Sept 2009

Consumer First
- Panel Group Summary

Ofgem's Consumer Panel – outcomes from **third** workshop

In March 2007, we launched the Consumer First programme, an initiative to help improve our understanding of what really matters to consumers and to increase direct consumer contributions to Ofgem's deliberations over policy matters impacting on customers. Part of this programme is Ofgem's Consumer Panel – 100 everyday customers recruited from five locations across Great Britain (London, Leicester, Beverley, Caernarfon and West Glasgow). They are a unique resource that we can call on regularly to provide feedback on key energy topics and regulatory issues, and act as the genuine 'voice of the consumer'.

This summary covers the Panel's third workshops held in June 2009, which were also the final workshops with the current group of Panellists. A refreshed Panel, with new members and in different locations, will convene in October 2009.

At the June workshops Panellists were asked to consider price controls and tariffs. The workshops highlighted that the energy market remains a complex area for consumers to navigate, even for those who are part of the Panel.

Highlights from the five workshops

Billing Components

Panellists demonstrated a good basic understanding of the costs incurred by energy companies but found it hard to differentiate between the elements of distribution and transmission within their overall bill.

Price Control

Panellists feel this is potentially too complex an area for consumers to understand and feed back on; suggesting that independent specialist organisations are more suitably placed to respond on behalf of consumers. Some, however, do feel that certain groups of consumers could be engaged in consultations on a particular area of interest at a deeper level.

Tariff structure and energy efficiency

Different tariff structures are generally perceived as being unlikely to have an impact on energy usage, primarily because for them to be useful consumers need to have a better understanding of, and interest in, their energy usage behaviour.

Panel experience

Panellists welcomed the opportunity to influence Ofgem decisions, found it a positive experience with a chance to gain new information and broaden their knowledge.

Key findings

Billing components

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

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

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

Overall Panellists' estimations were close to the actual allocation of costs of each of the components in a consumers' bill.

Costs for transmission were thought to be high due to the maintenance of the infrastructure which Panellists felt would be costly. Many thought that distribution and transmissions costs would be about the same, highlighting that most consumers are unaware of the differences between these two aspects of the energy supply chain.

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

Price controls

Panellists were given a presentation to help them understand the concept of price control and network companies. It explained that network companies are natural monopolies; in order to protect customers' interests Ofgem decides how much money these companies should receive and what restrictions they should have on their expenditure through price controls.

Many Panellists initially found it difficult to perceive advantages of consumers being consulted in a price control, partly because consumers have little or no direct contact with the energy industry apart from their suppliers.

Consumers also do not tend to think about the companies operating above suppliers with any regularity. There were also questions about whether consumers would actually want to be consulted on the industry in such detail.

However, many of these early reactions were associated with the fact that price control remained a difficult subject for many Panellists to grasp. They therefore doubted if they could offer a valid judgement or contribution about network companies' expenditure.

Given a lack of confidence in their ability to adequately assess price control decisions, added to a concern about having to make decisions without a thorough understanding of the issues, Panellists suggested that it would be more appropriate and worthwhile to consult other bodies or experts.

Examples given were Ofgem and local councils who are felt to be more suitably placed to respond on behalf of consumers, as Panellists can see the benefits of consultation - making the industry more transparent to consumers.

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

1. Social objectives e.g. ensuring that vulnerable groups needs are taken in to account (highest priority)
2. Low carbon economy
3. Quality of service
4. Financing
5. Maintaining and replacing assets
6. Reliance and security of supplies (lowest priority) behavioural changes.

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

Panellists assumed that 'normal' consumers, i.e. those who have not been involved in an initiative such as Consumer First, would be less likely to be interested in issues such as price control, despite it being an important area for the paying consumer and a means of encouraging greater transparency of the energy industry. Lack of knowledge is thus a critical barrier to meaningful consumer involvement on price control. However, the Panel demonstrates that consumers are willing to participate in consultation on complex topics and many now feel they know more about the energy industry than before.

Representing the consumer about price control is therefore likely to require intermediaries who can aid understanding of complex topics and potentially act as an advocate for consumer interests, as well as interest groups who understand the local area. Although there were no spontaneous mention from Panellists of specific consumer bodies - consultation with parties such as non-governmental organisations (NGOs), the Government and Ofgem were suggested as it was felt that these organisations could make a more valuable and informed contribution.

However, after considering the six topics, some Panellists came to the view that all areas were important in some degree, and worthy of greater consumer input.

In particular, Ofgem's role and expertise was seen as pivotal and a few participants initially thought that perhaps price control should be left solely to Ofgem and the Government.

Tariff structure and energy efficiency

The second half of the workshops explored the idea of tariff structures, with a focus on types of tariff structures in particular the affect they may have on energy efficiency.

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

Panellists were tasked with designing a tariff structure that would encourage people to consider their energy usage more. It quickly highlighted that when it comes to energy tariffs, one size does not fit all. There was widespread acknowledgement amongst Panel members that energy consumption differs across consumers. Some suggested that a second higher tariff tier should kick in when the consumer moves above the 'average' usage for their particular living situation or individual circumstances.

Most Panelists are likely to consider the impact certain tariff structures will have on the price of their bill. Only the minority consider a tariff structure in light of the impact it will have on energy usage and the environment. After the task, Panellists felt that tariffs should be structured so that they reward customers for efficient energy usage.

Many concluded that a choice of tariff is a good thing, as it may encourage consumers to understand their energy usage behaviour, save money and help the environment. There is also a strong perception that low users or users that make efforts to cut back on usage should be rewarded. However, for tariffs to be useful, consumers would like to see greater visibility around when they are moving from one tier to another, many talked about having a 'tool' to help them do this but many could not spontaneously mention Smart Meters.

Panellists feel that tariffs should be structured so that they **reward customers for efficient energy usage.**

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

If you would like to know more about Consumer First, then please contact us on consumer.first@ofgem.gov.uk

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