



Promoting choice and value  
for all gas and electricity customers

# **DPCR5 Consumer First research: Findings from the qualitative, quantitative and worst served work-strands**

CEER Meeting

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## Background

### Why carry out customer research?

- To obtain a clear understanding of what customers want from their DNO;
- Customers have no other means of expressing choices in monopolistic situations;
- Ensure our incentives reflect customers' priorities and valuations.

### Process



## Stage One: Qualitative Research Objectives

- **Understand Consumers' expectations regarding DNO service;**
- **Explore current experiences and satisfaction with quality of service;**
- **Understand key priorities and areas that consumers value;**
- **Explore the guaranteed standards; and**
- **Provide context and direction for the quantitative study.**

## Qualitative Summary

- **In general, incidence of Power Cuts/Voltage Issues infrequent and service = very good across sample types**
  - Minimal differences in urban/rural satisfaction
  - Higher dependency businesses = more specialist issues
- **Awareness of DNOs limited and opportunity to increase profile**
  - Provide consumer confidence in network investment
  - Longer term may support greater WTP
- **Awareness of GSOPs limited but principle of standards is important**
  - Scope to amend detail on some
- **Compensation creates negativity amongst Business customers thus need to review compensation and penalty system**
- **Stronger qualitative barriers to WTP than previous study**
  - Sceptical about efficiency of spending
  - Question the need – efficient service already

## DNO Performance

### +ve

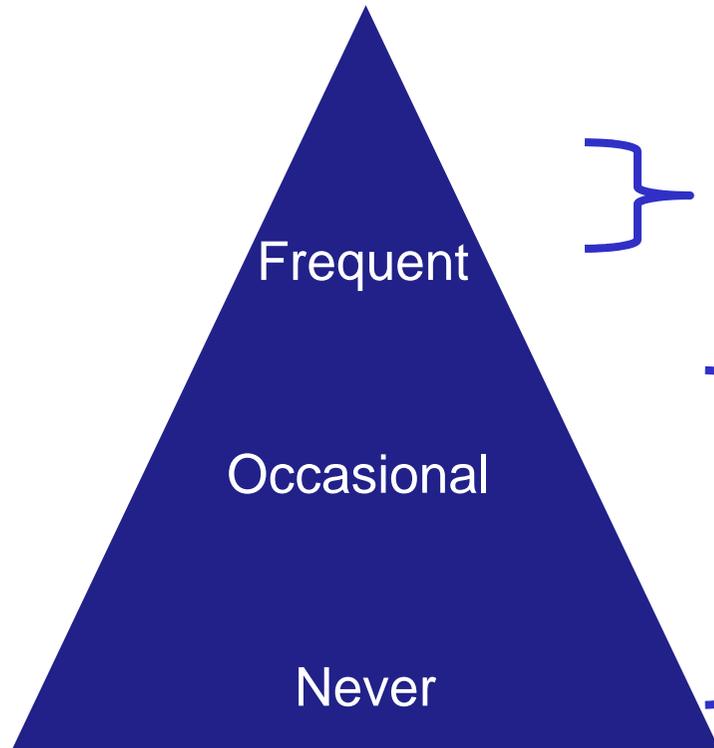
- Low incidence of problems
- Minimal disruption during bad weather
- React well to unforeseen events e.g. flooding, landslide
- Relentless attitude to fixing
- Visible investment in infrastructure
- Good response to queries

### -ve

- Lack of communication (during power cuts)
- Lack of pro-activity
- Poor customer service – new project set-up

## Experience of Power Cuts

**Overall, low incidence of memorable Power Cuts and strong sense that things have improved over last 3-5 years**



**Definite Minority  
Frequent or Infrequent Significant Cuts**



**Majority of sample  
Urban and Rural**

*"There were quite a few of them about 20 years ago." Business Gloucester*

## Awareness of DNO Brands

### Current DNO profile = minimal



- Very low awareness of DNO brands
- Domestic and some business unaware of Distributor existence
- Minority of Business customers had experience and therefore some knowledge
  
