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OFGEM

Understanding consumers' views on residual network charges

Consumer First Panel
Year 10, Wave 2 Report
November 2018

REVEALING REALITY



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The overarching objectives of the Consumer First Panel

The Consumer First Panel is a key insight tool for Ofgem which allows the energy market regulator to:

- Consult with consumers when developing new policies or exploring change
- Understand consumer views on key energy market issues
- Analyse and compare consumer attitudes and behaviour to design policy conclusions that can benefit consumers



Wave 2 Panel explored the charges related to the electricity network

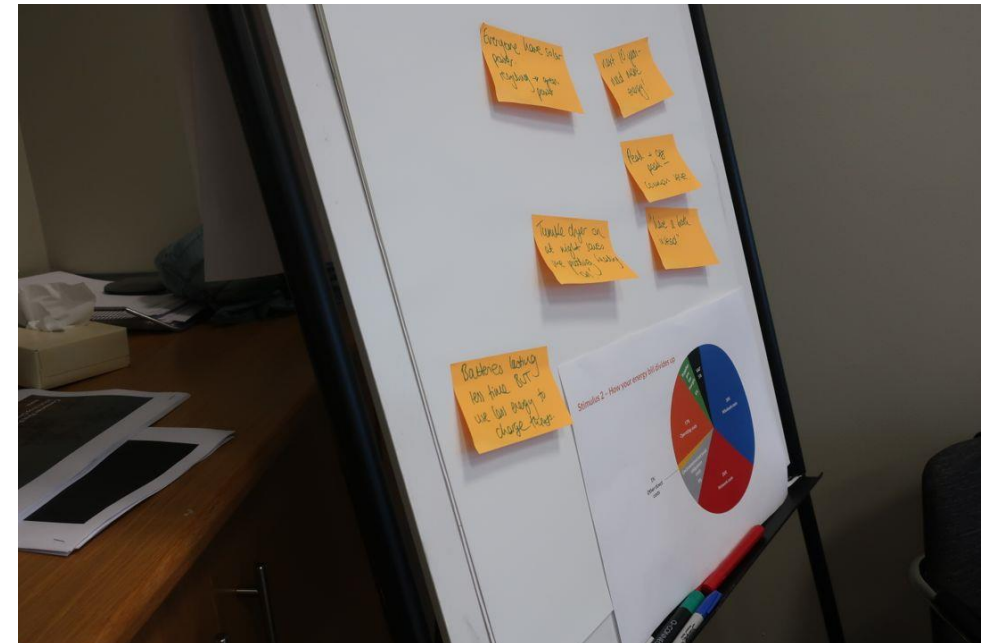
- Two types of charges were discussed throughout this wave: residual charges and forward-looking charges.
- Although they were explored collectively across the Panel, **this report will focus on the findings related to residual charges.**
- Ofgem are looking to reduce the harmful distortions caused by the current charging arrangements and ensure residual charges are more fairly distributed.



The objective of this wave was to gauge consumers' views on the current framework for residual charges

Specific objectives included:

- Understand whether consumers believe it is fairer for them to pay towards residual network charges based on consumption or a fixed rate
- Gather consumers' views on the appropriateness of change to the status quo and the degree of change they would be willing to accept
- Explore whether consumers think it is fair to give more consideration to specific consumer groups for network charges e.g. vulnerable consumers



