

Institute for Public Policy Research



# KEEP IT SIMPLE

## ENERGY BILLS MADE EASY

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# SUMMARY

## 60-SECOND SUMMARY

Energy prices are once again in the news, with manifesto commitments and potential government action being considered as some energy suppliers raise their prices before winter. Some two thirds of consumers remain on a standard variable tariff, which can mean they are paying as much as £300 per annum more than they need too. Furthermore, while there are as many as 30 retail suppliers of gas and/or electricity supplying the market today<sup>1</sup>, surveys suggest over 30 per cent of respondents have never considered switching supplier, which would equate to some 9 million households across the UK.

Clearly there are missed opportunities for a great many households. To increase switching amongst these households, more must be done to improve consumer engagement in the market. The content and accessibility of energy bills has a critical role to play here. This report explores how well an energy bill engages, informs and supports customers in understanding their energy use and assessing whether they have the best deal for them and their household. It concludes that for many customers, energy bills are still too confusing with too much jargon that is often difficult to engage with. And a comparison with UK consumer experiences of other similar bills, finds that many are felt to be simpler and more accessible than energy bills.

The report recommends a significant simplification of energy bills to improve consumer engagement. Working with our focus groups we have created two possible future bill formats that should make bills simpler, with a view to prompting more responsiveness from many of the un-engaged customers who do not switch.

The roll out of smart metering, creates an opportunity to go a step further. The report therefore argues that the majority of consumers would be best served by each company only offering a single tariff. Other consumer benefits would be realised by active independent use of energy use information (as captured by smart meters in aggregate), and by broader policy interventions to encourage 'pro-sumers'.

## EXECUTIVE SUMMARY

Rising energy bills over the last few years has led to a continued debate about the level of competition in a market dominated by six big energy companies, a debate reignited by recent pre-winter price rises and promises to act in the 2017 general election manifestos of both major parties.

While some parts of the solution do lie with government action, consumers have a critical role to play in identifying and opting for the best deals in the market. This has led to increased focus on the level of consumer engagement and the extent to which greater switching can open up the market and put downward pressure on bills.

While switching levels have risen they are still relatively low, which is in part because many consumers still face a number of barriers to engaging and making

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1 <http://switch.which.co.uk/energy-suppliers/suppliers-atoz.html>

informed decisions about whether and how to change supplier, and get a better deal. These barriers to engagement include:

- **those that affect how people can access information** – physical barriers such as lack of access to online information, a lack of awareness of options or a perception that all suppliers offer a poor deal
- **difficulties in accessing and understanding the information that is available** – confusing presentation, too much jargon or the multiplicity of options available
- **barriers to action** – a lack of support in managing energy usage, a lack of confidence in making a switch or insufficient benefit to make a switch worth the ‘hassle’.

If the energy market is to address the wider issues of competitiveness, overcoming these barriers to customer engagement and action will be essential, and more radical measure may be required than have thus far been deployed.

Given the bill is the first point of contact for any form of consumer engagement with every customer that is where significant work needs to be done. IPPR’s focus group research and studies by others, including Ofgem, have found that many consumers still find the energy bill too confusing and hard to engage with. And a comparison with UK consumer experiences of other similar bills, finds that many are felt to be simpler and more accessible than energy bills.

## RECOMMENDATIONS

The report recommends a significant simplification of energy bills to improve consumer engagement.

In the short term, if we want users to consume information on bills in a way that will prompt them to act, we need to change the design and information on the bill to make them jargon free and focused on key information. This should be matched by support to help customers use the information to act through occasional and timely text alerts of better deals.

In the medium term, smart meter roll out provides a unique opportunity to go further by:

- legislating for a single tariff per supplier to allow energy companies to compete directly with each other on price, whilst providing a simple metric for consumers to compare different providers
- creating a consumer engagement arm of Ofgem to use the data provided by smart meters to personalise information and advice to consumers to encourage switching.

# 1.

## BARRIERS TO CONSUMER ENGAGEMENT

The cost of an average energy bill has risen significantly in recent years. This has led to a vigorous debate about how to increase competition in the market and push down prices through greater consumer engagement and switching. The number of energy users switching has been rising since 2014, following a period of decline (DECC 2017). However, the proportion of consumers switching still remains relatively low. In 2016, only 15 per cent of customers changed gas or electricity suppliers (Ofgem 2016) and 51 per cent of non-switchers had never switched energy provider before. Whilst most customers are aware that they have the option to switch, many face three key barriers to doing so:

- access to information about the offers available
- the ability to assess the information once presented
- the willingness to act on information that has been clearly presented.

