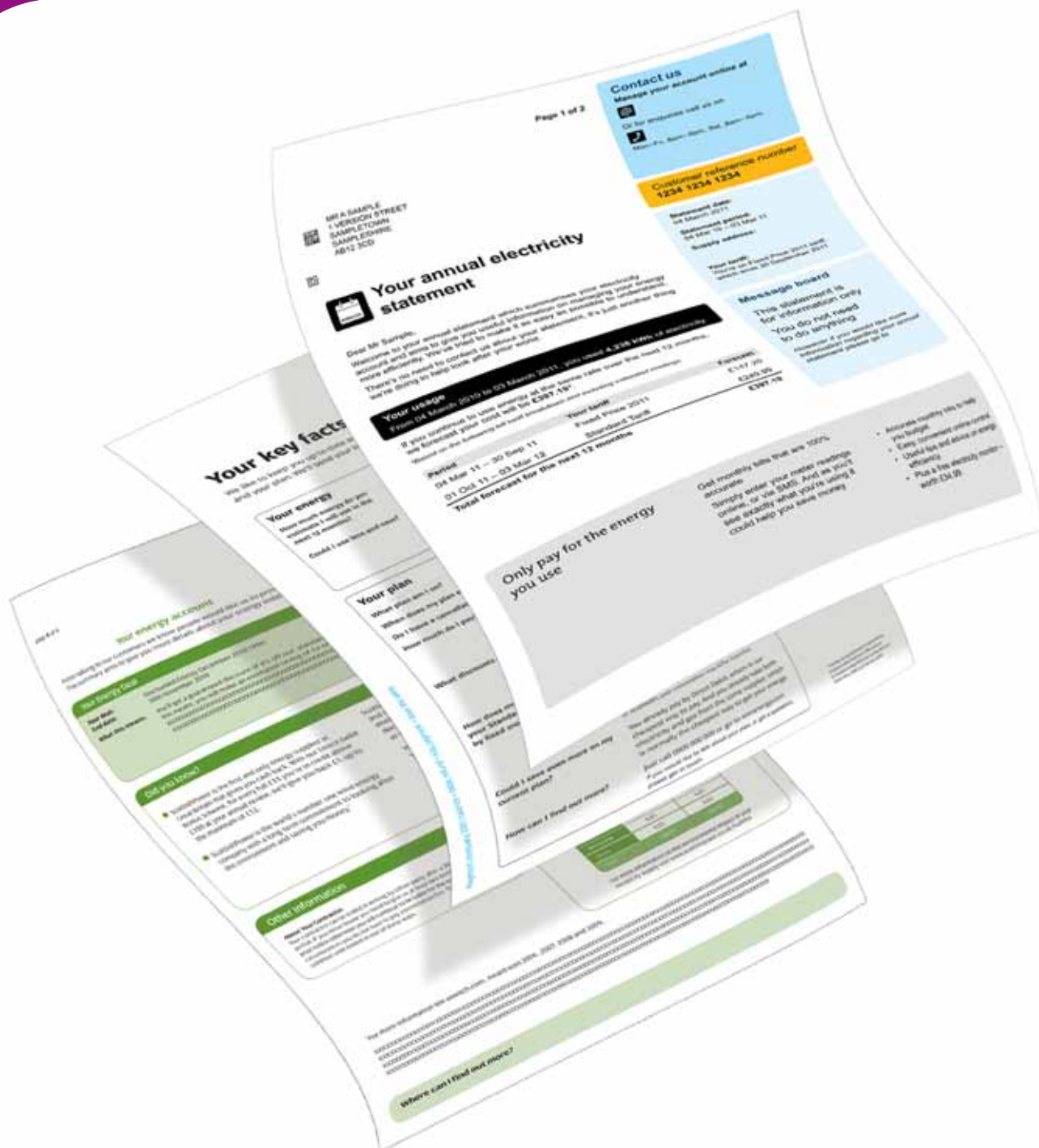




Missing the mark

Consumers, energy bills, annual statements and behaviour change

Hannah Mummery and Gillian Cooper



About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland.

We operate across the whole of the economy, persuading businesses, public services and policy-makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

For regular updates from Consumer Focus, sign up to our monthly e-newsletter by emailing enews@consumerfocus.org.uk or follow us on Twitter <http://twitter.com/consumerfocus>

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Executive summary

Prompting consumers to change their behaviour as a way of getting better deals or encouraging more responsive markets is a central part of the Government's consumer empowerment agenda. In energy, the search for effective triggers to persuade consumers to act in a positive and informed manner has been an ongoing issue since the market opened up to competition.

Over 10 years later large numbers of consumers who switch supplier:

- do so to more expensive energy deals
- switch on the doorstep with little or no useful information¹
- are put off switching altogether by the complexity of tariffs and the feeling that it is not worth the effort

In energy markets the goal of helping consumers to use less energy or to consume energy in a more sustainable manner proves equally stubborn and difficult to achieve.

Policy makers' focus has been on whether information on energy bills or Annual Statements can persuade or 'nudge' consumers into acting in their own interests to reduce expenditure by seeking out cheaper energy deals or reducing their energy consumption.

Consumer Focus set out to test how successful these interventions had been or will be in changing consumer behaviour.

We wanted to understand whether additional information on energy consumption or cheapest tariffs, which is likely to be added to energy bills under new Government requirements, would be likely to engage consumers. In particular, we wanted to test the reactions of consumers across all demographic, economic and social groupings to see what impact this information would have.

Energy bills

Bills are the main tool used by energy suppliers to communicate key information to their customers; including how much money is owed and how much energy has been used. Over the years additional information has been added to energy bills either voluntarily by suppliers or as a result of new regulations. This includes information about:

- discounts or cheaper prices available by switching to Direct Debit
- energy efficiency tips
- annual consumption
- the right to switch to a different tariff or supplier

Some of these measures have been successful. The proportion of energy consumers paying their bills by Direct Debit has increased from 36 per cent (electricity) and 42 per cent (gas) in 2002 to 51 per cent (electricity) and nearly 54 per cent (gas) in the latest available statistics². Other measures have yet to demonstrate whether they have led to positive behaviour change or increasing understanding of energy bills or usage.

Despite new information on bills, consumers' overall understanding of their energy bills is still relatively poor.

¹ The Ofgem Probe in 2008 found that 48 per cent of gas consumers and 42 per cent of electric customers did not achieve a price reduction when switching supplier in response to a doorstep sales pitch

² <http://bit.ly/IU03Pg> and <http://bit.ly/JUV5Gu>

Energy bill confusion

'35 per cent of consumers did not understand their energy bills'³ Consumer Focus, 2010

'46 per cent of people said they found their gas and electricity bills more difficult to understand than their credit card bills'⁴ Which? 2009

'75 per cent of consumers find energy bills confusing'⁵ Uswitch 2009

'Low literacy consumers find energy bills harder to understand than other bills, eg telephone bills'⁶ Ofgem Consumer First Panel, 2009

Consumer Focus carried out quantitative and qualitative research studies in 2010/2011 to understand how consumers are reacting to this information and whether the messages were successful at reaching all consumer groups. The Government has proposed the introduction of new information on energy bills, namely the lowest cost tariff and comparative consumption information. Consumer Focus was eager to understand whether this would be successful in reaching more disadvantaged consumers or households using prepayment meters (PPMs).

A list of our research questions and methodology is contained in Annex 1. Our headline findings include:

- continued widespread consumer disengagement with energy bills
- distrust of energy suppliers colours consumers' view of information provided on energy bills
- consumers from low income groups tend to be less engaged with their energy bills

The information on bills does not act as a prompt to behaviour change for the majority of consumers.

Annual Statements

The new Annual Statement, which was introduced by the regulator Ofgem in response to its 2008 Probe of the energy market, has not yet resulted in major changes to consumer behaviour.

Our research found that only a small number of consumers are currently reacting to the existing information and/or nudges on their energy bills and Annual Statements:

- The consumer groups most likely to take action – either by switching tariff or switching supplier – tend to be older, high income homeowners
- The consumer groups least likely to take any form of action tend to be low income or economically inactive social tenants
- There is also less engagement and action among the under 24s and over 65s across all social groups

³ Online survey conducted by ICM on behalf of Consumer Focus on smart meters and energy billing. 2,048 consumers aged over 18 years took part in March 2010

⁴ <http://bit.ly/jcZ7WM>

⁵ <http://bit.ly/mKfxjQ>

⁶ <http://bit.ly/kUHjIG>

The fact that a significant proportion of consumers had not reacted to the information on their Annual Statement was not totally unexpected; new initiatives often take time to have a measurable impact.

Our July 2010 review of suppliers' Annual Statements found that they suffered from poor design and had the potential to cause confusion. We have been working with several suppliers on improvements to their statements following our review.

Consumer Focus is supportive of Ofgem's proposals in the Retail Market Review⁷, which call for greater standardisation of the Annual Statement.

New information on bills

The Government has proposed adding further information to energy bills, including details about the lowest cost tariff and energy use information comparing a typical household with a more energy efficient one. In order to support the Government's policy development, Consumer Focus tested consumer reactions to this new information in each of our research studies. In particular, we sought to understand the likely reaction of different groups of consumers, based on their payment method.

The information about the lowest cost tariff is a message similar to existing switching prompts, which encourage households to switch to Direct Debit. However, it is not yet clear whether consumers will be offered details about the lowest cost tariff most suitable for their needs or the lowest cost tariff offered by a supplier.

For instance, consumers using PPMs face significant barriers when seeking to switch to a Direct Debit tariff, which would require a supplier to exchange their existing meter for a new credit meter. Suppliers do not offer a series of differently priced prepay tariffs so these consumers will already be on the lowest cost tariff for their payment method.

Providing consumers with new details about energy consumption information is a more sophisticated message that may be difficult to deliver using current metering technology.

For instance, consumers may not easily understand where they should take action to reduce their consumption; such as which appliances use the most electricity or how existing behaviours translate into higher energy consumption.

Our research findings showed that many consumers were already struggling to understand how to take control of their energy use. We believe any new information should be accompanied by new and accessible tools that help consumers understand and make sense of these new prompts.

We found that consumers:

- are distrustful of the motivation behind behavioural change messages and information
- see their energy bills as a 'number' so often miss additional information, particularly behavioural change messages
- are interested in information that is specific to their needs and circumstances

⁷ <http://bit.ly/jl5NZg>

Conclusion

There is an over-reliance on the use of bills and Annual Statements as the primary means of engaging consumers to think about energy costs and consumption.

The research demonstrates that certain groups of consumers are more likely to react to information on bills or Annual Statements than others.

Consumers who are already 'empowered' are the most likely to react to information on bills as they have the finances to take advantage of such deals. For example, price competition and the array of choice in the current energy market is largely centred on tariffs offered to consumers able to pay by Direct Debit.

Our research has found that the groups who could most benefit from this new information on bills are those who are least likely to take any form of action – either because they cannot switch payment type or there are no real alternatives open to them.

Adding new information to energy bills requires changes to suppliers' systems, which costs money to implement. These system changes are ultimately paid for by energy consumers in the form of higher bills. Therefore, Consumer Focus believes that any further proposals to add new information to energy bills should be carefully trialled to ensure that they:

- are likely to be read and acted upon by the right groups of consumers
- result in consumers making positive changes to their existing behaviour

Our research found that policy makers should be wary of relying on bills as the sole way to inspire behavioural changes among energy consumers. It is clear that the existing messages on bills are not reaching the more vulnerable and less engaged consumers. Alternative channels must be explored and developed.

In their recent consumer empowerment strategy *Better Choices: Better Deals*⁸ the Government tasked Consumer Focus, with Citizens Advice and Citizens Advice Scotland, to conduct a review on how to empower the most vulnerable consumers.

⁸ <http://bit.ly/IPZzVf>

Energy bills

Consumers' attitudes to energy bills

Over the last few years extensive research has been carried out on consumer attitudes to energy bills by organisations including Which?, Uswitch, the EU Citizens Energy Forum, Ofgem Consumer First Panel. Much of this research has been focused on issues such as language, layout and the understanding of terms such as kilowatt hour. Conclusions are broadly similar; many consumers are confused by their energy bills, distrustful of the information provided and unsure how to use the information on their bills to carry out an accurate price comparison.

While these are important findings, Consumer Focus wished to explore the fundamental issues behind this confusion by focusing on consumers' underlying attitudes towards their energy bills: their views, engagement with bills, what information they looked at.