Section I

Understanding of the electricity network and related charges

REVEALING REALITY



Panellists had a limited understanding of how their bill was broken down

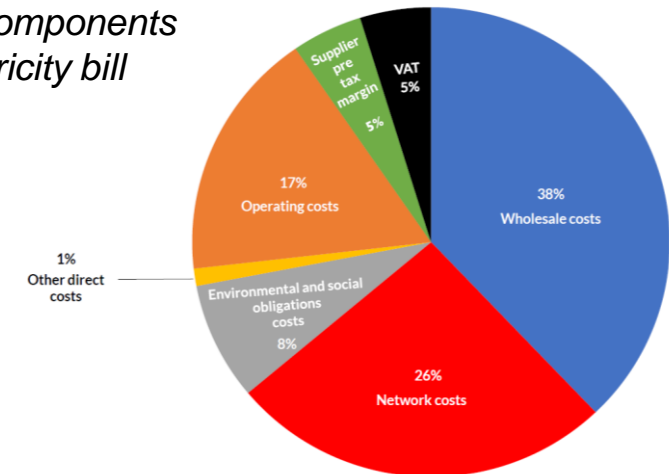
In order to introduce the concept of network costs, Panellists were first asked to think about what their electricity bill *actually* pays for. After an initial brainstorm of the costs associated with buying and supplying electricity, Panellists were asked to label a pie chart representing the breakdown of their energy bill.

Many struggled with this task, as most had never thought about the constituent parts of their bill, admitting that they were really just guessing.

There was little consistency in responses, with some Panellists choosing headings for the largest proportions that others had assigned to the smallest.

For instance, some labelled supplier pre-tax margin as the highest percentage, whilst others thought that this would be the lowest. Many thought supplier operating costs would be the largest portion of the chart, and only a few imagined that it would be wholesale costs.

Stimulus 1: Components of an electricity bill



“You don’t appreciate it... until you do things like this”
High User, Manchester

“I got them all wrong!”
Low User, Llanelli

“I’m surprised, I thought operating costs would be higher”
Medium User, Manchester

Most Panellists were surprised by the amount they paid towards the network

When the energy bill breakdown was revealed, Panellists were initially shocked that network costs were such a large proportion of the bill.

For some, this was because they had initially considered maintenance and upkeep of infrastructure to be grouped as operational costs, rather than components of network costs. For others, the fact that part of their bill was being used to pay for the distribution of electricity was an entirely new concept.

Even when Panellists had been previously aware of network charges, they rarely knew how much they paid or what percentage of their bill went towards this cost.

Following moderator explanation of what network charges cover, most Panellists' original shock subsided. This was due to the imagined size and nature of the infrastructure that needs to be maintained.

“Of course. There’s always something that needs fixing with the pylons ”
Medium user, Aberdeen

“I suppose they need money for repairs in case of a storm.”
Medium user, Chelmsford

“It’s funny that I’ve never thought about that part of my bill”
Low user, Llanelli

“I imagined network costs would be one of the two big ones”
High user, Manchester

Panellists could understand the concept of there being network costs to run the network

Moderators explained that there were costs that needed to be covered in order for the network to run. In order to ensure clarity, these network costs were kept as a single figure and were not split up into the forward looking and residual components of the network charge.

To help respondents conceptualise what these charges were covering, moderators made comparisons between network charges and the line rental costs consumers pay as part of their telephone or broadband packages. After this explanation, Panellists understood that network costs are covered by all consumers using the network as an element of the unit cost of electricity.

Most Panellists thought that paying for these charges proportionately and based on how much energy then consume overall seemed like a logical and fair approach.

There were some, however, who thought that only a minority were not sure and voiced the possibility that it should be the same for everyone – making the comparison with phone line rental.

“It’s just something you have to pay for isn’t it? No wires, no electricity.”
Medium user, Chelmsford

“It’s the same as paying a bit to keep the trains running, isn’t it?”
Low user, Aberdeen

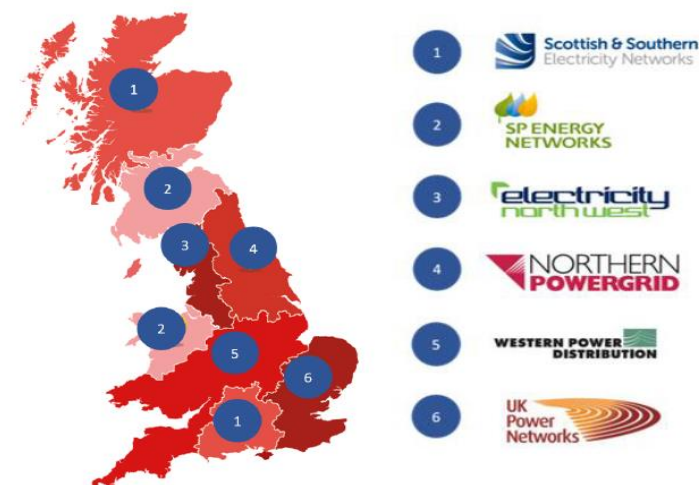
“So we’ve all got to contribute towards it because it’s something we all use”
Medium user, Llanelli

