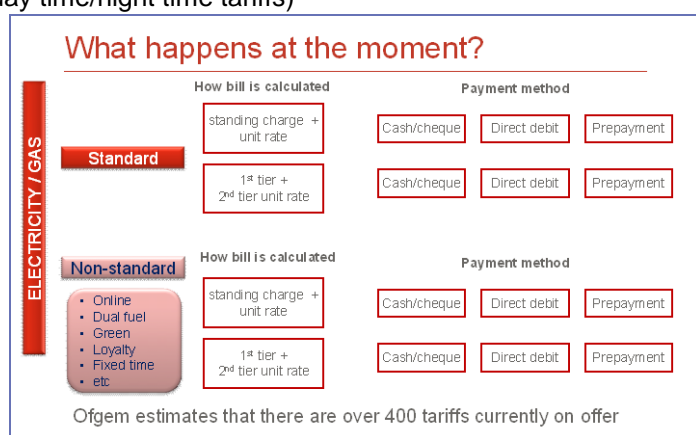
In contrast to the very low levels of awareness and understanding of most terms, we noted high levels of awareness of how much they were paying for their energy among those paying by direct debit and prepayment meters, often to the nearest pound. Those paying bills every quarter were not always aware of what they were paying without checking their bills.

### 3.4 Energy Tariffs: What Happens at the Moment?

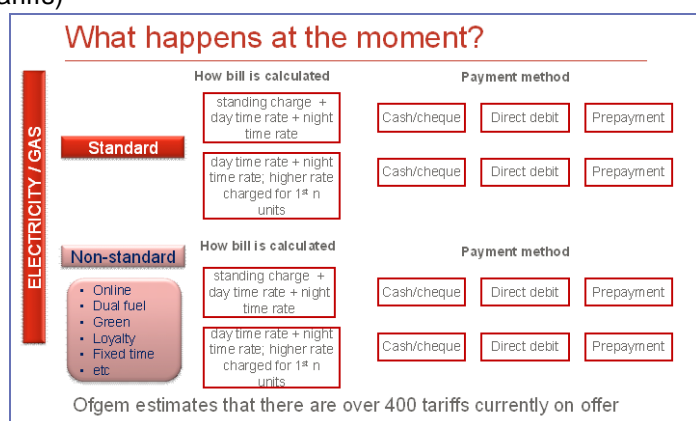
#### 3.4.1 Choice of tariff

Respondents were taken through a short description of the range of tariffs that are currently available. This covered standard and non-standard tariffs, the different methods of calculating bills and the different payment options. Respondents were also told that Ofgem estimates that there are some 400+ tariffs currently available. The descriptions are summarised in Figures 6-7.

**Figure 6: What happens at the moment**  
(information presented to respondents other than those on day time/night time tariffs)



**Figure 7: What happens at the moment**  
(information presented to respondents on day time/night time tariffs)



Respondents were asked what their reactions were to this information. Although some respondents began by talking about aspects that they were either familiar or unfamiliar with, most of them expressed immediate surprise at the number of tariffs. While most agreed that a degree of choice is a good thing (although a few would welcome a return to having a single national rate), having so much choice was not.

*"That's crazy, you want some variety of different tariffs but that is too many, you're not going to go through any more than five."*  
(Mainstream, C2D, pre-family)

*"There is too much choice. You don't know what is the best thing to do."* (Mainstream, ABC1, retired)

*“Choice is a good thing but there becomes a saturation point where there is so much choice and you have to be informed, you have to have an informed way of dealing with it to make your decision.” (Mainstream, ABC1, retired)*

This degree of choice was seen as only making things very complicated, resulting in consumers being confused. It means it is very difficult for someone to compare the different options in order to identify the best deal for their circumstances. It also suggested to some respondents that there must be very little to choose between the different tariffs.

*“It is confusing to have so many tariffs and it is not explained properly. There is more chance of people being on the wrong tariff and being charged more.” (Mainstream, C2D, family)*

*“It over complicates things and you can’t compare what would be the best tariff to be on. Who would bother?” (Mainstream, ABC1, pre-family)*

Many of them questioned why there are so many tariffs. Some felt it was a deliberate ploy on the part of energy companies to confuse consumers. A number described how they had had visits from sales people from different suppliers, all of whom swore that their particular tariff offered the best deal. While respondents knew that they cannot all be right, it was impossible for the consumer to identify the best tariff.

*“I think it is just a con. They just rely on the fact that people don’t have the time to do it. It would be good if you could just ring someone up, your supplier and say, ‘okay, you’ve got five tariffs here, which is best for me?’” (Mainstream, ABC1, retired)*

*“But how do you find the cheapest one for yourself?...*

*... Yes, it gets complicated though...*

*... But that’s how these companies have you, don’t they? At the end of the day, you just can’t be bothered so you just stay with the one that you’ve got.” (Mainstream, C2D, family)*

There was some recognition that price comparison websites provide a means of filtering down the choice to a more manageable number of options but this method is only available to those with internet access and the ability to use and interpret the outputs from such sites.

*“You go online to look around for a better deal and get so many different variations that you don’t know which to go for.” (Mainstream, ABC1, post-family)*

*““They have got these places where you can ring and they find out which is the cheapest for you.” (Mainstream, C2D, family)*

It was clear that the current state of the market and the level of choice was not prompting our respondents to think about whether they could find a more attractive

offer; instead, it provided some of them with a justification for why they had not switched.

*"I have never understood it so I have never gone and compared companies, you just pay what you are sent." (Mainstream, ABC1, pre-family)*

Respondents considered this state of affairs as unsatisfactory and there were many calls for something to be done to make the choice simpler and easier.

**Figure 8: What happens at the moment?**

**Tariff information table** (non day time/night time tariffs)

Supplier	Tariff		Standing charge (£ per month)	Unit rate (p/kWh)
Supplier 1	Standard		7.77	13.71
Supplier 2	Standard		6.15	16.24
Supplier 3	Standard		10.72	15.97
Supplier 4	Standard		1.22	15.88
Supplier 1	Online		7.77	12.71
Supplier 2	Green		6.15	16.24
Supplier 3	Online		10.72	12.50
Supplier 4	Loyalty		1.22	14.88
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier rate (p/kWh)	2 <sup>nd</sup> Tier rate (p/kWh)
Supplier 1	Standard	450	20.72	15.87
Supplier 2	Standard	350	21.08	18.17
Supplier 3	Standard	450	28.59	18.49
Supplier 4	Standard	400	3.65	18.07
Supplier 1	Online	450	20.72	14.72
Supplier 2	Green	350	21.08	18.17
Supplier 3	Online	450	28.59	14.47
Supplier 4	Online	400	3.65	16.93

**Figure 9: What happens at the moment?**

**Tariff information table** (day time/night time tariffs)

Supplier	Tariff		Standing charge (£ per month)	Day time rate (p/kWh)	Night time rate (p/kWh)
Supplier 1	Standard		7.77	18.54	7.71
Supplier 2	Standard		6.15	17.31	4.74
Supplier 3	Standard		10.72	16.73	6.99
Supplier 4	Standard		1.22	18.38	5.51
Supplier 1	Online		7.77	17.04	6.21
Supplier 2	Green		6.15	18.81	6.24
Supplier 3	Online		10.72	15.22	5.49
Supplier 4	Loyalty		1.22	18.38	5.51
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier rate (p/kWh)	Day time rate (p/kWh)	Night time rate (p/kWh)
Supplier 1	Standard	450	20.72	20.18	8.05
Supplier 2	Standard	350	21.08	17.31	5.80
Supplier 3	Standard	450	28.59	16.16	8.98
Supplier 4	Standard	400	3.65	18.50	6.74
Supplier 1	Online	450	20.72	18.45	6.53
Supplier 2	Green	350	21.08	18.81	7.45
Supplier 3	Online	450	28.59	17.05	5.31
Supplier 4	Online	400	3.65	18.39	6.83

### 3.4.2 Interpreting tariff information tables

Respondents were shown a table depicting simplified tariff information (see Figures 8 and 9). The tables presented information for just four fictional suppliers that were each limited to one standard and one non-standard tariff and one payment method.

They were asked if they felt it was possible to identify the cheapest and most expensive tariffs from the information in the tables.

Without knowing what level of consumption is being referred to, it is not possible to decide with any degree of certainty which would be the cheapest or most expensive tariffs from the table. In the case of day time/night time tariffs, one would also need to know the day time/night time split

Respondents' answers are summarised in Table 7. Only a quarter of the sample felt they

would not be able to work it out. One in three respondents felt it was possible while four in ten were unsure, often because they found the tables too complicated.

