

Future of the energy market

Consumer First Panel – Wave 3 Report

April 2018

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Introduction

This report outlines findings from Wave 3 of the Consumer First Panel 2017/2018.

Wave 3 of the Consumer First Panel explored two topics with 62 energy consumers. The first topic “the future of the energy market” is the focus of this report.

In Nov 17, Ofgem issued a call for evidence on future supply market arrangements. It wanted views on different ways of organising the retail market to deliver good outcomes for consumers. These outcomes include ensuring disengage consumers receive good quality of service and pay a reasonable price for energy, and that all consumers are adequately protected.

In this research, consumers were asked how they felt about Ofgem or third parties switching less engaged consumers to a more affordable tariff/supplier for them and who they would feel comfortable providing their energy supply as a default. They were shown scenarios of how this may happen.

Consumers were also asked to reflect on engagement in the energy market in the future and shown scenarios for how consumers could potentially buy their energy.



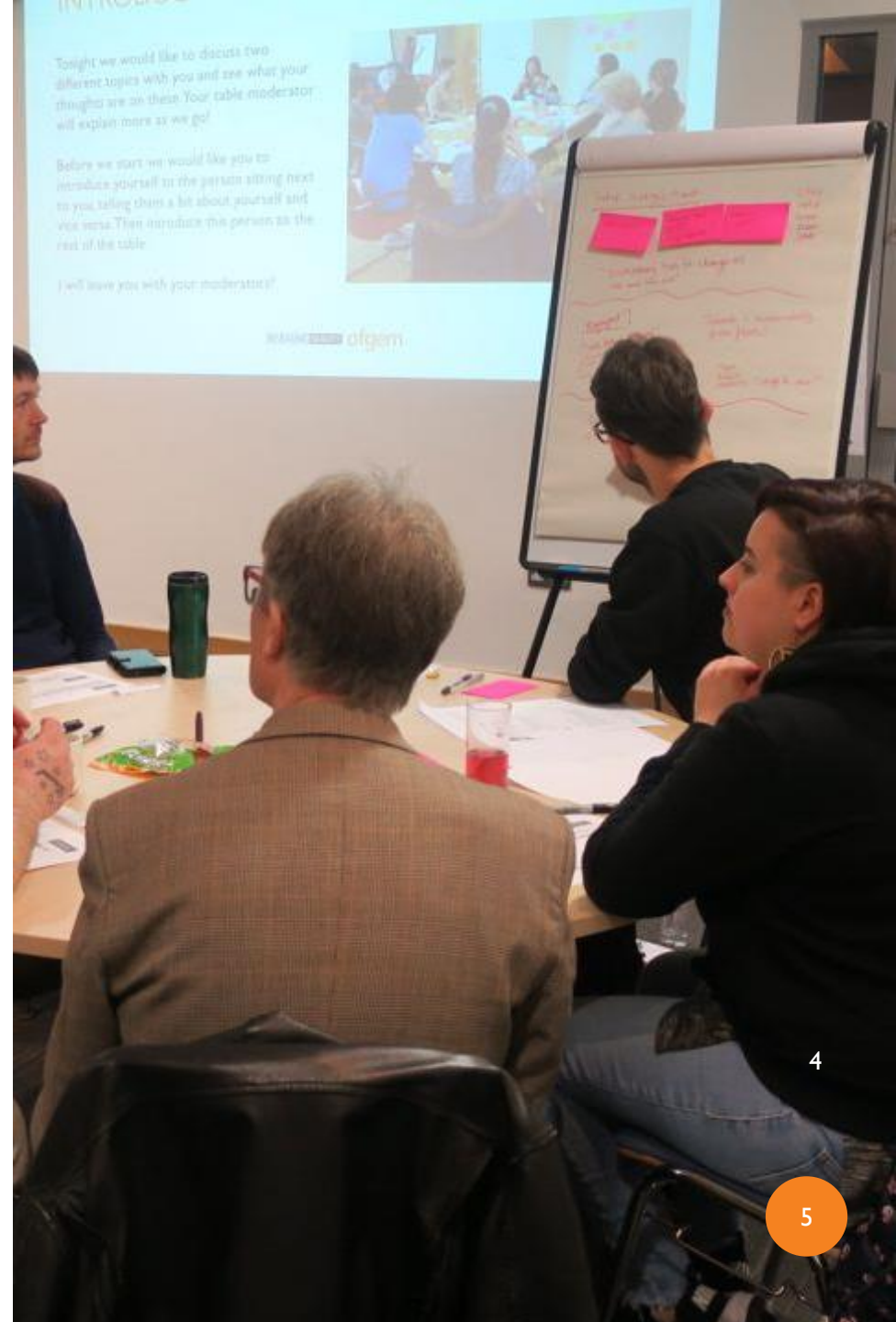
Overarching objectives of the Consumer First Panel

- Enable Ofgem to consider the consumer voice when developing policies.
- Understand consumer views on key energy market issues.
- Analyse and compare consumer attitudes and behaviour.
- Find ways to help consumers engage with the energy market.



Wave 3 | Research Objectives

- What do consumers feel defines a disengaged consumer?
- What safeguard(s) do consumers feel disengaged consumers should have?
- How do consumers feel about someone else switching tariff/supplier for them?
- What are consumers' initial reactions to the different hypothetical scenarios of this process?
- How do consumers feel about different ways to purchase their energy in the future?



Session considerations and flow

The sessions were deliberative in style. Stimulus was used to aid conversation and visually explain different hypothetical scenarios to consumers.

The hypothetical scenarios that consumers saw were rotated across locations. This was to stop order and research effect (to ensure a spread of opinions were gathered for each scenario).