“If your [use is] bigger you drain [the network] more”
High user, Manchester

The majority of Panellists had never considered how electricity arrived to their homes every day

Moderators explained the structure of the electricity network, using the analogy of “motorways” and “side roads” to explain how transmission and distribution networks transport energy up throughout GB and into our homes. Distribution and transmission network operators were introduced as the organisations responsible for managing and upkeeping the network infrastructure.

Unsurprisingly, Panellists who had interacted with their network operator in the past (e.g. had to contact them for a power cut, or saw vans on the street), tended to be more aware of them and their function as distinct from electricity supplier companies. However, some found it difficult to distinguish between suppliers and network operators, assuming them to be the same company. Others had some awareness of the National Grid which they then understood to be part of the network.



Stimulus 2: Distribution and Network Operators

“I think about my supplier a lot, when I’m trying to find a better deal. I haven’t thought about these guys though.”

Low user, Aberdeen

“It is not something you really think about. You just switch and the light comes on”

High user, Manchester

Section 2

Charging consumers fairly for residual charges



When considering trade off options, Panellists tended to choose the one that benefited them personally

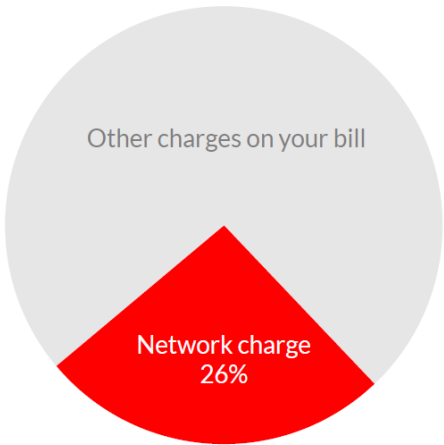
Table facilitators verbally explained to Panellists that there was a “pot of money” needed to run and maintain the network. When asked what method of paying for the residual component of network charges, Panellists’ thought it was fairer that these charges were levied as a percentage of overall use rather than as a fixed “flat” tariff across all network users.

Although Panellists were able to consider what would be best for society or the environment, they tended to prioritise options that would benefit them personally. Though some were prepared to face higher charges, as long as the change was justified and explained to them.

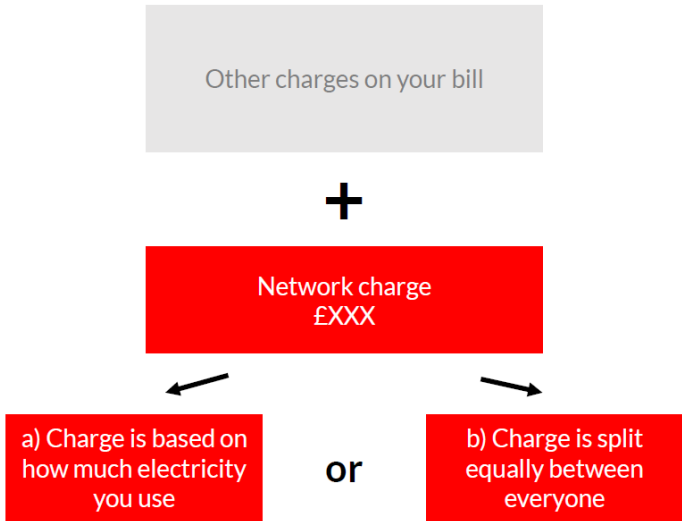
“I want to save the environment, but I don’t want to pay more than others in order to do that”
Low user, Aberdeen