These barriers are discussed below and are substantiated both by reviews of previous consumer surveys (such as those carried out by Ofgem) and focus groups convened by IPPR to question in part how easy consumers find it to understand their energy bills. In some cases, these barriers are related to the specific challenges of the information on a bill, but, for many others, there are also barriers within the retail energy market as a whole. Simplifying an energy bill is both about clarifying information on the physical statement and promoting greater confidence and engagement in the market as a whole.

### 1.1 WHAT DOES A FULLY ENGAGED CONSUMER LOOK LIKE?

According to consumer surveys conducted by Ofgem since 2014, around 15 per cent of all consumers were what they regarded as 'switched on'. These consumers were more likely to have the following traits (TNS 2016):

- familiar with their options in the energy market
- comparing tariffs
- switching supplier in the last 12 months
- switching tariffs
- more likely to have complained to a supplier
- more likely to have made contact of some form with suppliers
- very likely to recall communications from suppliers and read them in detail
- aged 35–64
- work full-time
- own their own home
- access the internet daily
- more likely to have a degree or above
- white (Caucasian)
- English as a first language
- married

- have dual fuel tariffs
- pay energy bills via direct debit.

## 1.2 ACCESS TO INFORMATION

A limited amount of information is available to consumers through their meter, typically a 'credit-meter' that records the cumulative 'amount' of energy used. For those who use a pre-payment meter there is clearly an on-going measure of costs as payments have to be made before energy can be used. This report focuses on the majority who use credit meters and the associated billing information. In general, access to information has been relatively high in the UK, as shown by the fact that over 75 per cent of consumers have at least read their energy billing statement or annual review (TNS 2016). In some instances, however, even this step towards engagement in energy costs can be challenging.

### 1.2.1 Physical barriers to access

While some consumers may be reluctant to engage, some consumers may simply be unable to do so. For example, currently around 10 per cent of UK households still do not have access to the internet (ONS 2017), and are therefore solely dependent on printed materials. For other households, social renting status or not having English as a first language may restrict the ability of the consumer to make informed choices.

### 1.2.2 Lack of awareness of switching

Lack of awareness of the ability to switch suppliers, or a negative, burdensome experience from doing so in the past, may limit a consumer's engagement with information and new best practices for presenting opportunities to switch supplier. From IPPR's focus group, though many consumers had switched at least once, many found the process confusing and would avoid switching again.

### 1.2.3 Lack of trust in energy companies

Energy companies do not enjoy high levels of trust by the public, which views them begrudgingly as a necessity of life. In fact, according to the Edelman Trust Barometer, the level of trust in the UK energy sector among the general population has gone down between 2015 and 2016 from 51 points to 43 points, with energy CEOs being less trusted than their counterparts in the financial services sector (Edelman 2016).

## 1.3 ASSESSING BILLING INFORMATION

Having information does not mean consumers will use it. In a 2016 consumer survey for Ofgem, it was found that more than 75 per cent of consumers found communications with their energy supplier clear. However, asking about whether or not a bill is clear is different from asking whether or not there is enough information and understanding to act, and one should not be taken as a proxy for the other. This is clear from limited customer action with only 13 per cent who 'thought about' switching as a result of receiving these communications (TNS 2016). As such, merely having access to the information available within the current billing practices has limitations in driving engagement in the market

### 1.3.1 Confusing presentation of information on bills

One of the main barriers to consumers making decisions based on the information put in front of them is the unclear presentation of this information. In many cases, consumers will likely have the necessary detail to make a decision about switching within the current billing methods but are unaware of where this could be found



on physical statements. In this sense, confusing presentation of information is as unhelpful as no information at all.

This is reinforced by consumer focus groups held by IPPR for this report. They reported frequently finding at least part of the bill confusing. In some situations, consumers and focus group members also pointed out that, when contacting customer services, the same kinds of jargon would be used with a frequent lack of recognition that consumers did not 'speak the same language'.

Many consumers in the focus groups were unaware of the differences between fixed and variable tariffs, let alone the variations of these from which they could choose.

### *1.3.2 The multiplicity of options available*

Many price comparison websites (PCWs) exist to provide consumers with the information about alternative deals to their current suppliers. However, such information can still require a degree of consumer understanding and confidence in what to search for and how to compare like with like. Navigation through these websites may be confusing for some consumers (UKRN 2016). Indeed, feedback from our focus group suggested that consumers find the existence of multiple and different deals on multiple sites to be confusing, with many not prepared to search multiple PCWs due to the 'hassle' they feel they would experience.

