2015 Consumer Energy Research Findings Summary

May 2015

Aim of paper

In December 2014 the Consumer Council commissioned Ipsos Mori to conduct research[1] examining consumers' views regarding the following energy issues:

- The energy trilemma (balancing price, security of supply, and environmental protection);
- Trust in energy suppliers;
- Switching behaviour;
- Compensation in instances of power outages; and
- Smart meters.

This paper will provide an overview of the main findings of the research and concludes with a series of recommendations for change.

Findings

<u>The Energy Trilemma</u>

Respondents were asked to think about their electricity supply and explain the extent to which they considered the following factors important or unimportant: the lowest possible price, a highly reliable supply with the lowest possible number of power cuts, and as much electricity as possible generated by renewable sources.

- **Receiving the lowest possible price was regarded the most important factor with 80 per cent of respondents considering it very important and 15 per cent considering it quite important**. Respondents that were Power NI customers were least likely to consider the lowest price to be either very or quite important (93 per cent) compared to SSE Airtricty (98 per cent), Budget Energy (96 per cent), and Electric Ireland customers (100 per cent).
- **Reliability of supply was considered the second most important factor with 72 per cent of respondents considering it very important and 20 per cent considering it quite important**. Budget Energy customers were least likely to consider reliability of supply either very or quite important (90 per cent) whereas 100 per cent of Electric Ireland customers considered reliability very important.
- **Ensuring as much electricity as possible is generated by renewable means was considered the least important factor with 28 per cent of respondents**

[1] The research sample was representative of energy bill payers in Northern Ireland and the survey was undertaken via a face-to-face quantitative questionnaire administered between December 2014 and January 2015. In total 854 respondents participated in the research.

considering it very important and 32 per cent considering it quite important. 60 per cent of SSE Airtricity and Electric Ireland, 61 per cent of Power NI, and 56 per cent of Budget Energy customers considered this factor either very or quite important.

Trust in Energy Suppliers

The November 2014 Cornwall Energy report *Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Market* found that 74 per cent of electricity customers stated that they trust or tend to trust their supplier to be open and transparent in their dealings with consumers. When asked the same question regarding their gas supplier, 69 per cent gas customers stated that they trust or tend to trust their supplier.

However, when electricity respondents to the Consumer Council research were asked:

- "To what extent do you trust or distrust your electricity supplier to offer customers a fair price?", 49 per cent stated they trusted or tended to trust their supplier;
- "To what extent do you trust or distrust your electricity supplier to be open and transparent when communicating with its customers?", 51 per cent stated they trusted or tended to trust their supplier; and
- "To what extent do you trust or distrust your electricity supplier to be honest when promoting its products and services?", 54 per cent stated they trusted or tended to trust their supplier.

These questions, when asked to gas customers resulted in responses of trust / tend to trust of 54 per cent concerning price, 56 per cent concerning transparency in communication, and 57 per cent concerning honesty in the promotion of services.

It is not clear why the levels of trust reported by respondents to the Cornwall Energy survey differ so significantly from the Consumer Council's research. The Consumer Council intends to bring these findings to the attention of the Utility Regulator to inform its ongoing work to review the effectiveness of competition in the NI energy markets.

Switching behaviour

- 95 per cent of electricity and 81 per cent of gas customers were aware they could switch supplier.

- 50 per cent of electricity and 35 per cent of gas customers stated that they have switched supplier.

When asked to what extent lower prices, better customer service, and better trustworthiness would influence them to switch supplier, respondents' answers placed the factors in the following descending order of influence:

- **If an alternative supplier offered lower prices** (83 per cent of electricity and 87 per cent of gas customers would be influenced to switch supplier by this factor);
- **If an alternative supplier provided better customer service** (73 per cent of electricity and 78 per cent of gas customers would be influenced to switch supplier by this factor); and
- **If an alternative supplier was considered to be more trustworthy in terms of how it deals with customers** (71 per cent of electricity and 72 per cent of gas customers would be influenced to switch supplier by this factor).

