



2011 Vulnerable customer research
Report by FDS International
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1. Summary

Ten focus groups and eight in-home depths were held with a variety of types of (potentially) vulnerable customers.

The first half of each session covered current engagement with the energy market. The second half considered potential new options based around:-

- standard formats for expressing tariffs
- Ofgem controlling prices charged.

Views towards suppliers

Results generally echoed those of the qualitative research conducted among vulnerable customers for Ofgem in 2008.

We found little positive loyalty to suppliers.

People reported few day to day problems with suppliers, but there were instances, for example where customers had moved home, where problems had occurred. A few respondents said they had been chased by their energy company for a debt run up by a previous occupant.

But the biggest complaint made about energy companies related to the prices people paid. These were felt to be excessive and higher than a few years earlier. As people generally had a poor understanding of how their bill was calculated and of why prices were changing, this encouraged a general cynicism towards energy companies.

PPM customers were particularly cynical, as they believed they were paying more. Direct debit customers were often disappointed at being asked to increase payments despite being in credit.

Switching

Around half the participants had switched suppliers in the last five years and some had done so recently.

But there was very little proactive switching among vulnerable customers. Almost all switching was reactive, in response to contact from door to door sales reps but participants also spoke to reps in shopping centres and received phone calls, especially from previous suppliers.

Some had been disappointed with their failure to make savings when they switched, and so returned to their original supplier and resolved not to switch again.

A few respondents had tried to compare energy prices online but most had been put off by the complexity of options available. Choosing an appropriate provider and tariff was not seen as a quick or straightforward task and this worked to the advantage of the incumbent suppliers.

There was a fairly widespread feeling that the complexity and range of tariffs offered was not to help the customers by offering them a wide choice, but to confuse the customer and make that choice more difficult.

Barriers to switching

There were four main inter-related barriers to switching.

Firstly, for some groups, particularly the most vulnerable and the time-poor, switching was simply not something they thought about. For groups such as Pakistani men with limited English who wanted to minimise the hassle in their lives, switching suppliers was not something they were keen on or thought about.

For others, lack of interest or laziness was the main barrier. These customers knew or suspected they could make savings by switching provider but did not want to make the effort to do so.

The other two reasons were that savings were seen as uncertain and probably short-term and that people feared problems if they switched. Over the last three years the first reason has become more prevalent while fear of problems if people switch has receded somewhat, although not entirely disappeared.

Some switchers in the groups had experienced problems when they changed providers and some non-switchers reported hearing alarming stories of people encountering problems when they changed suppliers. A major concern was that they would receive two bills on an ongoing basis – one from the old supplier, one from the new supplier. For some poorer customers the prospect of receiving a final bill from the old supplier in the same month as a first bill from the new supplier was a deterrent to switching.

Many now cite the uncertain and temporary nature of any savings as their main reason for not switching. People find it difficult to compare prices, are suspicious of sales reps and even if they were confident of making immediate savings, were concerned that the price differential would be quickly lost and that they might soon find themselves paying more to their new supplier than they would have paid with their old.

Switching suppliers is not seen as hassle-free or risk-free so people want to be confident of making significant savings in order to switch. Even in poor households, customers talked of wanting savings of £100 or more before they would consider switching.

Switching tariffs/payment methods

There were instances of customers switching from quarterly bills to pre-payment meters or budget cards and a few had switched to fixed tariffs.

But relatively few customers had switched tariffs in the last five years while staying with the same company. There was generally limited awareness of what tariffs were available with their existing supplier.

Reactions to common formats for tariffs

The idea of standardised formats for tariffs addresses the perception of some vulnerable customers that energy companies have made tariffs complicated so customers will struggle to compare prices.

A few of the more vulnerable customers struggled to understand or engage with the idea of common formats for tariffs but generally people reacted positively to this proposition.

It was seen as simplifying visits to price comparison sites to choose cheaper suppliers although few of these vulnerable customers had reached the point of comparing competitors' charges.

Overall it appeared that this was a very good idea, but one that might benefit the typical energy customer rather more than the vulnerable energy customer.

Nevertheless, a few vulnerable customers suggested that if they would not visit a price comparison website, having standardised prices would help them work out if sales reps were offering them a good deal.

Ofgem controlling tariffs

Attitudes towards Ofgem controlling the prices charged by energy companies were generally a little more positive. Given a choice of standard tariffs not controlled by Ofgem or tariffs controlled by Ofgem, vulnerable customers would generally choose the latter.

However, standardised tariffs might encourage some customers to engage more actively with the energy market while the appeal of Ofgem controlling prices for some customers was that once they were on a controlled tariff, they could withdraw from making decisions in the energy market, relying on Ofgem to ensure prices were fair and appropriate.

People had been told that with Ofgem controlling tariffs, prices would not necessarily be lower, but nevertheless customers expected prices to be fairer and for there to be less likelihood of sharp price rises.

Reactions were positive to the idea of Ofgem controlling all prices, but many saw benefits in allowing suppliers to offer other tariffs which might be more competitive than the controlled tariffs.

Opinions were more polarised on the idea of Ofgem controlling the prices of one supplier only, some dismissing this option, others suggesting the Ofgem-controlled prices would act as a benchmark against which they could compare other non-controlled tariffs.

Conclusions

The energy market is still not operating as well as it could do and this is particularly true for vulnerable customers.

PPM customers are particularly dissatisfied and Ofgem should publicise more widely (or encourage energy companies to publicise) the fact that PPM customers pay similar prices to other customers.

A common method of presenting prices was widely viewed as a good idea and will help many potential switchers, although this change will not, in itself, encourage many vulnerable customers to switch.

People reacted positively to the idea of Ofgem controlling prices because they believed prices would be fairer and more stable. But part of the appeal of this proposition was that vulnerable customers would feel less need to attempt to engage actively with the energy market once on a controlled tariff.

2. Background

It is of particular concern to Ofgem that there are consumers who by virtue of their circumstances are less well placed to make decisions in the energy market and as a result, suffer financially. Vulnerable consumers are potentially more likely to:-

- make inappropriate decisions regarding suppliers or tariffs
- not engage with the energy market so they stay wedded to a supplier who may not be the cheapest
- miss out on cost-advantageous opportunities such as online billing.

In focus groups (such as the recent study into alternative methods of disconnection for Ofgem), we have found that many poorer, financially vulnerable customers still lack the confidence to change providers proactively (by for example, visiting price comparison sites to find the best deal). For customers like this, signing up in response to a sales call/visit or shopping centre contact can result in them achieving savings they would otherwise not have made. But customers may make inappropriate decisions because of misleading information or promises made by sales reps, or because they were unrealistic in their expectations. For example, customers may sign up to packages that offer very short-term savings, but not switch again when tariffs become expensive relative to the rest of the market.

Ofgem has been working to reduce these negative outcomes:-

- by clamping down on fraudulent selling practices
- by requiring energy companies to provide annual statements for customers showing consumption and expenditure.

Ofgem is keen to understand:-

- how vulnerable customers currently engage with the energy market
- what the triggers, enablers and barriers to engagement are for different groups of vulnerable people
- what changes there have been since FDS's qualitative research project among vulnerable customers conducted early in 2008.

In order to answer this brief fully there are several areas we need to be mindful of, these include:-

The switching process

The switching process itself, is believed to have become more straightforward over the years and a key priority of this study is to provide evidence of whether this is the case from people's recent experiences of switching.

Tariff Awareness

Currently, energy companies offer a wide range of tariffs and payment methods.

There are many variables or complications influencing tariffs including:-

- use of standing charge or two-tiered pricing structures (eg. with and without a standing charge)
- suppliers offer longer-term contracts
- different payment methods result in customers paying different amounts for energy from the same supplier
- special tariffs can reward those who cut down on energy usage.

While suppliers might claim their aim is to offer the consumer a choice with these tariffs, the result is that cross-company price comparisons are made more difficult and the complexity of choices available can discourage customers from switching at all.

Price comparison websites potentially enable customers to find the best deal in the domestic energy market by comparing tariffs of different providers. However, some site users struggle to make choices based on the information they find and there is a substantial section of the energy customer base that does not use sites and does not switch suppliers.

Ofgem also wished to explore consumer reactions to potential changes in the range of tariffs available, with the emphasis on simplification. Ofgem was keen to understand the extent to which tariff complexity discourages vulnerable customers from engaging with the market, and whether simplified tariffs might encourage greater levels of switching.

In particular Ofgem wished to examine reactions and likely impact of different scenarios where:-

- suppliers are required to present tariffs in a common format
- suppliers are required to offer tariffs where Ofgem control the rates.

3. Approach

A qualitative approach was favoured to explore issues in detail.

The audiences targeted were those identified by Ofgem and confirmed in previous FDS research as likely to be vulnerable. They were:-

- less able or less confident in their ability to engage with the energy market than other audiences
- potentially more vulnerable to the consequences of failing to make appropriate decisions.

We conducted ten focus groups and eight depth interviews with different categories of vulnerable customers. These sessions ran from 13th January – 2nd February 2011.

The groups structure and locations are shown below. Except where otherwise indicated, all groups were mixed gender. Eight of the ten groups included a mix of people who had and had not switched in the past five years.

Included in the (no internet access) groups were a small number of individuals who had internet access but did not use the internet for comparing prices of services or products.

Focus	Group type	Switcher/Non	Locations
1	Low literacy/numeracy, 25-40, DE	Mix	Leeds
2	Single Mothers ,PPM	Not Switched	Dunfermline, Scotland
3	Single Mothers	Mix	London Studio
4	No wage earner in household, 30-59, E	Mix	London Studio
5	No internet access, 30-59, DE	Mix	Neath, Wales
6	No internet access, 75+, C2DE, some no gas	Not switched	Rural Wales (Gwyneth)
7	No internet access, 75+, C2DE	Mix	Dunfermline, Scotland (Some Rural)
8	Live in privately rented accommodation, Pre-Payment meters, C2DE	Mix	Walsall
9	Poles limited English	Mix	London
10	Men of Pakistani origin, 45+, limited English	Mix	Bradford

Additionally eight depth interviews were conducted in the Midlands and South East England with Energy Customers with a range of disabilities including:-

- blind
- deaf
- limited mobility
- recovering from stroke.

The first half of each session covered individuals' engagement with the energy market including:-

- suppliers used/payment method
- motivation for and experiences of changing tariff or supplier
- barriers to switching
- knowledge and understanding of company communications and tariffs.

In the second half of each session respondents were introduced to possible new options for tariff structures:-

1a- Standard format tariff:-

- Ofgem might require energy companies to produce standard format tariffs for
 - Direct Debit
 - Quarterly Bill
 - Prepayment meter
- Each tariff will comprise:-
 - A fixed standing charge
 - A unit rate for energy actually used

1b- Standard format tariff + select products:-

In addition to the standard tariffs companies may offer "select products" (e.g. online billing) at fixed prices for fixed time periods.

2a- Suppliers can offer 3 tariffs (Prepayment, Direct Debit, Quarterly Bill) and all prices are controlled by Ofgem.

2b- Suppliers can offer tariffs as with 2a with prices by controlled by Ofgem and others not controlled by Ofgem.

2c- One supplier only has prices controlled by Ofgem. Other suppliers don't have prices controlled.

Copies of topic guides and stimulus are presented in the appendix.

4. Changes since 2008

Key points:-

- Attitudes, behaviour and experiences were similar in 2008 and 2011.
- Greater resentment among PPM customers as they believe they pay more than direct debit customers.
- Even greater likelihood than in 2008 of people justifying not switching on the basis that savings will be temporary.

Equivalent questions produced similar patterns of response in 2008 and 2011. Changes that were detected reflected slight degrees of emphasis and may reflect individuals' views rather than a more general change of opinion over time.

One of the most striking changes was a strengthening of the belief and an increase in resentment among PPM customers that they were paying relatively more for their energy.

"If you've got a key do you get a different tariff? You just get their most expensive tariff, because that's what it seems like."

(London, single mother)

"I think they charge you more because you're on a pre-payment meter."

(Walsall, renter, female)

"My sister pays £30 a month for her gas and I'm paying around £100 a month. It's ridiculous and I live in a flat so for me, they won't take it out so I have to have it now."

