Ofgem Consumer First Panel –

2009/2010

Finding from Sixty five working day section of second workshops (January 2010)

March 2010

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Background

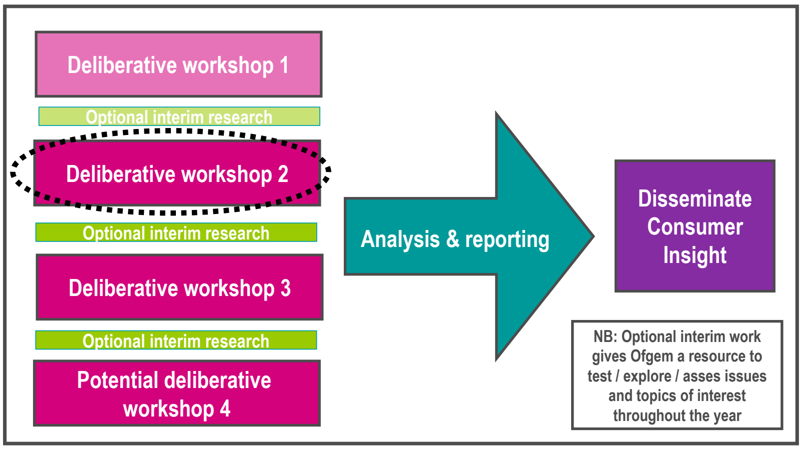
Background and objectives of the Panel

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

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

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

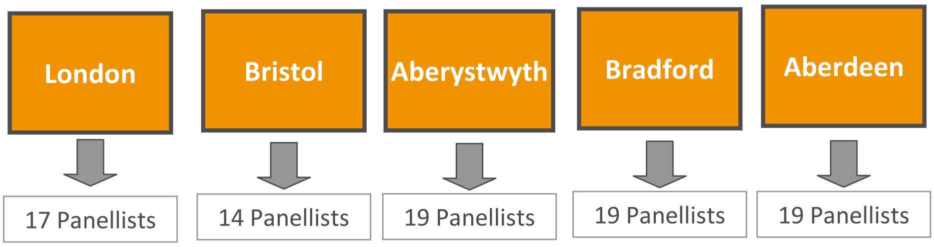
The overall programme is structured as follows:



Research events can be used to explore topics in depth, and intermediate surveys are able to quickly and cost effectively get feedback on specific issues or, for example, communications material.

Sample

In order to ensure a representative sample of consumers in Great Britain, and also to avoid many of the frequently researched population centres, Panellists are drawn from five locations to ensure everyday consumer views are captured. For the second year of the Consumer first Panel Panellists were refreshed with different customers in new locations to give a fresh perspective and reflect rural and urban consumers. This was the second meeting of the second year of the Ofgem Consumer First Panel and consisted of a representative sample of 88 energy consumers across 5 locations in Great Britain:



Participants were recruited purposively – i.e. using a door-to-door, on-street and 'snowballing' (i.e. developing contacts from those already recruited) approaches. They were all given information about the purpose of the Panel and of the commitment required at this stage i.e. they would be taking part in 3-4 workshops over a year, with the potential of being asked to take part in other research in between. The groups were recruited using a specification based on National Statistic census data for Great Britain (2001) including the following criteria:

- Gender
- Age
- Ethnicity
- SEG
- Tenure
- Fuel poverty
- Rural vs. Urban
- Supplier
- Electricity only vs. Gas and electricity
- Payment type
- Employment status
- Family status

While the Panel was represented to be as nationally representative as possible, in each location certain demographics were raised or lowered according to the surrounding region. Demographics were up weighted to ensure certain groups were represented included BME groups, age 25 and under and those from rural vs. urban households.

The Panel was over recruited to cover a potential drop out rate of 10%, which is common in research. Reasons for further shortfall in this round were unavoidable due to adverse weather conditions at the time. Heavy snow led to a low attendance at the Bristol and London events. A 'top-up' group was therefore held in London on the 25th January, this consisted of members of the Panel who were unable to attend the previous workshop.