Where possible Panellists were split into tables as per their Ofgem consumer segments. These are as follows

- Happy shoppers & Savvy Searchers (Most engaged)
- Hassle Haters & Market Sceptics
- Contented Conformers & Anxious Avoiders (Least Engaged)

Due to tables being made up of merged segments, we have differentiated findings by level of engagement (most and least engaged) as opposed to specific market segments throughout this report.

Further sampling details can be found in the annex of this report.



KEY FINDINGS

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When discussing the hypothetical scenarios, consumers were generally positive about the idea of trusted third-party switching supplier for them. They felt that this process could/should apply to all consumers including themselves.

- People struggled to articulate exactly who would benefit most from the different switching scenarios presented to them but generally cited more vulnerable groups or perceived disengaged groups as key beneficiaries (students, elderly, low income)
- These groups were identified as **priorities** for this service, but not necessarily something exclusive to them.
- Some consumers questioned who would pay for this system if implemented and were fearful of higher prices in the long-term.

Most consumers were happy with an opt-out point in the switching scenarios presented – feeling that it would allow more consumers to benefit from better energy deals.

- However, consumers wanted the opt-out point clearly communicated to them so they were aware of the new supplier and rate that they would be moved to. This was due to consumers feeling potentially uneasy about being moved to a supplier without their knowing.

The language and tone of being moved to a ‘default’ supplier did not resonate well with consumers

- Consumers felt that being switched to a ‘default’ supplier sounded like a punishment and that such a supplier wouldn’t provide good customer service or support.

Ofgem was considered to be a suitable third party where necessary. This was primarily due to consumers’ scepticism of any other parties being involved.

- However, some felt that Ofgem could form a coalition with other parties such as Citizens Advice and the Ombudsman, to create a hybrid third party that had increased credibility.
- Consumers were open to the idea of a third-party or independent body switching supplier for them if they had no vested interests and could operate exclusively in consumers’ interests.

However, many felt the switching scenarios presented to them could disincentivise engagement in the market

- Many felt that engaging in the market meant actively shopping around for competitive deals and if Ofgem or a third party were to switch supplier for them they would have little reason to engage in the market.

ENGAGEMENT IN THE ENERGY MARKET

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Consumers associated being engaged with gaining knowledge and awareness of the energy market, and using this information to switch their tariff and supplier if needed.

More engaged consumers confidently understood their own situation and how to improve it, though consumers were more likely to do so if there were to be a significant price increase.

Some consumers felt that disengaged consumers would be less aware that their energy could be cheaper.

“I think its important. We ought to compare prices look around and see what's available”

“It's understanding what's out there and how companies operate and various tariffs”

Panellists' definitions of engagement in the energy market:

- Looking for cheaper deals e.g. *regularly looking at price comparison websites*
- Awareness of cheaper energy suppliers
- Keeping up to date with current news on energy e.g. *proposed energy cap*
- Understanding of communications from energy suppliers e.g. *bills, annual statements, price increase notifications*
- Awareness of effect consumption has on the environment
- Awareness of new technology e.g. *smart meters*

There was a general awareness amongst all consumers that energy could be cheaper but many didn't use this knowledge or act on it.

Some consumers were cautious to engage in the energy market as they didn't want to become "obsessed" with energy. However, most only wanted to engage in the market when they felt they were paying too much or when appropriate e.g. *moving to a new house, someone moving in, having a child.*

Generally those in the lesser engaged segmentation groups (e.g. Contented Conformer & Anxious Avoider) tended to feel that there was little price difference between suppliers and therefore struggled to see the benefit in switching.

Consumers felt that the most disengaged were likely to be more vulnerable groups who were likely not to be aware of cheaper energy deals or how to access them.

Panellists' definitions of disengagement in the energy market:

- Lack of knowledge about cheaper deals
- Inactivity in shopping around for the best deal for them
- Not up to date with the latest energy related news
- Lack of knowledge & awareness about new technologies e.g. *smart meters*
- Likely to be on a standard variable tariff or with the same supplier for years

"It's a hassle to switch. To have the time it takes to do it all. I tend to stick with the same one [supplier]. Other consumers may be a bit more on the ball"

"I only look at other suppliers when its time to change. Apart from that, I let it go and it's all direct debited"

Most people felt that they were generally engaged in the market but only when necessary

A few consumers classed themselves as very engaged in the energy market. These consumers were very active on price comparison sites and up to date on the latest energy news.

Most felt they were somewhat engaged. This belief came from the fact that they acted when they had to e.g. switching at the end of a contract but aren't looking at deals all the time.

Some consumers felt they were very disengaged. They were more likely to require help in managing their energy account.

Disengaged

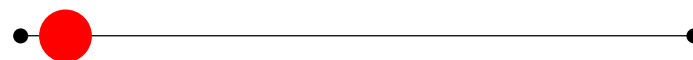
Engaged



“I take a personal interest [in energy]. Other people get bored. I am signed up for money supermarket”



“Usually your only engaged for 2 to 3 weeks of the year – it’s a bit like making sure your car gets its MOT test”



“If it goes up and down [my energy bill] by a few pounds I sit on the fence and take it. It can be so complicated [to engage]”