*"I just looked at the table and there were too many numbers for me to process them." (Mainstream, C2D, pre-family)*

*"It's just made it more confusing to me. Too many bloody numbers. You just want to know what you've got to pay, don't you?" (Vulnerable, working age disabled)*

**Table 7: Is it possible to work out the cheapest and most expensive tariffs (what happens at the moment)?**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	106	68	38
Is it possible to work out from the table which is the cheapest and which is the most expensive tariff?			
Yes	34 32%	21 31%	13 34%
No	28 26%	24 35%	4 11%
Not sure	44 42%	23 34%	21 55%

There is a statistically significant difference between the response of mainstream and vulnerable consumers such that mainstream consumers were more likely to realise they could not identify the cheapest and most expensive tariffs (35%) while vulnerable consumers

were more likely to state that they were not sure if they could do so (55%)<sup>15</sup>. Once again, this reflects lower levels of understanding on the part of some more vulnerable consumers.

More than half the sample realised that they would not be able to work out what their own bill would come to based on any of the tariffs displayed without knowing what their consumption level was (along with a calculator).

*"If I had my bill in front of me I could work it out. You need to know how many kilowatts you use per day on average." (Mainstream, ABC1, family)*

*"You have to sit down with a calculator and be there for hours. At a glance you wouldn't know..."*

*...I wouldn't have a clue." (Vulnerable, low income)*

For many, the effort involved in all this was too much.

<sup>15</sup> Chi-squared = 8.35, df = 2, p<0.05

*"It's a bit confusing to work out. I suppose you would need to sit down and see how much actual electricity you use and then calculate it – which is the best one. But it should definitely be simpler to work out..."*

*...There's too many numbers – first rate, second rate...*

*...It could definitely do with being clearer. You have to sit down, find out how much you use and then calculate which is cheaper which I don't think you should have to do really." (Vulnerable, working age disabled)*

There was little difference here between the mainstream and vulnerable samples (see Table 8).

**Table 8: Can you work out what your own bill would come to?**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	103	66	37
Is it possible to work out from the table how much your own bill would come to for any one tariff?			
Yes	20 19%	14 21%	6 16%
No	55 53%	34 52%	21 57%
Not sure	28 27%	18 27%	10 27%

There was some awareness that such a calculation is best done based on annual figures to allow for seasonal fluctuations but this was not recognised by everyone without prompting.

Those respondents who felt that they could identify the cheapest and most expensive tariffs were invited

to do so. The answers for respondents on non day time/night time tariffs are shown in the final column in Figure 10. A number of tariffs stood out as potentially the cheapest (cells shaded green) and the most expensive (shaded red); however, as can be seen from the figure, every tariff was selected by at least one respondent which suggests that they were using a high degree of guesswork. It is noticeable that there are more tariffs circled in the top half of the table. This reflects the fact that respondents found the tiered unit rate more difficult to understand and to work out.

*"You can see that the standing charge between those two, one is the most expensive and one's the cheapest but then also the unit rate is very similar. The tiered one, you can see that Supplier 3, their tier comes in at 450 but the first tier rate is very expensive anyway so overall that's got to be the most expensive. And then you look at Supplier 4 and their tier rate comes in at 400 and the unit rate is a lot cheaper. But you'd have to sit down and say, 'well, how many units am I going to use?' and actually work it out in some huge mathematical equation to see if you were right or wrong..."*

*...You just shouldn't have to, it's wrong." (Mainstream, ABC1, retired)*



**Figure 10: Number of respondents indicating what they thought were the cheapest and most expensive tariffs (non day time/night time tariffs)**

(base: all customers on non day time/night time tariffs who felt they could identify the cheapest and most expensive tariffs; n= 23)

Supplier	Tariff		Standing charge (£ per month)	Unit rate (p/kWh)	
Supplier 1	Standard		7.77	13.71	4
Supplier 2	Standard		6.15	16.24	4
Supplier 3	Standard		10.72	15.97	5
Supplier 4	Standard		1.22	15.88	9
Supplier 1	Online		7.77	12.71	7
Supplier 2	Green		6.15	16.24	1
Supplier 3	Online		10.72	12.50	3
Supplier 4	Loyalty		1.22	14.88	8
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier rate (p/kWh)	2 <sup>nd</sup> Tier rate (p/kWh)	
Supplier 1	Standard	450	20.72	15.87	1
Supplier 2	Standard	350	21.08	18.17	2
Supplier 3	Standard	450	28.59	18.49	7
Supplier 4	Standard	400	3.65	18.07	2
Supplier 1	Online	450	20.72	14.72	2
Supplier 2	Green	350	21.08	18.17	1
Supplier 3	Online	450	28.59	14.47	2
Supplier 4	Online	400	3.65	16.93	4

**Figure 11: Number of respondents indicating what they thought were the cheapest and most expensive tariffs (day time/night time tariffs)**

(base: all customers on day time/night time tariffs who felt they could identify the cheapest and most expensive tariffs; n= 6)

Supplier	Tariff		Standing charge (£ per month)	Day time rate (p/kWh)	Night time rate (p/kWh)	
Supplier 1	Standard		7.77	18.54	7.71	1
Supplier 2	Standard		6.15	17.31	4.74	2
Supplier 3	Standard		10.72	16.73	6.99	1
Supplier 4	Standard		1.22	18.38	5.51	4
Supplier 1	Online		7.77	17.04	6.21	-
Supplier 2	Green		6.15	18.81	6.24	-
Supplier 3	Online		10.72	15.22	5.49	-
Supplier 4	Loyalty		1.22	18.38	5.51	2
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier rate (p/kWh)	Day time rate (p/kWh)	Night time rate (p/kWh)	
Supplier 1	Standard	450	20.72	20.18	8.05	-
Supplier 2	Standard	350	21.08	17.31	5.80	-
Supplier 3	Standard	450	28.59	16.16	8.98	2
Supplier 4	Standard	400	3.65	18.50	6.74	-
Supplier 1	Online	450	20.72	18.45	6.53	-
Supplier 2	Green	350	21.08	18.81	7.45	-
Supplier 3	Online	450	28.59	17.05	5.31	-
Supplier 4	Online	400	3.65	18.39	6.83	1

Clearly, considerable care needs to be used when interpreting these results as they are based on small numbers of respondents.

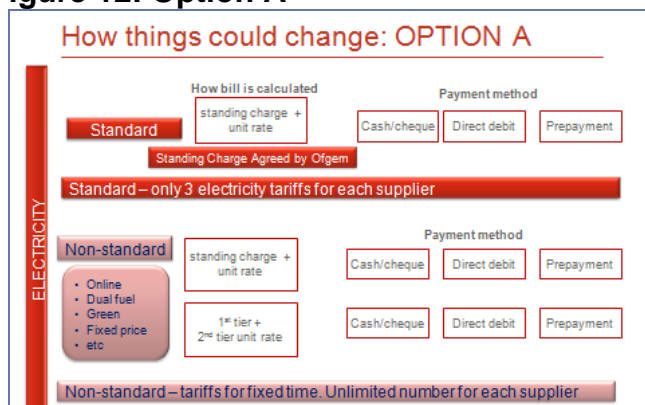
Nevertheless, they do suggest that when presented with this type of information, some consumers are likely to think they can work out the cheapest and most expensive tariffs, and, in many cases, the conclusions they come to will be wrong.

The equivalent table for day time/night time tariffs is shown in Figure 11; although this is based on just six respondents, nevertheless, between them they selected seven different tariffs.

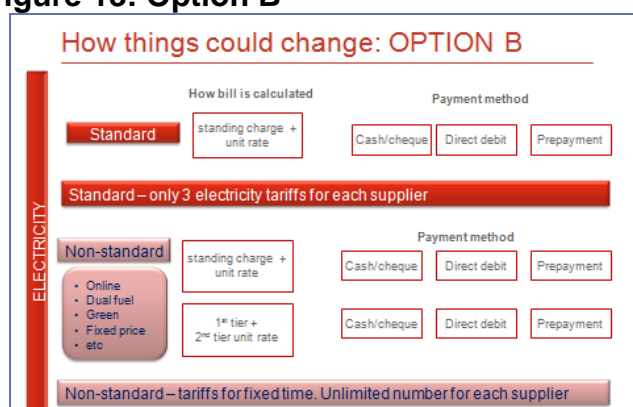
The main strategy used by these respondents was to look for the 'best' combination of a low standing charge and unit rate or a low 1<sup>st</sup> tier level combined with low 1<sup>st</sup> and 2<sup>nd</sup> tier rates. However, a number of other clearly inappropriate strategies were sometimes noted including adding together or multiplying together the standing charge and the unit rate.