Lack of trust

One of the biggest issues affecting consumers' attitudes towards their energy bills is a lack of trust in the energy industry. Our focus group research⁹ in October 2010 revealed huge levels of distrust in the energy industry which colours consumers' views of their energy bills and other communications from their suppliers.

'They're [energy suppliers] all in it together to make money'¹⁰

Consumer, Maidstone

'They [energy suppliers] promise you things that are not true. I think they tell you a lot of lies just to make you go with them and change who you're with'¹¹

Consumer, Edinburgh

Much of this wider distrust is due to consumers' perceptions that energy suppliers are exploiting their need for a vital service:

'I think energy is definitely the worst, because they know that we need them, and they are taking advantage'¹²

Consumer, Birmingham

Consumers' inability to understand their energy bills and their inability to understand the relationship between what they use and what they are charged contributed to feelings of confusion and lack of trust:

'Sometimes I look at the back [of my bill], it tells you all the kilowatts and that but it doesn't mean anything to me'¹³

Consumer, London

'There's a lot of information but it's too complicated'¹⁴

Consumer, York

⁹ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010
<http://consumerfocus.org.uk/g/4p9>

¹⁰ Ibid

¹¹ Ibid

¹² Ibid

¹³ Ibid

¹⁴ Ibid

A bill or a number?

One of the other key barriers to improving consumers' engagement with energy bills is the tendency to view energy bills as simply an amount of money owed rather than as information about energy supply:

'If I ever look at my bill I just look at how much I pay'¹⁵

Consumer, York

Eight in 10 (81 per cent) consumers agreed they only look at their bills to see what they owe, but only four in 10 (41 per cent) look at the bill to see how much energy they've used¹⁶. Consumers find it more difficult, more so than on other bills, to understand how their overall consumption relates to what they owe – leading them to ignore this information.

'They can put it on if they want [kilowatt hours] but if they transferred it into monetary values people could understand'¹⁷

Consumer, Edinburgh

Our survey found that very few consumers look for information other than what they owe – for example only 16 per cent looked for energy efficiency advice, 7 per cent looked for information on how to switch supplier and 9 per cent looked for information on how to complain¹⁸.

There are certain types of consumers who are even less likely to look at their bills to see how much they owe. PPM users in particular were much less likely to be engaged with their energy bills. Only 44 per cent of respondents said they looked at their bill (or statement of account) to see how much they had to pay – compared to 81 per cent of credit meter consumers.¹⁹ This is not unexpected, as PPM users do not have to pay a bill when it arrives and, unlike credit customers, simply receive an annual statement of usage. Given the lack of a financial driver to read and engage with a bill, PPM users are often even less likely to engage with additional information on their statements.

'I don't get a bill but I get a statement once a year and so I don't really take that much notice of it because I pay with a card'²⁰

Consumer, Wales

The research findings show that the energy bill is not best placed as a sole vehicle for suppliers and the regulator to communicate additional messages to consumers.

¹⁵ *Informing choices - Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

¹⁶ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

¹⁷ *Informing choices - Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

¹⁸ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

¹⁹ *Ibid*

²⁰ *Informing choices - Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

Online but switched off

Online Direct Debit tariffs are often where consumers can make the most savings. Consumers who are willing to manage their accounts online and receive their energy bills by email can save up to £127 per year compared to a standard tariff²¹. Online consumers can still choose to receive hard copies of their energy bills and not all suppliers have systems that allow complete online account management²².

However, only a minority of consumers manage their energy accounts online – around 15 per cent according to our survey²³. Furthermore, there is strong resistance across all payment types and social backgrounds to receiving energy bills exclusively online and having to pay for paper copies – a model that already exists in the telecommunications sector²⁴.

*'Until every single household and every person has access to the internet there will be paper bills'*²⁵

Consumer, York

Despite the fact that consumers with online billing are more likely to be from a group that is traditionally more aware of their energy usage (aged 35 – 55, ABC1, homeowners), consumers with online billing are much less engaged with their bills than other groups. More than half (57 per cent) of customers billed online always read their bills as soon as they arrive, this contrasts with three quarters (77 per cent) who receive paper bills²⁶. Consumers with online billing are also much less likely than those with paper billing to read their bills at all²⁷. This may be because online tariffs are Direct Debit so there is less incentive to check bills. This further reinforces the fact that the majority of consumers engage with their energy bill only to find out what they owe and when to pay it.



²¹ Source – Consumer Focus price comparison fact sheet

²² Large suppliers have to offer a hard copy of the bill free of charge but smaller suppliers (those with under 50,000 customers) can charge for this service

²³ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

²⁴ 80 per cent of consumers were not prepared to pay for paper copies of energy bills

²⁵ *Informing choices – Consumer Views of Energy Bills* Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

²⁶ Face to Face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

²⁷ *Ibid.* – 10 per cent of people with online billing never read their bills opposed to 5 per cent of people with paper billing

Switching supplier and price comparisons

Switching supplier and price comparisons – trends and attitudes

In addition to finding out the amount of money owed to their supplier, energy bills or annual statements contain important information to enable consumers to switch energy tariffs or supplier and compare prices.

Our research also explored consumer attitudes to switching and comparing prices.

Only a small proportion of consumers switch regularly

Regular switching is confined to a small group of very active consumers. Eight in 10 (83 per cent) consumers have not switched supplier in the last 12 months²⁸. Those paying by Direct Debit are most likely to have switched in the last year.²⁹

Our Annual Statement survey also found that 65 per cent of consumers have been with their current supplier for two years or more, rising to 81 per cent for consumers over 65³⁰.

Frequent switching is confined to a small group of very engaged consumers. They are willing and able to connect with the more dynamic end of the energy market and take advantage of the cheapest tariffs. These tariffs are often fixed term contracts or must be managed online.

Additionally, only half (53 per cent) of PPM users are confident that they have all the information they need to switch supplier. This compares with over three quarters (77 per cent) of consumers on other payment methods such as Direct Debit or payment on demand³¹. This lack of confidence in the information needed could be a contributing factor in why PPM users do not switch regularly. There are also issues with access to tariffs and payment methods. This is discussed in more detail in the section on switching tariffs within supplier.

Inactivity is not confined to switching supplier. Nearly eight in 10 (79 per cent) consumers have never even contacted their existing supplier about a better deal, with payment on demand and prepayment customers even less likely to contact their supplier³². Only 22 per cent of people had ever switched tariffs with their existing supplier. This may well be due to lack of understanding that different priced tariffs can be available from the same supplier, even within the same payment method.

²⁸ Face to Face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

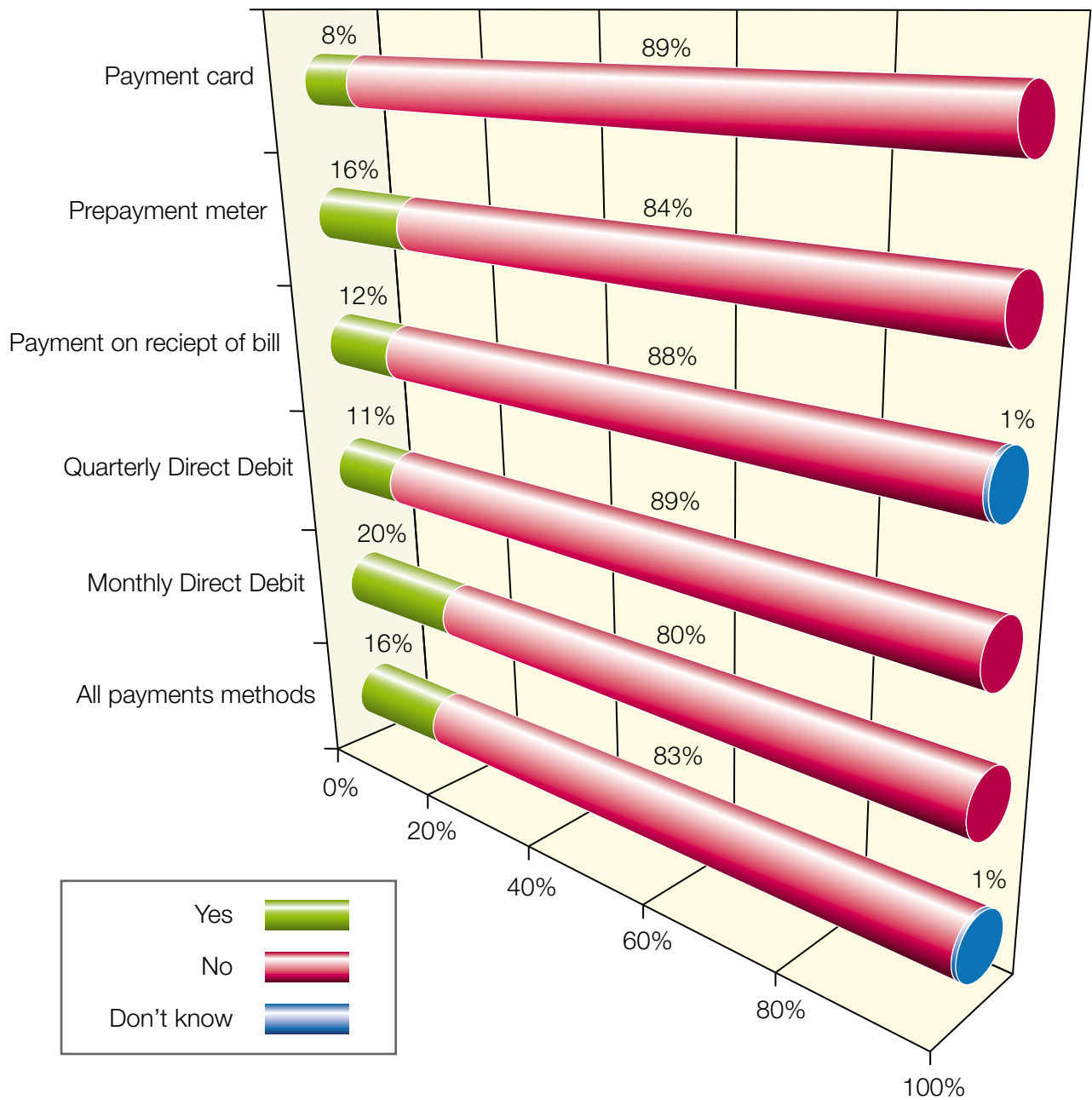
²⁹ Ibid. 22 per cent of Direct Debit customers had switched supplier in the last year

³⁰ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

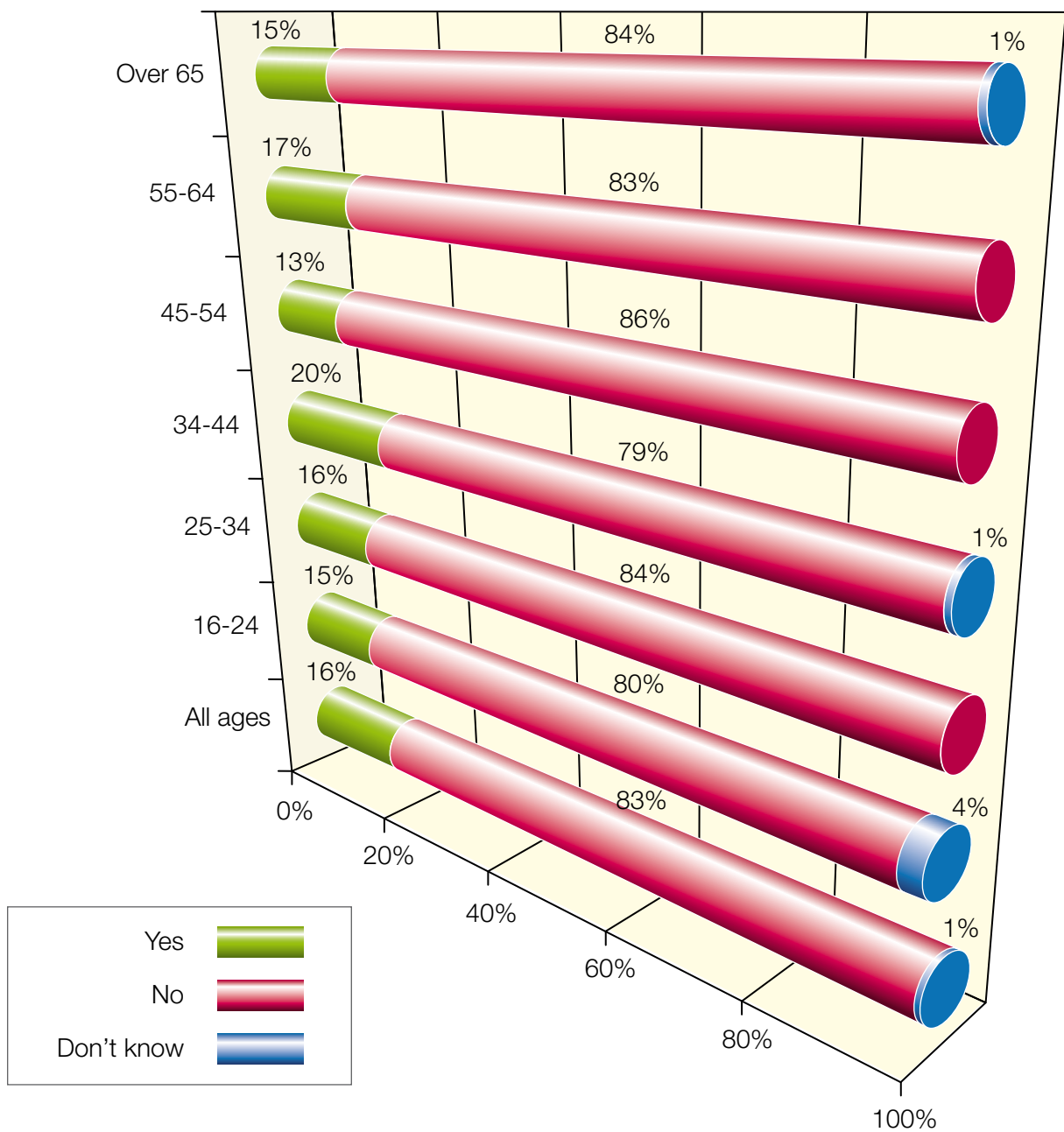
³¹ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