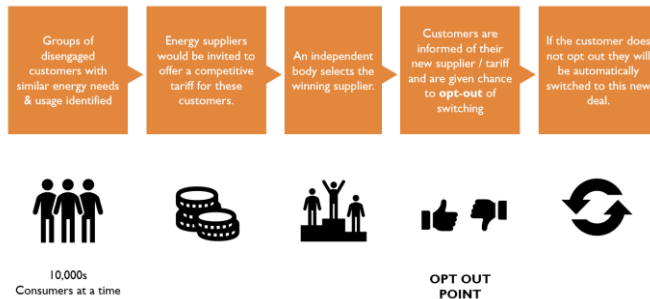
SWITCHING SCENARIOS

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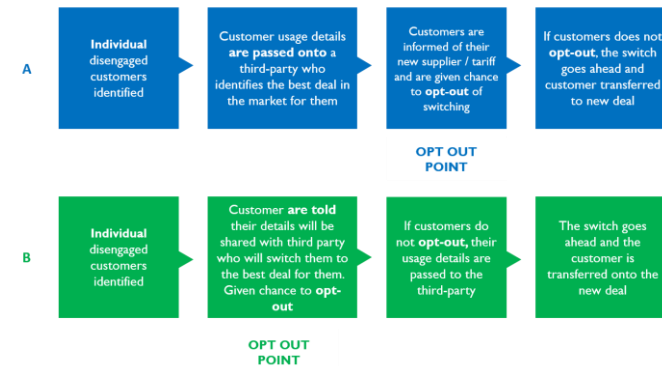
Consumers were introduced to three potential scenarios that could be implemented to switch supplier for them.

Consumers were asked for their initial thoughts on the idea of Ofgem or a third party switching their supplier for them. Many of the Panel responded positively to this idea and were interested in the logistics of how this could work.

Option 1 – Opt-out Collective switching



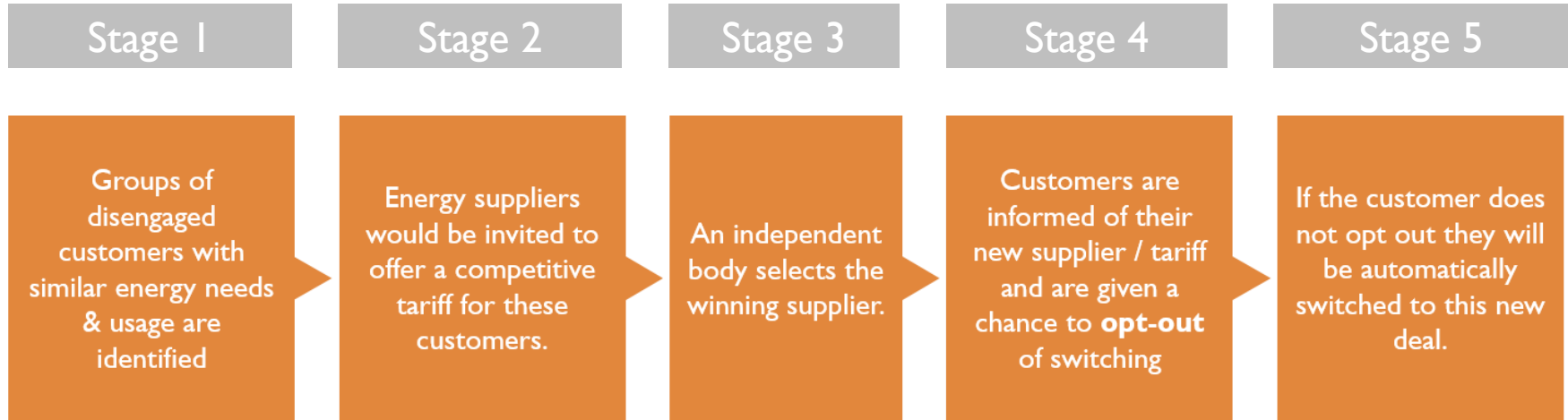
Option 2 – Opt-out Automated switching



Option 3 – Opt-out supplier



Option 1 – Opt-out Collective switching



10,000s
Consumers at a time



**OPT OUT
POINT**



Implementation of Option 1 was perceived to be simple. Panellists felt that this would offer a good incentive for suppliers to offer more competitive rates.

Some appreciated that this option was for vulnerable consumers in particular, but still felt it should still be available for others.

Some perceived the option as pushing them towards engaging in the market if they were not eligible for the option.

Some were concerned that if the supplier selected was their current one, it would make them question why they were not automatically put on the best value tariff the supplier could offer. Most emphasised that as long as the deal was cheaper, they wouldn't have any major concerns in switching.



STAGE 1 – Groups of disengaged customers with similar energy needs and usage identified.

Consumers had initial questions about how groups of disengaged consumers would be defined – questioning what energy needs specifically would place such a large group of consumers together.

Some consumers questioned the cost of switching such a large group of consumers. However, when this option was compared to others (where individual consumers are identified) this option was seen as more cost effective and plausible.

“You have more power in a big group [of energy consumers] rather than as individuals”

STAGE 2 – Energy suppliers would be invited to offer a competitive tariff for these customers.

Many expected suppliers to offer them a competitive rate and similar features to their previous tariff (e.g. the same or better level of customer service).

Consumers felt that suppliers invited to offer competitive rates should fulfil certain criteria and standards e.g. having green energy initiatives in place. There was an awareness that a single supplier could win the bidding process too often. Some Panellists were concerned that smaller suppliers may be unable to compete in this process and wanted assurances that they would be represented.

“Suppliers need a certain set of standards to be allowed to be part of the bidding process ”

STAGE 3 – An independent body selects the winning supplier.

People liked the idea of suppliers bidding to an independent body for selection. Consumers expressed that the independent body should have no vested interests in the winner – though some struggled to name a specific body.

Many would be happy with Ofgem selecting the winning supplier, though some suggested having two independent bodies to ensure a fair selection of the supplier. Some suggested consumer involvement in the selection process to ensure it was in their interests. A group similar to the Panel format was suggested as a good way of gaining feedback on the suppliers to help guide the body in the selection process.