The overall sample was as follows (showing both those recruited and those that took part in the second event):

Sample	Target	Achieved
Gender		
Male	55	45
Female	55	43
Total	*110*	*88*
Age		
16 – 24	20	10
25 - 44	41	34
45 – 64	32	30
65 +	17	14
Total	*110*	*88*
Ethnicity		
White British	95	67
White Other	1	1
Black or Minority Black	24	20
Total	*110*	*88*
SEG		
AB	24	15
C1	35	35
C2	24	19
DE	27	19
Total	*110*	*88*
Tenure		
Owner occupied	63	53
Social rented	28	16
Private rented	19	19
Total	*110*	*88*
Rural vs. urban		
Rural	26	19
Urban	84	69
Total	*110*	*88*
Fuel Poverty		
Yes	20	18
No	90	70
Total	*110*	*88*

When first recruited all participants received a letter welcoming them to the Panel, as well as a 'participant contract', a non-legally enforceable contract that outlines:

- What the aims of the Panel are
- Who their contacts should be if they have any queries between events
- What they can expect from the Panel
- What the Panel expects of them
- How they would be incentivised for their time

All Panel member details are held on a database by Opinion Leader, including demographics and attendance records.

Methodology and topics for discussion

As with previous panel meetings the second event was set up as a three hour deliberative evening workshop. The events included plenary work, group discussions on tables and collaborative group exercises. The full agenda and all content used at the workshops can be found in the appendices.

The discussions focussed on the following:

65 working day Rule

- Consideration of previous price notification from suppliers and reactions to this
- Discussion on the current rule including pros and cons for both suppliers and consumers
- Reactions to the reason for the current rule and consideration of receiving notification through media alone

Prior to the events, Panel members were asked to investigate their feelings about energy (gas and electricity) and the role it plays in their life, and to bring one object which represents their feelings about energy to the workshop.

Context to workshops

This report details the findings from the second series of research events in the second year of the Consumer First Panel across all locations, which took place between 11th and 20th January 2010. This section looks at the subject of media leading up to and during the workshops, in order to give the context and identify any potential influential stories.

The context of the media at this time was evident in some discussions with the Panel. In terms of the 65 working day rule the main topic with resonance with Panellists were articles relating to energy price increases and awareness of this.

Relevant articles which are likely to have been visible to Panellists include:

- **Energy Costs to meet green targets** – there were several articles at the beginning of the year which identified potential costs to consumers in order to meet green targets:
  - Mail on Sunday (3rd Jan) reported "household gas and electricity bills are expected to rocket to nearly £5,000 a year by the end of the decade to meet Government imposed green targets"
  - Times (4th Jan) reported "gas and electricity prices could double by 2020 to meet the £233.5 billion cost of investing in nuclear energy and renewables".

  "My bills are always going up and I have seen quite recently that this is going to happen again this year, to be honest I am not surprised."

- **Rising Energy Costs** - following the 'Big Freeze' there was some media around the potential cost to consumers of the cold weather and the high usage of energy during that time:
  - Daily Telegraph (12th January p.7) reported that every household in the country faces an extra £70 on their gas bills due to the cold weather
  - Mirror (17th January p. 5) reported that "Heating bills are set to rocket as the top six suppliers have refused to pass on a sharp fall in wholesale prices to customers and are set to make £846 million profit".