(Walsall, renter, female)

"Can (Ofgem) stop them charging us extra because we've got a pre-paid meter? We're paying for our gas and electric upfront so why are we getting charged more than the people who pay by direct debit?"

(Walsall, renter, female)

Customers in the Leeds group of adults with limited numeracy/literacy were particularly hostile to the idea of pre-payment meter customers paying more than more affluent direct debit customers.

While it was not clear from this research, it may have been the companies' practices of sending PPM statements saying what they could save by changing to direct debit that increased the awareness that PPM customers were paying more and the resentment at this situation.

We found no awareness that tariff differences had actually become much narrower as a result of Ofgem intervention so PPM customers felt equalisation of tariffs should be a priority for Ofgem, and this came through more strongly than in 2008.

Another change of emphasis between 2008 and 2011 was the reasons or rationalisations given for not changing energy suppliers. There appeared to be a little less concern about the changeover process in 2011. However, in 2011 more people appeared to think that any savings in their energy bill resulting from changing suppliers would be very short term.

Another change was that we found a shade more positive loyalty towards suppliers in 2011 although the numbers staying with a supplier, because it was genuinely liked rather than because the customer disliked or feared the alternatives, were still very small. As in 2008, Welsh customers were a little more likely than others to express positive views about their suppliers.

5. Attitudes towards Energy Suppliers

Key points:-

- Suppliers viewed as ‘much of a muchness’.
- Customers believe they charge too much and that prices have generally risen in recent years.

When people were asked, very early in their sessions, what they thought of their energy suppliers, responses were mainly negative with people arguing that prices were very high and that they had increased in recent years. The level of charges dominated comments. There were far more comments relating to the level or structure of charges than relating to quality of service. Nevertheless there were positive and adverse comments about the quality of service received or desired. For example, several respondents agreed that too few meter readings were taken, and that estimated bills were not always accurate.

Direct debit customers were sometimes critical of the process of adjusting their payments for the following year, with a few reporting payments increasing even when they were in credit.

Most PPM customers found this method of payment suited their lifestyles. However, some would prefer other payment method while others who liked PPMs nevertheless found certain aspects of having a PPM to be awkward. Some PPM customers found the method of payment inconvenient as they worried about running out of credit.

“The timings of when you can top up your gas and electric are ridiculous because a lot of the shops close at 9, some of the off-licenses open till 11 and when you go to them, they say the machine is off. For people who have got children, you’re not all the time thinking of the gas and electric because you’ve got other things to do.”

(Walsall, renter, male)

PPM customers tended to be critical, especially in relation to perceived price differentials versus direct debit payers but more positively, a few customers reported that they had a new-style PPM which was set so they would not lose power between 9pm and 9am. These were very much liked.

Overall, there was a widespread feeling that energy companies were very similar to each other.

“They’re all very much of a muchness I think.”

(London, disabled customer, female)

In some groups, such as London single mothers, most participants did not hold strong negative or positive views about their suppliers.

“Don’t really have much to do with them if I’m honest.”

(London, single mother)

A minority of customers stick with suppliers for positive reasons so some had evidence their current supplier was giving them a good deal:-

"I went to Age Concern in Pontypridd and I told them what company I was with and they said you may as well stay with (your supplier) now. You're just as well. I was told that and that was it."

(Rural Wales, 75+, Male)

"(My supplier) was far cheaper and they're still cheaper because I looked at it about a year ago. I go to the daily paper, The Mirror or The Sun, The Times have got a piece in the paper which gives the prices, where you are a single fuel or double fuel."

(Rural Wales, 75+, Male)

As in previous research we found slightly more evidence of positive loyalty to companies in Wales than in England although this may be partly because the older Welsh group was recruited on the basis none had switched in the past five years.

A London single mum was happy with British Gas partly because they allow her to pay by budget card, enabling her to avoid building up debt.

While we found relatively little positive loyalty towards suppliers, it was nevertheless interesting to note, as we shall see in more detail later, that several of those who were disappointed with their new suppliers then switched back to their previous provider.

Some found a degree of comfort in the prospect of returning to a supplier whose service they had regarded as satisfactory.

6. Switching Suppliers

Key points:-

- Among vulnerable customers switching is almost always reactive, in response to contact with sales reps, rather than proactive.
- Few visit websites to compare prices.
- Mixed experiences of switching, some positive, some negative. Negative experiences were most typically because the expected savings failed to materialise.

Most groups were recruited to include a mix of those who had and had not switched providers in the last five years and most groups included one or two very recent switchers.

There were couple of groups (Scottish single mothers and Welsh pensioners) where no-one had switched in recent years.

Some of the depth interviewees had changed providers.

With around 90 people participating in the research we found very few serial switchers. Most of those who had changed providers had only done so once or twice.

Among energy customers in general, there are significant levels of both proactive switching (often as a result of visiting a price comparison website) and reactive switching (in response to contact from a sales rep).

In the 2008 research we found that switching by vulnerable customers was almost always reactive and that was still very much the case in 2011.

In this study switching was usually as a result of a sales rep visiting their home. A few mentioned talking to shopping centre sales reps. Occasionally, especially where a customer was returning to a previous supplier, it was through a telephone contact.

Proactive switching was more likely to have a trigger than reactive switching. Disappointment with service, talking to a friend or relative, news of a price rise or seeing a higher-than-expected bill might be triggers for proactive switching but the frequency of this happening among this audience was very low. In the Scottish pensioners group a couple of the women said relatives had encouraged them to switch and helped them to do so. Some people changed providers because they liked the idea of having dual fuel with a single company.

Where people had signed up reactively there was not usually a specific trigger. Dissatisfaction with their existing supplier or concern at rising prices or high bills might make an individual more receptive to speaking to a sales rep and changing. But the mood the customer was in that day and their personal reaction to the sales rep could swing their decision to talk to the rep (who was usually male). A few admitted talking to a rep they had refused to allow into their home on a previous visit.

When customers did switch it appeared to be in a mood of scepticism, even trepidation. They hoped to save money, but were not necessarily confident that they would do so, and were not generally excited or pleased with themselves at the prospect of making savings. Their lack of visible pleasure at taking action, likely to save them money perhaps reflected:-

- that energy is a low interest subject
- the uncertain and short-term nature of expected savings.

A London single mother admitted to not really understanding what the salesman was telling her, and she did not achieve the savings she had been led to expect.

When participants were disappointed that they did not achieve the savings claimed by the sales rep when they switched they often reverted to their previous supplier rather than find a new provider. This reflected a degree of comfort and familiarity rather than enthusiastic loyalty. As one British Gas customer put it, after returning to her original supplier after a year with another:-

“The (new supplier) knocked at my door and they promised I was going to pay a lot less, and then they came in and next thing you know, the price they estimated it was like basically double, so it was basically the same as what I was paying anyway, so I just went back to (my previous supplier). It was just a case of I know them. If anyone’s going to rip me off I might as well let (them) rip me off.”

(London, no wage earner, male)

Others found they were paying more with their new supplier and changed back again. A Walsall woman moved away from her supplier only to move back a month later:-

“I moved to (a new supplier) then I went back again. For a month they were charging me £60.”

(Walsall, renter, female)

Another said:-

“I switched to (another supplier) because they said they could do it cheaper and then I ended up switching my gas back to my original supplier because they said they could do it cheaper and that’s more expensive so I’m going to switch again.”

A third said:-

“I was with the same company for the gas and electric but they phoned me up to change my electric to another company so I said ‘alright then, I’ll switch’ so I switched but... I go to the shop, put say a tenner on but they always take £2 off, I don’t know why... I’m swapping back.”

She had been enticed by the offer of £15 every year to go to a pay zone and have £15 put on her card. But when non-switchers were asked what kinds of savings might persuade them to switch they were more likely to suggest savings of £100 or more would be necessary.

Companies were often vigorous in seeking to lure back customers who had switched away from them. Where the switching customer was disappointed that hoped-for savings had not materialised, companies met with some success in winning back previous customers. However, there were also many instances where the original company was unsuccessful in enticing back customers.

“I’m continually getting stuff from previous supplier asking me to go back and saying they’ll give me a better deal now but I have no intentions whatsoever of doing so, because I’m quite happy with where I am and as soon as they say to me ‘well who are you with now?’ and I tell them and they say ‘oh, well, we can’t better that’.”

(Dunfermline, 75+, female)

Some respondents, such as a Neath woman with no internet access, reported her original provider offering to put her on a better package, but only at the point she had told them she was switching away from them.

Most found the actual switching process to be straightforward, although a few had bad experiences with confusion over payments.

There appeared to be more problems where people had moved properties:-

- receiving old bills from the property they had left
- receiving unreasonable bills for the new home that related to the previous occupant.

In this study, and in another recent study FDS conducted for Ofgem¹ conducted focussing on disconnections, some respondents recounted anecdotes, which if accepted at face value, present energy companies in a poor light. Some of the anecdotes concerned people’s experiences of receiving energy bills when they moved into a new home.

A London woman described how she received a £700 electricity bill three weeks after moving into a new home. When she rang her supplier to explain she had moved into a new home they said ‘It must be the tenant before you, madam, they’ve left a bill behind.’ She discovered that her neighbours also had received huge bills. The homes had been built on the grounds of former supermarket.

This respondent retaliated by switching supplier to her gas supplier following a phone call from them where they offered three month’s free energy in return for switching her electricity to them.

¹ Consumer Research or Disconnection Methods – Report by FDS International (Feb 2011)

7. Barriers to Switching

Key points:-

- For many, switching suppliers is very low on their agenda.
- Passivity/laziness reduce levels of switching.
- Switching is not seen as hassle-free or risk-free.
- Expectation that savings will be purely temporary dampens down interest in switching.

There were a number of reasons why people had not changed provider or were reluctant to do so.

Firstly, it was clear that for many, changing energy provider was not a subject that interested them and it was likely to be very low down their list of priorities.

Passivity, having other priorities and being used to their existing supplier all contributed to this. Some respondents described themselves as 'lazy' and suggested this was a factor in their reluctance to switch.

For Pakistani men with limited English, who ran their lives in such a way as to minimise the need to communicate in English, changing suppliers was viewed as an unnecessary ordeal.

For some participants there was a big gap between what they thought they might save as a result of changing energy suppliers and what kind of savings would actually persuade them to switch. Non-switchers' expectations of what they might save were generally well below what a typical customer might save by switching to the best tariff available. However, some customers might struggle to make the kinds of savings they suggested they would need to make to stimulate their interest in switching.

For example an unwaged Londoner who had never switched supplier said she thought she might save £1 a month by switching but would seriously contemplate switching for savings of £20 a month if switching was easy to do.

Participants were not affluent, but across different groups, people suggested very high levels of savings when asked what might persuade them to switch:-

- "£2 a week"
- "£10 a month"
- "£100 a year"
- 50% off existing bill.

Indeed, some justified not switching on the basis they might save only £1-2 a week by doing so.

The temporary nature of the expected savings was also a major disincentive. People did not want to switch repeatedly. They were reluctant to switch to a provider who, it was feared, would quickly raise their prices. There was no sense that any particular provider was always cheaper – rather that companies leapfrogged each other so a company that was the cheapest one month might be (one of) the dearest next month.

Overall, the temporary nature of savings was probably the most powerful disincentive to switching voiced by vulnerable customers, although there was probably also a degree of rationalisation for many, justifying their inaction.

For those who lacked the confidence or knowledge to change proactively mistrust of sales reps and dislike of having them in their home was a major barrier to switching. In almost every group several individuals said they would not allow sales reps into their home.

“Because I know exactly what it is, how much it costs a week and stuff like that and if I go and change it that could change because if you get a salesman come into your house they will always say to you that they can save you money and stuff like that but you don’t know that because they could just be ripping you off. They just want to get a bonus. They’ll have like a quote in a week that they have to fill for people that they have to change so they’re just, they’re not bothering about saving you money when they can’t really prove that because that’s all they’ll ever say to you, so I just stick with what I know and I know exactly what it is.”

(Dunfermline, single mother)

People struggled to work out whether or not sales reps were offering them better deals or whether it was worthwhile switching. There was considerable mistrust of sales reps, and while we did not hear many horror stories across the groups there were still instances of fraudulent sales practices.