## 4 Response to the Proposals

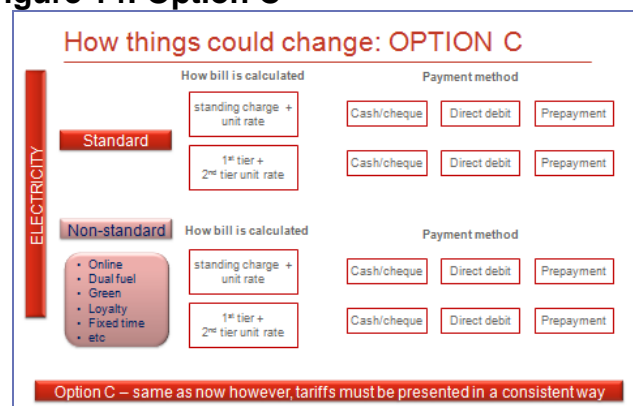
**Figure 12: Option A**



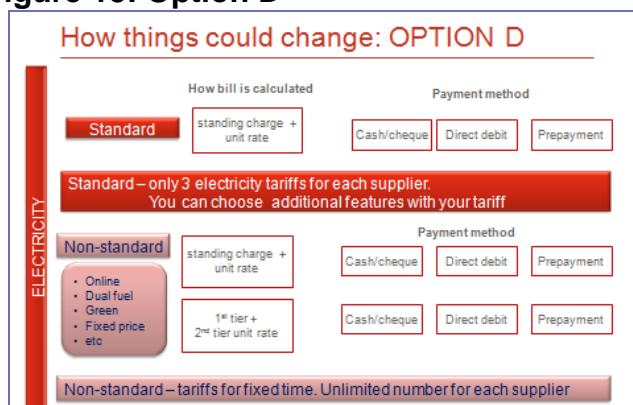
**Figure 13: Option B**



**Figure 14: Option C**



**Figure 15: Option D**



### 4.1 Introduction

During the course of the interviews, respondents were exposed to three of the four proposed sets of changes (each respondent saw either Option A or Option B). Each option was summarised by a chart that illustrated how it differed from what happens at the moment. These are illustrated in the following figures (Figures 12-15). For the sake of simplicity, we have only shown the charts used with respondents who were not on a day time/night time tariff. Respondents on these types of tariffs saw very similar charts except with respect to the method of calculating the bill.

We begin by giving an overview of reactions to the four options. We then go on to summarise responses to the:

- proposed changes to standard tariffs
- proposed changes to non-standard tariffs
- idea of withdrawing the dual fuel option
- likely impact of suppliers offering a price guarantee for customers who switch to one of their tariffs.



We end this section by looking at the impact of displaying tariff pricing information in different ways:

- using unit rates
- using pounds per month and pounds per year
- displaying pricing information based on low, medium and high consumption levels
- displaying the monthly cost along with the option of adding on extra features.

## 4.2 Overview of Reactions to the Proposals

The findings were very consistent, not only from one location to the next but also between the mainstream and vulnerable samples. Although vulnerable respondents were more likely to struggle to understand all of the information (see 3.2.2), their opinions in terms of what they liked and disliked about the proposals were very similar to the views of mainstream consumers. This consistency across the sample provides an added degree of robustness to the findings.

With few exceptions, there was little support for maintaining the *status quo* and some of those who were in favour of doing so had struggled to understand the information and therefore felt there was little point in making any changes.

*“It is a bad idea to do nothing, it’s like the poll tax, you can see the resentment [against] energy companies building.” (Mainstream, ABC1, post-family)*

*“It’s just more baffling to me, to be honest. You try to get your head around one and then it changes and it’s a bit of that one on to that one.” (Vulnerable, working age disabled)*

All of the options were considered to represent an improvement over what happens at the moment.

*“It’s a good idea, it would make it easier to see who is giving the better deal if it is consistent.” (Vulnerable, low literacy/numeracy)*

*“I would take more interest if it was simple to read and understand.” (Mainstream, C2D, post-family)*

*“You could learn how to analyse it if it was always presented in the same way.” (Mainstream, ABC1, pre-family)*

There was a clear preference in terms of the options for change (see Table 9), however, for the reasons set out below, we do not feel that respondents’ overall preferences are

the best measure to use to evaluate the different options. ***Rather than using respondents' overall preferences as the basis on which to move ahead, we believe it is much more constructive to look at responses to the various elements that define each Option to see what lessons can be learnt. These are considered in the following sections (4.3 – 4.6).***

**Table 9: Summary of preferences for Options A-D**

	Total	I really like this option	I am happy with this option	I am not sure about this option	I am not happy with this option	I am really unhappy with this option
Leave things as they are	85	6 7%	5 6%	17 20%	20 24%	37 44%
Option A	47	16 34%	16 34%	4 9%	8 17%	3 6%
Option B	53	10 19%	27 51%	10 19%	4 8%	2 4%
Option C	101	21 21%	24 24%	27 27%	22 22%	7 7%
Option D	103	46 45%	31 30%	13 13%	9 9%	4 4%

All respondents (106) were exposed to Options C and D and had the option of 'leaving things as they are'. 52 respondents were exposed to Option A and 56 to Option B. The rows in the table do not always add up to the total number of respondents considering each option as some respondents did not give a rating for every Option.

Options A, B and D were all well received.

Options A and B (each seen by about half the sample) were both rated favourably by over two-thirds of the sample (32 of 47 respondents (68%) and by 37 of 53 respondents (70%) respectively).

Option D, in which consumers could choose a standard tariff and add on extra features, was favourably rated by 77 out of 103 respondents (75%). Of the three, Option D attracted the highest proportion of respondents who stated that they 'really liked this option' (45%).

Option C, which involved minimal change from what happens at the moment received positive ratings from less than half the sample (n=45; 45%).

However, this outcome needs treating with considerable caution.

Option C was the least preferred of the four options, partly because there was no reduction in the overall number of tariffs but also because the tariff pricing information tables were more complicated compared to those used for Options A, B and D (see, for

example, Figures 17-23). The tables for Option C (Figures 19-20) displayed 16 tariffs (4 suppliers x two charging methods x standard/non-standard). In contrast, the tables for Option A (Figures 17-18) and B (Figures 21-22) displayed just 8 tariffs (4 suppliers x one charging method x standard/non-standard).

Options A and B came next in the hierarchy of preferences. Both of these Options result in a reduction in the number of standard tariff options. This, in turn, resulted in less complicated tariff pricing information tables. The tables shown were based just on the 'standing charge + unit rate' method. It should be noted that this does not provide a true test of the preference for Option A or B over C because, in reality, under Options A and B, non-standard tariffs might also incorporate the two tier unit rate method of charging and this, in turn, would mean the tariff pricing information tables would be more complex than the ones used in the research.

Option D was visually the least complicated of the tariff tables (see, for example, Figure 23). It was also liked for the fact that consumers could add features to a standard tariff that could reduce the size of their monthly bill. However, in our view, there are reasons to doubt that it would live up to its promise. As some respondents pointed out (see section 4.3.3), adding extra features is a complication, not a simplification. Moreover, it blurs the distinction between standard and non-standard tariffs and it almost certainly needs to include low and high average price points (the table respondents saw displayed a single price point for someone with a medium level of consumption; see section 4.6.6).

***What this largely demonstrates is that respondents preferred to deal with tables based on a small number of tariff options. The effect of the different methods of presentation were noted by the Ofgem team and used to inform the design of the subsequent quantitative element of the research.***

### 4.3 Proposed Changes to Standard Tariffs

#### 4.3.1 Restricting standard tariffs to the Standing Charge and Unit Rate method of charging

This change applied to Options A, B and D and it proved to be a non-controversial change that was felt to offer some customer benefits. Although it represented a

reduction in consumer choice, given the current state of affairs, this was felt to be a positive step. There was no resistance to the proposal.

As we have previously noted (see section 3.3), most respondents were unaware of the two tier method of calculating bills and, when it was explained to them, they found it more complex to understand compared to the method based on a standing charge and a single unit rate. A few respondents wondered if consumers with very high consumption levels would lose out (because they are currently charged for a higher proportion of their use at the lower rate) but they did not object to the change themselves.

*“If you get rid of the tiers it’s something you can understand. There are only two things to worry about.” (Vulnerable, retired disabled)*

*“I was confused by the two tier tariff so it’s not important if we lose it.” (Mainstream, ABC1, pre-family)*

#### 4.3.2 Ofgem to set the standing charge

This change only applied to Option A and it involved Ofgem setting a single standing charge which would apply to all standard tariffs from all suppliers.

This proposal was well received for a number of reasons. It provided reassurance that at a time when suppliers are perceived to be regularly increasing their prices, some aspect of the price is being set by the regulator. In this context, a number of respondents were of the opinion that suppliers deliberately vary their standing charges simply to confuse customers, thereby making it difficult to compare their tariffs.

*“It is a good idea, it takes the standing charge price away from the suppliers, a different body would decide on a UK wide standing charge. Everyone knows what they are paying then and it takes it out of the equation.” (Vulnerable, retired disabled)*

*“Excellent, someone who is on my side and fighting my corner.” (Mainstream, C2D, post-family)*

In addition to this reassurance factor, some (a minority) immediately realised this change would mean they could see the relative cost of each standard tariff simply by looking at the unit rate. For others, this benefit only became apparent once they saw the table of tariff pricing information.