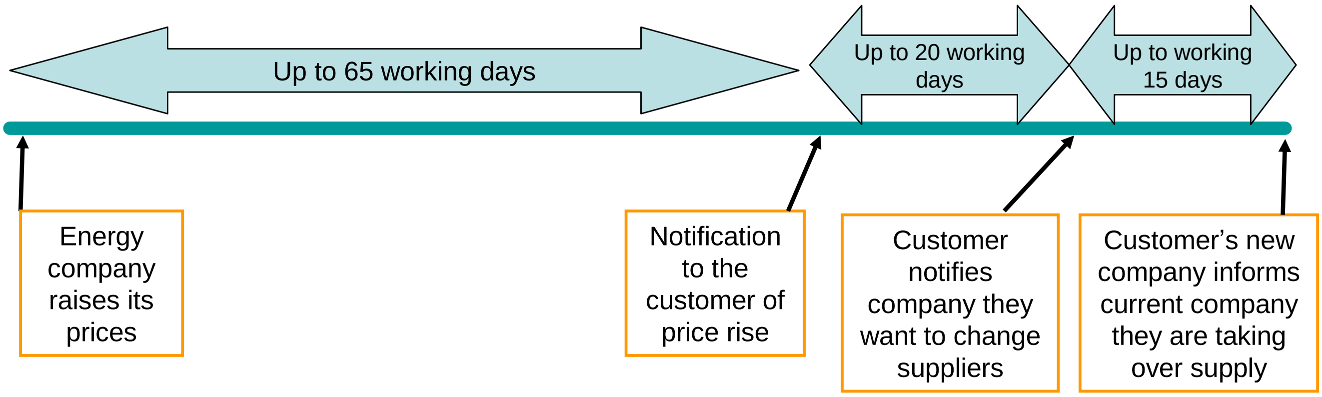
  "People have been using lots of gas to heat their homes when it has been so cold so of course their bills are going to be bigger, I don't understand what other reason there would be for bills going up though."

  "Apparently bills are going to go up even more after all this cold weather and it must be just so suppliers can make more money from us."

Awareness and visibility of the rule

This discussion aimed to look at the 65 working day rule. Energy companies are currently allowed a 65 working day period **after** changing prices in which to notify customers of this price rise. Customers are allowed to switch to another supplier to avoid paying the increased price (if they decide to switch they pay the previous price up to the point their new supplier takes over). Under the rule customers are allowed up to 20 working days after receiving this notification to inform their current supplier of their decision to switch. From this notification of intention to switch suppliers, the new supplier then has 15 working days to inform the current supplier that they are taking over supply to the customer. (fig. 1)

Fig. 1 –operation of the 65 working day rule



Panellists considered their experience of previous price notification from suppliers and reactions to this, introduction and discussion on the current rule including pros and cons for both suppliers and consumers and the reactions to the reason for the current rule and consideration of receiving notification through media alone.

Panellists were initially asked to recall the last time they received price increase notification from their supplier, how this information was received and what their reaction was to the notification other than the price increase.

The general feeling was that price rises, and consumer rights under the 65 working day rule, are not clear or visible for consumers at the moment. Most participants could not recall how they found out about any previous price increases by their energy suppliers. Most claimed to just have a general perception of 'the bills going up' over time, but individual price rises tend to pass unnoticed. Some had seen information on television, and a small minority recalled getting notification with their quarterly bill.

> *"I know the cost of my bills have gone up, but I don't ever remember being told it was happening".*

"I have probably been sent something, but most of the time I don't pay much attention to it and through it in the bin".

"It is really bad but I can't remember ever getting anything in the post, but I have seen things in the news".

After this initial discussion Panellist were told details about the 65 working day rule, most were surprised they did not know about it, and felt it was important information for consumers to have. Their feelings were that price rises are not transparent, and that information on their rights and responsibilities in the case of a price rise are not well advertised. They perceived that information about price rises, and their options under the 65 working day rule are currently 'hidden' on bills, and that they should be more obvious. There was some strong feeling about this issue and it was interpreted by some as suppliers hiding this information.

"I think putting it with bills is very backhanded and sneaky, like they don't really want us to know".

"This is the first time I have ever seen information like this".

"Suppliers just want to make as much money as possible, so they don't want us to notice this and kick up a fuss or go elsewhere".

Participants felt that bills that included notifications of price rises should include very clear information relating to:

- The date of the price increase
- Information about price rise, and the impact of this i.e. how much their bill has increased because of the price rise
- Having 20 working days to decide if they want to switch suppliers to avoid paying the price rise
- Ideally information on current competitor rates for comparison

They felt this information should be presented in a way that made it as clear and obvious as possible it i.e.:

- At the front of the bill in a separate section, or as a separate sheet **before the bill**
- In large, bold print
- Potentially also a notification on the envelope that it contains information about price rises

Use of the media to inform customers of price rises was seen as a useful **addition** to individual notification. However, this was not felt to be acceptable as a substitute as customers could not be relied on to look in the right places. Generally it was felt that if a supplier raises their prices it should be the suppliers' responsibility to contact each customer personally to let them know.

