

Ofgem Consumer First Panel

Wave 3

Future of Energy

May 2016



Introduction and methodology



Ipsos MORI



Method summary



Ofgem Consumer First Panel

- Now in its 7th year, the Ofgem Consumer First Panel consists of domestic energy consumers, refreshed every year, who meet three or four times a year to discuss key policy issues.
- Its aims are to ensure that Ofgem works with a good understanding of the needs and expectations of consumers and uses this understanding to inform policy decisions.
- In April 2015, Ofgem commissioned Ipsos MORI to conduct research with a refreshed Consumer First Panel.
- Of the 80 recruited at the start of the 2015/16 Panel, 56 energy consumers from different backgrounds attended the third and final wave of workshops across four different locations between 2nd - 10th March 2016.

The future of the energy market discussion

Objectives

To explore views on the future of the energy market by examining:

- How consumers would like to interact with the market in the future (10-15 years)?
- In what way are these different to the current set up and current existing non-traditional business models?
- Which hypothetical future business models (of those presented) appeal to consumers and why?
- Which would encourage consumers to engage more with the energy market?

Hypothetical future models presented for discussion:

- Peer-to-peer energy
- Power of attorney
- Energy service model
- Local energy models
- Longer term contracts
- Pay-as-you-go power

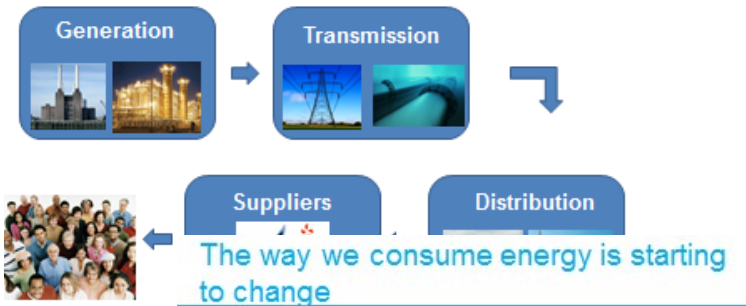


Methodology

Panellists were asked to think about the changes that might happen in the energy market over the next 10-15 years, and to comment on a number of possible different future business models. This discussion evolved through the following stages:

1. Panellists were given an illustration of the energy market and were asked how they would like consumers' relationships within the market to change.
2. They were then presented with six different hypothetical future energy models.
3. Panellists were each asked to fill out a paper exercise privately, detailing which model appealed to them the most and which one they thought was most likely to happen.
4. Panellists then shared these considerations through group discussion. Moderators probed on how Panellists thought their role as individual consumers could change within these models and what challenges or concerns they had about the models.

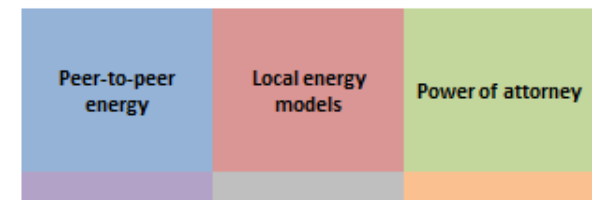
An overview of the current energy market



ofgem



We would like you to consider six different ideas for the future...



Please answer the following questions...

Q1. Which model appeals the most to you? And why?

Q2. Which do you think is most likely to happen? Why?

Q3. What other initial questions do you have?

ofgem

ofgem

Panellists' perspectives on what the future might look like



Ipsos MORI



Panellists found it hard to think unprompted about the future of the market; however green generation & consumption were key priorities

Generation

- Greater diversity and more emphasis on renewables
- Local generation to benefit local economy and reduce prices
- Green and local generation linked to increased storage capacity/ improved batteries to maintain consistent energy supply

Distribution

- May play an increased role in directly supplying to consumers?
- Some calls for choice of Distribution Network Operator – building on previous Panel wave

Supply

- Less of a role for suppliers if generation is more localised
- Increased competition as specialist/local companies join the market

Consumption

- Smarter technology in homes to reduce consumption
- Financial and other incentives to use less energy
- More self sufficiency among consumers thanks to new generation

Panellists thought the future landscape could have mixed implications for consumers

Good?

Local authorities will negotiate deals for local people in the energy market, and act as a distributor or coordinator for local energy generation.

Consumers will have more of a say in the products that they get. Including the way that their electricity is generated and the type of supplier they are buying off.

Consumers may be generating their own power, via solar panels and other methods, so less reliant on suppliers.

And bad?

Concern that the type of contracts offered by suppliers will not change much.