Two Walsall renters said a company’s sales reps had visited them and they then found themselves to be customers of this company.

One woman had merely signed something to confirm she had been visited, was switched to the company, but switched back to original provider.

The other insisted she had not signed anything – she contacted the company, and told them she would pay their bill if they produced her signature which they failed to do. She switched back to her original company.

Some individuals reported hearing problems when other people switched suppliers.

“I investigated. I know there’s companies out there and I think the system is deliberately overcomplicated so that we get lost in it so that whoever we’re with we’ll stay with them because the horror stories I hear of everyone has changed, they switched over, they suddenly start getting bills from a different company. I’ve heard so many horror stories from my friend, and thought better the devil you know.”

(London, no wage earner, female)

Some feared that things could go wrong if they switched. This was often expressed as the concern that they would go on receiving a bill from their previous supplier after their new supplier had taken over.

In the group with people with limited literacy/numeracy, participants were very hung up on the idea of receiving two bills in a particular month (i.e. their last month with the old supplier and their first month with a new supplier). Finding the money to pay two bills was a major deterrent to switching.

Overall concerns about things going wrong when they switched were a little less salient in this research than in 2008.

Only a minority of non-switchers attributed fears of something going wrong as their primary reasons for not changing suppliers.

But people nevertheless felt there could be some risks associated with changing suppliers.

Furthermore, the fact that respondents wanted to make significant savings (£100 or more) to make switching worthwhile demonstrates that most respondents did not regard switching as hassle-free or risk-free.

8. Awareness of payment methods/tariffs

Key points:-

- People have limited awareness and understanding of the range of tariffs available from their own or other suppliers.

There were a few British Gas budget card payers in the study but most respondents were aware of just the broad categories of payment method:-

- Direct debit
- Quarterly bill
- Pre-payment meter

Customers tended to stick with the method best suited their lifestyle.

Direct debit payers liked the convenience of paying the same amount each month regardless of the weather or their consumption. However, there was considerable irritation at reconciliations and adjustments to monthly payments that appeared to favour the supplier over the customer.

Some mistrusted direct debits and felt quarterly bills gave them more control.

Most of those on PPMs felt this was the only payment method they were comfortable with. Despite some inconvenient aspects, it helped them to manage their finances. A few implied that they spent less overall on a PPM than they would spend with methods of payment that would not require them to pay upfront.

A few PPM customers would prefer other payment methods and a Walsall renter said his landlord had not allowed him to take out the PPM. A Londoner said switching from a PPM would be expensive.

“If you did want to change it’s almost £400 to change you meter. If you were on a key or something and you wanted to change over to a normal meter again.”

(London, no wage earner, male)

Changing from PPM to direct debit or quarterly bill was not seen as a straightforward option for some:-

“When you’re in a rented property, you can’t just change the meter. You have to have the landlord’s permission.”

(Walsall, renter, male)

Across the groups several British Gas customers paid by budget card, and for some, this was a major attraction of being with British Gas and a deterrent to switching. It was a familiar, convenient method of payment that helped them budget.

However, a London woman in an unwaged household had been disappointed when she was persuaded to swap her electricity to British Gas in order to become a dual fuel customer. She found she was paying £100 a month in total for her energy on her card but that this was not enough so she also had to find more money each quarter, typically £300, but British Gas had rung her to say the latest quarter's bill would be £412.

She had also been disappointed when, after she had lost her card, there was a delay in receiving a new one causing her to miss an agreed payment. At this point British Gas had encouraged her to go on to a PPM. While she persuaded them not to pursue this option, at one point she felt they were going to impose it on her, against her wishes.

Some were aware of paperless billing and that it was cheaper.

"They charge you £1.25 or £1.75 for sending you a bill. Or you pay it online where you don't have a paper bill. That's why they call it a paper bill. You have to pay to receive it."

(London, no wage earner, male)

A Walsall woman was on Economy 7:-

"It's cheaper at the night time to use it. You've only got six hours in the night to use it. If you use your electric, it's cheaper at night time to use it than the day time but you've only got 6 hours, after 12 o'clock... My daughter went on the website and looked at the hours what it was and you've only got like six hours to the night... That's when the dryer's on."

(Walsall, renter, female)

Younger respondents showed little awareness of the existence of special tariffs for older customers, although a London single mother had been informed about special tariffs by her retired neighbour:-

"She told me she was on a special tariff because she's an old pensioner and living on her own, but I'd not heard of what she was talking about before. She's with British Gas but they don't advertise that they offer different tariffs."

(London, single mother)

Only a couple of the 75+ adults we spoke to appeared to be on a special tariff.

A Dunfermline woman was delighted with her Stay Warm tariff that enabled her to use as much electricity as she wished. Another was on Warm Deal.

They knew they were on special tariffs available to few people and the Stay Warm customer said some of her friends had been on this tariff but had been obliged to come off it because they were using too much electricity.

A disabled Londoner had been advised by Social Services that an 'Essentials' tariff would save him money but when he contacted his supplier they asked questions and established he was already receiving too much in benefits to be eligible.

In general while older adults were naturally aware of Cold Weather payments there seemed to be little awareness of the existence tariffs for vulnerable adults.

Some participants had signed up to fixed price deals, a few with their existing provider, but more doing so when they had changed supplier.

Those who had signed up to fixed price tariffs were generally very reluctant to opt out of these contracts partly because of penalty charges.

“I signed up with my provider two years ago with a fixed price tariff when massive prices were coming in, but if you cancel that fixed price tariff you have to pay £75 so you’re not changing your gas supplier until that expires.”

(London, no wage earner, male)

In a recurrence of a theme we have seen in previous research around the subject, some regarded fixed price deals as a gamble, rather than an option which offers them the security of knowing what they will pay.

“But what if it goes down and you’re paying that higher rate? It’s like a gamble really.”

(London, single mother)

A few participants had contacted their energy supplier to challenge their bills and/or to query if they were on the right tariff.

“Yeah I did. Because I pay more for my electricity than my gas and I couldn’t understand it, and they did an analysis over the last 12 months, and they said what it boiled down to, I was using the same amount of electricity, it was the price that had gone up... I did speak to them about ways I could cut down my consumption like unplugging phone chargers and getting things off standby and stupid things like that. I did all that, used slightly less electricity over the 12 months, but am still paying more.”

(London, no wage earner – also single mother)

The question “Do you know which tariff you are on?” often produced blank looks and vague responses. Vulnerable customers, generally, had little understanding of tariffs. Indeed, the Welsh groups in particular, were very surprised to learn suppliers offered customers a wide range of different tariffs.

Around a dozen respondents had visited online comparison sites to check out energy prices. Those who had visited online comparison sites had been surprised to learn there were so many tariffs and some had been deterred from investigating further by the huge range of tariffs to choose from.

Those who had not been online had not really thought how many tariffs there might be, but were surprised to learn there were so many. A couple had learnt of the range of tariffs from other sources.

"I think it was Watchdog or Rip off Britain (recently) and they was talking about the tariffs and they went to all the companies and that. It turns out there's over 200 different tariffs to choose from online, all the different energy companies and it just seems outrageous."

(London, no wage earner, male)

When people learnt of the range of tariffs they generally agreed that there were too many.

"Why are there so many tariffs? I can understand there's a meter, there's a card, there's a direct debit, there's a quarterly, some people pay annually. I understand that there's four basic systems, get a tariff for each, done. Why is there 200? The fact that there's 200 shows me you're deliberately trying to confuse us, and just take our money."

(London, no wage earner – also single mother)

"Ofgem don't set a format for the companies to follow their tariffs which mean these companies can make up any sort of tariffs and formats they want and change them all the time as well because there's no regulation against it. So to actually get the best deal and keep the best deal long term seems almost impossible."

(London, no wage earner, male)

Some felt there were too many competitors in the market, but others argued this was not the problem, but the range of tariffs they offered.

"I don't think it's about so many companies. For me I think the more companies the better, it's competition, but it's just not straightforward, all these tariffs. You don't know who's doing what."

(Walsall, renter, male)

Across a number of groups, several respondents suggested energy companies offered deals for potential customers that were not available to existing ones. Sometimes this view appeared to be based on their knowledge of other markets (such as mobile phones) rather than their specific experience of the energy market.

"(Packages) for new customers but they don't look after the existing ones."

(Walsall, renter, female)

Scottish pensioners voiced a suspicion that some tariffs were only available to those 'in the know'. Some customers believed or suspected that companies would only make certain offers when they thought you were about to switch away and a Neath woman confirmed that this had been her experience.

PPM customers suspected the best deals were only available to more affluent direct debit payers. This was repeatedly denounced as "classism" by a vociferous man in the Leeds group of people with limited literacy/numeracy.

Understanding of the way tariffs were structured was generally limited. A British Gas customer who paid by budget card, fortnightly, understood that there was a two-tier pricing scheme, but was still perplexed by the calculations:-

“For the first £50 or £60 you’re up on your gas. It’s way up maybe 50p a unit or something like that, then it drops down. But every month if your gas bill’s different (they) change the amount you pay at the lower rate. There’s no telling how they do it. They just calculate on how much has been used.”

(London, no wage earner, male)

Others had less understanding:-

“I don’t understand how it all works out to be honest. I just pay the bill.”

(London, no wage earner, female)

A London male contrasted the price of beer and the price of energy. He said he could go into any pub in the country and know how much he was being charged for a pint of beer and would cross the road to a different pub if he was not happy with the prices. But the situation with energy was much more complicated.

Tariff complexity made it more difficult for people to know if they were getting a good deal.

Some respondents argued that their lack of understanding of how charges were calculated discouraged them from talking to sales reps:-

“Not knowing how the actual system works or how they calculate their units, you’re a bit sceptical about changing suppliers because you don’t know whether that’s going to work out more than what you have to pay or less. For me, whoever tries to talk to me about electric, I say ‘I haven’t got the time now’, so they leave me alone.”

(Walsall, renter, male)

We found few recent instances of people changing tariff or payment method; changes included going from quarterly bill to PPM or to budget card in order to help the customer budget better. A Neath woman had switched from PPM with one company to being a credit customer with another but reverted to PPM with the original company when she fell behind with payments.

Awareness of the range of tariffs available from their own company was generally limited and some thought or suspected suppliers provided tariffs for new customers or direct debit payers only.

Information from suppliers

People varied in terms of how closely they read and how well they remembered communications from their energy company. Numerous vulnerable customers admitted to only really looking at how much they had to pay and ignoring messages on the bill or inserts. People knew how much they had to pay and when but understood little beyond that.

Some tried to understand communications and bills but really struggled to understand how their bill was made up. Communications from their supplier were of limited help.

Two Scottish single mothers recalled letters from the same provider advising them about electricity prices and how much they were using a month but they had not found this particularly helpful.

A Walsall renter was more positive:-

“They sent me a letter saying how much I spent so far on the gas and then I got another letter saying how much I spent on electric, I looked at them and thought ‘wow, I’ve spent that much’.”

When asked what kinds of information they receive from their suppliers, across the groups several customers recalled receiving letters or statements (typically annually) from their supplier outlining the units used and how much they had been charged. Those who remembered such statements found them helpful, though there was not a general feeling that energy companies had become much better at communicating with their customers.

9. Reactions to standardised tariffs

Key points:-

- People react positively to the idea of companies presenting a limited number of tariffs in a standardised way across different companies.
- Such an initiative could encourage some of the less vulnerable customers to switch proactively.

In the second half of the session the new tariff propositions were presented to respondents.

1a- Standard format tariff:-

- Ofgem might require energy companies to produce standard tariffs for:-
 - Direct Debit
 - Quarterly Bill
 - PPM
- Each tariff will comprise:-
 - A fixed standing charge
 - A unit rate for energy actually used.

1b- Standard format tariff + select products:-

In addition to the standard tariffs companies may offer “select products” (e.g. online billing) at fixed prices for fixed time periods.

2a- Suppliers can offer 3 tariffs (PPM, Direct Debit, Quarterly Bill) and all prices are controlled by Ofgem.

2b- Suppliers can offer tariffs as with 2a with prices by controlled by Ofgem and others not controlled by Ofgem.

2c- One supplier only has prices controlled by Ofgem. Other suppliers don't have prices controlled.