“I think using the news to make people more aware is a good idea, especially if you haven’t seen it on your bill or letter”

“What happens if you don’t watch the news or read the paper? That would mean you would have no idea what was going on. That’s not fair”.

This perceived lack of visibility of price rises and the 65 working day rule had a much greater negative impact in perceptions of how fairly consumers are being treated than the current structure of the rule itself. Consequently improving this visibility was the participants’ priority for improving the rule.

Fairness of the 65 working day rule to consumers

Overall response to the structure of the 65 working day rule was neutral. Most participants considered the rule to be generally fair to consumers, although a minority requested a few slight alterations to the amount of time allowed for consumers to respond to notification.

Some participants felt that it would be preferable for the supplier to give customers pre-notification of price rises, so they could prepare for them, and decide to switch away before the rise came into effect. However, on balance most participants were not overly concerned by the length of time allowed to suppliers to notify them after a price increase. This was primarily because they were able to avoid the price rise if they wish by switching to an alternative supplier. The ability to switch and avoid the price rise is seen to make the amount of time the suppliers have to notify consumers almost irrelevant. This element of the rule was seen to put the control over whether their prices go up or not in the hands of the consumer; it was this which was central to making the rule fair. Even those who would prefer pre-notification of price rises were not concerned about the length of time allowed for notification under the current rule for this reason.

> *"20 days is plenty of time to make a decision and switch if you want to".*

> *"My only worry would be if you were away for 20 days on holiday or something, but that is very unlikely".*

Most participants also saw the logic of allowing suppliers 65 working days to notify customers of price rises, as it allows notifications to be included with quarterly bills, and avoids separate notification. This was seen as a cost saving for the supplier (and so for the consumer). It is also felt to reduce the chance they might miss this notification as they are likely to open and look at bills, whereas they might not open a separate letter.

> *"As long as it is very clear and not in small writing at the bottom where you don't see it then I am happy for it to come with my bill".*

People generally felt that it was sufficient to allow 20 working days after notification for customers to inform their current supplier if they want to switch. This was generally seen as ample time to search for a new preferred supplier and make contact with their current supplier to notify them of their decision. Some saw this as being out of balance with the 65 working days allowed for suppliers to provide notifications of the price rise, with some who initially questioned whether the timings should be equal for suppliers and consumers but after further discussion. However, on balance it was felt this amount of time to decide whether to switch away is fair to the consumer.

There were some concerns raised regarding the 15 working day period allowed for a new supplier to write to a current supplier if a consumer decides to switch following a price rise. Some had faced problems before while switching supplier which had run on for several months. Concerns were that the new supplier's systems may fail, and that they would have to pay the increased price if the new supplier did not inform their current supplier in the 15 working days allowed. As this action was seen as being out of their control they did not think it was acceptable that consumers suffer any consequences if the deadline is not met, and felt that some protection should be built into the rule to ensure this does not happen. They felt that the consumer's responsibility should end at notifying their current supplier of their decision to switch, and instructing a new supplier that they wish to take over. They felt that any cost consequences of the new supplier failing to meet this deadline should be incurred by the new supplier.

Discussion guide

Ofgem Consumer Panel – Session 2 Agenda (65 working day rule section only)