Worries that the relationships between generation, DNO and supplier are beyond anything consumers can influence.

As new companies that do things in different ways enter the market it may become more challenging for consumers to decide the best option for them.

Future energy models



Panellists were introduced to six hypothetical future energy models

Local energy models

This could be where both generation and supply sit within the locality – for example either a local authority or city.

Peer-to-peer energy

This could be the ability to get your energy direct from a generator, for example buying or selling solar energy between houses.

Power of attorney

This could be where a company with 'Power of attorney' would continuously switch a customer's tariff or supplier automatically on their behalf, switching to the best deal for them.

Longer term contracts

This could be where consumers enter into longer term contracts with suppliers in return for better rates or more tailored services.

Pay-as-you-go power

This could be where consumers buy packs of energy for either a period of time or certain volume; they would only purchase energy every time the deal ran out.

Energy service models

This could be where a company charges consumers a fixed price to guarantee that they are comfortable – e.g. that they are heated to a minimum temperature.

Localised energy models were among the most appealing to Panellists but also considered the most likely to happen

| | RANK: Model which <u>appeals</u> to them the most | RANK: Model which they feel is <u>most</u> likely to happen |
|-----------------------|---|---|
| Local energy models | 1 | 2 |
| Peer-to-peer energy | 2 | 3 |
| Power of attorney | 3 | 4 |
| Longer term contracts | 4 | 1 |
| Pay-as-you-go power | 5 | 5 |
| Energy service models | 6 | 6 |



We've put it as the cleanest and manageable



If people can self generate and see direct benefits, many objections to renewables might be removed



Alleviate the necessity to monitor market prices, assuming the company is totally reliable



Sounds the simplest regime to instigate with up front deals involving solar panels or efficient boilers



I like the idea of being in control of how much I buy and knowing how long that will last



I like to ensure that the house is at a comfortable heat

Local energy models


This could be where both generation and supply sit within the locality – for example either a local authority or city.


Summary: This was the most appealing scenario overall. Panellists liked the benefits it would bring to the local community, but were concerned about infrastructure and the impact on the local landscape


Thought to put power back in the hands of local communities, taking it away from companies who are motivated by profit


Some felt that the jobs and investment it would bring to the community would be beneficial

Many perceived that this could 'cut out' suppliers and believed this could therefore lead to cheaper electricity

 *This feels kind of a bit more trustworthy, I suppose*

 *Community based generation and supply is the best way to move the market to not for profit and creating local jobs*

 *Well, if you're cutting out middleman then electricity will be cheaper*

 *It might create some more jobs for people, as well, so people will be more prosperous*

Local energy models

Would have to be implemented in different ways, therefore prices and quality may vary – trust in local authorities an issue for some



It could make people think twice about going to places like London, as well, because their costs for energy would be massive

Some concerned about the local environment being spoilt by wind farms and similar installations across rural and other areas.



I don't think it is feasible for everyone to have their local wind farm because the landscape would look odd

Concerns about whether the existing energy infrastructure will make it more difficult for this to happen in practice



The problem at the moment though, is that unless you are building something new from scratch you cant change the infrastructure to allow you to manage it that way

Worries about the capacity and consistency of supply – linked to this was a concern about the current storage capacities of batteries



Well I don't think it would be able to provide the power you want whenever you want it and I think that's going to be the problem

Peer-to-peer energy

This could be the ability to get your energy direct from a generator, for example buying or selling solar energy between houses

Summary: Whilst popular, Panellists tended to be either strongly in support or strongly against. Those who were positive cited the potential to lower prices and increase environmentally friendly generation; however, there was also concern about the mechanisms through which it would operate – some similarities to local energy models

Thought to place more control at the local level, some for instance spoke about local politicians making this part of electoral promises



Taking power away from the corporations who are ultimately in the business of making profits

Panellists perceived that removing suppliers from the process could reduce costs, and that there would be environmental benefits



It is a great idea because it is a way to control your own energy, it is cutting out the middle men so should be cheaper and it is good for the environment

Some also liked the individual aspect of the generation, particularly how this might make them self-sufficient from the energy market

Peer-to-peer energy

There were concerns about the need for a facilitator to run the network, with some concerned about the ability of local authorities to manage this but distrustful of private companies being involved

Concern about the need for new infrastructure to distribute the energy generated between peers

Model would benefit from the improvement of energy storage that would mean more homes could be self-sufficient

Concern about potential strain on personal relationships influencing energy supply in the absence of new approaches

Uncertainty about how the present regulatory structure would need to adapt to this new dynamic



How would that even be facilitated? If I'm selling energy to my neighbour?