An important point to make is that some of the more vulnerable groups struggled to engage with the propositions. For example, Pakistani men started from a very limited understanding of the market and struggled to understand the new propositions. For them there was little concept of different tariff options and bill payment was based on habit. Change was not something they wished to consider.

Similarly, the group with poor literacy/numeracy were very concerned at the idea of PPM customers paying more than direct debit customers. They felt Ofgem should restrict the number of suppliers and ensure customers paid the same regardless of their method of payment. They did not really engage with the prompt material, preferring to repeat comments made previously in their sessions about the need for PPM customers to be treated fairly.

A couple of individuals with disabilities struggled to understand the different scenarios, but others understood this easily.

The Scottish over 75s group struggled to understand that if companies used a common charging structure this would not necessarily mean they all charged the same.

The group with the most sophisticated understanding of the options was probably the Poles, whose vulnerability stemmed from limited English, rather than lack of intelligence or age/disability.

The fact that some vulnerable customers in a focus group struggled to grasp the different propositions highlights the fact that initiatives such as insisting on a common charging structure will only make a difference if people understand what is happening and what it means.

Before being shown the first new concept people had discussed the current structure of the energy market and been told there were six main suppliers offering a wide range of different tariffs. People tended to agree (either on the basis of personal experience or theoretically) that the choice of tariffs was too wide and too complicated.

Option 1a: limiting the number and format of tariffs

The first example (see appendices) offered a limited number and format of tariffs so each supplier could offer three tariffs, one for each of:-

- Direct debit
- Quarterly bill
- PPM

Each tariff would comprise a fixed standing charge and a unit rate for energy used.

Some respondents reacted by focusing on the fact there would be different tariffs for different payment methods, concentrating on this rather than the fact that each tariff would comprise a fixed standing charge and a unit rate for energy used.

This was especially true of the Leeds group of people with limited numeracy/literacy, but other PPM customers also picked up on the likelihood of them paying more than direct debit customers. For some, having Ofgem ensure all customers paid the same unit rate, regardless of payment method, was the most important potential function of the regulator.

"I think these should be a standard price no matter how you pay."

(Rural Wales, 75+, male)

A few participants, especially pensioners in Scotland, were slow to understand that companies would still be able to charge different rates even when they used a common pricing structure.

"There wouldn't be any point changing (the system) if we are all going to be charged the same from every firm."

(Scotland, 75+, male)

The Polish group, which grasped the propositions quickly, pointed out an early stage that there would be downsides to reducing the number of tariffs:-

"It may be simpler but you may be reducing the possibilities of having other tariffs so you win with one hand on the simplicity of it but you lose on the other hand."

(London, Polish, Male)

But overall reactions to this proposition were positive, especially in groups such as Londoners with no wage earners where respondents had previously complained about the breadth of choice and difficulties comparing tariffs.

Interestingly, there was very little adverse reaction to the concept of a standing charge. If anything, a standing charge plus consistent pence per unit was seen as more straightforward than a two tier unit-based pricing structure, such as currently favoured by several major suppliers.

People reacted positively towards limiting the number and format of tariffs because it made it easier to understand and would remove the suspicion that companies pass on additional costs behind complex calculations.

"If it's a good deal they'd make it easy for people to understand wouldn't they. They make it complicated because they don't want you to understand these extra charges and stuff."

(London, single mother)

"It's easier, the way it is here."

(Walsall, renter, female)

"As soon as you see figures you're able to compare that, you don't need to know the language to be able to compare figures."

(London, Polish, female)

"You can take... The different tariffs and you can compare each one with another if they've got the same format."

(London, Polish, female)

"If it's like this, you'd be able to keep an eye on it."

(London, single mother)

Some contrasted the complexity of current online price comparison checks with the relative simplicity of this option, which gave people a greater sense of control over decision making.

"At the moment it's like comparing apples and oranges and bananas, but if I can compare one apple to another apple to another apple. You go online now, with all the tariffs, it'll take hours to just look up. And your mind gets boggled and then before you know it you shut off the computer."

(London, no wage earner, female)

“Instead of taking an hour online it takes ten minutes, and we’ve all got a bit of ten minutes.”

(London, single mother)

While reactions to this proposition were very positive, people were less sure how it would affect their behaviour. Those who had already visited price comparison sites and been put off by the complexity, reacted very favourably and said this simplification would encourage them to make and understand comparisons and to switch. A few who had not yet visited price comparison sites said this simplification might encourage them to do so.

But many people were so far away from the point of making comparisons across suppliers that they would still not proactively compare and switch. For those respondents there was still uncertainty about the switching process, and which supplier to choose.

People would not necessarily choose the company that appeared to be the cheapest. They felt more comfortable with a company that was familiar, or that people they knew used.

“If it was between British Gas and Bob’s Gas I’m more likely to choose British Gas because Bob’s Gas might go out of business in two years’ time.”

(London, no wage earner, male)

“In Poland I held on to the main firms rather than going off on a limb with someone I’ve never heard of and I guess that would be the right thing to do here too.”

(London, Polish, Male)

Another issue was that for some people it was the temporary value of any likely savings that was the major deterrent to switching. Simplifying comparisons would not, in itself, overcome this problem.

Some respondents said they would not be encouraged to switch proactively but would feel much more confident in talking to sales reps if they knew they could ask to compare their unit rate against that of their current and other potential providers. So simplification of tariffs could give reactive as well as proactive switchers more confidence.

Option 1b: limiting the number and format of tariffs and allowing some select tariffs

The second option showed to respondents (Option 1b) allowed for an imposed standard format of tariffs plus some select tariffs.

In addition to the three standard-format tariffs, companies could also offer ‘select tariffs’ whose format could vary and would not be regulated.

Some reacted adversely as soon as they saw this proposition:-

“There’s too much (choice). You start getting complicated.”

(London, single mother)

It was a recurring theme of this research that vulnerable customers wanted less choice rather than more. Those who favoured more choice tended to be less vulnerable customers such as some of the Poles, who had limited English but otherwise were not vulnerable.

Some of the most vulnerable respondents struggled to understand option 1b, others understood it but found it complicated, while some participants reacted positively.

At least half those who understood it, appeared to consider it an improvement on the current situation, because there were some standardised tariffs.

Among those who reacted positively, provision of simplified standard tariffs, as well as the option to offer select tariffs, was liked as it would still allow easy comparison of some basic tariff options of different companies while giving access to more choice if desired.

The kind of select tariffs that might appeal to small groups of customers included:-

- Online tariffs (although generally this was of very limited interest to vulnerable customers)
- Green tariffs/tariffs that reward reduced consumption (again of limited interest but some liked the idea of such tariffs being available)
- Fixed term deals

Each of these types of tariffs was mentioned spontaneously in at least one group and there was also some interest, though not a huge amount, when people were prompted with these types of tariffs.

There were some individuals who liked the idea of simplified tariffs who still welcomed the idea of select tariffs:-

“If there are select tariffs... I can take it or leave it but the important thing is to have that so that you’ve got the field of companies... I’ll glance at it, I’ll take a look.”

(London, Polish, Male)

In both of the Scottish and Welsh pensioner groups, individuals who did not intend to take advantage of select tariffs themselves nevertheless argued it was a good thing for others to have that choice.

Some people suggested online comparisons would be made too difficult if there were select tariffs. However, when it was pointed out that under this scenario price comparison websites would probably offer an option for browsers to limit their comparisons to standardised tariffs only, they were somewhat reassured.

Overall views of option 1a and 1b/summary

Where people had clearly understood both Options 1a and 1b, and discussed their merits and demerits, it appeared that overall, Option 1b, with its select tariffs, was marginally preferred because it gave people the additional choice of more complex tariffs if they wanted them.

But overall reactions were positive to both options. People liked the idea of tariff selection being simplified by the standardised formats even when the example given included customers incurring a standing charge. Vulnerable customers would feel more in control if they could understand their bills.

If people were to consider switching, for example if prompted by their current supplier raising prices, people would be more likely to switch (to a standardised format) than would be the case currently. People would be able to switch with a little more confidence.

But for tariff standardisation to encourage vulnerable customers to switch with confidence vulnerable customers would need to understand the change and how tariffs would be made up. They would also need to understand that companies could still vary the rate they charged. This research highlights that not all vulnerable customers are quick to grasp these ideas.

10. Reactions to Ofgem-controlled tariffs

Key points:-

- Vulnerable customers like the idea of Ofgem controlling some or all of the prices charged by energy suppliers.

When people were told that Ofgem does not directly control prices some questioned the value of Ofgem as a regulator.

“What’s the good of having them if they haven’t got a say?”

(Rural Wales, 75+, male)

Some groups were critical of Ofgem, especially the Leeds group of people with limited literacy/numeracy, who argued Ofgem had been wrong to allow so many companies into the market and to allow companies to charge more to PPM customers.

Nevertheless, in most groups there was a feeling of goodwill towards Ofgem in that people wanted it to play a stronger role.

Option 2a: limiting the number of tariffs to 3 per supplier and controlling prices

Under Option 2a Ofgem would limit the number and format of tariffs and control prices. So suppliers could offer three tariffs with all prices controlled by Ofgem.

Reactions to this idea were favourable except where customers were still hung up on opposing any difference in the rates charged to PPM and direct debit customers.

Vulnerable customers generally responded warmly to Option 2a whereby suppliers could offer three tariffs and all prices would be controlled by Ofgem. Most responded positively to the idea of a watchdog controlling prices.

“If it’s just the one service that’s going to keep an eye on the prices, yes, I should think it would give you peace of mind.”

(Rural Wales, 75+, female)

Some felt the knowledge that experts would be monitoring prices would give them a feeling of security.

People also welcomed this idea as it would:-

- provide reassurance that companies are not exploiting customers
- remove the concern that they should fully understand complex bill calculations to work out if they are being treated fairly.

“I think with them controlling it, it’s fairer and there’s probably more chance of it working out better overall because they’re controlling it, watching it for you. Companies on their own can do what they want, it’s dangerous.”

(London, single mother)

Having learnt of the idea of a common method of comparing tariffs, many were keen on retaining this arrangement even if Ofgem were to control the prices of one or more suppliers:-

“If Ofgem controls it but the bills were difficult to decipher anyway that wouldn’t make any difference because it’s the simplicity of being able to understand what you’re looking at on a bill which makes it easier for you to think about switching company. Even if you were controlling and monitoring the prices it would still have to be in conjunction with the whole thing being fairly transparent and easy to understand.”

(London, Pole, male)

Some expected companies to save money through simpler administration which they hoped would be passed onto consumers.

“It would obviously save a lot of money because there’d be less administration.”

(London, male, no wage earner)

A minority were negative or wary regarding this proposal. Some were doubtful as to whether Ofgem would control prices in customers’ interest. Some of the opinions expressed were based on misconceptions. For example, a woman in the Leeds group complained that Ofgem was at fault for allowing companies other than British Gas and Yorkshire Electricity into the energy market not realising that it was through opening the market to competition that prices actually came down.

Others, such as this elderly Scottish woman, questioned whether Ofgem was capable of executing this complex task.

“I just have absolutely no faith in one person controlling the whole lot because there are too many businessmen involved and too much power”

Some were puzzled by the moderator stating that prices would not necessarily be lower if they were controlled by Ofgem.

Some took the view that an initiative like this should be judged on results. If prices were cheaper and more stable then it would be a good thing, but if Ofgem controlling prices failed to produce lower or more stable prices then it was rather pointless.

Some thought that if Ofgem were to control energy prices, and stopped companies from unreasonably raising prices, then the differences in companies' prices would reduce, possibly resulting in companies pulling back on efforts to sign up new customers.

"If there's not that much difference in the prices, you wouldn't get people knocking. Are you going to fill in all the paperwork and do all of that malarkey for a penny difference? It's not worth it is it?"

(London, single mother)

Another view was that by Ofgem controlling prices, consumers would start to trust the energy suppliers again.

"There's definitely a trust thing with the companies and I think if Ofgem's there saying that we are controlling it that they can't go above a certain level then that's going to bring back more of the trust. People are going to trust the companies and understand it more."