³² Ibid. This rises to 87 per cent for prepayment customers and 90 per cent for payment on demand customers

Have you switched energy supplier in the last 12 months? (by payment type)



Have you switched energy supplier in the last 12 months? (by age group)



Tariff complexity was an issue that also arose in our focus group research³³. Consumers' understanding of switching supplier and tariff is very rooted in the idea of different payment methods. So those unwilling or unable to move payment method may believe there is no point in even investigating switching supplier or tariff. This viewpoint was certainly reflected in the quantitative survey results, as PPM users and those who pay on receipt of bill were less likely than Direct Debit customers to contact their supplier to enquire about different tariffs³⁴.

'I would like to go Direct Debit but then there is that many other bills that I pay as well, do you know what I mean? It is easier for me to pay the gas and electric with the prepay meter than to pay other bills that way',³⁵

Consumer, Birmingham



³³ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010
<http://consumerfocus.org.uk/g/4p9>

³⁴ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers 87 per cent of PPM customers and 91 per cent of customers who pay on receipt of bill have never enquired about other tariffs with their supplier in contrast to 75 per cent of Direct Debit customers

³⁵ Ibid

The influence of payment methods on the reluctance to switch is apparent. Nearly a third (30 per cent) of Direct Debit customers have switched to a different tariff with their supplier whereas only 11 per cent of PPM users have³⁶. The differing number of tariffs available will have been a factor. For example, a price comparison carried out for a typical dual fuel customer in April 2010 found:

- 31 tariffs where the customer could pay on receipt of bill
- 12 tariffs where the customer could pay by prepayment meter
- 63 tariffs where the customer could pay by monthly Direct Debit³⁷

Seven in 10 (70 per cent)³⁸ prepayment customers did not switch tariff with their current supplier because they could not or would not change their payment method³⁹. This compares to users of other payment methods for whom the main reason not to switch to another tariff was that they did not think the money they could save was worth the effort⁴⁰.

³⁶ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2049 consumers

³⁷ Price comparison carried out on 6 April 2010 on energylinx for a dual fuel London based household

³⁸ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

³⁹ This is from a very small sample because so few prepayment customers had enquired about different tariffs with their supplier

⁴⁰ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers 34 per cent of Direct Debit customers and 50 per cent of payment on demand customers did not switch tariff as they felt the money saved was not worth the effort

This is despite the fact that an average customer who pays on receipt of bill could save up to £94 per year simply by switching to a Direct Debit tariff⁴¹. While saving money is the main driver for people who switch suppliers, other households are not sufficiently incentivised by the potential savings on offer.

Our survey did not directly explore the impact of other potential factors on reluctance to switch such as satisfaction with customer service or brand loyalty.

Saving money is the main driver to switch

The main consumer driver for switching supplier was to save money on energy bills. Just under half (44 per cent) of people said saving money was the main reason for switching, and a further 24 per cent cited a cheaper deal offered by another supplier prompted them to switch⁴².

This is also true of the small number of people who had switched tariff with their current supplier, with 69 per cent listing saving money as their main reason for switching tariffs⁴³.

Limited interest in comparing prices

Over half (53 per cent) of consumers questioned never compared prices. As with switching supplier, there were differences within payment method, tenure and social class:

Professional homeowners are most likely to compare prices

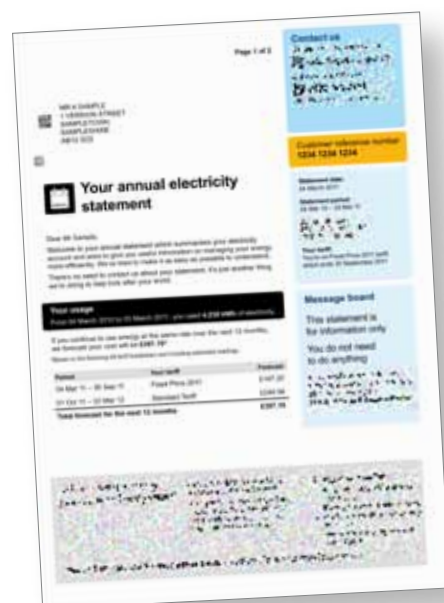
The typical person most likely to have compared energy prices in the last year is a middle class home owner, aged 35-44 paying their energy bills by Direct Debit.

Based on figures from an Omnibus survey carried out by TNS-RI in February 2011 of 1,987 Consumers

Low income social tenants are least likely to compare prices

The typical person who has never compared energy prices is on a low income, living in social housing and either under 24 or over 65.

Based on figures from an Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers



⁴¹ Based on Consumer Focus price comparison factsheet

⁴² Face to face Omnibus survey carried out by TNR-RI in January 2011 of 2,049 consumers

⁴³ Ibid

Consumers are mainly motivated to compare prices as part of wider efforts to save money. The main events that prompted people to compare prices are:

- Trying to reduce household expenditure – 39 per cent
- Seeing advertisements for cheaper deals from another supplier – 22 per cent
- Their current supplier increasing prices – 20 per cent
- Receiving an energy bill – 13 per cent⁴⁴

These figures show that many consumers did not regularly engage with the energy market. Those who did were mainly motivated to compare prices or seek a different deal to save money. Prompts came from external event such as advertising or general desire to reduce household expenditure as opposed to a specific prompt from their energy supplier. Lower income consumers and those households not paying by Direct Debit were least likely to switch supplier or tariffs. Some, such as PPM users, found even when they did make the effort to enquire there were limited (or no) options available to them as they could not switch payment method. Others, such as payment on demand customers, did not believe that the savings available were worth the effort of switching tariff or payment method.

⁴⁴ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

Annual Statements

Introduced to encourage switching

A new requirement on suppliers to produce an Annual Statement was introduced in July 2010 by Ofgem. It was part of a package of remedies in response to concerns, uncovered in their Energy Supply Probe of 2008⁴⁵, about low switching rates⁴⁶ and the findings that many consumers who did switch ended up on worse deals⁴⁷.

The Annual Statement contains all the information that a consumer needs to accurately compare deals and switch supplier:

- The customer's exact tariff name
- Quantity of gas/electricity supplied in the last 12 months
- Predicted cost, in pounds, of the next 12 months' gas/electricity consumption
- Details of any premium or discount that applies compared to the supplier's standard Direct Debit tariff
- Details of the principal terms and conditions of the customer's contract
- Reminder that the customer can switch supplier
- Signpost to impartial information about switching supplier (usually Consumer Direct or a Consumer Focus Confidence Code accredited switching site)

⁴⁵ <http://bit.ly/agOBnv>

⁴⁶ Ofgem expressed particular concern that inactive consumers those who have never switched (or switched more than 12 months ago) were subject to higher prices and may be exploited by suppliers (<http://bit.ly/agOBnv>)

⁴⁷ As many as a third of switcher did not achieve any reduction in price (<http://bit.ly/agOBnv>)

Ofgem's policy intention was that this extra information would give consumers the information needed to compare energy deals, as well as a reminder about the right to switch supplier and that savings were available by changing payment method.

Energy suppliers are required to send an Annual Statement to their customers every 12 months. All households should have received their first Annual Statement by 31 December 2010.

Expectations matching reality?

Consumer Focus supported the introduction of the Annual Statement, agreeing that this could help consumers make better switching decisions.

Ahead of the roll out in July 2010, Consumer Focus asked all energy suppliers for a copy of their proposed bills and Annual Statements. The Statements were assessed against the following key criteria:

- 1 Compliance with the requirements with the new licence condition (SLC: 31A)
- 2 Whether suppliers' interpretation of the requirements would help achieve Ofgem's objectives for SLC 31A; eg providing additional information to consumers about their energy usage and helping assess whether they could find a better energy deal
- 3 Ten best practice principles developed by Consumer Focus which we think, if adopted, would result in bills and Annual Statements that allow consumers to understand their ongoing energy consumption and use the information to access the best energy deal for their needs. (See Annex 3 for a full list)

While there were some individual examples of good practice, overall Consumer Focus was disappointed with the content and design of many of the new Annual Statements. Too many were poorly designed, confusingly laid out and risked being mistaken for a bill by consumers. Consumer Focus produced a ranking table of the Big Six energy suppliers' performance against the key assessment criteria (Annex 4) and wrote to all suppliers with individual feedback and best practice points.

Since our July 2010 review some suppliers have taken our feedback on board and have made good efforts to improve the design and layout of their Annual Statements.

Ofgem's Retail Market Review expressed disappointment at the quality of Annual Statements, stating that there 'may be a case for requiring more standardised information on bills and Annual Statements'⁴⁸. Consumer Focus supports Ofgem's proposal as we believe there are limited benefits to competitive differentiation.

Are consumers aware of Annual Statements?

By January 2011 almost all energy customers should have received an Annual Statement⁴⁹. Our research found that awareness of the annual statement is worryingly low, with under half of consumers' (46% per cent) aware and just over half (54 per cent) saying they definitely have not received an annual statement or do not remember receiving one⁵⁰.

⁴⁸ <http://bit.ly/jl5NZg>

⁴⁹ Those consumers who had switched supplier or moved house in the last 12 months would not have received an Annual Statement

⁵⁰ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

Within this there are differences between groups of consumers receiving or remembering receiving their annual statement.

Young, low income, tenants least likely to receive or engage with the Annual Statement

Those least likely to remember receiving or reading an annual statement are under 35, low income, private tenants who pay quarterly or via PPM.

Based on figures from an Omnibus survey carried out by TNS-RI in February 2011 of 1,987 Consumers

The consumers most likely to be engaged with their annual statement are the same group who are most likely to compare energy prices and most likely to have switched supplier (as identified in the earlier section on switching). The consumer group who were least likely to have remembered receiving or reading their Annual Statement correlate strongly with groups identified as those who are least likely to compare prices or switch supplier. Three quarters (76 per cent) of PPM users never compared prices, compared with 53 per cent of all consumers⁵¹.

Recent Ofgem research⁵² found that passive or 'sticky' customers (those who very rarely or have never switched and have little engagement with the energy market) are more likely to be under 34 and from the lowest social classes, which is in accordance to our findings.

There is one exception: older people (65 and over). Two thirds (66 per cent) of over 65s in our survey said they never compared prices and 81 per cent had been with their supplier for two years or longer⁵³. Out of the 45 per cent of over 65s who remembered receiving an annual statement, 92 per cent⁵⁴ read it – more than any other age group. The over 65s are less likely to switch supplier or compare prices but they seem to treat communications from their supplier more seriously and take more care to engage with them than other age groups – even if they don't follow through with any further action.

The research found that the Annual Statement has had limited impact to date in reaching the very groups which Ofgem intended it to help – lower income consumers, households who do not pay by Direct Debit or who had no or little engagement with the competitive energy market. We will seek to re-run the results in 12 months' time to see whether more consumers are reading and using their Annual Statements.