And also how would you get it, is it straightforward to get your energy from one source or have you got to put in infrastructure to get your energy from that one source to your house



The big drawback is that if you use so much and you've got so much over, you have to put back into the National Grid



There could be potential problems with personal relationships involved in that



I think it will need a certain amount of regulation, wouldn't it? How would it be regulated, who is going to make it safe?

Power of attorney

This could be where a company with 'Power of attorney' would continuously switch a customer's tariff or supplier automatically on their behalf, switching to the best deal for them.

Summary: This model divided Panellists in to two broad groups: those who wanted to retain some interaction with the market and 'control' over who they were receiving energy from; and those who would like to 'opt out' of the energy market and liked the peace of mind around price that this would give them

Allows individuals to 'opt out' of the energy market while receiving low prices. Good for those who do not want to engage with the energy market and for those whose sole consideration when choosing supplier is price

Beneficial for those who either do not want to engage – or who are for some reason unable to fully engage – with the energy market



I think for people who want a no brainer deal but don't want to think about it then why not? It's like you pay some money and you can opt out of the market



A lot of people won't bother, if there's too much information they just carry on paying the bill, but if this attorney is doing their job properly then they're actually doing that for you



For some people, I think, it's going to be brilliant...who don't have internet... and they get someone as a service to do it for them

Power of attorney

Some Panellists wanted to maintain control of who they were being supplied energy by, with many not trusting the 'expert' who would do the switching – including with their personal data

Panellists thought that this could simply be introducing another type of organisation in the market aiming to make money from consumers

Panellists were also concerned about the criteria that would be used as some argued that their choice of supplier was not based solely on price



I want to be in complete control of who I go with and who I decide to pay



I just, I personally won't trust anybody doing something like that on my behalf



Also you're creating another job for someone to do on your behalf, so obviously it has to be little more expensive than you directly doing it yourself



For me when I read it I thought it was for people who were solely driven by price, but for me I am with my supplier because of the service that they provide me



This assumes that price is the most important thing and it isn't always

Longer term contracts

This could be where consumers enter into longer term contracts with suppliers in return for better rates or more tailored services.

Summary: This model was seen as the most likely to happen as many suppliers were already offering long term fixed deals. Some liked having a set price that they could budget for, but others were concerned about the impact that market fluctuations could have on how good the deal was.

Some felt that it was beneficial that you would only have to engage with the market and compare prices once every five years.



You'd only have to do it every five years.

Yeah, and with loads of us finding our time getting shorter and shorter, yeah, maybe that is the easiest solution for most people.

Beneficial to those on low income due to the lack of variation in price. Meaning that they have consistent outgoings.



If you're going to be on a fixed rate for five years you know where you stand.

One off high value good such as a boiler may be useful but only if you are in need of it.



It is a nice thought to split the costs of big purchases across a number of years but only if you need it at the time.

Longer term contracts

Some were sceptical about motivation of companies to offer long term contracts, particularly that this would be a ploy for larger companies to maintain their market share

A small number also concerned about losing out if prices decrease, but some acceptance that this was the deal that you had entered into – as long as you did so by choice



When you're in a contract it's like you're trapped in it almost, you could suddenly just see something one day and think, oh, I'd prefer to do that and I don't want to do that, but you're stuck with this contract.



What about if the market suddenly changes, and now you are paying twice the amount of everyone else?



The big six energy companies are losing market share, it would be a very easy simple way for them to maintain market share by just locking people in.



It's like mortgages though, that is the risk you take for having a deal at the time

Pay-as-you-go

This could be where consumers buy packs of energy for either a period of time or certain volume; they would only purchase energy every time the deal ran out.

Summary: Panellists initially struggled to distinguish this from existing pre-payment meters. However, after discussion some features were thought to appeal to specific groups. For instance people who are more transient and would not want long term deals. However, there were concerns about energy inequality as this was viewed as favouring those with money, and those who were most engaged

Beneficial to those who are more transient (e.g. students) as they may not want to be tied down to long term deals



I like the idea of being in control and if you can pay for a certain amount of units that might be nice. Based on that you buy what you think you would need and top up if you need to

Appealed to some because it ensures they know how much their energy is costing and how much they had to use



Students I could see, because you've got a fixed term

May foster greater efficiency in energy use as people would become more aware of how much energy they were using



From an environmental point of view it would certainly make people really value and understand how much power they were using if they'd been thinking, oh, I'm going to run out in a couple of days

Some positives around buying cheaper energy but drawbacks in that you would have to be more engaged to benefit