*"It will work, you can see it in front of you, the standing charge is X, you have your number of kWh on your bill and the standing charge won't vary. It makes it a lot easier." (Vulnerable, retired disabled)*

*"It's a good idea if it is set. You always know what the standing charge will be wherever you go and are only comparing the unit rate. It's less complicated so the suppliers don't have as much to hide behind." (Mainstream, ABC1, pre-family)*

In the case of consumers on a day time/night time tariff, they still would need to consider the impact of the two different unit rates. Nevertheless, this change was felt to offer an improvement as it removes one variable from the equation.

*"If all of the companies had only one set standing rate, you could clearly see which one has the higher day time rate and which one has the higher night time rate." (Vulnerable, working age disabled)*

#### 4.3.3 Optional features

This change only applied to Option D. Under this option, a consumer could opt for a standard tariff but add on one or more additional features. Ofgem would determine how many and which features suppliers could offer.

This was likened by some to mobile phone tariffs that offer customers 'bolt on' features or to a digital TV package. Another respondent likened it to buying basic pizza and then adding one or more toppings.

*"It's a bit like Sky when you get a package." (Vulnerable, low income)*

Reactions to the idea, before respondents saw the tariff pricing information table, were mixed. Those in favour welcomed the idea of having the choice of extra features, especially if this enabled them to lower their bill whereas those opposed to it felt it only made a complicated situation even more complex.

*"I don't want more choices, more just baffles you, it's getting too much. They are giving you too many options, it is tying you up in knots, that is how it makes me feel." (Vulnerable, low literacy/numeracy)*

*"They are confusing things too much now." (Mainstream, C2D, family)*

For some respondents, it also blurred the distinction between standard and non-standard tariffs; a non-standard tariff is a standard tariff with additional features so what is the difference?

*“I can’t see the point of it. Surely, if you can choose one of the non-standard options it becomes a non-standard tariff. It makes it a little bit confusing.”  
(Vulnerable, working age disabled)*

Once respondents were shown the tariff information table (Figure 23), many of those who felt it would complicate the situation changed their mind as the table was the simplest of all the tables they saw during the interview.

Respondents welcomed the fact that Ofgem would specify both the number and the type of features that suppliers could offer. This was seen as essential to ensure it was kept simple and to enable consumers to compare the impact of each feature across the standard tariffs of different suppliers.

*“I think it’s better if it’s limited because it could just get out of hand, couldn’t it? I wouldn’t know if I was coming or going. One electricity company offering me football tickets, another offering me to fix my boiler, another offering to fit new carpets, you know! I’d just go mad. It would be a bit like the phone deals, everyone with cinemas tickets.” (Mainstream, C2D, pre-family)*

Despite the fact that many respondents ended up favouring this option, when asked how many features Ofgem should allow or which features they should allow, respondents struggled to come up with any concrete suggestions. Most felt that four to five features would be manageable although some would be happy with more than this. When it came to suggesting the features that they would most like to see included, very few suggestions were forthcoming. Most of the things that were suggested were features that respondents assumed would lower their bill, not all of which were tariff features but different forms of incentive, such as a discount for recommending a friend. Examples included:

- a discount for paying by direct debit
- a discount for recommending a friend
- a dual fuel discount
- paperless billing
- a loyalty bonus.

## 4.4 Proposed Changes to Non-standard Tariffs

### 4.4.1 Fixed duration

The main change being proposed to non-standard tariffs being proposed is that in future they should all be for a fixed term and that the terms and conditions would be fixed for the duration of the contract. This change applied to Options A, B and D.

Many respondents struggled to see any obvious consumer benefits from this proposal. They were disinclined to shop around in the first place and the idea of being required to do so on a regular basis was not especially attractive. Instead, it was perceived to be an unnecessary hassle.

*"Why can't you stay on it forever and then write in if you want to change?"  
(Mainstream, C2D, post-family)*

**Fixed duration was often equated with fixed price.** This was often the case even after the researcher spelt out that a fixed term contract would not (necessarily) mean that the price could not change. If a consumer wanted a fixed or capped price contract, they would need to ensure this was included within the terms. Nevertheless, despite being told this, a number of respondents still assumed that 'fixed term' = 'fixed price'. Others who appreciated this was not the case sometimes argued that the only consumer benefit to be had from a fixed term contract was if this included a fixed price.

*"If you get the cheapest rate and it's fixed, that's good. [Moderator explains this is not necessarily the case]. In that case, it's a bit complicated. The fixed part, if it's not fixed." (Mainstream, C2D, family)*

*"Automatically, as soon as I saw tariffs for a fixed time I would automatically think that meant the price..."*

*...I really don't understand the point of fixing the tariff for a certain amount of time unless it is to guarantee the price. Why else would you do it?" (Vulnerable, working age disabled)*

**Fixed duration was also assumed by some to mean they were locked into the contract for the duration.** This was a concern as a number of respondents had experienced problems in other markets where they found they were on an unfavourable contract but were unable to do anything about it until the term came to an end, or they had had to pay an exit penalty.



Some respondents appreciated that by fixing the term of non-standard contracts, customers would be encouraged to be more proactive about switching, and some of these felt this was probably a good thing.

*“I think if it was a fixed time it would give you a kick to look to changing. If there was one year contracts or two year fixed periods then maybe it would give you the inclination to maybe have a look at changing when you know that time period’s coming up.” (Mainstream, ABC1, pre-family)*

*“I think it is good that when it comes to an end they let you know and then you have the opportunity to go and look for a cheaper [tariff].” (Vulnerable, working age disabled)*

One more perceptive respondent suggested that suppliers should be required to send customers details of their past 12 month’s consumption with their contract renewal notice to enable customers to assess their options more effectively<sup>16</sup>.

#### 4.4.2 Contract renewal

The other change to non-standard contracts was that suppliers would be required to notify customers when the contract was coming to an end and give them the chance to decide which tariff they wanted to move on to next. In the event that a customer did not respond, suppliers would be required to put them on to their standard tariff. This change also applied to Options A, B and D.

Respondents welcomed the fact that the onus would be on the supplier as they had concerns that they themselves would forget that their contract was coming up for renewal.

*“You wouldn’t want to leave it to them as the supplier could put you on a tariff that was extremely high. You’d have to decide what to do.” (Mainstream, ABC1, retired)*

However, in keeping with the fact that they were often less keen on fixed term contracts in the first place, there were concerns that this would increase not only the demands on themselves (by forcing them to shop around) but also on suppliers and that this might translate into higher prices due to increased supplier workloads and costs.

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<sup>16</sup> This might suggest there is a case for having a 13 month minimum term so that customers can receive consumption data based on a 12 month period.



If they were going to have to shop around to see what tariffs were available, some respondents felt they would prefer to have two or three instead of just one month's notice.

*"People lead such busy lives, whether they have got the time to do this I don't know. I am an organised person so I'd make sure it's in the diary before it runs out." (Mainstream, C2D, post-family)*

There was no great desire to have the option to decide what to do well in advance of a fixed term contract coming to an end as market conditions were perceived to be so volatile that it would not make sense to make a decision more than a few weeks beforehand. Having said this, and despite the fact that most respondents were not keen on switching, some wanted to have the reassurance that they could switch to a new tariff at any point during the term, hence the concern about being 'locked in'.

*"You never know what other offers are out there." (Vulnerable, low income)*

The automatic rollback to a standard tariff if the customer does not respond was seen as an acceptable default option although it may have the potential to confuse customers if they do not understand what has happened or why it has happened. There was also some concern that some customers may end up worse off on a standard tariff compared to some of the other options that might be available to them.

*"It is fair enough if you haven't sorted it out." (Mainstream, ABC1, pre-family)*

## 4.5 Other Possible Changes

### 4.5.1 Dual fuel

We explored respondents' views on the idea of suppliers no longer being allowed to offer a dual fuel tariff.

A high proportion of the sample was on a dual fuel contract and the reasons behind this choice were a combination of lower bills plus the convenience of dealing with a single supplier and receiving a single bill. Perhaps not surprisingly, all were reluctant to give up these benefits and no one could see how withdrawing the dual fuel tariff option would be in the consumers' best interests especially if they could continue to have both a gas and electricity contract with the same supplier.

*"I think that would be a step backwards in a way because dual fuel's the discount because you've got one supplier and it makes them more sharp to try and get both..."*

*...I can't see the sense of it to be honest. Why withdraw the offer but then offer you to still have your gas and your electric from the same supplier?"*  
(Mainstream, ABC1, retired)

Respondents felt that such a move would only be acceptable if it had no detrimental impact on their bill.

#### 4.5.2 Price guarantee

One of the barriers to switching is the concern that suppliers will increase their prices the moment a customer has switched to them.