Some price comparison sites are flagging up the Annual Statement with their customers and urging them to use the information when carrying out a price comparison. Therefore consumers who use price comparison sites regularly should be more aware of the Annual Statement and its relevance.

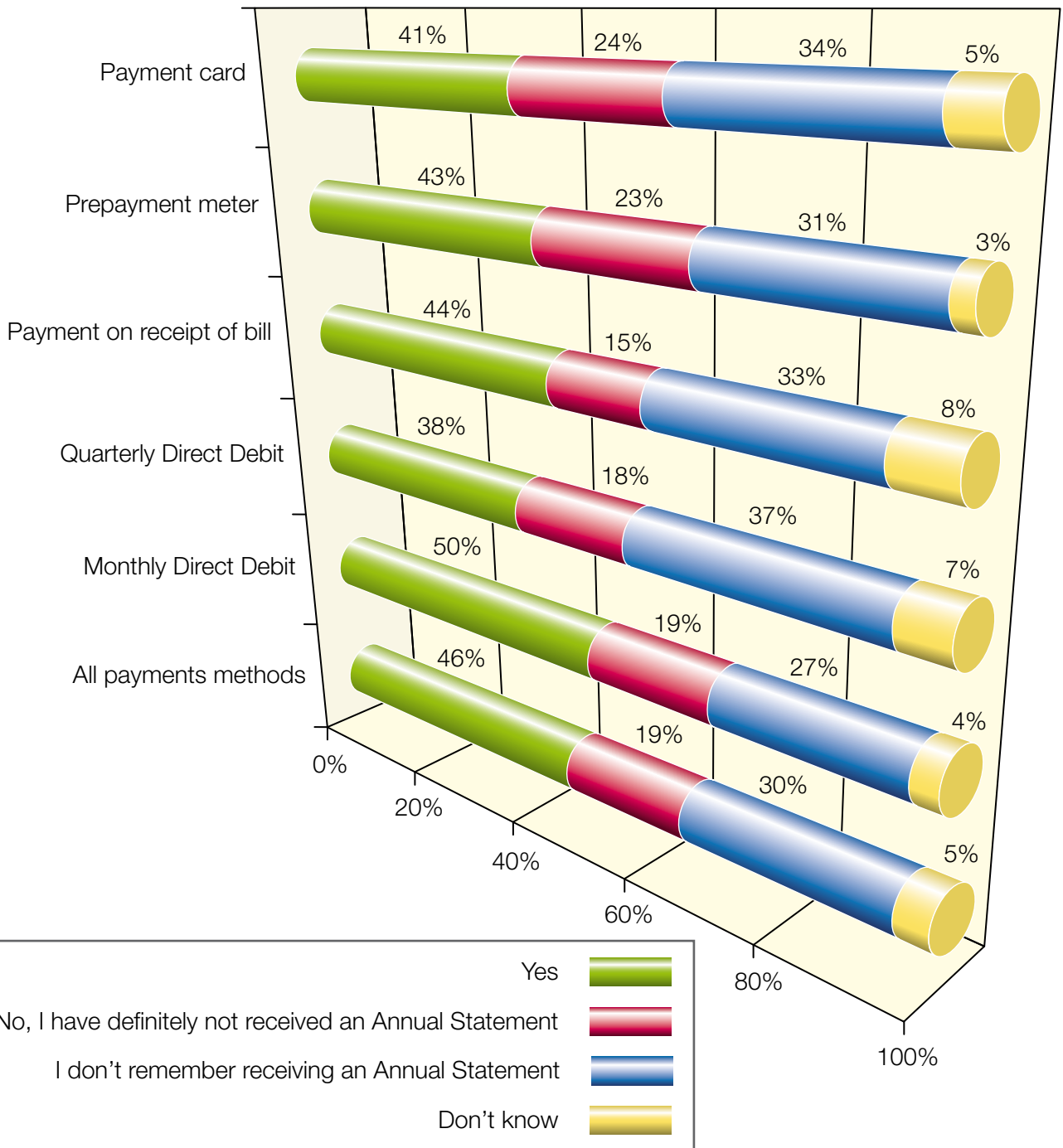
⁵¹ Ibid

⁵² <http://bit.ly/jl5NZg>

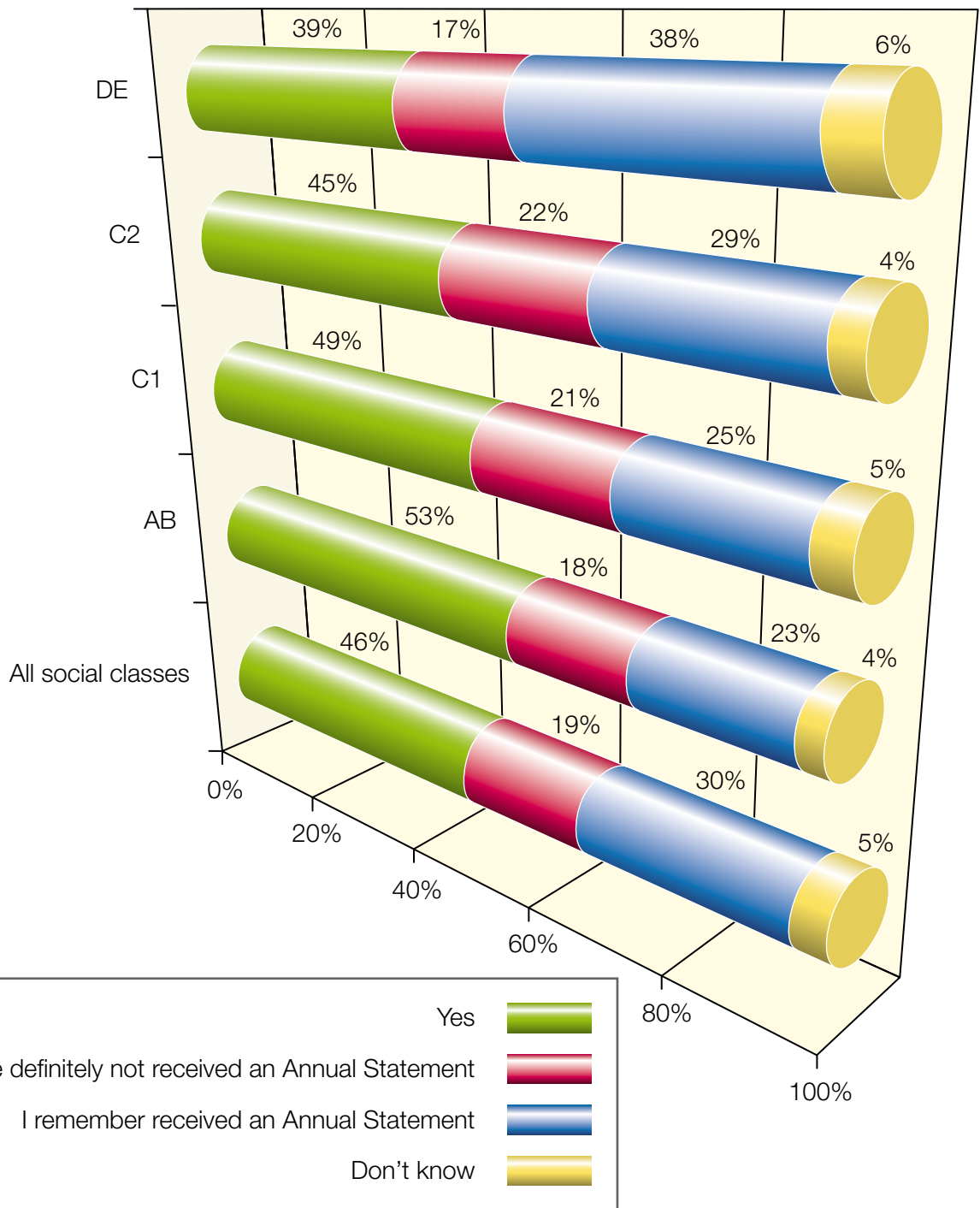
⁵³ Ibid

⁵⁴ Ibid

Can you remember if you have received an Annual Statement in the last 12 months? (by payment type)



Can you remember if you have received an Annual Statement in the last 12 months? (by social class)



A call to action?

The survey found that the most popular response to the Annual Statement was mild interest followed by inaction.

Engagement with the Annual Statement was very high among those who actually remembered receiving it. Eight in 10 (82 per cent) of all consumers who remembered receiving an Annual Statement read it, with 79 per cent finding it easy or fairly easy to understand⁵⁵. This engagement was fairly consistent across all social groups and payment types.

Consumers were especially interested in the previous year's consumption information and projected spend figures, with over half of all consumers selecting this information as the part of their Annual Statement they remembered most clearly. Information about switching fared the worst, with less than 15 per cent⁵⁶ of consumers recalling any information about switching supplier on their Annual Statement. Information comparing any premiums or discounts the consumer pays in relation to the suppliers' Direct Debit tariffs (designed to prompt those on more expensive payment methods to switch) also fared badly. Only 24 per cent of consumers recalled this information⁵⁷. There was slightly greater recollection of this information from prepayment and payment on demand customers (around 30 per cent in comparison with 21 per cent of Direct Debit customers)⁵⁸.

The results suggest that consumers are interested in their own consumption and future energy costs but the more complex messages designed to prompt wider engagement with the energy market have so far failed to capture consumers' interest.

⁵⁵ Ibid

⁵⁶ Ibid

⁵⁷ Ibid

⁵⁸ Ibid

The research findings also highlighted that the Statement is not serving as a prompt to action – only 25 per cent of consumers who remembered receiving their Annual Statement took any further action.

The sample size of those who took any action was fairly small, only 129 people, and differences between social groups, ages and payment types were limited. However one group emerged as slightly more likely to take action as a result of their Annual Statement than others.

Middle aged, middle income, homeowners used their Annual Statements

The group most likely to use their annual statement to take action are home-owning professional and clerical workers aged 45 – 54, who pay their energy bills by Direct Debit.

Based on figures from an Omnibus survey carried out by TNS-RI in February 2011 of 1,987 Consumers

The majority (81 per cent)⁵⁹ of consumers who did use their Annual Statement found it helpful or very helpful and a large percentage would use it again (87 per cent)⁶⁰. The previous consumption information and projected costs were rated as the most useful information (86 per cent rated this information useful or very useful)⁶¹, with information about switching supplier deemed the least useful (66 per cent rated this information useful or very useful)⁶².

⁵⁹ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

⁶⁰ Ibid

⁶¹ Ibid

⁶² Ibid

The 46 per cent of consumers who remembered receiving their Annual Statement read it and recalled large sections of the information given. However 71 per cent of consumers took no action at all. Out of the 29 per cent of consumers who took further action:

- 9 per cent said they made an effort to save energy involving household and lifestyle changes
- 6 per cent carried out a price comparison
- 6 per cent contacted their supplier to see if they could get a better deal.
- 1 per cent of consumers changed their payment type⁶³

(As few people actually took any action, the sample sizes in this section were small, Consumer Focus was unable to extract any meaningful differences by social class or payment type.)

Why didn't people take action?

The reasons given by survey respondents for not taking further action varied. The most common reason was the perception that they couldn't achieve savings or that the available savings were not worth the effort – 22 per cent and 19 per cent respectively⁶⁴.

Consumers who paid on receipt of the bill were more likely than other consumers to think that the potential savings were not worth the effort (31 per cent in contrast to 20 per cent of Direct Debit consumers and 11 per cent of prepayment customers)⁶⁵.

However, these consumers are the ones who could make the biggest savings by changing their payment method to Direct Debit⁶⁶. Prepayment customers were most likely to not take action because they were unable or unwilling to change payment method – 7 per cent of PPM users cited this as a reason for inaction, compared with 1 per cent of Direct Debit or payment on demand customers.

Despite the high levels of general distrust of energy suppliers uncovered in the focus group research, only 1 per cent of consumers did not take action because they did not believe or trust the information on their Annual Statement. This reveals that while consumers will express a lot of distrust towards energy suppliers, particularly in group situations, this does not necessarily translate into lack of trust in their own billing information.

What does this mean for Annual Statements?

The results of this survey are mixed. The good news is that there is a high level of engagement and satisfaction with the Annual Statement among those who did use it. People were very positive about the information and how useful it had been. Information about costs and household energy uses were particularly popular, showing that consumers respond well to information that helps them better understand their usage and energy costs.