Respondents were asked about the extent to which they would find a number of categories of information useful if they were making a decision about switching to an alternative energy supplier. The results were as follows:

Information criteria	**Respondents that consider the information useful**
The accuracy of billing of the supplier	77%
How well the supplier communicates with its customers	74%
The number of billing related complaints received by the supplier	74%
The average amount of time taken by the supplier to resolve customer complaints	72%
The number of other complaints received by the supplier	72%
The average time taken to switch customers to the supplier	71%
The number of delays experienced in switching new customers to the supplier	71%
Financial information about the supplier, for example, its profit margins	63%
The number of switching applications refused by the supplier and the reasons why	60%

The Consumer Council has presented these findings to the Utility Regulator in its response to the Utility Regulator's consultation on the framework for Retail Energy Market Monitoring (REMM) and encouraged the Regulator to make information publically available on various issues of interest to consumers.

Compensation in instances of power outages

Customers who are without electricity for more than 24 hours as a result of an unplanned power cut are entitled to £50 compensation from NIE. The research identified that only 14 per cent of the respondents were aware that the costs incurred by NIE for compensating customers are recovered through the bills paid by all customers.

To uncover consumers' views regarding who should bear the costs of compensating customers who are subjected to unplanned power cuts, respondents were asked whether they agreed or disagreed with the following statements:

Statement	**Agree**	**Disagree**
Costs should be taken from companies' profits	94%	6%
Costs should be split between companies' profits and customers' bills	12%	88%
Costs should be recovered from bill payers	9%	91%

The responses indicate consumers overwhelmingly believe the cost of compensating consumers in instances of unplanned power outages should be borne by NIE.

When asked about the amount of compensation that customers should be paid by NIE in instances of unplanned power outages, respondents indicated satisfaction with the current amount of £50 compensation paid by NIE (67 per cent of respondents believe that the amount of compensation paid in instances of unplanned power outages should be £50 or less). However, the survey revealed dissatisfaction with the time threshold of 24 hours without power after which compensation is paid. Over half (56 per cent) of respondents believed compensation should be paid if a customer is without power for more than eight hours. This rises to 79 per cent of respondents believing customers should be compensated if they are without power for 12 hours or more.

Consumers' responses broadly support NIE's policy of paying customers who experience an unplanned power outage £25 for each additional period of 12 hours they are without power; 68 per cent of respondents believed that additional payments should be made if customers are without power for a lengthy period. Furthermore, 98 per cent of respondents believed NIE should inform customers that they are entitled to compensation in instances of unplanned outages.

Smart meters

When asked if they knew what a smart meter was only 21 per cent of respondents said they did know. The knowledge of these respondents was then tested by presenting them with a number of features of smart meters, including two bogus attributes. Of the respondents who claimed to know what a smart meter is:

- 59 per cent knew that a smart meter displays information about electricity consumption on a real time basis and explains the amount of money the electricity use is costing;
- 43 per cent knew that a smart meter collects information on a customer's electricity use as frequently as every thirty minutes;
- 33 per cent knew that a smart meter transmits the customer's consumption information to their electricity supplier via wireless technology;
- 30 per cent knew that a smart meter prevents the need for manual meter readings;
- Seven per cent incorrectly believed that a smart meter directs appliances to switch on and off when electricity costs are lowest;
- Six per cent incorrectly believed that smart meters automatically switch off lights during daylight hours; and
- Seven per cent said they did not know what a smart meter did when their knowledge was tested.

This indicates that among the small percentage of consumers who claimed to know what a smart meter was, when probed further, levels of knowledge were fairly low.

When asked whether they would change their behaviour to consume less energy if they knew how much electricity they were using and how much it was costing, three quarters (73 per cent) of respondents said they would. However, when presented with a statement explaining that the anticipated net saving to consumers who correctly use a smart meter would be £15 per year[2], only 51 per cent of respondents said they would have a smart meter installed on this basis. Respondents who had not installed any energy saving measures in their home were significantly less likely to be willing to have a smart meter installed (28 per cent were willing) compared to those who had installed energy saving measures (54 per cent were willing).