It gives you the opportunity in the summer when energy is cheaper to buy a whole chunk of it to last you until the next summer

Pay-as-you-go

Perceived as likely to disproportionately benefit wealthier households who have required money to buy energy in bulk



*So you would be most likely to have to pay the highest tariff if you were only buying the equivalent of a fiver's worth of electricity.
So the people with the least ability to pay would pay the most?*

Concern about what would happen if the energy bundle ran out



To me that's a nightmare because we've heard how reluctant we are to go and see what the prices are, could you imagine if you thought your package was going to run out next week and you're not going to get anymore

May entail a high degree of monitoring of the energy market to make it worthwhile



You would have to keep an eye on prices when suppliers put up prices in the winter.

Some were worried about purchasing a large bundle and the price immediately falling and them losing out



You might buy your units and then 24 hours later the price of units goes down. I'd be concerned about the volatility of the market

Energy service models

This could be where a company charges consumers a fixed price to guarantee that they are comfortable – e.g. that they are heated to a minimum temperature.

Summary: Panellists found it hard to visualise how this model might work in practice beyond temperature control. Many were unclear what the mechanics would mean for consumers and considered it too radical to be implemented even in the medium term. A few liked the fixed price there was concern about losing control of their devices

Some liked the fact that you could choose a package of things to prioritise in energy use that were tailored to you – and having a fixed price also appeals to some.

However, many unable to see applications of this approach beyond temperature control, and were mainly concerned about how this would impact use of other devices.



I like to ensure that the house is at a comfortable heat



This lends itself to single older people in later life who are concerned about cranking heating up. It offers assurance around that. It's more problematic in a multi person household



I liked that because I want a fixed price... makes it easy to budget.



It does negate the freedom of choice. We're paying all this money for the energy. I want to do what I want to do with the energy

Key themes and conclusions



Ipsos MORI



Of the models presented, 'local' is the most appealing direction of travel

Across groups, Panellists were positive about the models that signalled a move towards peer-to-peer or local energy models. This may be because these were the models that felt most 'comfortable' for Panellists. There were some common aspects for these models that Panellists found attractive, although some had concerns.

How do Panellists define 'local'?

- For the Local Energy model many panellists focussed on the Local Authority aspect. Power would be generated and distributed under boundaries of the Local Authority. Some also thought of it as regional.
- Local was thought of as more neighbourly for Peer-to-Peer energy. With panellists conceptualising generation and distribution happening through grids of neighbourhoods.

What did Panellists find attractive?

- The potential for reducing the role of energy suppliers and other 'middle men', therefore cutting costs.
- Potential for putting control of type of generation and cost in hands of local community.
- Assumption that this would likely be greener energy.

What were Panellists concerns?

- The energy security of the generation and distribution was thought to be lacking for both models. With some not trusting their neighbours or the Local Authority to run these models efficiently.

When assessing potential future models:

Participants found it much easier to imagine taking 'small' leaps – preferring future ideas they could understand and relate to current energy market trends



Longer term Contracts- I think this is a next step to the contracts we have now

Energy is important to consumers – and therefore they wanted reasons to trust those involved – but this worked itself out differently in each scenario



The biggest one is if this is the way forward, we could totally trust the people that we give the power of attorney to

They liked ideas which involved reducing the role of energy suppliers, provided they did not think they would simply be replaced with a new form of broker still focused on making money from consumers rather than acting in their interests



Surely that will cut down costs because of all the stages increases the costs because of different companies taking profit from it.

Some prioritised reducing their engagement with the market without compromising on cost, while others prioritised making engagement easier



Appealing because I like the idea of someone else doing the switching automatically for me

Panellists focused appeal on practicalities, and assessed the overall impact on consumers

Practical issues about how the scenario would work – and how it would be regulated – did come up, but the appeal of the idea was more important:

- Cost – will it save me money?
- Convenience – will it save me time?
- Equity – is it fair to different types of people?
- Energy efficiency – will it help reduce energy consumption / will it be greener?
- Regulation – how will existing regulatory structures evolve and continue to protect my rights?



Appealing because I like the idea of **someone else** doing the switching automatically **for me**



It gives you the opportunity in the summer when energy is cheaper **to buy** a whole chunk of it to last you until the next summer.



I think that pay as you go power may allow them to think more about **how to use energy efficiently** but none of the models really promote this.



Switching would get difficult because you have a **million different groups**



It is **also unfair** if you live in the middle of the city you aren't going to get any **good rates**.



Yes how would it be **regulated**, who is going to make it safe