⁶³ Ibid

⁶⁴ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

⁶⁵ Ibid

⁶⁶ Payment on demand customers can save an average of £94 per year by simply switching to monthly Direct Debit tariffs

However, there was mixed reaction to in the concept of the Annual Statement among those who had not received, or remembered receiving, one, with only 37 per cent of consumers agreeing that they would find it useful to receive such information. This rose to 42 per cent for Direct Debit customers, but dropped to 24 per cent for prepayment and payment on receipt of bill customers⁶⁷.

Consumer Focus believes there are two main areas where the Annual Statement must be improved in order to deliver on the stated objectives of helping consumers, particularly those who are currently failing to engage with the competitive energy market.

1 It must reach all groups of consumers

The Annual Statement is not reaching all groups of consumers. There are legitimate reasons why some consumer groups may not have received an Annual Statement. Suppliers are not required by Ofgem to send an Annual Statement to consumers who have:

- been with their supplier for less than 12 months
- moved property in the last 12 months⁶⁸

Ofgem has stated it is not overly concerned about the first group of consumers as households who regularly switch energy supplier are unlikely to need extra information and prompts to help them switch. Consumer Focus agrees with this view. However, the details in the Annual Statement would help these consumers make more informed switching decisions eg ones based on their actual, as opposed to their estimated consumption.

The second group inadvertently fall outside the rules for the Annual Statement due to the unique nature of the energy market – that is consumers are deemed to have 'switched' supplier when they move house because they immediately take over the existing energy supply contract in their new property. This means that consumers who move house frequently (such as younger people with private tenancies)⁶⁹ are much less likely to benefit from the information in their Annual Statement.

A bigger issue is those consumers who have received an Annual Statement but did not read or engage with it. This behaviour is common across all payment types. To a certain extent this is inevitable given our earlier finding about consumers' attitude towards energy bills. Annual Statements arrive with energy bills and our research found that many consumers simply do not engage with information on or with their energy bills beyond looking to see the amount of money owed.

However there are also some specific circumstances that may lead to certain groups being more likely not to receive or remember receiving their Annual Statement. Our research (and that of Ofgem) found that younger people from low income groups are one of the groups least likely to engage with the energy market; this is echoed in their low engagement with their Annual Statement. Finally, there is plenty of evidence, including our own focus group research, suggesting that many prepayment customers do not engage with written material from their supplier as they are on a 'pay as you go' tariff.

⁶⁷ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

⁶⁸ Even if the consumer keeps the same supplier they will be treated as a new account and therefore a new customer

⁶⁹ 36 per cent of private tenants live at one address for less than 12 months – English Housing Survey 2008-09

2 Turning engagement into action

The Annual Statement is not yet delivering as a prompt to action by consumers. Our research highlights the potential of the Annual Statement, as it was generally read and understood by those who remembered receiving one. But very low numbers of consumers actually used the information to change their behaviour, which was the case for all groups regardless of social class, payment type or housing tenure.

A large proportion of consumers, despite evidence to the contrary, still remain to be convinced that they can save money by switching tariff or supplier or indeed that the savings are worth the effort. It is interesting that, while the primary objective of the Annual Statement was to help consumers make more informed switching decisions, the most popular action taken by consumers was to try and reduce energy consumption.

The medium or the message?

Consumer Focus called on the regulator in an open letter (December 2010), to take action on suppliers' existing tariffs, which we believe are too complex and appear designed to confuse the average consumer. Ofgem's Retail Market Review proposals for simplifying suppliers' current tariff structures have the potential to help more consumers better understand and compare supplier offerings. This could help address consumer concerns about the savings available from switching tariffs or supplier.

Further improvements to the design, with a wider information campaign telling consumers how to read and understand them, could also help consumers read and engage with their Annual Statement. Ofgem's Retail Market Review proposals to look at greater standardisation of Annual Statements, again should lead to improvements.

New information on bills

The Annual Statement was introduced to improve consumers' ability to engage with the competitive energy market. It forms part of a wider and growing trend to add more information to energy bills to tackle disengagement from the energy market.

Following proposals in the Coalition agreement⁷⁰ to add extra information to energy bills to help empower consumers, the Energy Bill 2010⁷¹ proposes adding information about the supplier's lowest tariff on the bill as a further prompt to consumers to switch and save money.

Although not mentioned in the Energy Bill, the Department of Energy and Climate Change (DECC) has proposed adding information comparing consumer's consumption with that of typical and energy efficient households in order to encourage consumers to reduce their energy use.

⁷⁰ <http://bit.ly/m2bBCU>

⁷¹ <http://bit.ly/kOwpur>

Consumer Focus supports both these proposals in principle. However, we wanted to ensure that consumers, in particular those households not already paying by Direct Debit, would react positively to these behavioural nudges. The lowest tariff information and comparative consumption information was tested in our energy bill focus groups in October 2010⁷². Consumers were also asked about their perception of the usefulness of such information in the later Omnibus surveys on energy billing and Annual Statements⁷³.

Lowest tariff information

The Annual Statement requires suppliers to detail any savings a consumer could make by switching to the supplier's standard Direct Debit tariff. The new proposals would require energy suppliers to add information to every customer's bill detailing their lowest available tariff along with details of the potential savings available by switching.

Our Omnibus research found that very few consumers switch tariffs within their supplier. There are considerable barriers to consumers on PPMs or who pay on receipt of bill being able to make use of switching information, as they are unable or unwilling to switch their payment method to Direct Debit⁷⁴. These concerns were reflected in the research results.

When introduced to the idea of adding lowest priced tariff information to their bills, 37 per cent of consumers stated they would find this information useful⁷⁵. There were no real differences between payment methods but the groups marginally less likely to agree this information would be useful fitted the same pattern of groups who were less likely to engage with other aspects of the energy market.

Low income, social housing tenants least interested in lowest tariff information

The group least likely to agree that lowest tariff information would be useful on their energy bill were over 65 or under 24, on a low income and renting from a housing association or local authority.

Based on figures from an Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

However, when asked about receiving this information separately from their energy bill consumers were more receptive. Eight in 10 (82 per cent) of consumers agreed with the statement:

*'I would switch to my supplier's lowest priced tariff if I had information about it'*⁷⁶

⁷² *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

⁷³ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers and Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

⁷⁴ It is generally the case that the cheapest available tariffs are always monthly Direct Debit online tariffs

⁷⁵ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

⁷⁶ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

Consumers' reactions to the proposal to include information on the lowest tariff were explored in more detail in our focus group research in October 2010⁷⁷. Consumers were shown generic energy bills with mocked up information about the lowest price tariff (using real tariff information) and the associated terms and conditions such as the requirement to pay by Direct Debit or manage their bills online.

Trust and confusion affects perception

As with attitudes to energy bills, consumers' reactions to lowest price tariff information was coloured by their wider distrust of energy suppliers. The information immediately drove some consumers to feel that somehow they were being conned if they weren't already on the cheapest tariff, as they said it is the same gas and electricity no matter what you pay for it. People also expressed confusion at the concept of tariffs. They were distrustful of different priced tariffs as they felt a standard product such as gas and electricity could not be a different price:

*'Why do they need different tariffs for the same thing, you know? I know with [supplier] they have different online tariffs and if you don't pick the right one you're paying more than you need. Why don't they offer the cheapest to everybody?'*⁷⁸

Consumer, Caernarfon

Other consumers questioned a supplier's motivations for telling them this information and decided that an independent source would be more trusted:

*'If you have somebody that's totally independent, that wasn't moneymaking, then I'd listen to them'*⁷⁹

Consumer, York

Some consumers were positive about the addition of such information, feeling it would be useful. Despite a lot of distrust and cynicism towards a supplier's motivations some consumers felt the inclusion of such information would make them better disposed towards their energy supplier:

*'Well, it shows a bit of concern for a start from their point of view based on what you're looking for'*⁸⁰

Consumer, Edinburgh

Not reaching the right audience

Consumers in the focus groups who were not paying by Direct Debit immediately began to identify the barriers to using this information including their inability or unwillingness to change payment method:

*'For your PPM in your bill it states (how much you'd pay) if you were on Direct Debit or paperless billing, that is in there but I haven't got a bank account so I can't have a Direct Debit'*⁸¹

Consumer, Birmingham

These concerns were reflected in the Omnibus survey. While 82 per cent of respondents agreed they would switch to a lower tariff if they had the information, this figure dropped significantly for non Direct Debit customers when they were asked if they would change payment method to take advantage of a lower priced deal.

⁷⁷ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

⁷⁸ Ibid

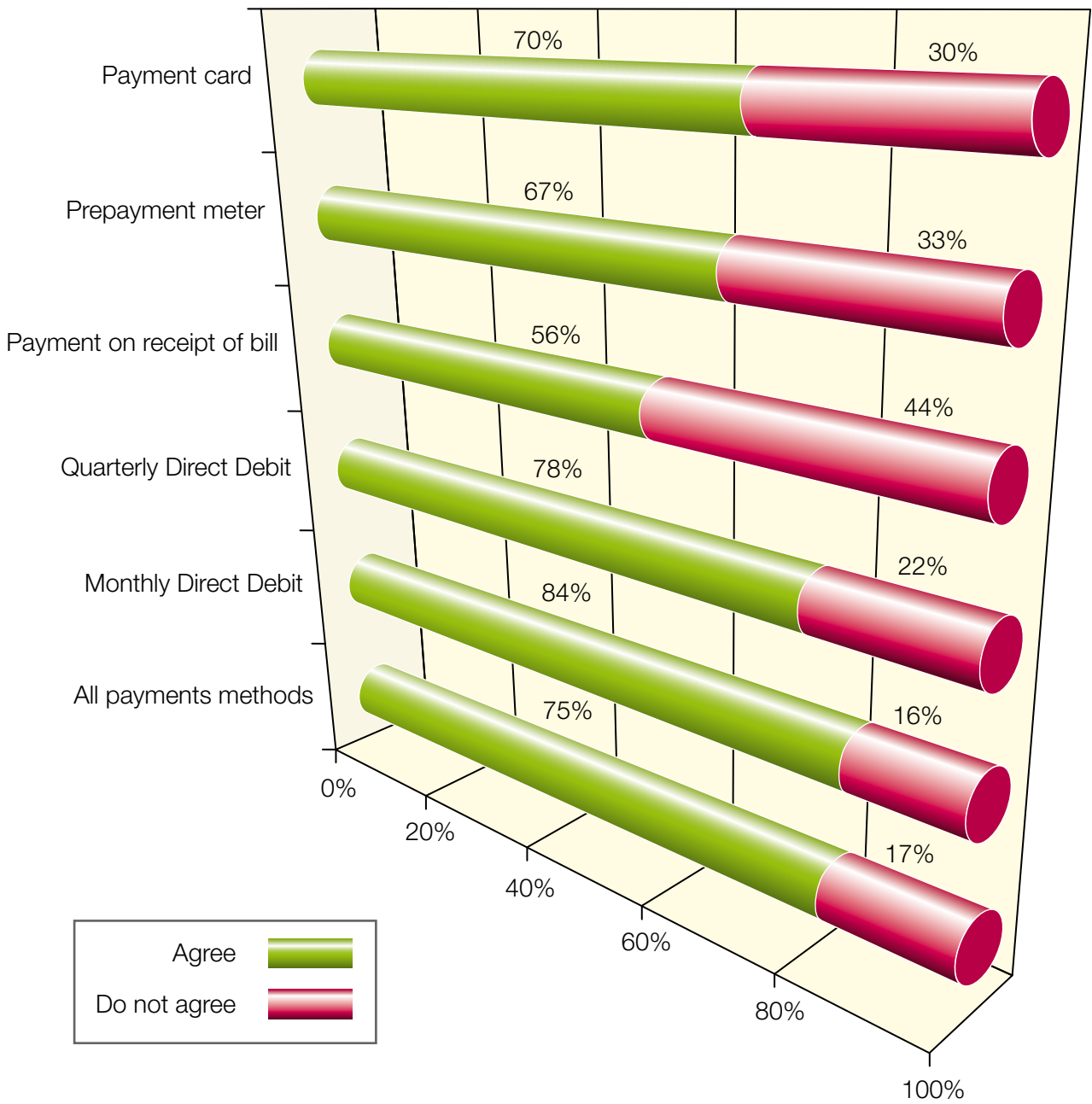
⁷⁹ Ibid

⁸⁰ Ibid

⁸¹ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

Even if the lowest tariff had conditions attached – such as having to pay by Direct Debit or a termination charge – I would still find the information useful⁸²



⁸² Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

Some consumers suggested that the information would be more useful to them if they were told the lowest priced tariff for their preferred payment method. This suggestion found a lot of support with consumers within the groups, especially from those on PPMs.