## **1.4 ACTING ON INFORMATION**

Only a third of consumers who saw messages encouraging money saving were prompted to take action to do so (ibid). Given the proportion of consumers in Ofgem's "unplugged" group has risen slightly from 2014 to 2016 (ibid), it is reasonable to suggest that acting on information is still a major hurdle. Even though some consumers may engage more, this tends to come from demographics that are either partially or fully engaged already (the 'Switched on' and the 'tuned in'). The fact remains that, as of 2016, more than two thirds of consumers were still on a standard variable tariff. Getting all of this cohort, including the now-growing 'unplugged' group, to act on information presented to them will be a substantial challenge.

### *1.4.1 Lack of support in managing energy use*

Although price is still a key piece of information which consumers look for in their contract, many consumers are also increasingly interested in the nature of their energy use. According to a survey for Ofgem, it was found that the number of people looking at both the tariff level *and* their energy use has increased from 28 per cent to 49 per cent between 2014 and 2016 (TNS 2016). However, thus far, support for consumers in managing energy use beyond smart meters has not matched this increased level of interest from consumers. If this trend of interest continues then support for managing energy use will be important when seeking to engage and retain consumers.

### *1.4.2 Lack of confidence in switching to alternatives*

Even with the required market information and understanding of how to switch energy suppliers, consumers may not have the confidence that they could do so correctly. This could be for a number of reasons including a perception that they may be 'caught out' by exit fees or, if renting a property, they may be unaware of their ability to switch, thinking this is something that landlords or other tenants would be better suited to deal with.

### *1.4.3 Insufficient benefit*

Even with access to and awareness of the relevant information, acting upon this can still be limited since energy is still a service that is met with indifference among some consumers. According to a survey conducted for YouGov, 24 per cent of consumers said that if offered the opportunity to switch for a saving of less than £100 they either didn't know if they would switch or probably would not switch regardless of the saving achieved (Harmston 2016). However engaging some activities may be, there will always be consumers who may prefer being less active rather than more, as well as those who will require a greater incentive to act than bill savings currently represent.

## 2. SIMPLIFYING ENERGY BILLS – THE REGULATORY CONTEXT

In an effort to address many of the barriers outlined, energy suppliers, often marshalled by Ofgem, have attempted to make a number of changes to simplify the information and presentation of bills.

Here we review the ongoing efforts to simplify bills from the regulatory side. We set out some of the legal requirements for including information on energy bills, including the use of technical terms which can cause confusion. We then evaluate previous efforts to simplify bills through changing the information and tariffs presented on consumer energy bills.

### 2.1 EFFORTS TO IMPROVE LANGUAGE

All energy suppliers are required to adhere to lengthy licence conditions both for gas and electricity that are administered by Ofgem. Often this means including detailed information within energy billing, which consumers cannot realistically be expected to understand (Ofgem 2017a). These licence conditions are currently being reviewed by Ofgem with a view to simplifying what suppliers are required to include on bills. Whilst it remains to be seen what information may be changed, in its current state the terminology used in the presentation of some basic information can be confusing for consumers to engage with (see table 2.1).

**TABLE 2.1**

#### Glossary of jargon used and its meaning

Term	Meaning
Account number	Number for referencing your account when contacting a supplier
Calorific value (CV)	Measurement for amount of heat generated from burning a given volume of gas
Discounts	Reductions in energy costs for both dual fuel and direct debit
Dual fuel	Gas and electricity combined purchasing
Economy 7	Tariff with cheaper prices at night, usually between 1am and 8am
Economy 10	Tariffs with cheaper prices at specific times during the afternoon, evening and overnight
Estimated (E) or Actual (A) readings	Estimated readings are 'guesses' by a supplier of the amount of electricity or gas used. Actual readings come from a meter reader coming to the property or from smart meter readings
Fixed monthly debits	Paying a set amount every month (that is often based on your monthly usage)
Unit conversion to kWh	The conversion of CV to kWh
IGT network/charges	Charges if your home is not supplied by gas from the National Grid and instead is supplied by an Independent Gas Transporter
Kilowatt hours (kWh)	Standard measurement of energy for gas and electricity