(Dunfermline, single mother)

Option 2b: some prices controlled by Ofgem, others not

Participants were then introduced to Option 2b whereby Ofgem imposed a standard format of tariffs and controlled some prices but also allowed some select tariffs which they did not control.

Reactions were generally positive particularly when moderators suggested that the select tariffs might need to be attractive to lure new customers away from Ofgem-controlled tariffs.

Some liked the idea of companies being able to offer additional tariffs that were not controlled by Ofgem.

“It might be beneficial because the companies would offer perks like if you buy gas and electric off us, we will maintain your boiler for less, free of charge or whatever. See little perks”,

(Rural Wales, 75+, male)

Some reacted positively to the opportunity to choose potentially more beneficial (uncontrolled) packages if the customer wished, and a minority suggested they might be tempted to sign up for a competitive tariff even if it were not Ofgem-controlled.

Those who liked this idea suggested controlling basic tariffs would give consumers more confidence, and they would then have the choice of sticking with controlled tariffs or trying out select tariffs.

“Well as long as you control the main ones, if they then want to put in a select tariff which is not controlled, as long as the main one is, that will give us some peace of mind”.

(London, Polish, female)

Under this scenario most customers were comfortable with their energy company writing to inform them that they had been placed on a controlled tariff and would need to opt out if they wanted a different option.

As with Option 1b, there were some negative reactions to the idea of select tariffs operating alongside standard controlled tariffs.

Some felt it offered too much choice and would cause confusion:-

“This from the offset looks more complicated”.

(Neath, no internet access, male)

Option 2c: One supplier's prices controlled by Ofgem

The third scenario, Option 2c, featured controlled prices for one company only, others remaining uncontrolled but with a standard format of tariffs imposed.

This produced more polarised reactions.

Some viewed this as not as good as Option 2a or 2b but still a major improvement and a fairer system than the current situation.

In Wales in particular, there were some positive reactions from customers who argued the introduction of a standard tariff format would mean it would be relatively easy to compare controlled prices of the selected company against tariffs offered by others in the market. Having a limited choice may make it a lot easier for customers to know where they stand and which supplier is best for them.

Both Welsh groups had been very conservative in terms of previous switching behaviour. Nevertheless, a few suggested they might be willing to switch to a different supplier if the level it set its tariff was determined by Ofgem.

If customers desired the security of controlled prices one supplier would provide this.

But there would still be competition in the market that would benefit customers as suppliers would need to offer better options than the controlled company in order to attract customers.

In the Walsall group the idea of only one supplier's prices controlled by Ofgem was greeted with scepticism:-

"Ofgem would be competing with the other suppliers, so how are we supposed to know now that they're a company, national electricity, gas company, that their best interests are ours and not their own?"

(Renter, female)

Some disliked Option 2c as they viewed it as Ofgem effectively entering the market itself.

Others did not see Ofgem as entering the market but still felt this option offered too limited a choice.

"It would be best to have more than one."

(London, Polish, male)

Some were concerned that if there was only one controlled supplier people would gravitate towards it.

"But I think the majority of people would want it to be controlled so that supplier is going to be overrun".

(London, single mother)

Transferring customers to a controlled tariff

Ofgem is nevertheless concerned that the kind of passive, vulnerable customers most in need of help would not opt into controlled tariffs, especially if this meant switching suppliers. An alternative to suggesting they might like to opt in to a controlled tariff would be for a customer to be placed onto a tariff, while having the opportunity to opt out if they chose to do so.

Under Option 2b people were comfortable with the idea of their supplier writing to them to say they had been placed on a controlled tariff. Despite the fact that many customers said they would prefer to be with the single controlled supplier, under Option 2c many reacted negatively, and in a few cases with some hostility, towards the idea of being automatically transferred to a different supplier with a controlled tariff.

They did not feel customers, even passive customers who had not switched suppliers in recent years, should be transferred to a different supplier, and this encouraged some people to view Ofgem's motives with suspicion.

In contrast, some customers, especially some of the over 75s, were reasonably comfortable with the idea of Ofgem transferring them to a controlled tariff even if this was with a different supplier.

Overall/summary

In terms of their overall preference between Options 2a, 2b or 2c those who had a firm grasp of each option tended to favour Option 2b. It offered the greatest reassurance in terms of simplification and fairness of prices. All companies would be operating to the same price structure. And crucially, potentially more advantageous tariffs would be available to those more open to a 'gamble'.

In terms of likely impact on behaviour, most would at least initially prefer a controlled tariff, rather than a select tariff, even if the select tariff would offer more benefits to them. Some suggested they might actively switch to a controlled tariff.

Standardised format vs controlled tariffs

Most liked the idea of standardised tariffs, but reactions were generally more positive to controlled tariffs. These appeared to offer greater likelihood that prices would be fairer and more stable.

If controlled pricing was introduced and they were not defaulted to such a tariff, customers were a little more likely to consider switching than with the standardised tariff Options 1a and 1b as they can see immediate benefits in terms of peace of mind.

However, once with a controlled supplier, there appeared to be even greater likelihood of customers stepping further away from active involvement in the market, willingly abdicating responsibility to Ofgem.

11. Appendix A – Different Groups/segments

Limited Numeracy/Literacy

All acknowledged **difficulty in reading energy** bills and understanding how their energy supply is calculated. They displayed a very limited knowledge of the energy market. They made comparisons with mobile phone bills which are itemised making it simple to see where savings could be made. They are keen to learn how they can reduce their usage in order to minimise their energy bills. One or two suggested it would be useful to know what they're spending each day on the bill - daily usage. They want a better method which would enable them to calculate the cost on a weekly basis to help them. They feel it's too ad hoc at the moment. And because they don't understand, and the bills are higher than anticipated, they wonder if the energy companies are taking them for a ride. These individuals expressed more interest in studying figures to help them save energy than have most other individuals with similar profiles surveyed in other group.

Most regard **switching as too much hassle** and most would not bother. Even those that already have would not bother again. Only three respondents had ever switched, usually influenced by a salesperson who persuaded them by doing some calculations (which they didn't understand) to show they'd be better off. They felt this was a con and they were never better off. If anything, the tariff with the new company was capped for a fixed period and when that cap was removed, they ended up paying more than they were previously. One respondent had switched to Scottish Power because a friend told her it's cheaper to go with a company whose pipes are the furthest away from you, but this has not proved to be true. She wants to switch back to her original supplier (British Gas) but is in arrears so has to wait to clear the debt before she can do so.

Only one respondent had visited a **price comparison website** to look at alternatives to her current supplier. She claimed it was easy to understand and that she would use it to help choose a supplier in the future.

Most were aware that you're not allowed to switch while there is debt on the account, so perhaps they had thought about it but were now resigned to the idea that they are unlikely to be in a position to switch. A major disadvantage of switching is that you have to pay two bills in one month, one to the new supplier and one to the old. This was a repeated theme and was a much bigger issue for these individuals than others. Most were having problems trying to keep up with the one bill.

Most had **prepayment meters**, usually because they'd been persuaded to have one installed by the energy company after falling into arrears with their energy bills. Now believe them to be a money spinning exercise by the energy suppliers since they also run off the electric and respondents say they can see the meter going round even when (they claim) all their appliances are switched off. Plus they resent having to pay an annual standing charge of around £20 for this meter. Furthermore, despite topping up regularly, they find that their monthly statement shows that they are in debit and have to pay that off as well. So they don't understand why they have to pay on top, again, despite paying for the usage on a pay-as-you-go basis. And because they don't understand how their bill is calculated, it adds to their suspicions about the energy companies.

These suspicions were further exacerbated when the stimulus alluded to the notion that those paying by direct debit might on a different tariff than those paying by prepayment meter. They regarded the system as being "classist" and felt if anything, the government should be trying to help those in need (themselves) and they should be the ones on the cheapest possible tariff because of their circumstances. One individual, in particular, felt so strongly about classist tariffs that he could not engage with the new ideas.

Even though she was in arrears of about £700 with her energy bills, one respondent was paying her bills quarterly. On the one hand she felt relieved that there was no threat of losing her supply despite being in debt, she felt it was unfair for those on prepayment meters – if you can't pay, you can't use.

Those with Limited Numeracy/Literacy basically **want less choice**. They are not interested in a competitive market because they don't understand it. Ultimately though, they aren't in a position to compete because they are in arrears, don't understand the system, and have to rely on salesmen who, from experience, they don't trust anyway. **They almost feel the system would be fairer if there was no competition.**

Initially they thought they might feel safer being on a tariff that was regulated by Ofgem, but ultimately they felt Ofgem's role should be to help disadvantaged consumers like themselves, and if Ofgem is in cahoots with the energy suppliers and allowing them to charge different (higher) tariffs for prepayment customers, then they don't trust Ofgem either.

Participants felt things were better with just British Gas and Yorkshire Electricity and blamed Ofgem for allowing "all these other companies into the market, charging ridiculous prices".

This group did not engage well with the prompt material/new ideas partly because they were suspicious of Ofgem and energy companies and partly because they spent a long time labouring the same points about "classist" energy tariffs.

Over 75's

This segment included individuals who had a pretty good understanding of how the energy market worked although some participants had more limited knowledge. One Welshman regularly reviewed prices online but stayed with his existing provider because he knew he was getting a good deal. In fact the Welsh pensioners showed a degree of warmth towards their long-standing suppliers that was absent in most other groups. While inertia played a part in them staying with the same suppliers for many years, they also seemed to be reasonably positively disposed to those suppliers.

The Welsh group was recruited on the basis individuals had not changed supplier in the past five years. Some of the Scottish pensioners had changed recently. Although the actual act of changing was not thought to be complicated most claimed to refer to another family member before switching to a different supplier, and internet use was limited.

They paid by a variety of methods but most had limited awareness of other schemes or tariffs. They thought PPM customers were charged more and that this was unfair.

Older adults shared the scepticism of others regarding 'better' offers from reps of energy suppliers. Comparing prices between suppliers was not thought to be simple or straightforward.

Some struggled to grasp the idea of standardising tariffs thinking for some time, despite repeated explanations from the moderator, that this meant every company charging the same. Their difficulties highlight the fact that some vulnerable customers may struggle to understand what standardising tariffs will mean.

Some expressed a sense of relief that with controlled tariffs they would not feel they should search around for the best deal.

Their main concern was about knowing they were all right than saving a few pounds here and there.

Participants in both older groups expressed a liking for the idea of non-standard tariffs being available. Even if they did not expect to take advantage of such tariffs they liked the idea of these being offered for those who wanted them.

Single mothers

Single mothers in London and Scotland were among the least knowledgeable and experienced respondents. Those in Scotland had been recruited on the basis they had not switched provider in the last five years but there was also limited switching in the London group. Two of those who had switched had encountered problems in the switching process that would deter them from switching again.

Single mothers were struggling financially and energy was a significant expense for them. They paid bills by a variety of means, but most commonly PPM, and the Scottish group had been recruited on this basis.

When they compared energy bills it was very much on the basis of "I am paying this amount a month" rather than comparing unit prices.

They tended to be somewhat lacking in confidence, and despite the significant cost of energy, this was not a subject that greatly interested them.

However, these groups, especially Londoners, tended to be quicker than some of the other participants in grasping the new concepts.

Both groups reacted positively to the idea of tariffs being simplified and even more positively to Ofgem controlling prices. There was a consistent preference for simplicity in tariffs and they were likely to favour an Ofgem regulated tariff on the basis they would feel they knew where they stood. The idea of buying security came up in both groups.

Households with no wage earner

This group included some individuals who had coped for several years without a regular wage, as well as individuals who had been used to a steady wage and had been struggling to adapt, over the last year or so, to the loss of their regular income. All were parents, although some did not live with their children.

They used a mix of payment methods including PPM, budget card and direct debit. One customer reported “the social just pay my bill out of my income support.”

This group was fairly typical of others. People with limited finances felt they were paying a lot for their energy and had limited understanding of how bills were calculated.

One man with five children reported being unemployed for about 18 months as a result of a back injury. He was continuing to pay £150 a month for gas and the same for electricity.

“I’ve got children. I’ve got 5 TVs going in the house at one time... now that I’m unemployed I haven’t really got any separate money for myself, it’s just all my money goes on keeping us warm.”

Some had switched suppliers but had generally been disappointed to find hoped-for savings had not been materialised.