“It needs to be an independent government body with no connection to energy and no vested interests”

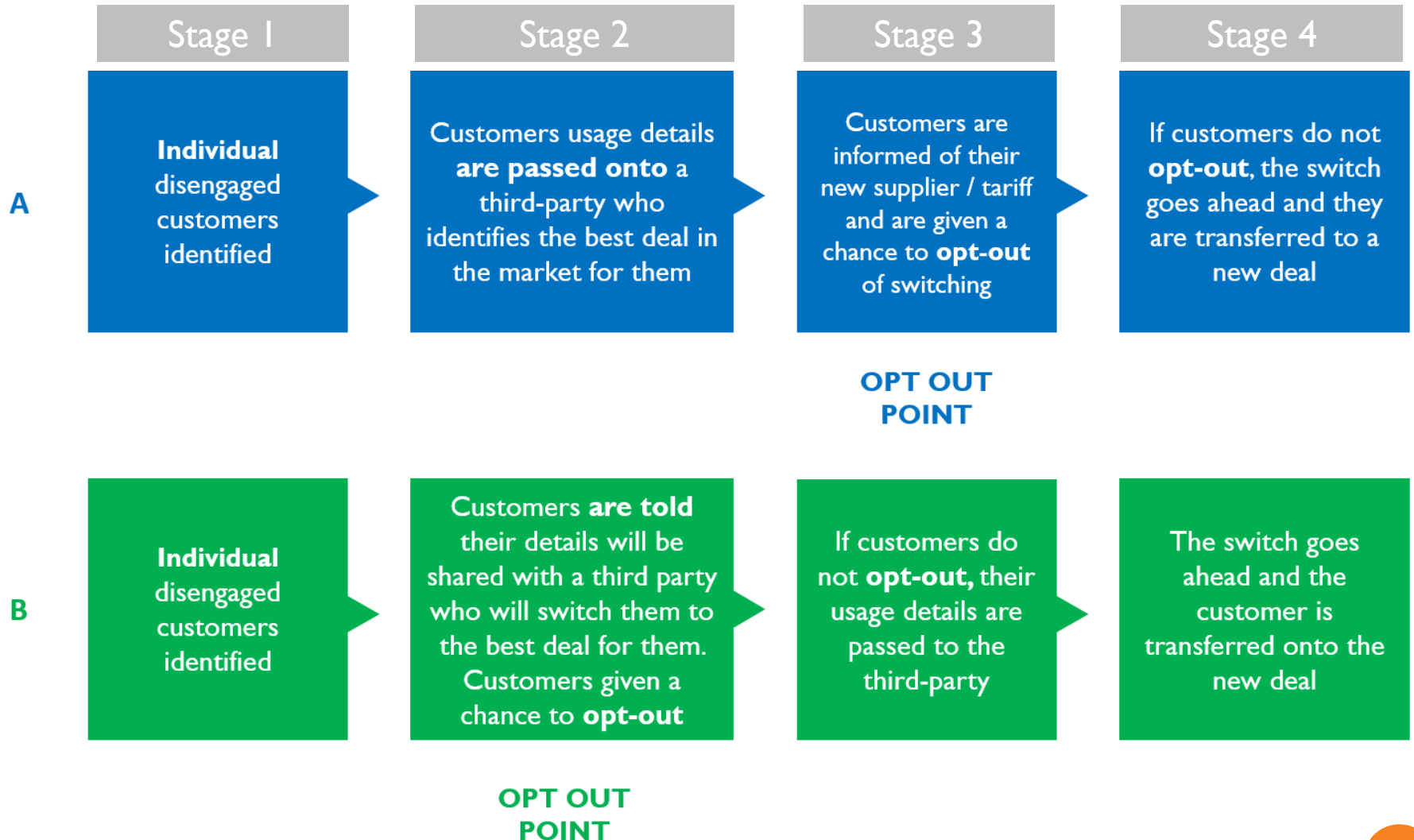
STAGE 4 – Consumers are informed of their new supplier / tariff and are given a chance to opt-out of switching.

Consumers were generally happy with the opt-out point as it provided them with all the relevant information about their potential new tariff or supplier before making a decision.

Consumers stressed the importance of effective communication of the opt-out process. Suggestions included: marketing campaigns informing them of the switch or multiple communications (letters, emails, phone calls) letting them know they will be switched if they don't act.

“It needs to be there [the opt-out point] you can't have it earlier, if it's earlier you aren't selling the company [supplier] correctly ”

Option 2a/b - Automated Switching



Ideally consumers preferred to have two opt-out points, one before their details are passed on and one after being informed of their potential new supplier/tariff.

This was due to many feeling uneasy with a third party having their details without being able to opt-out, but also a desire to be informed frequently about the process.

Many were concerned as to who the third party would be, suggesting that it would need to have no vested interests.

Some who were more sceptical of energy suppliers, trusted third parties more than their supplier, especially when providing access to the best deals on the energy market.

Option A

Consumers who favoured option A liked having the chance to opt-out once they had the necessary information about their new deal.

Option B

Those who preferred option B liked the fact they had control before their details were handed to a third party.

Some consumers pointed out that this would not give them an opportunity to opt-out of the new supplier deal before being switched.

“The outcome is positive but the third party element is off-putting”

“Could there be two opt-out points? You might want to see what the best deal is going to be before switching”

STAGE 2 – Consumer usage details are passed onto a third party who identifies the best deal in the market for them.