“There needs to be an incentive for people to change what they’re doing”
High user, Manchester

Option 1: proportion of your bill



Option 2: Standard charge



Stimulus 3: Different options for charging for network costs

Some Panellists felt it was fairer for the network charge to be proportionate to the volume of electricity they use

PROS OF VOLUMETRIC CHARGE

- Seen by some as the fairest option because they thought that the more consumers used the network the more they should contribute to it.
- Some felt that this method would reward those who used less electricity. This was seen as a way to support customers to become more efficient in their electricity use and to do more during off-peak periods.
- Many also didn't see a reason to change the current state of things. They were used to thinking of paying per unit as the way they paid for electricity, and their first instinct was to preserve the status quo.

“It just seems to make sense to me that people should pay proportionally to however much they use”

Medium user, Chelmsford

“If you use the network more you should pay more”

Medium user, Aberdeen

“You can't expect a family to pay as much as an elderly lady”

High user, Manchester

However, others preferred a fixed charge to be applied across all users

PROS OF FIXED CHARGE

- Some Panellists saw a 'flat rate' as the fairest option, feeling that lifestyle changes across time (e.g. having children, moving into a larger house) would ultimately even usage out across different customers.
- High user in particular saw a standardised "flat" charge more favourably. They understood that this system would favour them, and that they would ultimately be better off under it.
- They thought consumers would accept it as that's the method of payment already in place for other services such as phone line rental.
- Others seemed to prefer a fixed charge as they thought it would be simple and predictable.

"They're all getting the same service from the same provider, using the same wires, so why should they pay more"

Medium user, Llanelli

"It's easier if it's across the board"

High user, Manchester

"A flat charge makes sense if you think about someone's life time and how their bill might fluctuate over time"

Medium user, Chelmsford

Section 3

Charges for different customer types



Many felt that people who use a lot of electricity because of a medical condition should receive support

Panellists were asked to consider whether exemptions to the current way of charging per use should be accounted for through the electricity bill.

Some strongly believed it wouldn't be fair for vulnerable consumers to get additional energy related benefits, as they already received support from other sources.

However, others disagreed, thinking that there should be exemptions for vulnerable people as they didn't get enough from the government. Some thought that it could be an option to calculate their concession in the same way that benefits are calculated.

While it was hard to get to a consensus when it came to defining vulnerability, many Panellists agreed that people consuming additional electricity because of medical reasons should be categorised as such.

“People with medical conditions should also get a more lenient electricity bill, especially if they have to take multiple baths throughout the day”
High user, Aberdeen

“There should be exemptions for ill people. They should calculate them in the same way they do for benefits”
Medium group, Aberdeen

“It is a shame that in this day and age so many folk are suffering from fuel poverty – people with medical conditions deserve more support”
High user, Aberdeen

Some believed people with solar panels should be charged according to their network use, while others felt they should pay the same as others via a fixed charge

When moderators asked Panellists whether consumers who produced their own electricity (e.g. owners of solar panels) – and therefore taking less electricity from the existing infrastructure – should pay the same amount as other user for fixed network charges, Panellists had different views.

Some felt that these consumers should pay less because they were using the network less. However, others felt that they should pay the same as other customers because they would still need to access the network in some way. Also, they thought that they were already saving money on their electricity bill and therefore would be able to afford to pay these charges.

There were also some Panellists that could see the positive impact of incentivising technologies such as solar panels for society, but they also felt it was unfair to expect other electricity consumers to subsidise them.