<b>Loyalty points</b>	Apply to some tariffs and can be earned if supplier has arrangement with certain shops or supermarkets
<b>Meter point administration number (MPAN)</b>	The registration number for your electricity meter starting with an 'S'
<b>Meter point reference number (MPRN)</b>	The registration number for your gas meter and may be referred to as the 'M' number
<b>Metric conversion factor</b>	Conversion unit to convert units into kWh
<b>MPRN/MPAN</b>	Abbreviations for the two metering numbers above
<b>NSC – no standing charge</b>	No daily fixed rate, often applies to older energy plans
<b>Plan/tariff name</b>	Name of your particular tariff, useful though not essential when considering a switch to a different supplier
<b>Standing charges</b>	All energy plans now have a fixed daily rate charged by suppliers
<b>Standing order</b>	Fixed amount to be paid from your bank account as often as necessary
<b>Supply number</b>	Same as your MPAN
<b>Tiers</b>	Tiered energy pricing which should no longer exist on plans newer than April 2014
<b>Units</b>	Gas initially measured in units then converted to kWh
<b>Variable direct debit (VDD)</b>	Direct debit that allows suppliers to charge and take the exact amount that is used each month (as opposed to a fixed direct debit where the cost is fixed each month)
<b>VAT</b>	Charged at 5 per cent on top of bills instead of 20 per cent
<b>Volume correction factor</b>	Correcting measurement accounting for changes in volume of gas based on temperature and pressure

Source: uSwitch, 'Energy bills – understanding utility bills' (2017a)

It is perhaps unsurprising that among those consumers who are currently 'unplugged' the number of people reading bills in detail is falling (TNS 2016). In this sense, the information Ofgem requires energy suppliers to show in bills for public consumption is not matched by the level of understanding from the public consuming it.

## 2.2 PREVIOUS RESPONSES TO SIMPLIFYING BILLS

To address this issue, there are a number of initiatives that have attempted to increase participation in the market, both among the unengaged and the already engaged. To date, however, many of these have been met with mixed results.

### 2.2.1 Voluntary Code of Practice

All the major energy suppliers are members of a Voluntary Code of Practice for Accurate Bills, with their accounts being audited yearly by PricewaterhouseCoopers. This code of practice contains a number of principles spanning the billing process (Energy UK 2017) to which energy suppliers must adhere. Examples of these principles include:

- Switching
  - providing customers with the information needed for switching
- Meter reading
  - **providing 'a range of information in a variety of different ways' to ensure customers can understand the importance of and read the meter**
- Energy bills
  - sending out estimated bills

- **using a simple format so that customers can understand how bills are calculated**
- **clearly communicating with the customer either on the bill or elsewhere if there is a price increase or reduction**
- checking unusually high or low bills before sending
- providing bills according to an agreed billing schedule
- Payments & refunds
  - refunding promptly
  - offering a range of payment plans for customers' energy bills
- Back billing
  - not charging extra if there is an outstanding bill that has not been received by the customer

Those highlighted in bold suggest an awareness and emphasis on clear communication with consumers with existing information and how prices may change in future. At the same time, however, despite required information and principles guiding communication and presentation, the information within physical bills themselves can vary. Looking at the bills from the UK's six main energy suppliers, these vary in size between three to seven pages (uSwitch 2017a).

There is then, a misalignment between the theory stated in the codes of practice to which energy suppliers voluntarily adhere and the level of confusion that is still common among consumers in practice. This suggests that these principles will need refining in order to promote greater engagement.

### 2.2.2 A review of the Retail Market Review

In 2013, Ofgem released their Retail Market Review (RMR) in an effort to simplify energy bills for customers and help them to understand their tariffs by cutting down on their variety and variability (ibid). The historical view is briefly presented here in order to understand what has changed and how much it has helped.

#### Tariff comparison rates

The price of both electricity and gas is calculated using two factors: the unit rate and the standing charge. The unit rate refers to the price per unit of electricity (kWh) or gas (kWh or m<sup>3</sup>) used in a household at any given time. The standing charge is the price an energy supplier charges per day. The tariff comparison rate (TCR) is an attempt to set a baseline cost of electricity or gas per unit (kWh) based on average consumption (ibid). In other words, the TCR combines the unit rate and standing charge into one price that is based on average energy consumption.

This is done for every tariff from every energy supplier, with the same average energy consumption figures used (3,100 kWh of electricity and 12,500 kWh of gas per year) for each. This TCR for each tariff can then be compared with other tariffs and allows customers to identify cheaper rates.

The TCR was mandated for adoption in Spring 2014 but the question remains whether or not this has been helpful. In some ways, this could be seen as yet another number added to the energy bill. In particular, in Ofgem's customer engagement survey in 2016, it found that only a fifth of consumers recalled seeing a TCR on their energy bill with less than a third of those who did see this being motivated enough to switch supplier (TNS 2016).