Some consumers saw the benefit in passing usage details on to a third party before the opt-out point. However, many would be uneasy about their details being passed on, due to perceptions about these organisations handle sensitive data.

Some questioned the process in which their details are passed onto a third party without their consent or the ability to opt-out of this. Some suggested being asked to opt-in or opt-out of their details being passed on to a third party at a different stage e.g. consenting to third party usage whilst signing up with a supplier

“I really don’t like passing on information if it hasn’t been agreed – your energy usage can tell someone a lot about your life”

STAGE 3 – Consumers are informed of their new supplier / tariff and are given chance to opt out of switching.

Many felt the opt-out point was at the appropriate time in the process. Some stressed the importance of having enough time to review their options once informed of the new supplier and tariff details.

Some suggested a month to three months was the amount of time required to compare the deal offered to others on the market or to contact their current supplier to see if they were willing to match or better the deal offered by the process.

“I like the opt-out point. The customer needs all the information before choosing”

STAGE 2 – Customers are told their details will be shared with a third party who will switch them to the best deal for them. Given a chance to opt-out.

Many felt that this stage would lead to the majority of consumers opting-out. This was due to an uneasiness about third parties handling consumers details.

Any details about the level of savings with a potential new supplier/tariff were felt to be most prominent at this stage.

This would reassure consumers about switching as they would be as informed as they possibly could be before deciding to opt-out or not.

“It [third parties] throws me into a panic. Saying third party would freak me out”

STAGE 4 – If consumers do not opt-out, the switch goes ahead and customers are transferred to a new deal.

Many consumers felt uneasy about being switched to a new supplier/tariff without having another opt-in or opt-out point.

It was felt that there should be another step in option B, as information about the new deal was required ahead of consumers being automatically transferred based on the third parties selection.

“I would rather the first one [Option 2 A]. I don’t mind my details being passed on to a third party but I want to know what energy I am going to be getting”

Option 3 – Opt-out Supplier

Stage 1

Individual disengaged customers identified

Stage 2

Customers informed - If they do not act they will be switched to the 'default' supplier & tariff and given a chance to **opt-out**

Stage 3

Default suppliers are appointed regionally, with agreed tariffs

Stage 4

If customers do not **opt-out**, the switch goes ahead and customers are transferred to a new deal



Individual customers at a time



OPT OUT POINT



The language and tone of ‘default’ did not resonate well with consumers. Some perceived this be ‘militant’ and forceful.

For some, price was not always the greatest priority and there were concerns that customer service and support would be poor with a default supplier.

Some felt that this was a negative option – that they were being “punished” for not engaging with the energy market.

“The sentiment is correct but we need to communicate this to people in a better way – ‘here is a better deal for you’ and this is how to switch”



STAGE 2 – Customers informed – If they do not act they will be switched to the ‘default’ supplier and tariff and given a chance to opt out.

Some consumers felt that this option could have been more appealing if framed positively and with transparency. The switch shouldn’t be proposed because of inactivity, but as a cheaper option if they would like it.

“It sounds very negative. It doesn’t sound like it would be good at all.”

“The wording makes it sound like a punishment”

STAGE 3 – Default suppliers are appointed regionally with agreed tariffs.

Questions arose of how the default supplier would be selected, with many thinking an independent, consumer-focused body would be best placed.

Some felt that the default supplier should be reviewed every year to ensure they continue to offer the best rates. If they were not offering the best rate they felt a new supplier should be appointed.

People had additional questions about the tariff rate in this option compared to others. Consumers understood it would be lower than their current rate but questioned if it would be the best rate on the energy market.

“Perhaps the suppliers could be set by a panel who speaks on behalf of consumers – people in social service with the appropriate expertise.”

Option 1 and 2a&b with amendments were the favoured choices amongst most consumers.

	Option 1	Option 2 A	Option 2 B	Option 3
POSITIVES	<ul style="list-style-type: none"> Well placed opt-out point. Offered incentive for suppliers to offer more competitive rates to consumers. Many consumers switched at the same time An independent body chooses the supplier. 	<ul style="list-style-type: none"> First point of contact is when the third party has relevant information about the potential deal. 	<ul style="list-style-type: none"> Consumers informed about their details being passed on to a third party and given a chance to opt-out. 	<ul style="list-style-type: none"> Potentially could help those on standard variable tariffs who are very disengaged and not active in the market at all.
NEGATIVES	<ul style="list-style-type: none"> Need assurances that the independent party has no vested interest. Questions of how you identify a large number of consumers by their energy need. 	<ul style="list-style-type: none"> Details passed on to a third party automatically. May ignore information about the new deal from a third party – particularly if they had never heard of them. 	<ul style="list-style-type: none"> Potentially may miss out on a better energy deal due to negative connotations about sharing data with third parties. Automatically switched to new supplier/tariff without another chance to opt in/out. 	<ul style="list-style-type: none"> Consumers felt this was a “punishment” for not engaging in the market. Concern over customer care with new supplier. Concern over who the supplier would be and how they are selected.

FUTURE SUPPLY

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Overview of future supply scenarios.

Consumers were asked to consider ways of giving people more flexibility and choice in the energy market in the distant future. They were asked to consider two scenarios of how future supply could work.

Option 4a – Future Supply

Everyone must have contract with a local network operator – to cover the costs of the energy system

Customers have choice about where they buy their energy from - which could be...



Eg. Maintenance of pipes & wires, social obligations, environmental impact, etc.