*"I would switch if I was convinced it was lower and wouldn't go up once I'd changed, which is what happens. If they can get the suppliers to stick to the prices indicated." (Vulnerable, retired disabled)*

*"I would not be switching. It would go up after you had changed, the others would follow suit." (Vulnerable, retired disabled)*

Respondents were asked to consider what impact, if any, a price guarantee would have on their propensity to shop around and switch if they offered a guarantee that when a customer switched, the price would not change for one, three or six months. It was explained that suppliers would also need to give them one month's notice of any price change in addition to this guaranteed window. It was explained to respondents that a guarantee not to change prices might mean that any price decreases would also not be passed on immediately.

Responses to this idea (see Table 10), suggest that it is possible that a one month price guarantee might **decrease** the propensity to switch supplier while a three month guarantee may have no noticeable impact.

Some respondents justified their response by suggesting it takes several weeks for a transfer to go through so they would not really benefit from the guarantee; this indicates the importance of explaining that any guarantee period would start from the time the transfer is completed. However, a guarantee **not** to change prices for a certain period can also signal a more subtle message, namely that prices **will change** once this period is over and this may underlie the response to a 1-3 month period. In contrast, 56 out of

the 97 respondents who gave an answer (58%) felt they would be more likely to switch if there was a guarantee that prices would not then change for 6 months.

**Table 10: Impact of price guarantee on propensity to switch supplier**

	Base	If prices could not change for at least 1 month (+ 1 month's notice) this would:	If prices could not change for at least 3 months (+ 1 month's notice) this would:	If prices could not change for at least 6 months (+ 1 month's notice) this would:
<b>Total</b>	<b>295</b>	<b>99</b>	<b>99</b>	<b>97</b>
make me much more likely to consider switching to a new supplier or tariff	53 18%	7 7%	11 11%	35 36%
make me somewhat more likely to consider switching to a new supplier or tariff	60 20%	13 13%	26 26%	21 22%
make no real difference to what I do	69 23%	38 38%	20 20%	11 11%
make me somewhat less likely to consider switching to a new supplier or tariff	45 15%	14 14%	20 20%	11 11%
make me much less likely to consider switching to a new supplier or tariff	42 14%	18 18%	12 12%	12 12%
Not sure	27 9%	9 9%	10 10%	8 8%

## 4.6 Presenting Tariff Pricing Information

### 4.6.1 Unit rate (p/kWh)

**Figure 16: Tariff price tables - unit rate (p/kWh) (Option A)**

Supplier	Tariff	Standing charge (£ per month)	Unit charge (p/kWh)
Supplier 1	Standard	3.51	14.92
Supplier 2	Standard	3.51	17.58
Supplier 3	Standard	3.51	17.61
Supplier 4	Standard	3.51	13.87
Supplier 1	Online	6.15	17.58
Supplier 2	Green	4.70	17.61
Supplier 3	Online	1.22	18.44
Supplier 4	Fixed	1.22	17.20

Under Option A, Ofgem would set the standing charge for all standard tariffs and this was acknowledged as making it very easy to compare the relative cost of such tariffs (see Figure 16).

*"You can see straightaway. It's an improvement, you can see who's the best." (Vulnerable, low income)*

It is also possible to compute 'standard tariff equivalents' to show the relative cost of all the tariffs in

**Figure 17: Tariff price tables - standard tariff equivalents (Option A)**

Supplier	Tariff	Standing charge (£ per month)	Unit charge (p/kWh)	standard tariff equivalent (p/kWh)		
				LOW	MED	HIGH
Supplier 1	Standard	3.51	14.92	14.90	14.90	14.90
Supplier 2	Standard	3.51	17.58	17.60	17.60	17.60
Supplier 3	Standard	3.51	17.61	17.60	17.60	17.60
Supplier 4	Standard	3.51	13.87	13.90	13.90	13.90
Supplier 1	Online	6.15	17.58	19.10	18.50	18.20
Supplier 2	Green	4.70	17.61	18.30	18.00	17.90
Supplier 3	Online	1.22	18.44	17.10	17.60	17.90
Supplier 4	Fixed	1.22	17.20	15.90	16.40	16.70

**Figure 18: Tariff price tables - standard tariff equivalents based on weighted charges for day and night time consumption levels (Option A)**

Supplier	Tariff	Standing charge (£ per month)	Day time rate (p/kWh)	Night time rate (p/kWh)	Weighted charge (p/kWh)	standard tariff equivalent (p/kWh)		
						LOW	MED	HIGH
Supplier 1	Standard	3.51	20.19	8.46	13.74	13.74	13.74	13.74
Supplier 2	Standard	3.51	18.96	5.49	11.55	11.55	11.55	11.55
Supplier 3	Standard	3.51	18.29	7.74	12.49	12.49	12.49	12.49
Supplier 4	Standard	3.51	18.69	6.96	12.24	12.24	12.24	12.24
Supplier 1	Online	6.15	20.46	6.99	13.05	14.01	13.53	13.37
Supplier 2	Green	4.70	21.57	9.02	14.66	15.10	14.88	14.81
Supplier 3	Online	1.22	21.03	6.26	12.91	12.07	12.49	12.63
Supplier 4	Fixed	1.22	22.04	6.26	13.36	12.53	12.95	13.08

LOW 1,650 kWh per year	MED 3,300 kWh per year	HIGH 4,600 kWh per year
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the table based on typical low, medium and high levels of consumption. For example, the monthly consumption level associated with the Medium price point is 275kWh (see Figure 17).

The monthly cost for a consumer on Supplier 3's online tariff would therefore come to: £1.22 + (275kWh x £0.1844) = £51.93. If we subtract from this the £3.51, which is the standing charge set by Ofgem for standard tariffs<sup>17</sup>, and divide the result by 275kWh, we arrive at an equivalent unit rate of 17.60 p/kWh.

The situation is even more complex for day time/night time tariffs because of the effect of the two tier pricing. One possible approach is to

display tables using a weighted unit rate based on the average split between day time and night time consumption levels (45%:55%) as shown in Figure 18.

Even if respondents understood the meaning of the 'weighted charge' shown in the tariff table, they had no idea how 'typical' their own consumption was and therefore what impact this would have on the cost of the tariffs. For example, some single mothers with young children who were home for much of the day, assumed that they would have a higher day time consumption compared to the average.

Although the provision of 'standard tariff equivalents' allows one to compare the relative cost of all the tariffs in the table by focusing on the final three columns, this is a difficult

<sup>17</sup> The standing charge used in the research was for illustrative purposes only and is not representative of any level of standing charge Ofgem may propose for standard tariffs.

concept to grasp and not everyone was confident they could work out the relative cost of the non-standard tariffs in the table even when this information was provided.

Respondents were shown the tariff information in Figure 16 and asked if they could work out the cheapest and most expensive standard and the cheapest and most expensive non-standard tariffs. They were then shown the tariff information with the 'standard tariff equivalents' (Figure 17) and asked if they could work out the cheapest standard tariff for a low user and the most expensive non-standard tariff for a high user. Table 11 illustrates the proportion of respondents who thought they could identify the appropriate tariffs, together with their 'success rate' (that is, the proportion of respondents who were able to correctly identify the appropriate tariffs).

**Table 11: Proportion of respondents able to interpret tariff tables based on unit rates (with and without 'standard tariff equivalents')**

	Figure 16 (without standard equivalent tariff information)		Figure 17 (with standard equivalent tariff information)	
	Standard Tariffs	Non-standard tariffs	Standard Tariffs	Non-standard tariffs
Proportion thinking they can identify the appropriate tariffs	48 out of 52 (92%)	34 out of 52 (65%)	45 out of 52 (87%)	36 out of 52 (69%)
Success rate (number of correct tariffs selected)	72/96 (75%)	50/68 (74%)	37/45 (82%)	23/36 (83%)
<p>The row headed 'proportion thinking they can identify the appropriate tariffs' shows the number (percentage) of respondents who thought they could identify the appropriate tariffs.</p> <p>The row headed 'success rate' shows how many tariffs were correctly identified. In the case of the tariffs displayed in Figure 16, respondents were asked if they could identify <b>both</b> the cheapest and the most expensive standard and non-standard tariffs. In the case of the standard tariffs, 48 respondents thought they could, therefore the success rate is expressed as a proportion of 96. 34 respondents thought they could identify the appropriate non-standard tariffs so the success rate is expressed as a proportion of 68.</p> <p>For the tariffs displayed in Figure 17, respondents were asked if they could identify the cheapest standard tariff for a low user, and the most expensive non-standard tariff for a high user. 45 respondents felt they could identify the cheapest standard tariff for a low user and the success rate is therefore expressed as a proportion of 45; 36 respondents felt they could identify the most expensive non-standard tariff for a high user and the success rate is expressed as a proportion of 36.</p>				

Table 11 suggests that displaying the 'standard tariff equivalents' had little if any impact on respondents' ability to identify the cheapest and/or most expensive tariffs. When shown the tariff pricing information without this extra information (Figure 16), nine out of ten respondents felt they could identify the cheapest and most expensive standard tariffs; 75% of them were correctly able to do so. In contrast, two-thirds (65%) thought

they could work out the cheapest and most expensive non-standard tariffs; again three-quarters of them of them (74%) were able to do so.