“If they’re doing something for the good of all of us, I’m happy to support that .”
Medium user, Aberdeen

“The sun isn’t always shining, they’re going to need the network lots too so they should pay the same.”
Medium user, Chelmsford

“If they can afford the panels they can afford the network charge.”
High user, Manchester

Most Panellists were not willing to pay more for businesses to remain on the network even if this resulted in them paying less in network charges

Table facilitators explained to Panellists that there could be a circumstance where a large business users could be subsidised, resulting in lower charges overall for everyone using the network. Participants found it difficult to understand the concept that by subsidising a business they could potentially pay lower network charges. Some Panellists felt this was counterintuitive and that discounts for large users weren't appropriate, even if there was a possibility that these businesses may disconnect and pay less to the system. For some participants, this was a difficult concept to understand, despite facilitators explaining it in different ways. Many struggled to engage in the discussion or articulate whether they believed this to be a fair thing to do.

Most of the Panellists seemed to perceive business and domestic user as different entities, and found it hard to accept overlap. In addition to this, they saw business as having more money than them, and therefore resented the idea of having to support them.

“Why would we have to pay for them?”

High user, Llanelli

“They have a lot more money than the rest of us, I’m confused as to why they should pay less?”

Medium user, Manchester

Section 4 Conclusions



Panellists' responses were varied and nuanced, but the overarching conclusions were:

- Panellists were generally accepting of the current system for allocating network costs. Whilst they understood the rationale for a standardised charging system, most felt that volumetric charging offers is the fairest option for the most people.
- Some Panellists were, however, in favour of fixed charges. They thought consumers would accept this as they do for the method of payment already in place for other services such as phone line rental, and that lifestyle changes across time would ultimately even usage out across different customers.