Overall, consumers in the focus groups were fairly indifferent to the inclusion of lowest tariff on bills. A few participants saw it as a good idea, with others distrustful of their supplier's motivations or struggling to understand the concept of the lowest price tariff. A significant percentage of the focus group participants simply saw price differences in terms of how you paid for your energy rather than the different tariffs available.

The information had a negative effect on some consumers, particularly those on low incomes or who paid by PPM, as the lowest priced tariff was practically unattainable.

This information confirmed some of the negative views they already held of energy suppliers.

*'It's all smoke and mirrors again. Why don't they just put down what the price of gas is?'*⁸³
Consumer, York

Comparative household consumption

The Government is also proposing the addition of information on a consumer's energy consumption compared to that of similar and more energy efficient households. This information is intended to help consumers reduce the amount of energy used. It was inspired by a successful pilot project in California where information comparing consumption to their neighbours inspired households to reduce their energy use⁸⁴.

When introduced to the idea of providing comparative consumption information on their energy bills, only 12 per cent of survey respondents agreed it would be a useful addition⁸⁵. PPM users were slightly less interested, with only 7 per cent agreeing this information would be useful.

However, as with the lowest tariff information, when this was presented as a simple question rather than as an addition to energy bills consumers were much more receptive, with 40 per cent⁸⁶ saying this would be useful.

Consumers' reactions to this proposal were explored in more detail in our focus group research in October 2010.⁸⁷ Consumers were shown generic energy bills with mocked up charts showing household consumption compared with average and energy efficient households.

⁸³ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010
<http://consumerfocus.org.uk/g/4p9>

⁸⁴ <http://bit.ly/kp488k>

⁸⁵ Face to face Omnibus survey carried out by TNS-RI in January 2011 of 2,049 consumers

⁸⁶ *Ibid*

⁸⁷ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010
<http://consumerfocus.org.uk/g/4p9>

Who's average?

Most consumers became very hung up on the idea of average consumption and felt that it did not apply to their circumstances:

*'Because it's an average, you know, there's a tremendous difference. What is an average? An average means nothing, you know, you're comparing so many things to get an average'*⁸⁸

Consumer, York

Consumers from all focus groups were quick to distance themselves from 'average' households. It was felt that all households had different and unique circumstances that affected their energy use. The use of the term 'average' affected the credibility of the information in the eyes of most consumers.

Comparisons prompted guilt and anger

When asked to consider this information in more detail many consumers reacted angrily. For many there was a feeling that this information was somehow judging the choices they made about energy consumption. Some consumers felt it wasn't the business of energy suppliers to judge how they used energy or spent their money:

*'What's the point of working if you can't have the heating on?'*⁸⁹

Consumer, London

Other consumers, particularly those on higher incomes, felt angry at being labelled as wasteful. There was a common theme that all consumers felt that they did not use any more energy than they needed to and saving energy would lead to unacceptable lifestyle changes:

*'They might say don't have your central heating on for four hours a day, have it on for two hours a day, well, no, I don't want to be cold'*⁹⁰

Consumer, York

Other consumers, particularly those with children, or younger people living in rented flat shares, felt helpless as they felt unable to change their energy consumption.

While the concept of being compared to neighbours or other households was very unpopular, there was some interest in being able to personalise such information. Consumers were much more interested in being able to compare what energy they had used in different time periods and understanding why that was the case:

*'I'd love to see what made us use more or less over the last year as compared to the year before but, you know, whether it would mean that I would use it differently is something else'*⁹¹

Consumer, Caernarfon

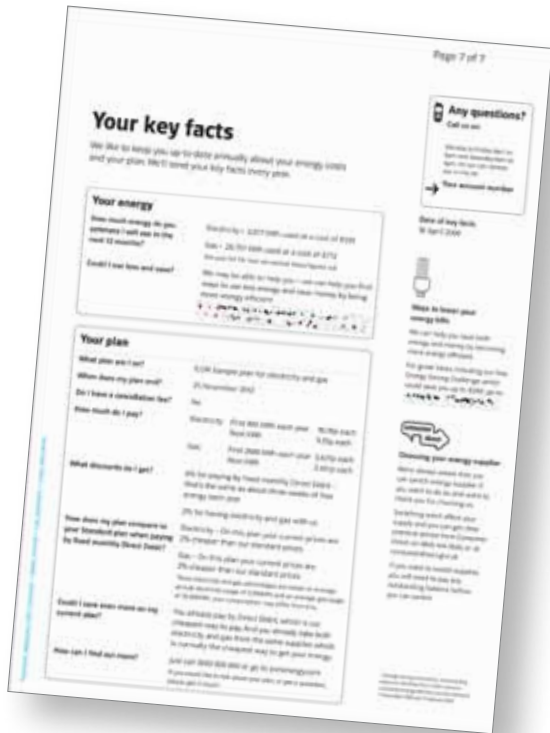
⁸⁸ Ibid

⁸⁹ Ibid

⁹⁰ *Informing choices – Consumer Views of Energy Bills*
Consumer Focus 2010

<http://consumerfocus.org.uk/g/4p9>

⁹¹ Ibid



If not the bill then where?

In the focus group discussions some consumers stated they would be more likely to trust the lowest tariff information if it came from an independent source. The Omnibus survey also tested consumers' receptiveness to receiving this information through channels other than the energy bill.

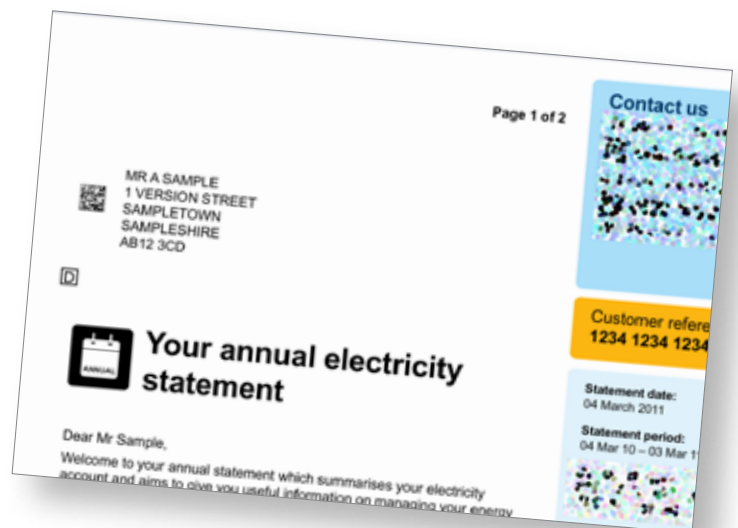
Consumers paying by Direct Debit preferred the information to be displayed on their energy supplier's website. People paying on receipt of bill or via PPM indicated a stronger preference for receiving a separate printed leaflet. Non Direct Debit customers, often the least engaged, showed a marked preference for receiving information by text message.

Finally, the all pervading distrust of energy suppliers coloured consumer's attitudes. Consumers wondered why suppliers would want to give them this information. Some consumers even wondered if they might somehow be 'punished' for using too much energy:

'I would like to understand the purpose behind all this, because this does not make any sense to me at all. Tomorrow they might just say okay this year's 32 per cent more than your neighbours so therefore you're going to pay extra'¹⁹²

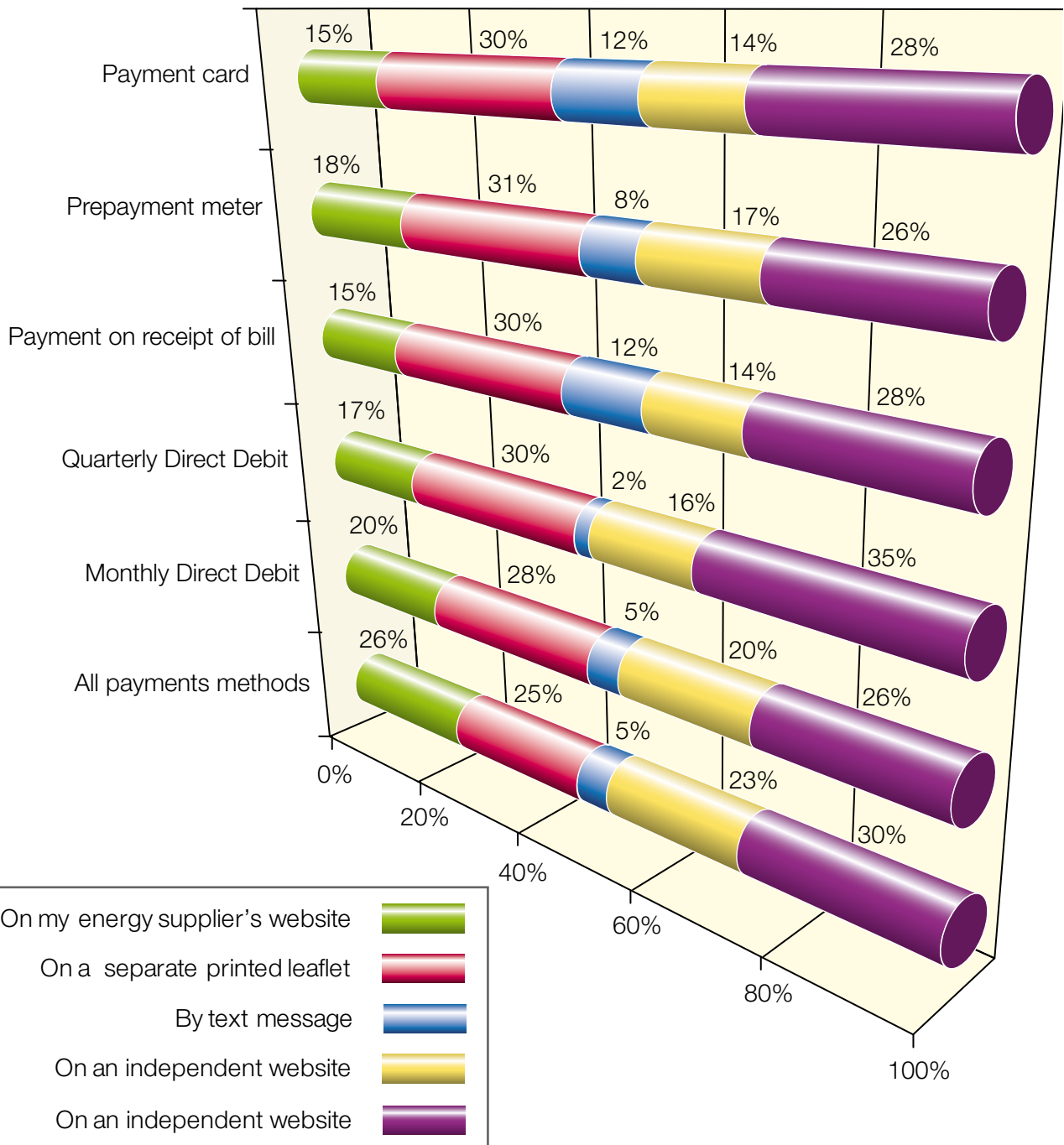
Consumer, London

This comparison information prompted some mild interest in consumers but the majority reacted with suspicion and confusion. Given the confusion and mistrust that consumers already feel when engaging with their energy bills, Consumer Focus believes that there needs to be careful consideration to the messaging and to whether the energy bill is the best place for this information.



⁹² Ibid

If the lowest price tariff information or comparative consumption information was not available on your energy bill, where else would you prefer it to be made available?⁹³ (by payment type)



⁹³ Face to face Omnibus survey carried out by TNS-RI in February 2011 of 1,987 consumers

The Annual Statement could also be a suitable alternative home for this information. In our Annual Statement Omnibus survey, 45 per cent⁹⁴ of consumers agreed that the lowest price tariff information would be useful if it was added to their Annual Statement and 36 per cent agreed that comparative consumption information would be a useful addition.⁹⁵

Consumer Focus would urge caution to anyone looking to inspire behaviour change through new information on energy bills. Consumers' increased interest in both pieces of information when presented separately from the energy bill shows that other vehicles (such as mail-outs, online information, independent telephone helplines, local agencies or trusted intermediaries and/or generic leaflets) may be better ways to reach a wider range of consumers, particularly more vulnerable groups of consumers. In order for any information remedies to work, whatever the vehicle, the pervading distrust of the energy industry by consumers must be addressed.