### Personal projections of energy use

In 2014, Ofgem mandated energy suppliers to provide customers with personal projections of energy use for the year in order to indicate what this would cost. However, it was criticised as it calculated a fixed 12-month period irrespective of whether or not this reflected a full 12-month contract. For example, a personal projection for a person with only 6 months left on their existing contract would calculate 6 months on their existing contract plus 6 months on a future contract. If this future contract was more expensive, then when a consumer came to switch out of their existing contract after 6 months, the savings may be artificially inflated.

Furthermore, personal projections are not standardised methodologies and are applied by the suppliers themselves meaning that comparison with other suppliers will not be accurate because there is no like for like comparison to be made.

Despite the flaws in methodology, personal projections have been recalled more frequently than TCRs by Ofgem's consumer survey at 34 per cent of respondents (ibid). This is particularly true for those reviewing their annual statements and is reinforced by comments from IPPR's own focus groups that projections of energy cost and use in an annual review are helpful methods of planning future use.

### Simplification of tariffs

In July 2016, the CMA recommended that the 'core four' tariff rules suggested by the RMR which was initially designed to simplify bills had in fact prevented suppliers from offering more innovative tariff structures. This core tariff proposal has now been scrapped.

### Tariff information labels

Tariff Information Labels (TILs) are a summary of the key details relating to an energy tariff for gas and electricity. This information includes details about the name of the tariff, the unit rate, the standing charge, the payment method and the tariff type (Ofgem, 2017). It is presented in a standardised format across energy suppliers with the intention that customers would be able to compare like-for-like information regardless of supplier in order to provide consumers with initial details needed to compare with other tariffs. (UK Power, 2017).

Though only intended to provide key information at a glance, since its introduction, there has been an increase in consumers looking for information on their existing tariff rising from 60% of consumers in 2014 to 67% in 2015 and rising slightly again in 2016 (TNS 2016). Though feedback from our focus group suggested that some information normally found in TILs is confusing, aspects of the TILs will be incorporated as part of our suggestions for simplifying the bill.

#### 2.2.3 Be an Energy Shopper campaign

Switching levels as a result of the Be an Energy Shopper campaign can be difficult to track since it is an ongoing programme. However, so far this initiative, co-ordinated by Citizens Advice and Ofgem, is specifically designed to simplify the marketplace for consumers and point them in the direction of the best deals. In particular, Ofgem has conducted review panels with consumers to test the messaging of the campaign in order to reach all types of consumers, including those less engaged, emphasising things like ease of switching, financial incentives and encouragement that expertise is not required (Ofgem 2017b).

### 2.2.4 Evaluation of previous response so far

Analysis and reform of the retail energy market is an ongoing process, with Ofgem currently conducting consultations for new designs of switching arrangements (Ofgem 2017). While we support this work, it is also important to evaluate the extent to which previous reforms have addressed the main barriers highlighted in chapter 1. Table 2.2 summarises our analysis of these reforms based on survey analysis from Ofgem and feedback from our consumer focus groups.

We note that some barriers do not fall within the scope of these measures, for example these reforms do not address physical barriers, nor the issues of multiplicity of information being confusing to customers.

**TABLE 2.2 MIXED EFFECTIVENESS OF PREVIOUS RESPONSES TO ENGAGING CONSUMERS**

	Barriers				
	Awareness of information	Understanding information		Acting on information	
<b>Reform</b>	Lack of trust	Unclear presentation	Complexity of tariffs	Lack of support in managing energy	Lack of confidence
<b>Voluntary code of practice</b>		Bills vary in length depending on supplier			
<b>Tariff comparison rates</b>		Adds clutter to bill causing low engagement	Adds another number that consumer do not understand		Insufficient incentive to move due to lack of confidence in other suppliers
<b>Personal projections</b>	Can be misleading exacerbating lack of trust			Some interest in energy use but no standard methodology for calculating this so projections may be misleading	
<b>Tariff information label</b>		Standardised format can help with familiarity	Provides key information but sometimes still confusing		
<b>Four core tariffs</b>			Simplification led to complaints by suppliers and it is not clear that they made life easier for consumers		

Source:IPPR analysis from sources above

# 3.

## THE USE OF BILLING BY OTHER UK SERVICE PROVIDERS

In this chapter we explore the consumer experience of utility and similar bills issues in the UK, to identify lessons from them that could then be applied to energy bills.