One had visited a price comparison website but been put off by the high number of tariffs.

The more astute participants reacted positively both to the idea of simplified tariffs and especially to Ofgem controlling tariffs. Others were slower to grasp the concepts but when they did, particularly liked the idea of Ofgem controlling prices.

While they welcomed the idea of tariffs being presented in a common way most felt this, in itself, would not be enough to encourage them to proactively compare prices and change suppliers.

Private Renters with PPMs

This group of respondents was potentially vulnerable because they had modest incomes and may have had limited control over being able to change suppliers or payment method if they needed to consult with their landlord.

Despite these potential restrictions, they were generally less vulnerable than some of the other groups. They had reasonable levels of engagement with and understanding of the energy market and understood the new propositions reasonably easily.

In most respects their experiences and views were similar to those of other groups.

They believed they were paying more as a result of being on pre-payment meters and were critical of energy charges, but most found their method of payment helped the budget.

One woman complained that she was paying far more for her gas (£100 a month in a flat) than her sister, and despite her protestations the landlord would not take out the PPM.

This group was suspicious of Option 2c whereby Ofgem controlled the prices of one supplier only. It appeared to them, under this scenario, that Ofgem was competing in the market, rather than helping customers.

Pakistani men

This group was moderated in Mirpuri by Irna Qureshi, a Yorkshire-born woman of Pakistani ethnic origin. In most respects this was the most vulnerable segment. They are not typical of Pakistani men in general, but in areas of northern cities or towns such as Bradford, Oldham and Burnley there are significant proportions of men in Pakistani origin who struggle to communicate in English.

These individuals lived in the Manningham part of Bradford where there are many families of Pakistani origin. They were aged 45 and over and had come to England over ten years ago, and in one case 45 years ago. Most had worked for some years (typically in the mills) but had lived on benefits since losing their jobs.

Most were unable to read and write in their own language (Mirpuri).

They had very little contact with white English people and had had no strong desire to become fluent in English. While some had teenage or adult children who spoke better English, these children offered less practical help than some of their fathers wanted. So the fathers found themselves dealing with energy suppliers and other financial matters with minimal help.

They wanted to keep their lives simple and to avoid communicating in English. They were very reluctant to change energy supplier partly because this would have required them to communicate and interact in English.

They might consult their imam or another relative if they were anxious for help, but it would normally require something more critical for them to seek assistance.

They struggled to name energy supplies (even their own) and generally showed little understanding of how the market worked.

Few had any switching experience, although all had conversations with salespeople in Morrison's or going door to door.

"We've had a few salesmen at our door. I always tell them that I'm not switching. Were fine as we are, pay our bill as we've always done. We're with the company we started with when we came to England and we're staying put. It's part of our heritage."

When they received energy bills they know how much to pay, but did not understand why the bill was the size it was.

These respondents struggled to understand the new propositions put to them about simpler tariffs and Ofgem controlling prices.

While they welcomed the thought of energy bills being easier to understand they were still disinclined to engage actively with the energy market and to change supplier.

Poles

Polish participants were recruited on the basis that they had limited English and this proved to be the case. The moderator asked questions in English, a Polish translator translated into Polish and translated responses back into English.

Despite the potential logistical challenges this group worked well and the Poles grasped the new concepts and their possible implications better, more quickly and with more sophisticated levels of understanding than most of the other groups.

Their length of period in the UK ranged from five months to fifteen years. Their range of experiences and understanding of the UK energy market was comparable to that of younger English-speaking groups such as single mothers.

They paid by a variety of methods including PPM, quarterly bills and direct debit but the most common payment method was online.

While they struggled to communicate with energy companies in English some were left with the impression that their difficulties were due less to language problems than the fact that energy tariffs are complex for everyone. However, it also appeared, as we have heard in previous research that people for whom English is a second or third language can struggle with unfamiliar accents.

"It was over the top of my head what they were talking about, even if I'd been native English. And it probably doesn't help that he was Indian. I wasn't able to get through his accent."

They would welcome talking to Polish speaking staff.

Specific problems experienced by Poles included the following examples.

One quarterly bill payer occasionally found problems paying the bill but found his energy company to be unsympathetic when he asked to pay it over three months rather than in a lump sum.

A customer had been on a PPM at a previous address five years ago, but as recently as six months ago she received a bill for £2,500 for that address and has an ongoing dispute with her supplier. No matter what documentation she produces to show she moved five years ago they are still pursuing her for the payment. She is being helped by CAB.

“I lived in Tottenham. The people that moved in must have had criminal tendencies because they turned my address into a drug factory, and they obviously knew how to get around the meter situation. Since they can’t get the people who actually did manage to use all the electricity and gas, they’re trying to get the money back from whoever they can find.”

Another had been living at their current address for two years but had not yet received a bill.

“I’ve called them to not give me a nasty surprise and send me a bill that is the size of the national debt.”

Another had a problem that is probably much more common among temporary residents than British nationals.

They were due a rebate from the previous place they had lived, but the bill was in the name of his friend who had gone back to Poland, so he could not cash it, despite the fact he was now the named customer with the same company at his new address.

One was critical of the infrequency of meter reader visits and the frequency of estimated bills.

Some had switched suppliers, some successfully but others incurred problems.

To switch now they would be looking for sizeable savings of £100-£300 a year to compensate for the hassle. They were particularly concerned at the prospect of receiving bills in parallel from the old and new supplier while they changed.

They reacted positively to simplified tariffs and said those would help Poles at least as much as websites in two languages. However, they felt there would be insufficient flexibility in a scenario where all tariffs were expressed in the same way. They had a keener appreciation than many other groups of the potential value of companies competing against each other with a range of tariffs.

They also reacted more positively than others to Option 2c whereby Ofgem controlled the prices charged by one supplier only:

“If you’ve got at least one firm that is controlled by Ofgem and if the prices were of a very attractive rate then I would have thought that the other suppliers are going to be trying to match the one that you are monitoring and controlling anyway.”

Their views were best summarised by the following quote:-

“As long as it’s clear and you know what it is that they’re talking about then I think it’s always best to have more choice so that you can potentially go for it, but you’ve got to be able to understand what it is that they are offering you.”

No internet access

In common with Welsh pensioners, this group appeared to be happier with their energy suppliers than participants in other groups.

Most paid by PPM and one woman was very pleased to have a new-style meter that did not allow the electricity supply to be disconnected overnight.

Some had switched suppliers including an individual who went from PPM to quarterly bills with a new supplier. But she fell behind with her payments and reverted to PPM which she found easier though more expensive.

Another had switched 12 months ago as a result of a phone call. Her husband had lost his job and the new provider’s £100 cashback offer was very tempting.

One woman reported that her supplier only offered her better deals at the point when she was about to leave them.

This group had not used the internet to compare prices and were surprised to learn there was a very wide range of tariffs available.

The idea of standardised tariffs addressed a problem most had not previously known existed. And while they saw it as a sensible initiative, it would be unlikely to encourage them to switch proactively.

This group reacted positively to Option 2c whereby just one supplier had its price controlled by Ofgem.

“The regulator should have a benchmark and then competition allowed in, as long as it doesn’t go above that price.”

They saw the controlled supplier as offering a safety net against which other companies could compete. Customers would be able to see how companies’ offerings compared against the controlled tariff.

Disabled customers

Disabled customers were interviewed individually and they were a heterogeneous segment with different types and degrees of disability. The most disabled (two deaf-blind men) had wives who played the major decision-making role.

Some respondents would be unable to communicate effectively with a sales rep so switching reactively was not an option unless a relative was there to help.

One woman with limited mobility said if she were to switch it would be by ringing a number shown on a TV ad.

A few of the disabled customers had changed suppliers but generally, this segment, especially those who were ill, wanted to eliminate unnecessary hassle from their lives and this meant they were likely to stay with their existing supplier.

Some individuals struggled to understand the different propositions.

Those who understood them generally reacted quite positively, particularly to Ofgem-controlled prices.

“If you do that everybody would go to the Ofgem one, that’s what I would do. You know what you’re going to be paying, that system I think is a lot more even and honest.”

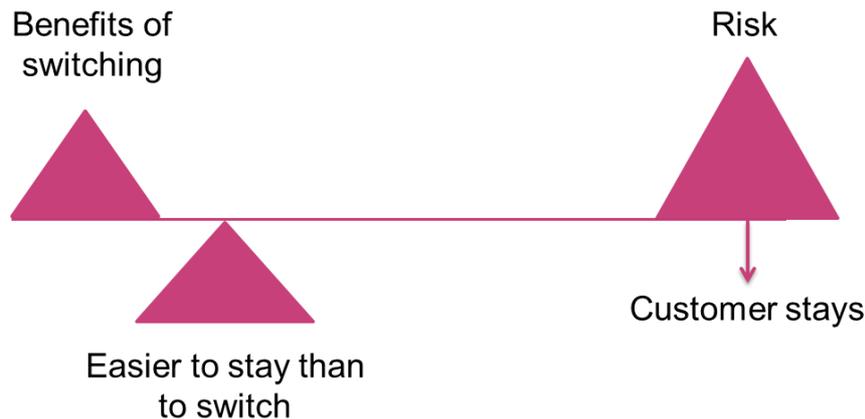
(Midlands, Deaf, Female)

They were disinclined to change suppliers and simply standardising tariffs would not be a major stimulus to encourage switching.

Attitudinal segments

For the typical vulnerable customer, the Balance Model features a greater perceived risk than benefit of switching while the pivot is positioned left of the centre i.e. if the customer believes it is easier to stay than to switch.

Balance Model for typical vulnerable customer



Balance Model

The Balance Model works well in showing the factors impinging on an individual's likelihood of switching. But the precision of the lines/shapes in the Balance Model is a little misleading. Part of the problem is that benefits and risks are hard for people to quantify and are much less precise than suggested. A lack of definition of the size of benefits/risks encourages conservatism.

Defining the size of the benefit more accurately may encourage greater engagement with the market.

Types of non-switchers

In the previous vulnerable customers research² we found some customers willingly switched suppliers but many were reluctant to do so. We identified eight main segments of non-switchers (i.e. people who had never switched or had switched in the past but were reluctant to do so again). Some of these groups are more clear-cut than others – in some instances the difference between different segments are fairly subtle.

All of these segments of non-switchers (as well as many willing switchers) may be found in a general sample of energy customers, but most are more likely to be found among vulnerable customers.

² In 2008 FDS conducted a large-scale qualitative programme of research for Ofgem among Vulnerable Customers: (Vulnerable Customers' Engagement with the Energy Market)

The eight non-switcher groups are called:-

- Cannot switch
- Older – happy as they are
- Change averse
- Loyalist
- Under confident and nervous *
- Overwhelmed *
- 'Life's too short' *
- Uninterested

People who have switched supplier once or twice but are very disinclined to switch again could also fall into these categories, although they could also be grouped under a separate category of 'Once bitten, twice shy.'

*These groups are potentially the most persuadable to switch as they recognise that there are potential savings to be made but:-

- 'Overwhelmed' cannot decide who to switch to
- 'Under confident and nervous' worry about the consequences of switching
- 'Life's too short' are reluctant to make the effort to switch.

Cannot switch

People who believe they cannot switch:-

- may be unaware of other suppliers
- may be influenced by misinformation, e.g. they may believe no other suppliers would service their area, possibly because of its remoteness
- they may believe other suppliers would not accept them or be interested in them
- may need to pay off an existing debt to their current supplier before they can switch.
- they may live in privately rented accommodation and have a landlord who will not allow them to switch.

In these circumstances the perceived benefits and risks of switching to these individuals are academic as they believe they are unable to switch so do not attempt to do so.

There were very few people in this category in the research, although a couple were in debt and thought they would need to pay off their debt before they could switch. A couple of renters were doubtful as to whether their landlord wouldn't permit them to switch.

A few on fixed contracts felt switching would be expensive and/or problematic.

‘Older – happy as they are’ and ‘Change Averse’

A characteristic of these two similar segments is that they are unlikely to listen to someone encouraging them to switch, even if that person is giving independent advice.

The *‘Older – Happy as they are’* group have been used to doing things the same way for years, using the same supplier and paying the same way, often by cheque.