Date: 03/10/18

Version: Draft

Revealing Reality

The Ballroom, Maritime
House
Grafton Square
Clapham
SW4 0JW

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Appendix 1

Research approach and Methodology

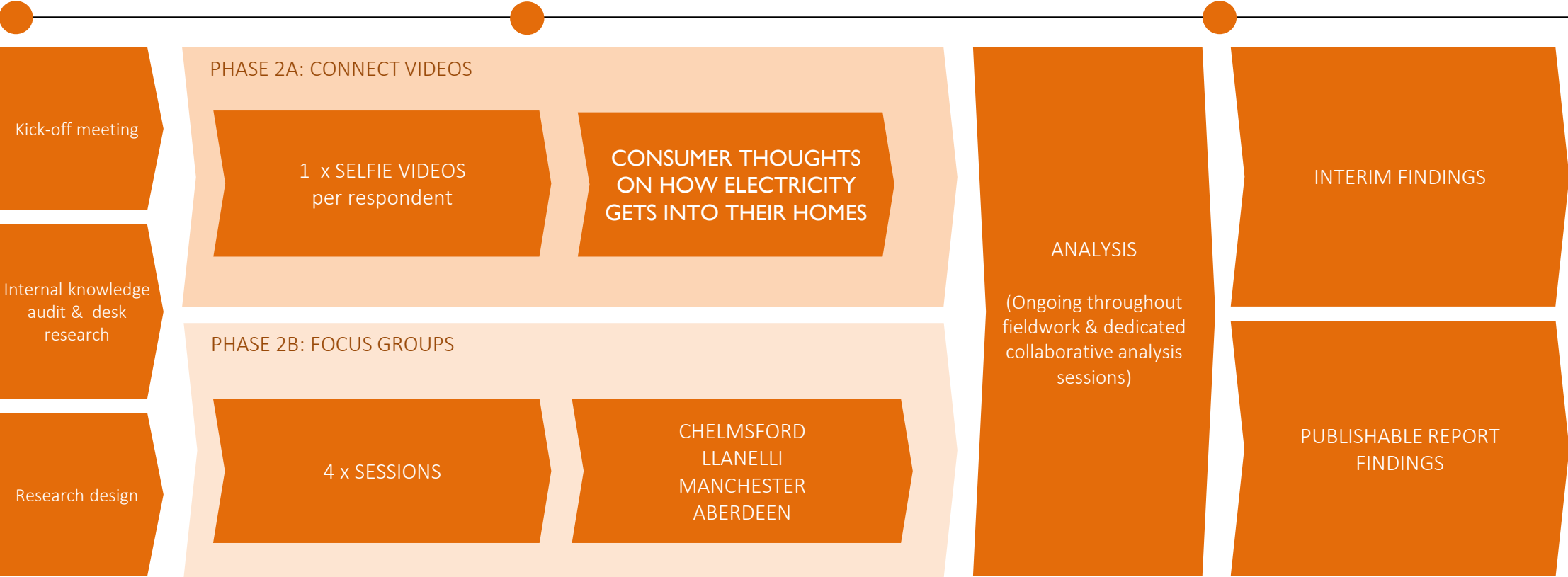


Methodology

PHASE 1:
SET-UP & RESEARCH DESIGN

PHASE 2:
QUALITATIVE RESEARCH

PHASE 3:
ANALYSIS & DELIVERY



The sample for the Consumer First Panel aims to represent a broad range of energy customers and locations

100 Panellists were invited to take part in this year's Panel:

- A range of tariff types
- A range of suppliers (both large and small)
- How often Panellists switch supplier/tariff
- Household income
- Age ranges and genders
- Urban and rural locations
- Different payment methods

To ensure we covered more rural and urban locations across the three nations sessions were held in:

- Chelmsford, England
- Llanelli, Wales
- Manchester, England
- Aberdeen, Scotland

The Panel will meet again to discuss other topics throughout the year, with the next session happening in Winter 2019.



Due to the complex and technical nature of the topic we undertook a deliberative approach for the research

- This enabled Panellists to ask questions, hear different viewpoints and explore their understanding of the topic together.
- A portion of the session was dedicated to explaining about networks and related charges. This explanation was necessary as Panellists were often unfamiliar with different components of their bill.
- A deliberative session allowed us to explore topics openly with respondents as well as ascertain how difficult groups of consumers find it to understand and engage with discussions around electricity networks and related charges.



At the sessions, Panellists were divided into three groups, based on the perceived amount they paid for their electricity bill

Before the events Panellists recorded a short video and shared their thoughts on how electricity gets to them and the amount of their usage.

Once at the event Panellists assembled themselves into three working tables according to their level of electricity usage (determined by the cost of their utility bills and their self definition based on their consumption):

- **High users**
- **Medium users**
- **Low users**

Participants were split into working groups in this way to create coherent groups where discussion was facilitated around common experiences views which held ensure that they felt free to express their views without being judged.



The sessions included moderator explanations and discussion to explore Panellists' views about the way they are charged for the fixed costs of the network

The sessions lasted three hours, and comprised open discussions with some private response questions. Stimulus and moderator explanations were pivotal to ensure consumers were able to understand, discuss and deliberate topics between themselves and with moderators.

1	6 – 6:15pm	Introduction and energiser
2	6:15 – 6:35pm	Electricity network companies and charges
4	6:35 – 7:10pm	Introducing network capacity
3	7:10 – 7:20pm	Break
5	7:20 – 8:00pm	Options for future capacity
6	8:00– 8.50 pm	Options for accessing the network differently
7	8:50– 9.00 pm	Reflections and close

There were some challenges and research effects that should be considered when exploring the findings in this report

- **Scepticism of the energy market** - Panellists were very sceptical of suppliers and the energy market in general. This cynicism played out in their discussions about network charges and sharing costs and limited some respondents' ability to think about the topic more in depth.
- **Confusion between network operators and suppliers**- despite Moderator explanation at the beginning of the session, there were some Panellists who did not make a clear distinction between network operators and suppliers, limiting their ability to contribute to their discussion.
- **Knowledge transfer** - A lot of explanation was required from moderators to ensure Panellists had a base of knowledge for the session, which arguably elevated their level of understanding above average consumers.
- **Group effect** - In focus groups there is often a potential for the individuals in the group to move towards a consensus, or towards an exaggerated response that they think is acceptable for other members. This could have been the case in a few instances (e.g. it could have been more socially acceptable to say that vulnerable customers should be charged differently). Moderators reiterated that there were no wrong answers throughout the session to discourage this as well as actively raising different viewpoints for the Panellists to consider.