1. Energy supplier
the supplier only sells energy

3. Direct from the wholesale energy market

5. Self sufficient
Producing (and potentially storing) your own energy (only need to pay the contract fee with the DNO)

2. Energy services Company
They sell a wider range of products and could give you an energy in a bundle with your DNO contract

4. A local energy market (peer to peer)
Other consumers who have solar panels, a wind turbine etc. and produce excess electricity and sell it via a local scheme

Option 4b – Future Supply

If customers do not choose an option they will be allocated to the 'default' supplier

The supplier will charge the consumer their share of costs associated with running the network, plus the daily cost of supply

Customers charged daily on a 'pay as you use' basis (via a smart meter. Payment via Direct Debit or pre-loading meter with credit)

The price charged for electricity/ gas will be the **wholesale price** on each day



Option 4 – Future Supply A

Stage 1

Stage 2

Everyone must have contract with a local network operator – to cover the costs of the energy system

Customers have choice about where they buy their energy from - which could be...



E.g. Maintenance of pipes & wires, social obligations, environmental impact, etc.

1. Energy supplier
the supplier only sells energy

3. Direct from the wholesale energy market

2. Energy services Company

They sell a wider range of products and could give you an energy deal in a bundle with your DNO contract

4. A local energy market (peer to peer)
Other consumers who have solar panels, a wind turbine etc. and produce excess electricity and sell it via a local scheme

5. Self sufficient

Producing (and potentially storing) your own energy (only need to pay the contract fee with the DNO)

Most consumers understood the concept and the pros of being able to have more choice and flexibility in the market e.g. buying your gas from the market, but being self-sufficient when producing electricity.

Consumers initially perceived multiple options to be complicated and were confused by the different pros & cons of each energy purchasing option and the general concept of buying energy and having a contract with a DNO.

Some felt that this option worked in favour of those who were engaged in the energy market.

Some felt disengaged groups would need help and advice (from a body such as Citizens Advice) to navigate the market and find the best deal.

“I like the choice, it’s better for people who are engaged. It would work for me but not for disengaged people”



1. Energy supplier

Accessing energy through a supplier was felt to benefit customers who were less confident in the market as they could get their energy through a familiar source.

2. Energy services company

Some consumers were cautious about the extra work the future supply options could create for them e.g. having two separate contracts. Some Panellists were familiar with DNOs due to previous panel work. They therefore understood why it would be necessary to have a contract for DNOs and those that preferred this option liked the idea of having a package deal that covers the cost of the network as this seemed like less work and more akin to how the current energy market works.

3. Buying direct from the wholesale market

Some consumers initially liked the idea of buying from the wholesale market, acknowledging that that the price fluctuation could result in very cheap (or expensive) prices. These consumers were still confident in their ability to shop for the best deals, regardless of them interacting with a new energy market (wholesale).

REVEALING REALITY

4. A local energy market (peer to peer)

Most liked the idea of buying from other consumers, feeling that it would ultimately be cheaper and potentially produce less wastage in comparison to energy brought from the market.

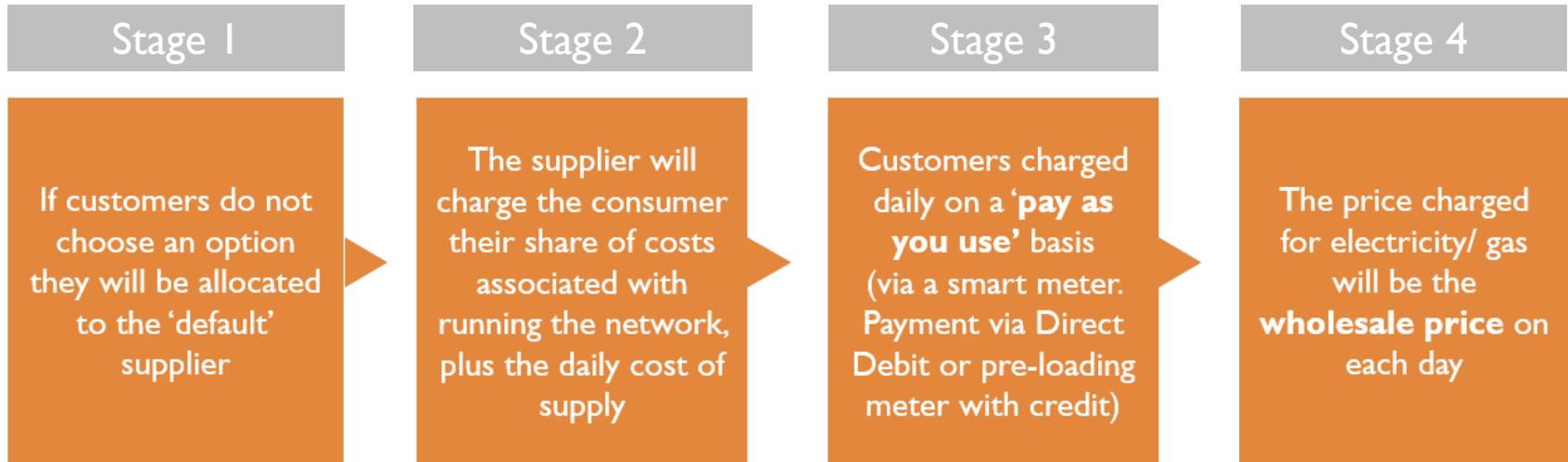
Some Panellists suggested that peer to peer energy could lead to those selling the energy taking advantage of more vulnerable groups.

5. Self sufficient

People were particularly keen on the idea of self-sufficiency and felt this option could encourage more people to create communities where consumers share energy at a low rate. However, some questioned how easy it would be to generate your own energy and expected the price of investing in this to be high.

Furthermore, some questioned why they would still be eligible to pay for two contracts when not being totally reliant on the energy market or system.