- Vans = prompt some awareness

***Potential to raise awareness and create positive associations with the DNO 'brands'***

## Overall Awareness of & Attitudes Towards GSOPs

**Low awareness of specifics of GSPs but more savvy customers recognised that some form of measurement would be in place**

- Low awareness of GSOPs and detail across the sample
  - Those with greater experience of Power Cuts vaguely recall some notification for compensation (minority)
- Principle of service standards welcomed
  - Ensure that DNOs have targets
  - Strong call for penalties if standards not met reflects lower level of tolerance

***In order to promote greater transparency of DNO role need to work with Suppliers to increase awareness of GSOPs***

## Amount of Compensation

### Significant differences in responses from Domestic and Business customers

Business



**Even as a gesture payment, current levels are unacceptable for Business customers and create negative feelings**

***Test alternatives for compensation for Business customers – drop altogether, change to tailored system***

Domestic



**For domestic customers responses are more varied BUT if framed in context of personal insurance and bill size then acceptable**

## Overall on WTP

### Noticeable shift since previous research with strong barriers to increased bills

#### +ve Barriers

- No need
- Electricity supply = fine
- Have back-up plans in place
- Why would we pay more for something that is acceptable?

*“If you were talking 15 or 20 years ago then maybe but we have moved on and things should have been updated so it doesn't happen as often” Tong, Small Business*

#### -ve Barriers

- Lack of trust in industry – too many layers
- Unsure of where the money would go
- Energy costs are too high anyway
- Investment from DNO profits
- Everything gets put on the Customer
- Need for supplier contribution

*“They are making a lot of money and I don't want to have to pay a penny more otherwise they will be milking me and they already make millions and millions “ Domestic, London*

## Quantitative methodology and key findings

### Willingness to Pay

- State of the art approach to understanding customers' priorities for improvements
- Customers are presented with discrete choice experiments and invited to choose between different service packages
- Focuses on the trade-offs customers make when comparing service levels with changes in bill sizes

- 2100 domestic interviews
- 1050 business interviews

### Willingness to Pay results across a package of 12 attributes

|                         | Domestic | Business |         |
|-------------------------|----------|----------|---------|
|                         |          | S,M      | L       |
| WTP p/year              | £27.23   | £11,475  | £30,150 |
| % of typical total bill | 6.7      | 15.3     | 13.4    |
| % of typical DUOS bill  | 42       | 77       | 67      |

Overall Willingness to Pay for improvements in service is considerably lower than at DPCR4 but still a large proportion of DUOS