They are contented as they are – they have budgeted for energy bills and are reasonably happy.

There are many older people who have confidence and knowledge to switch proactively and to choose between a range of suppliers. But these are more likely to be found among more affluent, better-educated older people, than those who are dependent on a state pension and are more vulnerable.

‘Change-Averse’ are very similar to the older group in that they share similar attitudes and behaviours, especially their reluctance to consider changes to supplier or payment method, but they can be any age.

Pakistani men were extremely change-averse.

Within the change-averse segment, some were reluctant to change any supplier, while others may shop around, for example for better deals on their mobile phone, if they felt they could make savings easily.

They are temperamentally or practically reluctant to consider change. They currently feel comfortable because they know they are able to pay bills. But they are concerned that if they do make a change something may go wrong and they may then struggle to cope.

These two segments were found quite widely in our research and are likely to be:-

- less confident
- less knowledgeable
- less interested in saving money (as opposed to simply managing) than energy customers generally.

Largely because they are reluctant to consider making changes in the energy market themselves they generally responded positively to the idea of Ofgem controlling prices.

Overwhelmed

This customer segment can see benefits in switching in different markets but they are nervous of switching and conscious of potential risks.

This segment is moderately well represented among vulnerable customers but will also be found more among the general population, especially amongst those who are indecisive and/or time poor, rather than those who are struggling financially.

To a greater extent than other segments, they are aware that they might be able to save money through switching suppliers and/or payment method, and some feel they ought to try to do so. Their balance chart is marked by major perceived benefits, in switching, but also major perceived risks. Uncertainty regarding the switching process means they think it will be easier to stay than to switch.

They struggle to make decisions. They are not convinced that they should switch and may be uncertain of the consequences of switching. They may be unsure how to go about switching, which supplier to choose, or whether they will really make long-term savings as a result of switching.

People in this segment are more likely than others to have actively considered switching and/or investigated doing so, but then got cold feet and failed to follow through possibly overwhelmed by the choice of suppliers, or uncertain as to whether the change will go through smoothly.

This is the group most likely to benefit from fewer and simpler tariffs. Currently they may go online, be overwhelmed by the choice and then stick with their existing tariff. A common method of presenting tariffs could give them the confidence to switch.

Similarly, if they had contact with a sales rep, having fewer and simpler tariffs may give them more confidence when talking and listening to the rep.

Under confident and nervous

This segment is moderately well represented among vulnerable customers, but possibly less so than three years ago, as people generally appear to have become a little more confident about the switching process. This group is similar to the *'Change Averse'* but their reasons for not switching are based more on uncertainty of how to switch or fears that things could go wrong rather than any lack of interest.

Indeed, they differ from the *'Change Averse'* in that if they could be persuaded that they could change supplier very easily and without problems and that they would save money doing so they probably would switch whereas the *'Change Averse'* would probably not allow themselves to be persuaded to change. The *'Under Confident and Nervous'* are more pre-disposed to switch provided they can be convinced things will not go wrong.

They do have concerns about what might go wrong and are very aware that sometimes switchers have received bills from two companies.

Often on a tight budget and a low income, they believe it will be difficult for them to recover from a problem, such as facing a much higher than expected bill. Struggling financially and expecting to do so in the future, they are much more vulnerable than those on higher incomes if asked to meet unexpectedly high bills.

They also need reassurance that the switch itself will be hassle-free and easy, and that they will be able to switch away from the new supplier easily, if things do not work out.

While this segment might contemplate a switch, they need to be persuaded that there would be no problems if they switched.

They reacted quite positively to standardised tariffs but would probably prefer Ofgem-controlled tariffs.

'Life's too short'

This segment is similar to the *'Overwhelmed'* segment in that they are well represented across customers generally, but particularly among some segments of vulnerable customers.

They tend to use words such as "lazy" to describe themselves. They acknowledge they could save money by switching but are disinclined to make the effort to switch as it is easier and less risky to stay than to switch. They are happier to carry on as they are, rather than make the effort to research the market. Some regarded frequent switchers as somewhat obsessive people with time on their hands.

Among vulnerable customers those classified (by themselves, in most cases) as lazy are typically financially poor, but not obviously time poor, simply passive and lazy, offering no real rational answer for not switching.

What was remarkable in some groups was how those who were financially struggling were quick to dismiss as too small to bother about, potential savings of £50-100 a year.

For many, it was the temporary nature of any possible saving that discouraged them from switching and enabled them to nationalise not switching.

This group is probably less easily persuadable than the *'Overwhelmed'* but more likely to respond to a sales rep or independent advice than the *'Change Averse'*.

This group would prefer Ofgem to control prices so they do not need to look at the market but are reassured they are on a fair deal. But they might be encouraged to engage with the market by simplified price structures.

Uninterested/Minimal Benefits in switching

This segment is similar to others such as *'Life's too short'* but they are more likely to believe the benefits to them of switching will be more minimal, and are not really interested in seeking savings.

In the previous research this was a small niche group which included renters in shared accommodation who would need the co-operation of the landlord and their fellow renters to switch.

In this latest research this segment could be regarded as much larger if we were to include in the segment the numerous respondents whose reason or rationalisation for not switching was that any savings would be short-term, temporary and not worth the hassle.

They will be very hard to persuade to change – they are effectively disengaged from the competitive market, because without any strong feeling of loyalty to their existing provider(s) they are very disinclined to switch.

So even tariff simplification would not encourage them to switch because tariffs could still vary greatly.

Loyalists

These individuals are more likely to be found among older and poorer customers so are over-represented in our vulnerable groups.

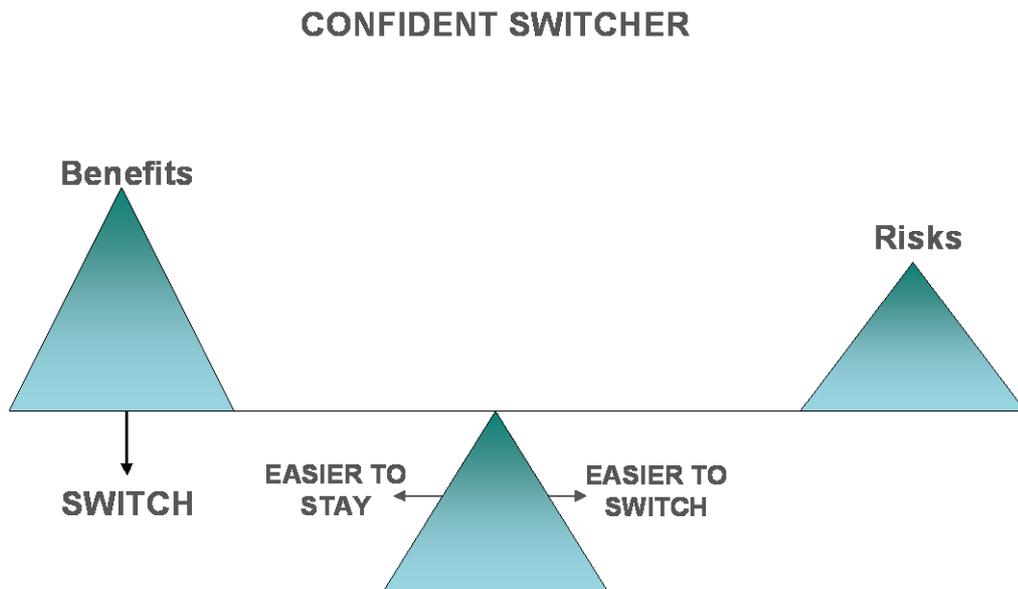
The small segment we describe as *'Loyalists'* are likely to stay with a particular company even if they think it is more expensive and switching is easy. They have positive reasons for their loyalty.

British Gas, and in Wales, SWALEC, are the organisations particularly likely to benefit from this loyalty. In Wales some perceived SWALEC to be larger than British Gas and its very *'Welshness'* encouraged some to feel a positive loyalty towards the organisation.

For Asians with limited English the *'Britishness'* of British Gas is reassuring and gives it a strong advantage over the other less well-known companies.

Confident switchers

To contrast with the eight groups described above, all of whom are less likely than other customers to switch, and who are over-represented among vulnerable customers, we describe below and show the balance model for '*confident switchers*'.



Confident switchers:-

- are aware benefits of switching often outweigh risks
- believe the switching process itself to be straightforward
- are usually internet users and confident how to look for information
- typically review their outgoings regularly
- are not usually interested in talking to door-to-door salespeople preferring independent sources and their own judgement
- are usually better-educated and not time-poor
- are proactive and reasonably tenacious by nature and willing to put up with a little hassle for financial benefits.

Where high proportions of customers have these characteristics, markets are more likely to operate effectively and competitively. These types of customers are often the diametric opposites of vulnerable customers and are greatly under-represented among vulnerable customers.

Nevertheless, there were signs that with tariff standardisation a few of the vulnerable customers surveyed, especially some of the Poles, could become confident switchers.

While there were few confident switchers among the vulnerable customers surveyed, we identified two other categories of switchers:-

- wary switchers
- returning switchers

Wary switchers will tend to change reactively whereas confident switchers are more likely to change proactively.

The confident switcher will **expect** to make significant savings, the wary switcher will **hope** to.

The confident switcher will have few worries of problems occurring as a result of switching. The wary switcher will be less confident.

The balance model for a wary switcher will look like that of the confident switcher:-

- the size of the benefits exceeds the size of the risks
- the pivot is at or close to the middle because the sales rep has convinced them the actual switching process will be easy.

But while the lines depicting benefits and risks may be sharply defined for the confident switcher these would be blurred and poorly defined for the wary switcher.

The wary switcher hopes to make savings but feels he/she is taking something of a step in the dark, typically because they are relying on the salesperson's word that they will save money.

If the wary switcher has good experiences they may become a confident switcher. If they have poor experiences, their future behaviour and attitudes may be indistinguishable from non-switchers.

A wary switcher disappointed with their experiences, may also, become a returning switcher.

We found several examples of returning switchers among vulnerable customers.

Returning switchers have switched away from a previous supplier and then been disappointed:-

- typically because expected savings failed to materialise
- occasionally because of poor service on the part of the new supplier or other difficulties managing bills

Again the balance model of the returning switcher at the time they switch back resembles that of the confident switcher. They are confident they can switch and that benefits will outweigh risks

However:-

- returning switchers are likely to return to a specific supplier while confident switchers will choose between alternatives
- having switched back to their original supplier, returning switchers may subsequently act and think more like non-switchers.

12. Appendix B – Topic guide



OFGEM: VULNERABLE CUSTOMERS RESEARCH

Introduction

Reiterate purpose of research and the role of Ofgem (the regulator of Britain's gas and electricity markets)

- Explain who FDS are and how research will be used
- Provide reassurance that there are no right/wrong answers
- Permission to record, confidentiality
- Ask the group to say a little about themselves/household

Their supplier

- Who supplies their energy (electricity and gas)?
- How do they feel towards their energy supplier(s)?
 - Have they had any particularly positive and/or negative experiences?
 - Have their feelings towards their energy supplier(s)/suppliers in general changed over time?
 - Have they noticed any changes recently?
 [Allow them to vent concerns over prices then park this issue]

Information from their supplier

- How clear are bills received from their supplier(s)
- What other information do they receive from their supplier(s)
 - How clear/helpful is this
- Has the information they receive from their supplier(s) changed over the past few years?
 - Are they being sent anything they previously weren't? [Is it relevant, helpful, and clear?]
 - Did they receive other information from their supplier in 2010 (specifically about the tariff they are on or their projected consumption of energy costs)?