The provision of the 'standard tariff equivalents' information (Figure 17) had little impact on respondents' ability to interpret the standard tariffs (this is to be expected) but it also had minimal impact on their ability to interpret the non-standard tariffs. Although the success rate was somewhat higher (increasing from 74% to 83%), there was almost no difference in the number of respondents who felt they could identify the appropriate tariffs (increasing from 65% to just 69%).

*"To me, what that sounds like is it is not the actual rate you are getting, that's just in comparison. I didn't understand it, basically." (Mainstream, ABC1, pre-family)*

*"I don't get it. I need it monthly in actual money. As for usage and things, and how much they charge you per unit, or what they charge you on your tariff per unit – not a clue what they are on about..."*

**...So this is not helping?...**

*...No. The monthly sum of how much you've got to pay is a lot more easy for me to take on." (Vulnerable, low income)*

Although these are only qualitative data, and therefore it is difficult to generalise to the wider population, it does suggest that the use of 'standard tariff equivalents' may be of little help to consumers simply because it is a difficult concept for them to grasp.

The fact that all the tariff price information tables based on unit rates display some information (standing charge) in '£/month' as well as some information in 'p/kWh' may also have the potential to confuse.

Respondents saw Option C, which displays tariff pricing information in pounds per month, before they saw Option A and it was noticeable that a number of them misinterpreted the 'standard tariff equivalents' as 'pounds per month' and not 'pence per kWh'. Although this is an artefact of the research design, it does reinforce the finding that information in 'pounds per month' is a more natural way of displaying things.

*"It is only about £1 in it each month (referring to the pence per kWh data), I wouldn't bother to change." (Vulnerable, low literacy/numeracy)*

*"If I went from Supplier 1 to Supplier 4, I would save £1 a month..."*

**...Okay...**

*...[Pause] No you wouldn't. It all depends on how many kilowatts you use...*

*...I've just realised I've been looking at that in pounds." (Mainstream, C2D, pre-family)*



## 4.6.2 Monthly cost (£ per month)

This method of displaying tariff price information can be applied to all four Options (A, B, C and D) and respondents were shown a number of different examples of tables which included the monthly cost of each tariff based on low, medium and high average annual use.

**Figure 19: Tariff price tables - monthly cost (Option C)**

Supplier	Tariff		Standing charge (£ per month)	Unit rate (p/kWh)	Monthly cost (£ per month)		
					LOW	MED	HIGH
Supplier 1	Standard		7.77	13.71	31.80	45.50	66.00
Supplier 2	Standard		6.15	16.24	34.60	50.80	75.20
Supplier 3	Standard		10.72	15.97	38.70	54.60	78.60
Supplier 4	Standard		1.22	15.88	29.00	44.90	68.70
Supplier 1	Online		7.77	12.71	30.00	42.70	61.80
Supplier 2	Green		6.15	16.24	34.60	50.80	75.20
Supplier 3	Online		10.72	12.50	32.60	45.10	63.80
Supplier 4	Fixed		1.22	14.88	27.30	42.10	64.50
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier rate (p/kWh)	2 <sup>nd</sup> Tier rate (p/kWh)	Monthly cost (£ per month)		
					LOW	MED	HIGH
Supplier 1	Standard	450	20.72	15.87	29.60	45.50	69.30
Supplier 2	Standard	350	21.08	18.17	32.60	50.80	78.10
Supplier 3	Standard	450	28.59	18.49	36.10	54.60	82.40
Supplier 4	Standard	400	3.65	18.07	26.80	44.90	72.00
Supplier 1	Online	450	20.72	14.72	28.00	42.70	64.80
Supplier 2	Green	350	21.08	18.17	32.60	50.80	78.10
Supplier 3	Online	450	28.59	14.47	30.60	45.10	66.80
Supplier 4	Fixed	400	3.65	16.93	25.20	42.10	67.50

**Figure 20: Tariff price tables - monthly cost (Option C; day time/night time tariff)**

Supplier	Tariff		Standing charge £/month	Day rate (p/kWh)	Night rate (p/kWh)	Monthly cost (£ per month)		
						LOW	MED	HIGH
Supplier 1	Standard		7.77	18.54	7.71	42.40	77.00	111.60
Supplier 2	Standard		6.15	17.31	4.74	34.70	63.30	91.90
Supplier 3	Standard		10.72	16.73	6.99	42.00	73.30	104.50
Supplier 4	Standard		1.22	18.38	5.51	32.30	63.40	94.50
Supplier 1	Online		7.77	17.04	6.21	38.30	68.70	99.20
Supplier 2	Green		6.15	18.81	6.24	38.90	71.60	104.30
Supplier 3	Online		10.72	15.22	5.49	37.90	65.00	92.20
Supplier 4	Fixed		1.22	18.38	5.51	32.30	63.40	94.50
Supplier	Tariff	1 <sup>st</sup> Tier level (kWh)	1 <sup>st</sup> Tier (p/kWh)	Day rate (p/kWh)	Night rate (p/kWh)	Monthly cost (£ per month)		
						LOW	MED	HIGH
Supplier 1	Standard	450	20.72	20.18	8.05	39.80	77.00	114.10
Supplier 2	Standard	350	21.08	17.31	5.80	33.10	63.30	93.50
Supplier 3	Standard	450	28.59	16.16	8.98	39.70	73.30	106.90
Supplier 4	Standard	400	3.65	18.39	6.83	30.30	63.40	96.50
Supplier 1	Online	450	20.72	18.45	6.53	36.00	68.70	101.40
Supplier 2	Green	350	21.08	18.81	7.45	37.00	71.60	106.10
Supplier 3	Online	450	28.59	17.05	5.31	35.90	65.00	94.10
Supplier 4	Fixed	400	3.65	18.50	6.74	30.30	63.40	96.50

LOW 1,650 kWh per year	MED 3,300 kWh per year	HIGH 4,600 kWh per year
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When considering Option C, respondents were shown the tariff price information displayed in Figure 19 or Figure 20, depending on the type of tariff they were on.

Some three-quarters (82 out of 105; 78%) felt they could identify the most expensive standard tariff for a high user. However, the success rate was only 49%. This was because about a third of respondents only looked at the top half of the table based on a standing charge and unit rate whereas the correct answer was a tariff based on the two tier method of charging.

A similar proportion (75 out of 100; 75%) felt they could identify the cheapest non-standard tariff for a low user and here the success rate was 67%.

A simplified version of these tables was shown to respondents who considered Option B; in these tables only information relating to

**Figure 21: Tariff price tables - monthly cost (Option B)**

Supplier	Tariff	Standing charge (£ per month)	Unit charge (p/kWh)	Monthly cost (£ per month)		
				LOW	MED	HIGH
Supplier 1	Standard	7.77	13.71	31.80	45.50	66.00
Supplier 2	Standard	6.15	16.24	34.60	50.80	75.20
Supplier 3	Standard	10.72	12.42	32.50	44.90	63.50
Supplier 4	Standard	7.77	12.71	30.00	42.70	61.80
Supplier 1	Online	6.15	16.24	34.60	50.80	75.20
Supplier 2	Green	4.70	16.27	33.20	49.40	73.90
Supplier 3	Online	1.22	14.88	27.30	42.10	64.50
Supplier 4	Fixed	1.22	15.88	29.00	44.90	68.70

**Figure 22: Tariff price tables- monthly cost (Option B; day/night time tariff)**

Supplier	Tariff	Standing charge (£ per month)	Day time rate (p/kWh)	Night time rate (p/kWh)	monthly cost (£ per month)		
					LOW	MED	HIGH
Supplier 1	Standard	7.77	18.54	7.71	42.40	77.00	111.60
Supplier 2	Standard	6.15	17.31	4.74	34.70	63.30	91.90
Supplier 3	Standard	13.76	12.66	6.99	40.00	66.30	92.50
Supplier 4	Standard	7.77	17.04	6.21	38.30	68.70	99.20
Supplier 1	Online	6.15	18.81	6.24	38.90	71.60	104.30
Supplier 2	Green	4.70	19.92	8.27	41.90	79.00	116.20
Supplier 3	Online	1.22	18.38	5.51	32.30	63.40	94.50
Supplier 4	Fixed	1.22	19.54	5.51	33.70	66.30	98.80

LOW 1,650 kWh per year	MED 3,300 kWh per year	HIGH 4,600 kWh per year
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the standing charge and unit rate method of charging were displayed (see Figures 21 and 22).