### 3.1 OVERVIEW

A useful reference point for what a simpler bill could look like are other utility bills in the UK. To this end one of the main exercises of our focus group work was to consider their experience of bills and billing processes in the UK, both for energy bills and for other UK utilities and similar service providers. Given the relationship between many utility suppliers and the nature of tenure we chose to create one group made up of homeowners, and another made up of those who rent. Each group was brought together to create a mixed demography of age, and equal gender split.

In addition, we asked all those interviewed or otherwise involved in the study for their experiences of energy bills; some of their observations are captured below. We believe the immediate effect of our focus group intervention has been to encourage at least a further five people to switch energy supplier from a 'cohort' of 50+.

### 3.2 PARTICIPANTS' EXPERIENCES OF BILLING

To inform our understanding of people's experiences of bills and billing, all were asked to indicate the relative ease of use and understanding of bills they received, placing each type of bill offered on a scale ranging from 1 (easy) to 10 (hard).

In both focus groups bills for services such as water rates and council tax were highlighted as easy; there was a mixed response regarding mobile phone bills, landline, 'wifi' (broadband) (those renting found these more difficult than homeowners); while with only a couple of exceptions across both groups all found energy bills to be harder to understand. In the rental group this was tested further, suggesting that gas bills were harder to understand than electricity bills, and that in many cases both types of energy bill were harder to use for older customers.

In exploring why different bills were thought to be easier or harder the following observations were noted:

- easier bills tended to be predictable costs/charges; harder bills had the scope to be unpredictable or offer 'shocks'
- easier bills did not vary greatly
- harder bills presumed knowledge about words and phrases in the bill (which customer services often reinforced)



- easier bills had less to say, less 'additional' information that might otherwise be a distraction, or worse
- easier bills had more straightforward expressions or calculations of the cost (whatever the underlying unit price)
- easier bills had straightforward contracts, no presumed renewals.

### 3.3 COMPARISONS

Given the feedback from focus groups and interviewees it is clear that there are better, or less challenging, experiences of bills and billing to be found across the UK. In comparing experiences we acknowledge that the nature of the services and sectors under comparison are not the same as for energy services and billing. As with our overseas comparisons there are different market arrangements or structures, different degrees of government control or oversight, customer switching levels will vary, as will initiatives for engaging customers; while not all sectors have an equivalent in practice, or theory, of a smart meter.

However, the lived experience of our participants and interviewees highlights how they make comparisons and how their expectations can be set regardless of what might be going on behind the meter, the corporate brand or their use of a service, so we will look at what their experiences might tell us about the lessons of these other services, bills and billing systems for a simpler billing system for energy.

The comparator examples offered in the focus group discussions – banking, mobile phones, council, water, petrol – are explored further below.

#### 3.3.1 Nature and 'style' of bill

Bank statements were highlighted by some participants as easier to use, though of course they are more a statement of use than a bill (with many retail accounts being free of charges in general use). The ability to know which record related to which purchase or use were noted as helpful examples of what they would appreciate from an energy bill.

Council tax bills and water rates were found to be easier, in part because they were an advance notification of charges; they had fixed charges at predictable times and many of the statement front pages were felt to be clearer, as they only include what the bill is for, how much it is, and when it will be due; along with personal name, address and some other identifier information.

#### 3.3.2 Timing of bills, and statements

For council tax, water rates and many fixed price deals for such things as mobile phones there is typically an advanced notification of the charges to be incurred, and the nature and timing of the payments required; be that a consistent price over the period of the contract, or per annum in 12 (or often 10) monthly installments.

For vehicle fuel, while the amount used and paid for is completely variable it is directly related to usage, metered at the point of delivery; and with experience a driver can begin to estimate the fuel cost of a journey.

#### 3.3.3 Nature of the supplier – customer relationship

Here we can see the variety between services that involve an active and engaging relationship between the customer and supplier; for example, petrol purchasing or pay-as-you-go where the customer is an active party in accessing the service or product, and council tax or water where the customer is somewhat more passive.

### 3.3.4 Product and service variety

Mobile phone suppliers offer a range of packages of services, typically combinations of data and voice calls, set at different price bands; in addition to packages that allow for the purchase (over time) of the phone itself.

Council tax rates clearly have a macro relationship to the services on offer in a jurisdiction, compared to neighbouring areas; though not all, and in some cases few of these services will be used by each and every council tax bill payer – for example social care or education, as opposed to street cleaning and recycling.

### 3.3.5 How prices relate to services

For water, as with energy, the product is broadly universally the same, though we note some customers of water companies can get different levels of service (potable water, sewerage) depending where they are (akin to being on/off the gas main). For many customers there is no real relationship between water use and water charges, reflected in water rates being based on the council tax banding of the home it serves. In this sense water supply and its billing is more akin to broadband – if you are connected you pay a fixed, predictable, notified in advance payment per annum, though unlike broadband there is no price per volume of capacity.