Tariffs

- How do they pay for their energy use? (Direct debit, cheque, ppm etc.)
- Are they aware energy suppliers offer a number of different tariffs?
- Do they know which tariff they are on?
 - If yes, where did they get this information?
 - Do they fully understand what the tariff is?
- Do they feel their tariff is appropriate for them?
- [Why/why not. What do they like about their tariff, what don't they like?]
- How confident are they that their current energy supplier(s) offer them the best tariff option for their circumstances? [Avoid focusing on prices]
- If they were unhappy with their tariff and/or energy supplier(s), what would they do about it?
 - **PROBE FOR:** switch energy supplier, switch tariff, switch payment method

Switching experiences

ESTABLISH WHO IN THE GROUP HAS SWITCHED ENERGY SUPPLIERS PREVIOUSLY

(NOTE: 2 OF THE GROUPS COMPRISE ALL “NON-SWITCHERS” SO THESE SHOULD SKIP STRAIGHT TO SECTION FOR THOSE WHO HAVE NOT SWITCHED)

For all those that have switched energy suppliers

- How many times have they switched supplier? When was the last time they switched?
- What triggered them to switch?
 - **PROBE FOR:** sales call, high bill, discussion with friends/family, dissatisfaction?
- How did they decide which supplier to switch to?
 - **PROBE FOR:** Reactive (Doorstep salesman, sales call, stopped at shopping centre/train station) or proactive (visited price comparison website, studied leaflets, called supplier)
- What information did they use to help them decide to switch?
 - What sources of information did they use, in what format (eg printed/phone/internet) and from whom (eg supplier, comparison service, other). Did anyone help them?
 - Did they calculate potential savings, and if so, how did they do this? (eg using their bill, annual statement etc.)
- For those proactive about finding information, how easy/difficult was it to find the information they were after?
- For those reactive, were the people they spoke to able to provide all the information they wanted?
 - Did they know at the start of the process what information they needed?
- How easy/difficult did they find it to understand the information presented to them?
 - Did they understand the tariffs presented to them? If not, explore why not
 - How could the information have been made easier to understand?
- For those that have switched more than once, how did their last experience of switching compare to their first? (eg was it easier or harder and why?)
- What have been the advantages/disadvantages of switching?
 - **PROBE FOR:** reduced/increased bills, service from supplier etc.
 - Were their expectations of switching met?
 - Were there any problems with switching?
- Have any changes to their bills been short- or long-term?

For all those that have NOT switched energy suppliers

- Were they aware that you can switch supplier or tariff or payment method?
- How easy/difficult do they imagine switching would be?
 - What problems would they expect, if any?
- Do sales reps ring/visit? Do they see them at shopping centres? Do they talk to them? Why/Why not?
- Have they considered switching energy suppliers?
 - What triggered them to consider it? **PROBE FOR:** sales call, high bill
 - What did they do before deciding not to switch? **PROBE FOR:** talked to friends/family, looked at a switching site
 - How far down the line did they get before deciding not to switch?
- Why did they not switch/why have they not considered switching?
 - **PROBE FOR:** tariffs too complicated, savings not worth it, worried about supply being cut off, too stressful, in debt etc.
- What would have encouraged them to carry on with the process of switching/what would encourage them to switch?
 - **PROBE FOR:** What information do they want, in what format and from whom? Better information, fewer tariffs to choose from, someone to help them, being able to switch online

Changing tariff and/or payment method

ESTABLISH WHO HAS CHANGED ENERGY TARIFF/PAYMENT METHOD WHILE STAYING WITH SAME SUPPLIER. RUN THROUGH SIMILAR QUESTIONS AS FOR SWITCHING SUPPLIER

- Why did they change tariff/payment method? What prompted them to do so? Were they looking to take advantage of dual fuel discounts?
- What information did they use?
- How easy/difficult was it for them to understand that information? How easy/difficult was it to change tariff or payment method?
- Are there any reasons why they have not changed tariff? Have they given it consideration?
- What could be done to help or encourage them to change tariff? What information would they need, in what format, from whom? How should they find/receive this information?

Switching – help and information

- If you have switched, will you switch again? If you haven't switched will you consider it?
- What reservations do they have about switching [whether again or for the first time] energy suppliers/tariffs/payment methods?
- How could these reservations be overcome?
- What would they need to consider switching?
 - What types of information, in what format, from whom?
 - [Probe: would they want a switching site from Ofgem or CAB?]
 - Where would they expect to find/receive this information?
- Has their attitude to switching supplier/tariff/payment system changed over time?
 - In what way has it changed? What encouraged the change in mindset? Show current situation chart
- What do people think of the way the energy market currently works
- Are there too many/too few suppliers
- Is there too much/too little choice of tariffs
- How easy is it to compare prices
- Is the consumer given too much/sufficient/not enough protection?

Show option 1a

One option would be to change the way tariffs are presented so that they are consistent with a fixed price and a price for each kwh of energy used.

The fixed price would be the same for all consumers and would cover the costs of transporting the energy. The unit rate would be for the amount you use. Ofgem would set the format of the way tariffs are presented.

How easy is this to understand? Would this make it easier or more difficult to compare different tariffs or suppliers? Why?

Would you want all tariffs to be presented in this way? Can you see any positives or negatives with having a set format for tariffs compared to the current situation?

Would this enable you to choose a supplier with more/less confidence? How would you use this information?

Is there too much/not enough choice?

Would this encourage you to switch/discourage you or have no effect?

Show option 1b

- This is similar to the last idea but this time the energy companies would be required to offer one standard tariff format for each payment method but could also offer various fixed price/fixed time period tariffs. These might or might not be in the standard format.

How easy is this to understand? Is there too much/not enough choice? Would this make it easier or more difficult to compare different tariffs or suppliers? Why?

Would this enable you to choose a supplier with more/less confidence? How would you use this information?

- Would they choose a standard format or seek out a better fixed price/fixed time period deal?

Show option 2a

- This time Ofgem would actually control the prices companies charge for tariffs and each company would be limited to one tariff per payment method
 - so Ofgem would regularly review prices and any price changes would need to be agreed with Ofgem.
- What are the advantages of this? And the disadvantages?
- Is there too much/ not enough choice?
- If you knew Ofgem was controlling your tariff would this give you peace of mind?
- Would having Ofgem control prices encourage you/discourage you from switching supplier or tariffs? Why? (Probe: would it give comfort that they are on a good deal and not switch or would it give comfort that that there are a range of good tariffs to help them switch?)

Show option 2b

- With this option, companies would also be allowed to have tariffs that were NOT regulated by Ofgem
 - (These might be cheaper or dearer than the regulated tariffs)? Is this a good idea? Why/Why not? Would there be too much/ not enough choice?
- Would you prefer a tariff that was or was not controlled by Ofgem?
- If controlled, would you want to be automatically put on a controlled price tariff or what you prefer to choose? Why?

Show option 2c

- What about the idea of there being one regulated company whose prices are controlled? (This might be an existing company or a new energy company)
- Would you prefer to be with this regulated company or a company which was not controlled in the same way? Why?
- Would having one controlled company encourage you/discourage you from switching supplier or tariffs? Why?
- Once with the controlled supplier would you compare your tariff with other suppliers?
- What about the idea of all customers who have not switched supplier in the last 5 years being transferred to the regulated company unless they opt to go with a different company, possibly their current supplier)?
- Which of these options (current A, 1A, 1B, 2A, 2B, 2C) for reviewing and controlling the market do people like best? Why?
- What impact would this have on
 - their confidence that they are on the right tariff
 - their likelihood of switching

Sum up and close

- What (else) might encourage them to switch supplier and/or tariff
- Cover any other issues
- Wrap up and close

CURRENT SITUATION

- There are 6 big companies supplying gas and electricity – plus some smaller companies.
- These companies may:-
 - Offer different rates depending on payment method
 - Have different price structure eg they may impose a standing charge or have 2 tier pricing so the first units of energy used are charged at a higher rate than units uses later
 - Offer customers a choice of different tariffs
- Consumers can choose to switch suppliers, tariffs or payment methods.
- Ofgem keeps a close eye on the market but does NOT control prices or force energy companies to have a set format for their tariffs.

POSSIBLE FUTURE SITUATIONS

1A) LIMITING THE NUMBER AND FORMAT OF TARIFFS

- Ofgem could require each supplier to only offer three tariffs, one for each standard payment method:-
 - Direct debit
 - Quarterly bill
 - Prepayment meter.

- Each tariff would comprise:
 - A fixed standing charge
 - A unit rate for energy actually used

Possible Example

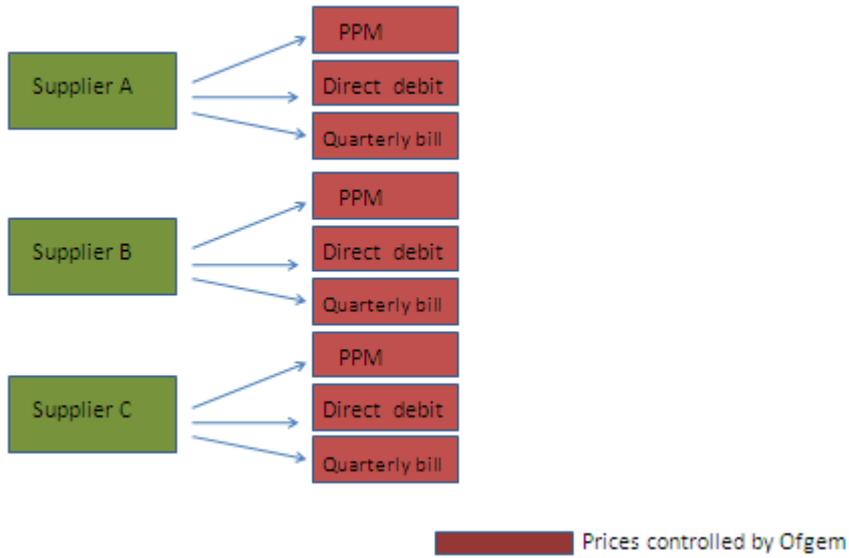
	Fixed charge	Tariff
Supplier A	£/month	8p/kWh
Supplier B	£/month	9p/kWh
Supplier C	£/month	10p/kWh

POSSIBLE FUTURE SITUATIONS

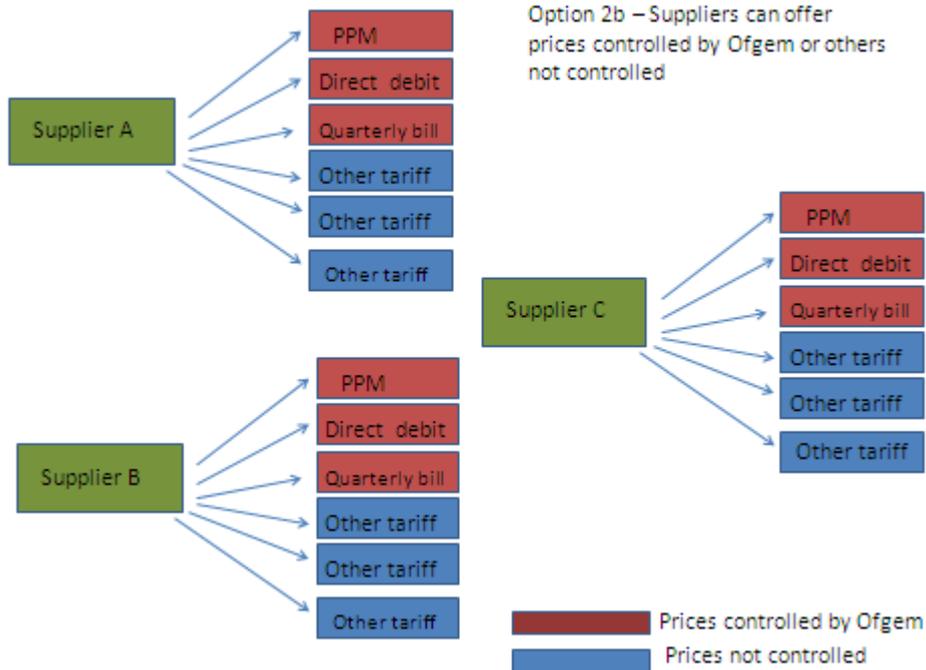
1B) STANDARD FORMAT TARIFF + SELECT TARIFFS

- Ofgem might require energy companies to produce 3 standard tariffs, one for direct debit, one for quarterly bills, one for prepayment meter.
- Additionally, companies may also offer “select tariffs” at fixed prices for fixed time periods.
- The format of these select tariffs could vary, eg they may not have a fixed standing charge.

Option 2a – Suppliers can offer 3 tariffs and all prices are controlled by Ofgem



Option 2b – Suppliers can offer prices controlled by Ofgem or others not controlled



Option 2c – one supplier has prices controlled and other suppliers don't have prices controlled