Respondents were asked if they could identify the most expensive tariff for a high user and the cheapest tariff for a low user.

In the case of the most expensive tariff for a high user, 71% felt they could identify this tariff and three quarters of these (75%) were successful.

Some three-quarters of the sample felt that they could identify the cheapest tariff for a low user (75%) although the success rate here was only 64%.

These outcomes are illustrated in Table 12.

**Table 12: Proportion of respondents able to interpret tariff tables based on monthly cost (£ per month)**

		Figures 19/20 Option C (displaying both the standing charge + unit rate and the two tier methods)		Figures 21/22 Option B (displaying just the standing charge + unit rate method)	
Respondents were asked about the:		most expensive standard tariff for a high user	cheapest non-standard tariff for a low user	most expensive tariff for a high user	cheapest tariff for a low user
Proportion thinking they can identify the appropriate tariff		82 out of 105 (78%)	75 out of 100 (75%)	40 out of 56 (71%)	42 out of 56 (75%)
Success rate (number of correct tariffs selected)		40 out of 82 (49%)	50 out of 75 (67%)	30 out of 40 (75%)	27 out of 42 (64%)
The row headed 'proportion thinking they can identify the appropriate tariffs' shows the number (percentage) of respondents who thought they could correctly identify the appropriate tariffs. The row headed 'success rate' shows how many of these respondents were actually able to correctly identify the correct tariffs.					



The ‘average’ success rate for the tariff pricing information tables presented under Option C (Figures 19 and 20) was 57% whereas the ‘average’ success rate for the tables presented under Option B (Figures 21 and 22) was 70%. This suggests that respondents found it easier to correctly interpret tariff pricing information where the number of options was reduced (in this case, by dropping the two tier method).

#### 4.6.3 Unit rate vs. monthly cost vs. annual cost

Respondents who were presented with Option A saw tables based on both the unit rate and the monthly cost and were asked which made it easier to compare tariffs. Nine out of ten (45 out of 51 respondents; 88%) expressed a preference for displaying the tariff price information in the form of monthly costs. Moreover, while the unit rate information allows one to see the relative cost of each tariff, displaying the information in the form of the monthly cost also allows one to get an idea of how much someone would be paying each month for each tariff.

*“It’s a better idea. I’m not a clever person but I know the value of money and could understand it and compare it if it was in money terms.” (Mainstream, C2D, family)*

*“It’s very nice to look at those answers but then you’ve got to think, ‘that’s per kW, how many kilowatts do I use?’ and you’ve got to work it out. So just to have them general numbers at the end of it does make it a bit clearer and you think, ‘you’ve given me the answer’.” (Vulnerable, working age disabled)*

This provides an immediate **anchor point**; the only aspect of their energy bill that most consumers have some sort of handle on is how much they are paying and the monthly cost information provides them with a figure to which they feel they can relate. Moreover, most bills and wages are paid on a monthly basis.

*“It’s a lot easier to understand, you can see what you will save monthly, it will help you to budget.” (Mainstream, C2D, post-family)*

*“Money, that’s what we deal with, what it comes down to.” (Vulnerable, retired disabled)*

Those respondents that were paying for their energy either weekly or quarterly felt they could also relate more easily to a monthly cost compared to a unit rate.

Despite feeling that monthly information made it easier to compare tariffs, nevertheless some respondents still struggled to interpret the tables correctly and this was often because of the quantity of information on display. It was clear from how they set about

the task of identifying the best deal that some respondents were distracted by some of the information relating to the method of charging (such as the two tier rates) instead of simply focusing on the monthly cost data. This led some to question whether there was any need to show the columns displaying the standing charge, unit rates, 1<sup>st</sup> tier level and 1<sup>st</sup> and 2<sup>nd</sup> tier rates.

*"It's a bit mind boggling, all the figures, there are a lot of numbers to look at."*  
(Vulnerable, low literacy/numeracy)

*"It needs to be simplified. This is how much you are saving. They don't need all that other gobbledygook."* (Mainstream, C2D, pre-family)

*"I just went on the amounts, I didn't even bother looking at the unit rates as I don't understand them."* (Vulnerable, working age disabled)

While discussing Option C, respondents were shown tables of tariff information based on both monthly and annual costs for low, medium and high consumption levels. There was a clear preference for the information to be displayed on a monthly basis. Over two-thirds of the sample (n=74; 70%) indicated a preference for monthly costs while a third (n=36; 34%) felt that annual costs were most helpful (see Table 13).

**Table 13: Preference for monthly or annual costs**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	106	68	38
Which way of showing the information makes it easiest to decide which tariffs are best for you			
to show the MONTHLY COST e.g. £30.01 per month	74 70%	45 66%	29 76%
to show the ANNUAL COST e.g. £360.13 per year	36 34%	25 37%	11 29%
Not sure	5 5%	4 6%	1 3%

Columns sum to more than 106/100% as some respondents were happy with both monthly and annual information

This preference was largely a function of the fact that many bills and salaries are paid monthly, and this corresponds to the way many people manage their finances. Some respondents were also put off by seeing the larger, annual costs of energy.

*"No one pays their bill annually."* (Mainstream, C2D, post-family)

*"It's scary yearly. Monthly is easier to get your head around." (Mainstream, C2D, pre-family)*

A number of respondents realised that actual monthly costs would fluctuate throughout the year and would not therefore mirror the costs displayed in the tables; others only came to appreciate this after prompting.

#### 4.6.4 Low, medium and high average use

While the provision of monthly costs for low, medium and high consumption levels made it easy to see the relative cost of each tariff, most respondents recognised that this only provides a guideline in terms of how much they would pay for their energy on any given tariff.

*"If it would be within a small amount of it, say plus or minus a couple of pounds." (Vulnerable, low literacy/numeracy)*

*"I would understand that it could go a little bit over or under but it is approximately what your bill would be." (Vulnerable, retired disabled)*

*"It is just for comparison, you are only after a rough idea, you are just finding out who is cheapest, not basing your monthly figures on it." (Mainstream, ABC1, pre-family)*

*"You would have to know [which consumption level applies to yourself] for the table to make sense but if you didn't know it, you could still make a decision because whether you are low, medium or high, the cheapest one would be this but once you start to get down to the tariffs, you're all over the place because a low user would pay a lot more than – it's a tool, that you could use more effectively than the other thing [referring to tables relating to what happens now]." (Mainstream, ABC1, retired)*

Some spoke about the three price points as if they were price bands, in other words, they seemed to assume that every customer would fall into one of the three bands.

*"I'd have to work out which band you fall into first, especially if you were on the cusp. You have to make that decision yourself." (Mainstream, ABC1, retired)*

*"I can see it would be good but I don't even know what bracket I'd fall under." (Mainstream, C2D, pre-family)*

Others recognised them as price points and used them as an indication of the price range that might apply to themselves. For example, some spoke about taking a cost midway between low and medium or medium and high if they knew their consumption fell somewhere between the price points. Others felt they would work on the basis of the

higher price point as this would then provide them with a margin of error which would hopefully work in their favour.

*"You can still weigh it up, take a number in between and estimate. You would know roughly." (Mainstream, C2D, post-family)*

*"I would use it as a guideline and be prepared that by the end of the year there's not going to be enough money there to pay the bill. I would choose the cheapest and then say, 'okay, if it's a bad winter and we're still using gas to the full capacity in March or April then we need to top up and put aside more money to pay..."*

*...I think I'd probably go medium and then if it goes in the low bracket, that's a Brucie Bonus." (Mainstream, ABC1, post-family)*

Nevertheless, given that respondents had very little idea of how much energy they were using, deciding if you are a low, medium or high user is difficult. Some respondents took the view that, while they could use the tables to see the relative cost of each tariff, without knowing their consumption level, they would not be able to use the information to estimate what their own bill would come to.

*"It gives a bit of a guideline but it's not really a help, you don't know what your bill is. It would be good if it was clearer what it means for your usage." (Mainstream, C2D, pre-family)*

*"It confuses the issue still more – how do they know what you will use and how it varies by season?" (Mainstream, ABC1, family)*

*"I don't know how useful it is, there is quite a big variation between low and medium for some suppliers, they would need to have something where you can key in your actual usage and work it out." (Mainstream, ABC1, post-family)*

Others seemed quite happy to make an assumption about their consumption level.

*"I think I would be low..."*

*...I'd possibly be a medium." (Vulnerable, low income)*

*"Most people are average users." (Mainstream, C2D, retired)*

When we asked respondents how they might find out their own level of use they sometimes suggested working it out from previous bills. The problem with using an earlier bill is that this will not take into account seasonal fluctuations and there would also be difficulties in the case of bills based on estimated readings. Others felt that they might try phoning their supplier and asking for the information and some suggested that suppliers should include information on bills to show customers if they are low, medium or high users.