DETI should take into consideration when conducting its smart meters cost benefit analysis the fairly low level of willingness amongst consumers to have a smart meter installed. Installation of smart meters will be unlikely to deliver a reduction in the amount of energy consumed if consumers do not actively engage in using them.

[2] *"In Great Britain it is estimated that smart meters will cost customers a maximum of £11 per year for installation and operation and this cost will be added to customers' bills. However, using a smart meter correctly could save the average customer up to £26 per year, giving an overall saving of £15 per year"*

Approximately four out of ten consumers (38 per cent) regard the electricity industry as the most trustworthy source of information on smart meters, while only 12 per cent regard government and eight per cent regard the Consumer Council as the most trustworthy source. The most popular method for informing consumers about how to use smart meters is for the installer to demonstrate how to use the meter (67 per cent of respondents would like to receive information in this way). The second most popular method is that a leaflet is provided explaining how to use the meter (54 per cent of respondents would like to receive information in this way).

Only seven per cent of respondents believed that the cost of installing smart meters should be paid by consumers via their bills, and 15 per cent of respondents believed the cost should be split between consumers and energy companies. In comparison, 48 per cent of respondents believed that the cost of installation should be paid by electricity suppliers, taken from their profits and 23 per cent believed the cost should be paid by the government.

A quarter of respondents would object to smart meters being able to provide electricity suppliers with information regarding when throughout the day electricity is consumed by each customer and three in ten (29 per cent) would object to smart meters being able to provide energy suppliers with information concerning the types of appliances being used by each customer. However, a much greater proportion (57 per cent) would object to electricity suppliers using information about their customers' electricity consumption for sales and marketing purposes, and 58 per cent would object to electricity suppliers sharing information about the customers' energy consumption behaviour with other organisations.

Respondents were informed that smart meters will communicate information about customers' electricity use to electricity suppliers using wireless technology and they were asked to what extent they would agree or disagree that information about their energy consumption would be secure in this scenario. Similar numbers of respondents agreed as disagreed (32 per cent agreed, 31 per cent disagreed, and 38 per cent neither agreed nor disagreed). However, slightly more respondents disagreed strongly than agreed strongly (12 per cent vs. seven per cent).

If DETI, after conducting its cost benefit analysis, decides to proceed with the roll out of smart meters in Northern Ireland, a comprehensive consumer awareness campaign will be required to ensure consumers actively engage in using smart meters and to address concerns about the security of consumers' consumption data. Consumption data should not be used by suppliers for sales and marketing purposes or shared with other organisations without the explicit consent of the consumer and DETI must address the question of how it will cover the cost of installation of smart meters given consumers' unwillingness to pay.

Recommendations

- The Utility Regulator should consider consumers' levels of trust in their electricity and gas suppliers as identified by the Consumer Council's research and factor these findings into its ongoing work concerning the review of competition of retail energy markets in Northern Ireland;

- Via its REMM Framework the Utility Regulator should ensure energy suppliers provide data on the information categories identified as useful by consumers in this report. The Consumer Council has highlighted these areas to the Regulator in its response to the REMM Framework consultation;

- NIE should reduce the time threshold to eight hours for payment of compensation to customers subject to an unplanned power outage;

- The cost of compensating customers subject to unplanned outages should be taken from NIE's profits and NIE should actively inform customers of their entitlement to compensation in instances of unplanned outages;

- DETI should consider consumers' levels of willingness to have a smart meter installed in conducting its smart meters cost benefit analysis. If DETI determines to implement the roll out of smart meters in Northern Ireland, an information campaign will be required to educate consumers about the functions of smart meters and the reasons for their introduction; and

- The Consumer Council will explore opportunities to improve consumers' trust in the organisation as a source of information on energy issues including the efficient use of smart meters if they are installed in Northern Ireland.