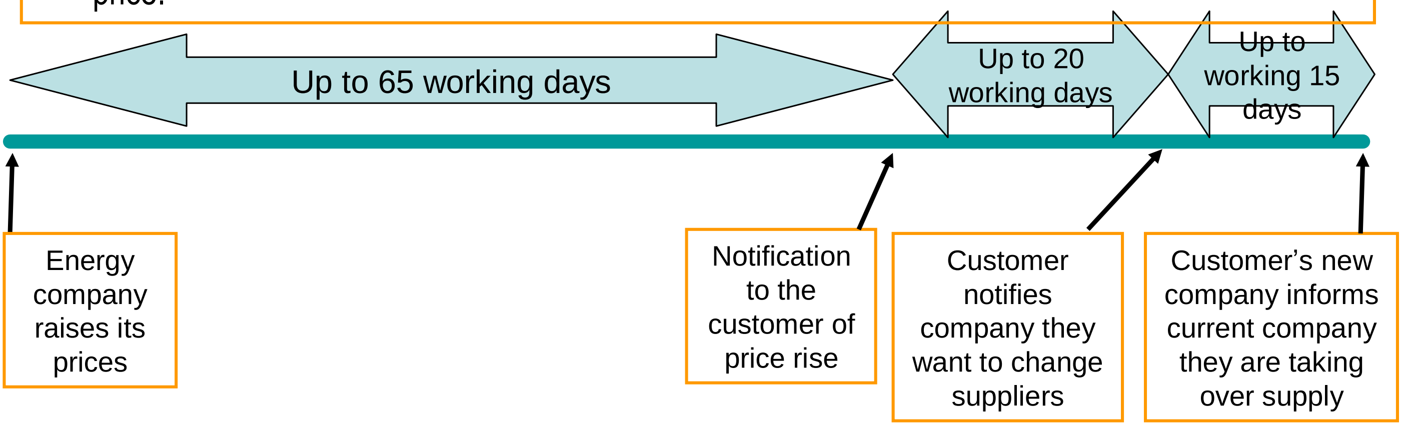
<table>
<tr><th>Timing</th><th>Item</th><th>Materials</th></tr>
<tr><td>20.35 – 20.55</td><td>BREAKOUT GROUPS: 65 working day rule
Panel to recall what they remember about last time they received price increase notification from supplier. How did they receive it? What was their reaction (other than price)?
Explain current rule - Energy companies are currently allowed a 65 working day period after changing prices in which to notify customers. Customers can switch to another supplier up to 20 working days after receiving this notification and not pay for any increase.
Reaction to current rule
Split tables into suppliers and consumers
a. Pros and cons – from the consumer point of view
b. Pros and cons – from the supplier point of view
c. Feedback perspectives
Why they think the rule is the way it is?
d. Provide energy company arguments for rule –(65 days is the longest time allowed for notification – often it is shorter; cost of having to send an individual notification – combining with the bill saves money and paper; can stagger notification - mass notification would mean service centres</td><td>Handout 9 - laying out 65 day rule

Handout 10 – Why do we need the 65 day rule?</td></tr>
</table>

Timing	Item	Materials
	being overwhelmed with calls (so extra cost of having more staff); customers can switch to avoid rise - cheaper for suppliers to use this method so customers save; **customers will hear about price rises through media**). *e.* Reactions to these (**particularly media aspect**). Do these arguments make any difference to their points of view *f.* How would they feel about getting information just through the media and not being notified individually? *g.* What they think should be the rule (probe on acceptance of retrospective communication of price rises) • Test 10 working day idea (if not raised spontaneously) • Agree what they think is a minimum level of notice allowable (thoughts from a supplier and consumer perspective).	
20.55 – 21.00	IN PLENARY: Sum up, thanks and close *h. Summing up presentations*	

Handout 9 - The 65 working day rule

- When energy suppliers raise their prices, they are obliged to write to each of their customers to let them know.
- They have to do this in writing (or if you are on an online account via the internet).
- They have up to 65 working days after they put the price up to let you know they have done so. This allows them to send the notification about the price rise along with your bill if they want to, rather than sending it separately.
- When they write and tell you about the price increase, your supplier also has to let you know that you can switch to another supplier if you want and avoid the price increase.
- You have up to 20 working days to tell your supplier that you are going to switch to another supplier. If you do this they cannot back charge you for the increase- you will just pay the old price.



Handout 10 - Why we might need the 65 working day rule

- 65 working days is the longest time allowed for notification, although it is often shorter. The reasons for this time include:
  - The cost of sending individual notifications to customers is high and this cost is likely to be passed on to the customer. Combining with customer bills therefore not only save money but also paper
  - Mass notification would mean service centres being overwhelmed with calls, so extra cost of having more staff
  - It is cheaper for suppliers to use this method which means costs are not passed on to customers
- Also customers have a 20 working day period in which they can switch to avoid the rise
- Customers are also likely to hear about price changes through media before they receive notification with their bills