*"It would be great if the supplier sent us a statement at the end of the year with what we used throughout that year..."*

*...Have you not had one of those?...*

*...No...*

*...I get one [PPM customer]*

*...I haven't had one." (Mainstream, ABC1, post-family)*

As we have already noted, there was very limited awareness in our sample of Annual Statements. The following quote represents the exception to the rule:

*"It is a good idea if you know which group you fall into, you could tell that from your annual statement or when you go online, your level of usage comes up." (Mainstream, ABC1, post-family)*

A number of 'rules of thumb' were used to decide which price point was most relevant to themselves. Examples included basing it on their family size and composition or the size of their home along with perceived levels of energy use (e.g. a working couple who would be out of the home for much of the day, a family with young children who were at home during the day) or by comparing their current monthly energy costs with the values in the tables.

*"With this one you don't need to know exactly how many units you use. If you're working in the day and watching telly in the evening and doing your washing when it's going to be cheaper, you'd say low." (Vulnerable, working age disabled)*

Some respondents suggested that the tables could include guidance along these lines to help people decide which price point was most relevant, such as 'single people or couples living in a one bedroom flat would be low energy consumers'.

The danger here is that if someone is using guesswork they may end up choosing an inappropriate tariff.

#### 4.6.5 Encouraging switching

On a number of different occasions during the interview, the researcher highlighted a particular tariff on the tariff pricing information tables and asked respondents what they would do if they were on this tariff. Although the highlighted tariffs were not always the most expensive, there were always a number of tariffs on display that were cheaper.

Respondents reacted in one or more of three ways:

- some, especially if they found out that they were high consumers, felt that they would be motivated to take steps to lower their consumption

*"That would shock me. If I saw that, it would make me turn lights off."  
(Mainstream, C2D, family)*

*"I would look into it but I think my main thing would be, apart from trying to reduce the bills is to try and reduce the consumption so, forget trying to swap suppliers, and try and reduce down the amount that we use unnecessarily."  
(Mainstream, C2D, family)*

- some felt their first step would be to contact their current supplier to ask why they were paying more than they could be, in the hope that they might be able to negotiate a better rate. This is consistent with the fact that respondents were 'sticky' consumers; they would rather stay with their current supplier if possible. Having said this, if their current supplier was unwilling to offer them a lower rate, many of them thought they would consider switching to another supplier

*"I'd ask my supplier if they would match it." (Vulnerable, low income)*

*"Phone them up and ask them if they can either beat them or match them even. I definitely would ask them [current supplier] to change and if not, I would switch, definitely." (Vulnerable, low income)*

- some said that they would definitely consider switching to a cheaper tariff even if this entailed changing supplier

*"(I would think,) 'how come they are doing it for £42 and I'm paying £54.60?' That's £10 a month, it's better to have £10 a month in my pocket. I would switch if it was £42.10 instead of £54.60." (Vulnerable, low literacy/numeracy)*

*"You could go from Supplier 3 to 4, that would be £10 cheaper or you could go to Supplier 4 fixed and save more..."*

*.....You can see the actual saving of more than £12-13 per month."  
(Mainstream, C2D, pre-family)*

Not surprisingly, their propensity to switch was also linked to the potential savings, and this, in turn, was linked to the way the information was displayed. Although there was a clear preference for having tariff pricing information displayed in terms of typical monthly costs, our findings suggest that this may not represent the most effective approach for encouraging consumers to think about switching.

Displaying information in terms of pence per day is likely to have the least impact because the differences between tariffs is only a few pence per day and it is difficult for consumers to work out what this might amount to in pounds per month (see, for example, Figure 17).

*“It [referring to the p/kWh] is not a lot per year different, you would think your bill was pretty average.” (Vulnerable, low literacy/numeracy)*

Displaying information in terms of pounds per month overcomes this difficulty.

Nevertheless, some respondents expressed a reluctance to switch to another supplier if the savings they could achieve were of the order of a just few pounds per month.

*“Yes, but once they get hold of you, you lose what you gain. £12 per month, that's £36 per quarter. It wouldn't fill the car with petrol, would it?” (Vulnerable, retired disabled)*

*“I don't know that I would worry too much about that one, personally. The difference is quite small.” (Mainstream, ABC1, retired)*

In contrast, displaying pricing information in terms of pounds per year had more of an impact because the size of the saving was much greater. For example, respondents were shown two examples and asked what they thought they would do:

- a tariff that would cost a medium user £54.60 a month where a saving of up to £12.50 could be achieved with another supplier
- the same tariff information where the tariff would cost £655.70 a year and a saving of up to £150 could be achieved.

Seeing the potential savings over the course of a year prompted more respondents to consider switching.

*“I would definitely be looking to switch. It's a big saving and you can see the differences more clearly.” (Mainstream, C2D, pre-family)*

*“You can see straightaway that Supplier 1 and Supplier 4 are a lot cheaper. You're talking about £120 so you're going to be thinking about switching. Well, I certainly would.” (Vulnerable, working age disabled)*

This reveals something of a dilemma in as much that most respondents preferred having tariff pricing information displayed in terms of pounds per month because this reflects how they tend to manage and think about their finances but expressing the information as pounds per year is more likely to encourage greater levels of switching.



*"I think it complicates things a little bit there because if I was to see my saving per year I would like, 'wow, I'm changing immediately' but if it was per month, that's more convenient for me." (Mainstream, C2D, pre-family)*

#### 4.6.6 Monthly cost with additional features

For Option D, respondents were shown the tariff pricing information in Figure 23.

**Figure 23: Tariff pricing information (Option D)**

Supplier	Tariff	Monthly charge (£)	Paperless billing (£)	Boiler maintenance (£)	Green option (£)
Supplier 1	Standard	37.51	-£3.80	+£8.40	+£7.00
Supplier 2	Standard	40.28	-£2.80	+£5.10	+£4.40
Supplier 3	Standard	44.43	-£4.00	+£8.80	+£5.60
Supplier 4	Standard	44.63	-£2.80	+£6.00	+£4.00
Supplier 1	Fixed – 2 years	45.11	✓	✓	
Supplier 2	Fixed – 1 year	46.68			✓
Supplier 3	Fixed – 1 year	46.97		✓	
Supplier 4	Fixed – 2 years	48.20			✓

The table presents the monthly cost of each tariff based on a medium level of consumption. It also displays three features that can be added to any standard tariff, along with how much more or less the monthly bill would come to if these were selected. In the case of non-standard tariffs, the table shows which of these three features are

already included in the monthly cost. Thus, Supplier 1's standard tariff costs £37.51 a month for a medium user while adding on paperless billing and boiler maintenance would result in a monthly bill of £42.11. In contrast, Supplier 1's fixed tariff includes both of these features and would cost £45.11 per month.

As we have noted, the idea of adding extra features to a standard tariff met a mixed response (see section 4.3.3); however, many of those who were initially unsure about this option changed their mind when they saw the tariff pricing information table. This table was liked by most respondents largely because it was the simplest of all the tables they saw and because all the numbers were understandable to them.

*"Very simple table. Got what it needs and explains it well." (Vulnerable, working age disabled)*

Instead of columns of standing charges expressed as pounds per month and unit rates expressed either as pence per kWh or pounds per month, the table simply shows the monthly cost. Moreover, it displays a single column of data based on a medium level of consumption, rather than three columns. There was little spontaneous debate about limiting the table to the cost of the medium level of consumption although, when



prompted, some felt it would need to include columns for low and high levels of consumption.

It was clear from the way respondents spoke about this information that their main focus was the cost of the additional features and, in particular, seeing how they could reduce the monthly cost of a standard tariff.

*“I’d like more subtracting, not having things that you don’t want to pay for.”*  
(Mainstream, ABC1, pre-family)

*“People like to see that minus, you can get a minus off your bill.”* (Vulnerable, working age disabled)

It was felt to offer a greater degree of transparency in terms of what is included in a tariff.

*“I like it. You’re not getting things you don’t need. There is no small print, no hidden extras that you don’t need.”*(Mainstream, C2D, pre-family)

Despite the apparent simplicity of the table, many respondents had difficulty carrying out simple mental arithmetic. They were asked to work out the effect on the monthly cost of adding paperless billing and the green option to Supplier 3’s standard tariff and to write their answer on their handout. Only six out of every ten respondents (n=62; 58%) were able to arrive at the correct answer (+£1.60 or £46.03) and many of these had to write out the sum in long hand before coming to their answer. As can be seen from Table 14, as many mainstream consumers struggled with this as did more vulnerable consumers.

**Table 14: The cost of additional features (Option D)**

	Total	Respondent type	
		Mainstream	Vulnerable
Base	106	68	38
Cost of green option + paperless billing			
Incorrect	44 42%	29 43%	15 39%
Correct	62 58%	39 57%	23 61%