Retail Market Review

In March 2011 Ofgem published a review of the energy retail market⁹⁶ proposing fundamental changes to the market. This included some radical proposals to change the structure of energy tariffs to reduce tariff complexity and improve the low levels of consumer engagement.

Ofgem has proposed introducing the following remedies:

- 1 Suppliers to offer one 'evergreen' tariff per payment method, which is aimed at reducing tariff complexity (suppliers can continue to offer more complex fixed term products) and make it easier for consumers to compare prices and switch
- 2 Strengthen existing regulations to ensure consumers receive more standardised Annual Statements
- 3 Ofgem to provide direct advice to consumers on how to switch and how to make best use of the information available

Consumer Focus welcomes the proposals and will work with the regulator and industry to ensure the new initiatives deliver benefits to consumers.

⁹⁴ Ibid

⁹⁵ Ibid

⁹⁶ <http://bit.ly/j15NZg>

Key conclusions

Consumer Focus's research findings raise a number of concerns about consumers' willingness to engage with bills, the reliance on bills as the sole communication tool, and the suitability and effectiveness of introducing more complex 'nudges' on energy bills.

- 1 Mistrust of the energy industry can colour consumers' attitudes to communications they receive from their energy supplier.
- 2 The majority of consumers read their energy bills to understand how much money they owe and do not engage with other information on it.
- 3 Many consumers are confused by energy tariffs and often do not understand that their current supplier can offer them different or cheaper tariffs.
- 4 Only a very small minority of consumers regularly compare prices or switch supplier.
- 5 Prepayment meter users are least likely to read or engage with communications from their supplier.
- 6 Less than half of consumers remember receiving an Annual Statement.
- 7 Of those who remember receiving one, engagement with the Annual Statement was high but failed to translate into action.
- 8 Energy bills may not be the best location for additional information designed to inspire behaviour change. This is especially true for those groups already reluctant to engage with their energy bills, such as younger people, low income consumers and prepayment meter users. Use of alternative information channels should be considered.
- 9 Introducing a 'one size fits all' information remedy to prompt behaviour changes is unlikely to work, particularly for those households whose scope for change is more limited (tenants, low income consumers, prepayment meter users). More tailored messages should be used wherever possible.

Recommendations

Energy suppliers

- 1 Continue to work to build and improve trust with their customers.
- 2 Simplify tariff structures and refrain from offering overly complex and confusing tariffs with complicated terms and conditions.
- 3 Improve the design of energy bills and other customer communications to make them more accessible and easier to understand for all groups of consumers. This could include introducing messaging that is tailored to specific consumer groups wherever possible.
- 4 Explore more effective ways to communicate with prepayment meter users and other disengaged groups such as private tenants, low income consumers and younger people. This could include the use of incentives, which are already prevalent in other industries such as mobile phones.
- 5 Consider introducing offers that are more suited to peoples' aspirations and lifestyles eg develop web based offers for consumers not paying by Direct Debit.

Consumer Focus

- 1 Work with interested parties to develop further empowerment tools to help consumers understand and use their annual statement.
- 2 Continue to campaign to reduce tariff complexity and tariff proliferation.
- 3 Continue to work with suppliers to encourage the development of better designed and more understandable energy bills and information.
- 4 Carry out research into consumer behaviour in the energy market to better understand what messaging and triggers work for different groups of consumers⁹⁷.
- 5 Carry out a wider review into how to use information to empower vulnerable consumers as directed in the April 2011 BIS report *Better Choices; Better Deals*.

Ofgem/DECC

- 1 Review the performance of the Annual Statement to try and understand why it is not prompting action, particularly from those in low income or disadvantaged groups.
- 2 Address the fact that simply by moving house consumers are excluded from receiving an Annual Statement for the following 12 month period.
- 3 Carry out trials, together with suppliers, before introducing further information to consumers' energy bills.
- 4 Review the effectiveness of all behavioural change information added to energy bills and customer communications to date.

⁹⁷ Consumer Focus would be interested in carrying out a joint research project with other interested parties.

Annex 1

Our research

Informing choices – consumer views of energy bills

What we did

Six focus groups carried out by Ipsos MORI for Consumer Focus in October and November 2010.

Six extended group discussions were conducted across Great Britain in the period 18–26 October 2010, with nine to 10 participants in each. This nationally spread qualitative study covered a range of demographic and payment types, including low income and PPM customers, in England, Scotland and Wales.

Participants were recruited to quotas to aim for broad coverage of the following factors:

- Socio-economic grade
- How they pay for gas and electricity
- Bank account status
- Working status, housing tenure
- Whether they have switched supplier or thought about doing so
- Internet access
- Gender
- Age
- Extent of trust in energy suppliers (aiming for a broad spread on a scale of trust)
- In Wales, the ability to read Welsh

Omnibus surveys

Energy bills

Methodology

The omnibus research was carried out by TNI-RI for Consumer Focus between 12 and 16 January 2011.

The survey was carried out face to face and interviewees were restricted to those over 18 who were wholly or partly responsible for paying energy bills at that address. Total sample size was 2,049 adults.

Questions asked

Q16 Do you use both mains gas and electricity in your property?

- 01 Yes – both mains gas and electricity
- 02 No – just electricity

Q16a How often do you give a meter reading to your gas supplier?

- 01 Every month
- 02 Every 3-6 months
- 03 Every 6-12 months
- 04 Once a year
- 05 It varies
- 06 Never

Q16b How often do you give a meter reading to your electricity supplier?

Q17 And do you receive your gas and electricity bills separately, or do they arrive as one bill?

- 01 Pay separately
- 02 Arrive as one bill

Thinking about your mains gas bill.

Q18a How do you usually pay for your mains gas bill?

- 01 Monthly Direct Debit
- 02 Quarterly Direct Debit
- 03 Quarterly by cash or cheque
- 04 Payment Card
- 05 PPM
- 06 Other (specify)

Q18b And do you receive your mains gas bill as hardcopy and/or online?

- 01 Hardcopy/in the post
- 02 Online

Q18c And how often do you look at a hard copy of your gas bill?

- 01 Every time it arrives
- 02 Every few months
- 03 Once or twice a year
- 04 Less often
- 05 Never

Q18d And how often do you look at your gas bill online?

Thinking about your electricity bill.

Q19a How do you usually pay for your electricity bill?

- 01 Monthly Direct Debit
- 02 Quarterly Direct Debit
- 03 Quarterly by cash or cheque
- 04 Payment Card
- 05 PPM
- 06 Other (specify)

Q19b And do you receive your electricity bill as hardcopy and/or online?

- 01 Hardcopy/in the post
- 02 Online

Q19c And how often do you look at a hard copy of your electricity bill?

- 01 Every time it arrives
- 02 Every few months
- 03 Once or twice a year
- 04 Less often
- 05 Never

Q19d And how often do you look at your electricity bill online?

Thinking about your combined gas/electricity bill

Q20a How do you usually pay for your gas/electricity bill?

- 01 Monthly Direct Debit
- 02 Quarterly Direct Debit
- 03 Quarterly by cash or cheque
- 04 Payment Card
- 05 PPM
- 06 Other (specify)

Q20b And do you receive your gas/electricity bill as hardcopy and/or online?

- 01 Hardcopy/in the post
- 02 Online

Q20c And how often do you look at a hard copy of your gas/electricity bill?

- 01 Every time it arrives
- 02 Every few months
- 03 Once or twice a year
- 04 Less often
- 05 Never

Q20d *And how often do you look at your gas/ electricity bill online?*

Q21 *You said earlier that you look at your gas/ electricity bills when they arrive either in the post or via online. What do you look for when you are reading them?*

- 01 To see how much you owe
- 02 To find out how much energy I have used.
- 03 For information to compare prices and switch supplier
- 04 To find out information on how to complain.
- 05 Other (specify)

Q22 *How easy do you find it to find the information you are looking for on your gas/electricity bill?*

- 01 Very easy
- 02 Quite easy
- 03 Quite difficult
- 04 Very difficult

Q23 *In general would you look to your gas/ electricity bill for information on any of the following?*

- 01 Cutting the cost of your energy bills
- 02 Improving energy efficiency
- 03 Changing to a different gas or electricity supplier
- 04 Making a complaint to your gas or electricity supplier
- 05 Understanding how much energy you use
- 06 None of these

Q24 *What other information, if any, would you like provided on your energy bill?*

- 01 Information about how to get a cheaper tariff from my current supplier
- 02 Information comparing my energy use to similar households
- 03 Advice on how to save energy
- 04 Other (specify)
- 05 None

Q25 *If the information was not available on your energy bill, where else would you prefer it to be made available?*

- 01 On the energy suppliers website
- 02 In a leaflet/ printed publication
- 03 By text message
- 04 On an independent website
- 05 Other (specify)

Q26 *Would you find it useful to have information about the energy use of other households similar to yours?*

- 01 Yes
- 02 No

Q27 *Some mobile phone companies allow you to access your bill free online, but make you pay to receive a paper copy in the post. In the future, would you be prepared to pay for paper copies of your gas and electricity bills if they were available free online or via email?*

- 01 Yes
- 02 No
- 03 Already do pay for paper copies

Q28. *Have you switched any of your gas or electricity suppliers in the last 12 months?*

- 01 Yes
- 02 No

Q29 *What were the main reasons for switching your energy supplier?*

- 01 Got a big bill/ wanted to save money
- 02 Salesperson came to the door/ phoned me/ approached me in the street
- 03 Poor customer service
- 04 Special offer from the energy supplier
- 05 Other (specify)

Q30 *If you did want to switch energy suppliers in the future, are you confident of where to find all the information you need to be able to make the switch?*

- 01 Yes
- 02 No

Q31 *Have you ever switched to a different tariff with your existing energy supplier?*

- 01 Yes
- 02 No

Q32 *Why did you switch your tariff?*

PROBE: What made you switch?

PROBE: Why else?

Q33 *I am now going to read out a couple of statements people have made, and would like to tell me whether you agree or disagree with them.*

I would switch to the lowest tariff my supplier offers if I had information about it

Even if the lowest tariff had conditions attached – such as having to pay by Direct Debit or a termination charge – I would still find the information useful

- 01 Agree
- 02 Disagree

Switching and Annual Statements

What we did

The omnibus research was carried out by TNI-RI for Consumer Focus between 25 February and 1 March 2011.

The survey was carried out face to face and interviewees were restricted to those over 18 who were wholly or partly responsible for paying energy bills at that address. Total sample size was 1,987 adults.

Questions asked

I would now like to ask you some questions about your home energy supply

Q.1 Are you the person responsible for paying the gas and electricity bills in your household? With gas - If you are only responsible for paying the gas bill - please only think about mains gas. If you only have Calor/LPG in your house, please do not include these

01: Yes

02: No

Q.2 Do you use both mains gas and electricity in your property? By gas I mean mains gas not Calor or LPG

01: Yes - both mains gas and electricity

02: No - just electricity

Q.3 And who is your gas supplier? Again by gas I mean mains gas not Calor or LPG

- 01: British Gas
- 02: EDF Energy
- 03: EON
- 04: npower
- 05: Scottish Power
- 06: Scottish and Southern Electricity/Southern Electric\Atlantic\SWALEC\Scottish Hydro
- 08: Other (Specify)

Q.4 How do you pay for your gas bill?

- 01: Monthly Direct Debit
- 02: Quarterly Direct Debit
- 03: Payment on demand (When you pay for your gas bill by cash, cheque or debit/ credit card when you receive it)
- 04: PPM (you put money on a card/key and then insert it in your meter)
- 05: Payment card (A card you use to pay for your gas bill in instalments)
- 06: Other (Specify)

Q.5 And how long have you been with your current gas supplier?

- 01: Less than 6 months
- 02: 6-11 months
- 03: 1-2 years
- 04: Longer than 2 years

Thinking now about your electricity bills.

Q.6 And who is your electricity supplier?

Q.7 How do you pay for your electricity bill?

Q.8 How long have you been with your current electricity supplier?

Q.9 How often do you compare prices for electricity and/or gas? This could be visiting a price comparison website or calling your supplier to talk about prices.

- 01: Monthly
- 02: Quarterly
- 03: Every six months
- 04: Once a year
- 05: Less than once a year
- 06: Never

Q.10 When you compare prices for electricity and/or gas what prompts you to do this?

- 01: Getting a gas\electricity bill
- 02: After a price rise from my supplier
- 03: Trying to reduce household expenditure
- 04: Hearing about better offers or prices from another gas\electricity supplier
- 05: Dissatisfaction with my current supplier – eg poor customer service
- 06: Other (Specify)

Q.11 And have you ever contacted your current energy supplier to see if you can switch to a better deal?