By comparison, when filling a car tank with fuel there is a clear price per unit volume; and while many people don't know the capacity of their car's fuel tank they have a good sense of how much filling a tank would cost, and an awareness of how far that tank would allow them to drive (which at least allows them to estimate a cost of service).

## 3.4 OBSERVATIONS FOR ENERGY BILLS AND BILLING

Compiling these observations, there are a number of notable features to highlight:

- Council tax bills are an example of a bill that minimises the initial information presented – what it is for, how much, and when it is due.
- Water rates highlight that billing can be independent of volume of supply.
- Water and council tax highlight the potential for advance statements of supply and the fixed costs associated with that supply.
- Water and council tax also indicate the potential for advance payment (for example payment in 10 months of a 12-month period).
- Mobile phones show how different packages of services can be offered between and within the same supplier's offer
- Petrol shows how billing can be price sensitive over time, as well as clearly metered to allow price per volume sales.

These observations and the different criteria for assessing them are tabulated below for comparison with energy.

## 3.5 SUMMARY OF LEARNINGS FOR ENERGY BILLS

There are a number of key differences in the billing of other UK utilities that are useful when considering how to simplify energy bills. Firstly, energy bills are the only type of product where the quality of the product is the same but the pricing may vary within the same company. For example, you cannot receive (noticeably) different quality of electricity or gas but you can receive different packages of data, minutes or texts from the same mobile phone network. There is, then, an important question around why different tariffs for energy exist within the same company in the first instance.

**TABLE 3.1**

**Observations from other service providers' billing**

Utility	Nature of bill	Timing of bill	Customer relationship	Product/ service variety	Price relation to services
Water	Easy to understand because of advanced statement	Advanced statements and potential for advanced payment	Passive as limited consumer interaction	No difference in water	Billing can be independent of volume of supply
Council tax	Minimises initial information presented	Advanced statements and potential for advanced payment	Passive as limited consumer interaction	Mandated government tax	Varies based on banding of house
Mobile phone	Relatively easy to understand as usage is itemised and pre-agreed as part of deal	Fixed monthly cost	Pay monthly deal can involve receiving phone itself	Different packages of services within the same supplier	Fixed monthly cost but with specific limits for minutes, texts and data
Landline	Can be packaged with internet	Fixed monthly cost	Fixed pay monthly so limited interaction	Different packages of services within the same supplier	Fixed monthly cost but with charges for calls outside of UK
Internet	Can be packaged with landline	Fixed monthly cost	Fixed pay monthly so limited interaction	Different levels of broadband speed can be offered	No relation to usage necessarily
Petrol	Payment on ad hoc basis like any shop-bought commodity	Pay as you go	Active engagement as consumers pay as they go	Different types of petrol at the station	Price sensitive over time
Energy	Lots of information that can confuse consumers and prevent engagement	Depends on metering type; PAYG if on pre-payment; otherwise can be fixed or variable monthly payments	Depends on the meter and current trends but generally more passive engagement	Prices can vary within supplier for same quality of service	Price related to usage

Secondly, some bills like water and council tax are regarded as simpler in part because the amount of information presented on them is minimised, tending to focus on information that could be described as essential. This may be due to the fact that these are not competitive markets, with no incentive to catch consumers with new information about switching or getting a better deal.

Finally, energy billing is the only type of utility bill where the service provided requires little engagement from consumers, but there are still multiple options to choose from. In this sense, it is important to bear in mind that any suggestions for engaging consumers will always be met with some resistance, in part because, unlike other utilities that need to engage consumers, e.g. mobile phones, energy will always be an essential service.

## 4.

# THE FUTURE OF BILLING – THE ROLE OF SMART METERS

In this chapter, we consider the smart meter rollout, associated initiatives for engagement of customers (from passive to active) and the implications for the future of bills and billing that these measures could suggest.

### 4.1 WHY ARE SMART METERS USEFUL FOR ENGAGING CONSUMERS?

Sufficiently widely rolled out and supported smart meters should offer opportunities for greater customer engagement in their own energy use as these meters can:

- show real-time use of energy, removing the need for manual meter readings and estimated bills
- allow customers to understand which energy uses or devices cause spikes in their energy use and bills
- be linked to displays and apps on phones which enable consumers to monitor and manage their energy usage clearly.