Option 4 – Future Supply B



Consumers felt that this system could be detrimental for vulnerable consumers, who struggle to engage in the market.

People struggled to grasp the concept of this (largely due to difficulties in understanding the initial future supply option.) Some consumers liked the idea of knowing how much they will be charged day by day based on the wholesale price – believing that it would add greater clarity and be a truer reflection of what energy costs suppliers.

Many felt that this option could make people engage in the market, due to the fluctuating prices, forcing people into action – either to be more aware of the wholesale price of energy on a daily basis or to select a different approach to buying energy.

However, the majority felt this option would still be detrimental to vulnerable consumers who still would not engage. Some felt that the default supplier should be a renewable/green supplier.



CONCLUSIONS

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Consumers were positive about a third party switching supplier for them.

Consumers were more trusting of bodies that had their interests at heart. They would allow themselves to be switched if the process was transparent and felt confident with their new supplier or tariff they were being switched to.

This could be due to the party that conducts the switch and the way they are given information about their potential new supplier/tariff. Some consumers felt that it was important that whoever conducted the process needed to make consumers confident in their ability to place them on the best deal.

Consumers felt consideration was needed as to who the third parties or independent bodies may be that facilitate the process (again consumers preferred parties with no vested interests). Some suggested a consumer panel may be appropriate for helping to select the parties involved in the process or to help guide decision making.



Many consumers felt that a core part of what defined engaging in the market was actively looking for better deals

Because of this, consumers felt that if someone else was switching supplier for them and ensuring they were paying a competitive price, they would have little reason to engage in the energy market.

Some consumers wanted to continue to engage in the market and shop around for better deals – valuing the ability to find suppliers who produce greener energy for example.

Some felt that future supply options would ultimately increase engagement in the market and felt that more choice of how to acquire energy could allow them to save money and feel in control. However, there were those that felt this level of engagement in the future would be negative. These consumers were scared of becoming obsessed with energy and preferred the package deals with DNOs that were similar to the current supplier system.



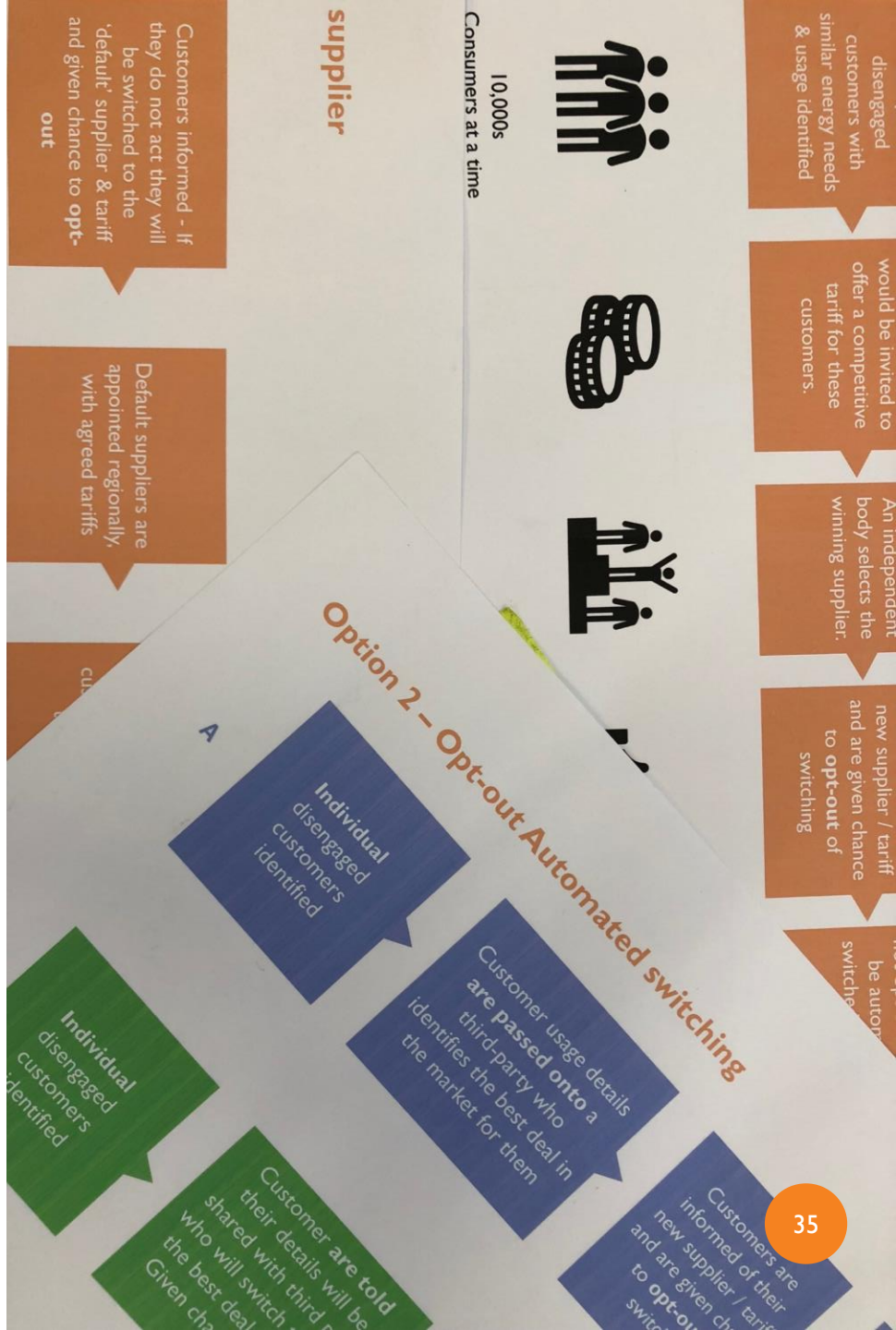
Most consumers were happy for an opt-out, rather than an opt-in approach. It required less work for them to benefit from the switch.