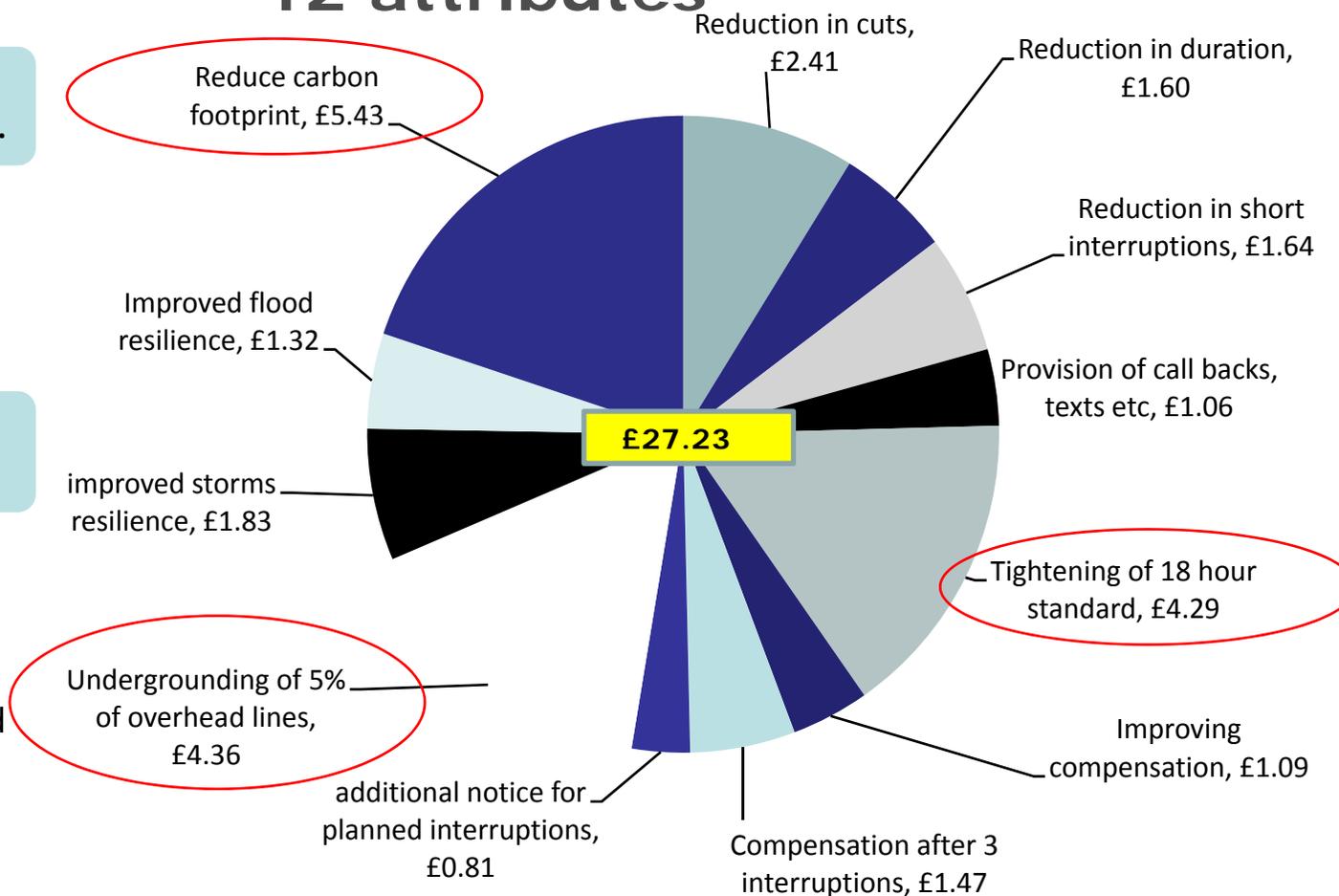
## Domestic customers' willingness to pay across 12 attributes

### Customers place highest value on...

- Carbon reduction initiatives
- Speedier restoration

### Customers place lowest value on...

- Improved compensation levels
- Increased notice periods for planned interruptions



## Implications for DPCR5

### Ofgem generally on right track

Strongest value placed on measures to reduce carbon footprint

Willingness to pay figures for interruptions within range of existing incentive rates

Appetite for continuation of the undergrounding scheme

Noticeable similarities across business and domestic result

Broad similarities in willingness to pay across DNOs (some exceptions)

### Areas for further thought

Is this a "halo effect"?

Clear message that customers want no more power cuts. Less clear message in terms of WTP for improvements  
-Should there be an asymmetric interruption incentive?

Apparent desire for quick restoration, but are standards the right tool for this?  
- Should we focus on interruption incentive scheme or standards?

How much should we do on flooding?  
- Pitt review/some WTP for flood protection

### Further work needed to compare willingness to pay and costs

## Worst served customers

### Objectives

Examine the experiences and attitudes of worst served customers

Explore their awareness of, and attitudes towards, guaranteed standards

Understand where they feel investment should be going, as compared to the "average" customer

### How

7 focus groups covering one area of each of the 7 company groups (14 overall DNOs)

Primarily domestic customers with some attendees who also owned businesses

Locations drawn from areas where more than 15 outages had occurred over a three year period