- 01: Yes
- 02: No

Q.12 And thinking back to when you last contacted your supplier about whether they offered a better deal, did you actually switch to the better deal with them?

- 01: Yes
- 02: No
- 03: I am currently in the process of switching to a better deal
- 04: I am still finding out about the better deal

Q.13 And what was the MAIN reason you chose NOT to take up the better deal?

- 01: The money I could save wasn't worth the effort switching
- 02: To get the deal I needed to be billed online and I didn't want to
- 03: To get the deal I needed to change how I pay my bills and I didn't want to or I couldn't do so.
- 04: Other (Specify)

I will now ask you some questions about your ANNUAL STATEMENT.

Your annual statement is an extra piece of information your supplier will send you, usually with your bill, with information about your previous energy consumption and how much your energy bill will be over the next year – it will generally be a fourth extra page on your bill)

Your annual statement is not always called an 'annual statement' some suppliers call it by a different name. For example for EDFE it is called 'Your standard payment review for gas and electricity', for EON 'Your electricity and gas statement' and for npower - 'your annual energy consumption statement'.

Q.14 Thinking about the description you have just seen and heard can you remember if you received an annual statement from your energy supplier in the last 12 months?

- 01: Yes
- 02: No, I have definitely not received an annual statement
- 03: I don't remember receiving an annual statement

Q.15 And did you read the annual statement?

- 01: Yes
- 02: No

Q.16 Do you remember receiving information on ANY of the following in your annual statement?

INTERVIEWER ADD: Please select all that apply.

- 01: The name of my tariff
- 02: Previous years gas\electricity consumption
- 03: A comparison of how much I pay compared to the standard Direct Debit tariff
- 04: How much my gas\electricity will cost in the next 12 months
- 05: Details of my contract terms and conditions
- 06: Information letting me can switch supplier
- 07: Information on where I can get independent advice on switching supplier

Q.17 *And how easy or difficult did you find it to understand the information on your annual statement?*

- 01: Very easy
- 02: Fairly easy
- 03: Fairly difficult
- 04: Very difficult
- 05: I did not understand my annual statement at all

Q.18 *What action(s), if any, did you take as a result reading the information on your annual statement? Please select all that apply*

- 01: Contacted my energy supplier for more information
- 02: Visited a price comparison website
- 03: Visited my supplier's website to check prices
- 04: Changed to a cheaper tariff with my own supplier
- 05: Changed my payment type
- 06: Switched to a different supplier
- 07: Tried to use less energy
- 08: Made energy efficiency improvements to my house/flat
- 09: Other (Specify)
- 10: None- I took no action

Q.19 *How helpful did you find your annual statement when carrying out these activities?*

- 01: Very helpful
- 02: Quite helpful
- 03: Not very helpful
- 04: Not at all helpful

Q.20 *Still thinking back to your last annual statement did you find any of the following pieces of information useful...*

- ... The name of your tariff
- ... Previous year's gas\electricity consumption
- ... A comparison of how much your pay compared to the standard Direct Debit tariff
- ... How much your gas\electricity will cost in the next 12 months
- ... Details of your contract terms and conditions
- ... Information letting you can switch supplier
- ... Information on where you can get independent advice on switching supplier
- 01: Useful
Very Useful
Slightly useful
- 02: Not useful

Q.21 And which of the following reasons explains why you did NOT take any action?

- 01: I didn't know what action to take
- 02: I didn't understand the information
- 03: I didn't think I could make any savings
- 04: The savings I could make were not worth effort
- 05: I was unable to change to cheaper tariff
- 06: I was unable to switch to a different payment method
- 07: I was unable to reduce my energy consumption
- 08: Didn't trust\believe information provided
- 09: Other (Specify)

Q.22 And why you did not trust or believe the information on your statement?

- 01: The information was\seemed wrong
- 02: I didn't understand the information fully
- 03: I don't trust information from my energy supplier
- 04: Other (specify)

Q.23 And do you think you would you trust this information more if it came from another INDEPENDENT organisation? By this I mean if it came from an organisation that was not your energy supplier.

- 01: Yes
- 02: No

Q.24 And if you were to receive this information from an independent organisation how would you prefer to receive it?

- 01: With your energy bill
- 02: Separate mailing from supplier
- 03: Supplier website
- 04: Independent website
- 05: Supplier telephone helpline
- 06: Independent telephone helpline
- 07: Government website
- 08: Government run helpline
- 09: None of these

Q.25 Based on your experience to date, would you use your annual statement to take action again?

- 01: Yes
- 02: No

Q.26 Which, if any, of the following bits of additional information would you find useful on your annual statement?

- 01: Information comparing your energy consumption to similar households
- 02: Details of the lowest tariff your supplier offers
- 03: Energy saving tips
- 04: Other (Specify)
- 05: None

Q.27 *When you received your annual statement, would you say that you understood ALL the information on it?*

- 01: Yes - Understood all of it
- 02: Yes - Understood most of it
- 03: Yes - Understood some of it
- 04: No - Did not understand any of it

Q.28 *And when you did not understand something on your annual statement did you go to any of the following for advice or help?*

- 01: My energy supplier
- 02: Price comparison site
- 03: Consumer Direct
- 04: Friends or family
- 05: Other (specify)
- 06: I did not seek any help/advice

Q.29 *If you have not received an annual statement do you think receiving such information would be useful to you?*

- 01: Yes
- 02: No

Q.30 *If you don't remember whether you received an annual statement, would you be interested in receiving this information in future?*

- 01: Yes
- 02: No

Q.31 *And which, if any, of the following types of information would you find MOST useful on your annual statement?*

- 01: Details of your current tariff
- 02: How much you will spend in the next year on gas\electricity
- 03: How much gas\electricity you have used in the last year
- 04: Details of how much you are charged in relation to the suppliers standard Direct Debit tariff
- 05: Information about your suppliers cheapest tariff
- 06: Information comparing your energy consumption with similar households
- 07: Other (Specify)

Q.32 *And finally in this section can I just ask, have you moved house in the past 12 months?*

- 01: Yes
- 02: No

Annex 2

Energy billing – legal requirements and national practices in Great Britain

Information on energy bills

The following information has to appear on all energy bills:

- The supplier's name, address and phone number
- Customer reference or account number
- The current balance (usually in bold type)
- Name and address of the customer
- Period of time covered by the bill
- Information on the customer's consumption for the bill period and a comparison with their consumption for the same period on the previous year
- Previous and current meter readings
- Number of units used
- Price(s) of units
- The standing charge price
- Details of any discounts
- Amount of VAT to pay
- The MPR/MPAN (unique reference number for supply to the customers house)
- Meter number
- Emergency phone numbers
- The back of the bill should have a phone contact for Consumer Direct
- The back of the bill should also have details regarding the Energy Ombudsman

New information on bills

From July 2010 new information has had to be added to domestic energy bills as part of the requirements of SLC 31A: Information about electricity consumption patterns.

Energy bills

In addition to the above information each energy bill must now also include the following information:

- The customers exact tariff name
- Quantity of gas/electricity supplied in the last 12 months
- Predicted cost, in GBP, of the next 12 months gas/electricity consumption

Annual Statement

Every 12 months (where the customer has been with the supplier for a minimum of 12 months), an Annual Statement must be sent with the following information:

- The customers exact tariff name
- Quantity of gas/electricity supplied in the last 12 months
- Predicted cost, in GBP, of the next 12 months gas/electricity consumption
- Details of any premium or discount that applies compared to the suppliers standard Direct Debit tariff
- Details of the principal terms and conditions of the customers contract
- Reminder that the customer can switch supplier
- Signpost to impartial information about switching supplier (usually Consumer Direct)

Meter reading

Energy suppliers have an obligation to use all reasonable endeavours to gain entry to read customers meters at least once every two years. Suppliers offer ways for consumers to supply their own reading via email, website, phone, text and post.

Bill frequency

Energy bills are generally dispatched every quarter. However there is no legal obligation upon suppliers to issue quarterly bills. Suppliers have an obligation to issue an annual usage statement, though not necessarily based on actual meter readings.

Annex 3

Our 10 best practice points for Annual Statements

- 1 As a minimum, the annual statement should be a clearly titled, separate page of the consumer's energy bill.
- 2 The annual statement should be clearly labelled as such and not go by any alternative title.
- 3 All information on the annual statement and bills should be presented in clear, uncomplicated language and designed in a manner that enables consumers to easily locate and understand key information.
- 4 It should be made very clear at the top of the annual statement that it is not a demand for money but provided purely for information purposes.
- 5 The time period covered by the annual statement should be in a prominent place on the annual statement.
- 6 The wording of the 'reminder to switch' should make it clear that the customer has the right to switch to another supplier, as well as to a new tariff with their existing supplier.
- 7 Signposting to independent advice on switching should feature Consumer Direct as well as a reference to the Consumer Focus Confidence Code where consumers can find a list of accredited price comparison sites. Our suggested wording would be '*Consumer Focus has a Confidence Code for online switching sites to ensure consumers receive accurate, comprehensive and unbiased price comparisons. The Confidence Code sets out the minimum requirements that sites must meet in order to be, and remain, accredited by Consumer Focus. For more information and a list of accredited sites visit www.consumerfocus.org.uk*'
- 8 Information about previous usage and future spend should be laid out in a clear and easily understandable manner, preferably presented as a graph or table format that enables the consumer to easily understand this information. We also suggest that in addition to previous usage being presented in kWh, consumers are also given the costs of this consumption.
- 9 Where the customer is on a fixed price tariff or limited term discounted tariff with an expiry date before the 12 month projection period is up, the remaining part of the year's projection should be calculated as if the customer had defaulted to the supplier's standard tariff (or whatever tariff the supplier intends to default to at the end of the fixed period/discounted period). For example, if the 12 month price projection covered 1 January 2010 to 31 December 2010 and the customer's fixed/discount tariff is due to end on 30 June 2010 the projection should use the fixed/discounted tariff rates from 1 January 2010 until 30 June, and then the supplier's standard tariff price between 1 July and 31 December. This information should clearly presented and designed in a way that enables the consumer to identify the information easily accompanied by clear explanatory text.
- 10 On the annual statement it should be made clear if the customer is supplied via an Independent Gas Transporter (IGT) as this may affect price comparison and switching decisions.

Annex 4

Consumer Focus bills and Annual Statements – Best practice ranking

(Written July 2010 - some suppliers have subsequently made changes and improvements to their Annual Statements)

Supplier bills and Annual Statements – ranking

Supplier	Energy Bill Ranking	Annual Statement Ranking
British Gas	Very Good	Very Good
e.on	Good	Good
EDF Energy	Good	Good
Scottish Power	Good	Average
SSE	Average	Poor
npower	Poor	Poor

What makes a good annual statement?

- A clearly labelled, separate annual statement
- Information about previous usage and future spend on the annual statement and the energy bill laid out in a clear and easily understandable manner, preferably presented as a graph that enables the consumer to easily understand this information
- Information on the annual statement is written in clear and accessible language

Ranking	Criteria
Very Good	<ul style="list-style-type: none"> ● Clear, customer friendly language used ● Well designed graphs and illustrations ● Design which allows consumers to clearly access and understand all the information they need about their energy usage ● The right to switch is clearly stated with a link to the Consumer Focus Confidence Code and other sources of independent advice ● Comprehensive FAQ section
Good	<ul style="list-style-type: none"> ● Information about previous usage and future spend on the annual statement and the energy bill is available. But could be improved ● Comparative daily usage figures are available ● The right to switch is stated but not clearly expressed (and we recommend suppliers' signpost to the Consumer Focus Confidence Code) ● The annual statement is well laid out but not clearly labelled as such to distinguish it from the bill
Average	<ul style="list-style-type: none"> ● It is unclear why the annual statement is being provided. It must be clear that it is not a demand for money but provided purely for information purposes ● The right to switch is stated but not clearly expressed and makes no reference to where consumers can seek independent advice. (We recommend suppliers' signpost to the Consumer Focus Confidence Code) ● Key information is included, but would benefit from being laid out in a more logical order and layout ● More clarity needed about previous usage and future spend
Poor	<ul style="list-style-type: none"> ● Unclear distinction between the annual statement and the bill ● The reminder of the right to switch is confusing, and makes no reference to where consumers can seek independent advice ● Information about previous usage and future spend is not laid out in a clear and easily understandable manner ● Energy bill design and layout results in information being more difficult to understand

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