Some of these points rang true when discussing the different options for being switched, with many consumers feeling opt-out was better because more consumers were likely to benefit from cheaper energy deals.

Option 1 or option 2 A&B with two opt-out points were felt to be good examples of this – with consumers being able to benefit from cheaper energy as well as being well informed throughout the process

Consumers stressed the importance of effectively communicating the potential switching process to ensure people aren't automatically switched without their knowledge.

Some consumers suggested advertising campaigns and multiple touch points from the party responsible for switching to ensure awareness and knowledge of the potential switch and deal available.



Consumers felt that this system would help more vulnerable consumers but that everybody could benefit from it.

Vulnerable consumer groups were more commonly identified as groups such as the elderly or students. It was perceived these groups were less likely to engage in the energy market or not be aware of how much they pay for their energy making them perfect candidates for a third party or Ofgem to switch supplier for them.

However, consumers felt that there were probably many people paying more for their energy than they needed to and wanted to see this system open to everyone.



RESEARCH APPROACH

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Sample

We spoke to 62 people who attended the second wave of the Consumer First Panel.

Ethnicities

White

Asian/ Asian British

Black African/Caribbean British

Mixed

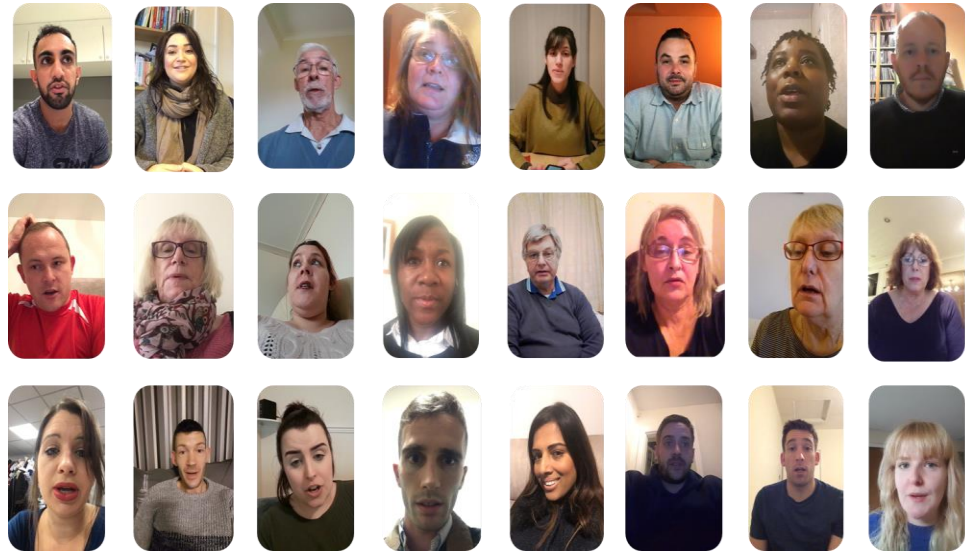
Gender and age

34 Women, 28 Men all aged 22-70

Energy

- A range of different suppliers, including smaller companies
- Mix of those who have recently switched tariff/supplier and those who never have
- Some in “fuel poverty”

Included a mix of incomes, urban and rural housing, different employments etc.



Energy Segmentation

Happy Shoppers x 19 Consumers

Market Sceptics x 16 Consumers

Anxious Avoiders x 7 Consumers

Savvy Searchers x 9 Consumers

Hassle Haters x 7 Consumers

Contented Conformers x 4 Consumers

Locations

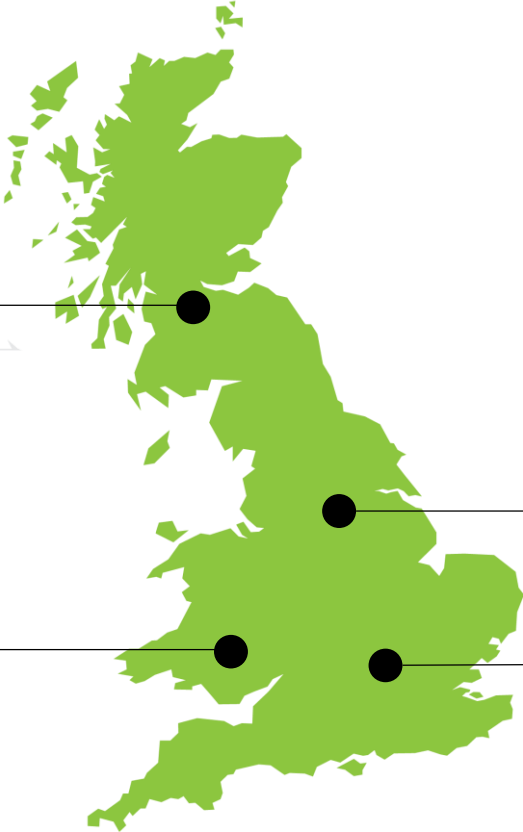
We conducted X4 deliberative sessions across four locations in Great Britain

Paisley
(17 Panellists)

Merthyr Tydfil
(17 Panellists)

Leeds
(14 Panellists)

Watford
(14 Panellists)



Methodology

PHASE 1:
SET-UP & RESEARCH DESIGN

PHASE 2:
QUALITATIVE RESEARCH

PHASE 3:
ANALYSIS & DELIVERY