## Findings

### Key points from worst served focus groups

High and rising prices should be followed by improvements in service

Majority see current service levels as unsatisfactory

Widespread tolerance of cuts due to severe weather but not for those perceived to be due to poor maintenance, lack of investment or declining workforces

Sense that performance not improving or in fact deteriorating

Limited awareness of DNOs and poor communication exacerbating feelings that DNOs not doing enough to prevent future power cuts

Current 18 hour standard too lenient – preference for a 6 hour standard, and compensation should increase progressively with length of cut

Preference for a tighter multiple interruption standard backed up by the proposed total duration standard

Compensation should be automatic rather than onus being on customer to record times and make a claim

## Next steps

Will be reviewing results of main willingness to pay survey alongside cost information submitted by DNOs

Reviewing policy implications from survey work and responses to March initial consultation document

DNOs undertaking stakeholder consultation to inform their business plans for DPCR5

Working with DNOs to review information on worst served customers in order to determine the likely scale and scope of a worst served mechanism

Conducting repeat discussion groups in September 2008 to assess any changes in priorities and attitudes

DPCR5 policy document to be published in December 2008 – this will incorporate our views on quality of service arrangements for DPCR5



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# Appendix



## Summary of WTP valuations: Domestic

| ATTRIBUTES TESTED  | NON-LONDON | LONDON * |
|--|------------|----------|
| Reduction of 3 cuts in 5 years (non-LPN) and 10 years (LPN)            | £2.41      | £4.04    |
| Reduction to average duration of cut by 20 mins                        | £1.60      | £1.20    |
| Reduction of 2 interruptions in 5 years (non-LPN) and 10 years (LPN)   | £1.64      | £0.69    |
| Provision of call backs, texts etc.                                    | £1.06      | £0.52    |
| From 18 hours to 6 hours for restoration of supply                     | £4.29      | £1.54    |
| Fixed and variable compensation levels improved                        | £1.00      | £0.50    |
| Compensation after multiple interruptions (4 interruptions to 3)       | £1.47      | £0.41    |
| Notice for planned interruptions from 2 to 5 days                      | £0.81      | £0.43    |
| Undergrounding of 1.5% of overhead lines                               | £2.29      | N/A      |
| 20% reduction in number of customers affected by storms                | £1.83      | N/A      |
| Number of sites exposed to risk reduced from 1000 to 850               | £1.32      | £2.37    |
| Replace 10% equipment & vehicles with those using less polluting fuels | £5.43      | £4.54    |

\* A separate questionnaire was designed for London customers as some attributes are irrelevant – i.e. storms resilience and network undergrounding

## Summary of WTP valuations: Businesses (small, medium – S,M and large - L)

| ATTRIBUTES TESTED  | NON-LONDON |      | LONDON * |      |
|--|------------|------|----------|------|
|  | S,M        | L    | S,M      | L    |
| Reduction of 3 cuts in 5 years                                     | 1.7%       | 1.4% | 3.8%     | 1.4% |
| Reduction to average duration of cut by 20 mins                    | 1.0%       | 0.8% | N/A      | N/A  |
| Reduction of 2 interruptions in 5 years                            | 1.1%       | 0.1% | N/A      | N/A  |
| From 18 hours to 6 hours for restoration of supply                 | 6.5%       | 7.2% | 7.7%     | 2.9% |
| Notice for planned interruptions from 2 to 5 or 10 days            | 0.3%       | 0.3% | N/A      | N/A  |
| 20% reduction in number of customers affected by storms            | 1.4%       | 1.1% | N/A      | N/A  |
| Number of sites exposed to risk reduced from 1000 to 850           | 0.5%       | 0.4% | N/A      | N/A  |
| Replace 10% equip & vehicles with those using less polluting fuels | 2.1%       | 1.7% | 2.4%     | 0.9% |
| Provision of advice to improve energy efficiency                   | 0.7%       | 0.5% | N/A      | N/A  |
| Provision of call backs, texts etc.                                | N/A        | N/A  | 1.9%     | 0.7% |

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*ofgem*

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