Such metering could also allow a much more straightforward relationship between what is being paid for on each bill, and what energy was used in the bill period. In turn this greater engagement could offer customers the clear information they need to make choices about what they use, what they are prepared to pay for energy at a given time, and ultimately who supplies their energy.

### 4.2 BEFORE SMART METERS

Before the smart meter rollout domestic users of energy would either have had their energy use measured by a pre-payment meter or a 'credit' meter. The former required payment to be made in advance to access energy supply, historically by coin, more typically now through fuel cards and electricity keys. By contrast, credit meters are a passive meter that records cumulative gas or electricity flow over time. Billing may take place either via estimated readings from suppliers, or a consumer or meter reading often on a monthly basis.

### 4.3 SMART METERS ENGAGE BOTH PREVIOUS TYPES OF METER HOLDER

Consumers may engage more regularly with energy usage when they are using pre-payment or 'top-up' meters, even though these are more typically given by energy suppliers to lower-income households as they may struggle to pay monthly bills (uSwitch 2017b). However, the pre-payment market is less competitive than for credit meters (Debt Advisory Centre 2015) and switching from pre-payment meters to the more competitive marketplace offered by credit meters is often difficult and can require prohibitively high credit scores.

Since 2009 the UK has embarked on a countrywide domestic smart meter rollout led by suppliers. This policy was initiated in part as a response to the energy transition challenges of decarbonising by 2050 and the need to improve energy inefficiency, and in part as an opportunity to provide customers with real-time information to support their use, and where necessary their switching. As such, smart meters may alleviate historic pre-payment issues by providing access to a more competitive market while ensuring the option to be engaged in monitoring energy usage remains available.

#### 4.4 CHALLENGES FACING THE SMART METER ROLLOUT

Since the initial scoping and policy framing the national smart meter rollout has now reached over 7.5 million installations covering 15 per cent of homes (BEIS 2017). While there is some confidence that a majority of households will have received smart meter installations by the target date of 2020, there are a number of challenges with the rollout itself (see box).

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##### Smart meter rollout

Meters can be difficult to obtain proactively for consumers and free rollout by energy companies has been slow. In part this is because energy companies are not incentivised to roll out technologies that could result in lower consumer demand for the energy they supply.

Smart meters need the right accompanying technical support if they are to help consumers manage energy use. Consumers are under no obligation to display in-home displays (IHDs) which show energy use, cost per kWh and occasionally carbon emissions. Even when they do, this information may be poorly understood if not explained properly or presented in a user-friendly way.

Creating a smart meter rollout without a single standard over such a long period of time (up until 2020) has resulted in two different types of meter being deployed rather than one countrywide update to metering infrastructure. In particular, those with SMETS1 meters may have their smart meters revert to normal credit meters if changing energy supplier as opposed to those installing SMETS2 meters (Which? 2016). This is a specific implementation issue resulting from a lack of legal clarity that ultimately may impact a consumer's willingness to switch supplier (if there is a suspicion that the installation of a smart meter may have been ultimately pointless).

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#### 4.5 THIRD PARTY INTERMEDIARIES

Third party intermediaries (TPIs) are a group of emerging players in the UK retail energy market who act on behalf of consumers to find them the best tariff options and switch on their behalf. Currently, according to Ofgem estimates, less than 1 per cent of consumers use such services (Illuminas 2017). However, with the rollout of smart meters, the nature of the services provided by TPIs could evolve from simply finding consumers the best deals to also helping consumers manage their energy use.

Already individual apps for smart energy management are starting to emerge (for example Nest). However, for those less 'tech savvy', TPIs that assist with smart energy management on consumers' behalf could be an attractive and simple service offering. From the perspective of engaging consumers, this offering could promote greater consumer engagement in a bid for less hassle in future.

#### 4.6 OPPORTUNITIES OF SMART METERS

If the smart meter rollout can be deployed at the originally intended scale, the opportunity for creating innovative billing solutions for consumers is very large. For consumers, this will come in the form of much greater personal interest in, and access to, data on energy usage. For others, there is an opportunity to defer responsibility to TPIs, likely resulting in less engaged consumers overall.

It is important to note here that many of these changes will require the collection of data in the first place. Given the potential sensitivity of this data, we think it is important that an arm's length government body should be created – or Ofgem extended – which could both record and engage with consumer data, while ensuring that it is protected.

# 5. ENERGY BILLS – AN INTERNATIONAL COMPARISON

The UK is by no means the only country attempting to simplify bills for its consumers. On the one hand, like for like comparisons of physical bills may be less helpful and are beyond the scope of this report due to differences in language, terminology and energy system. However, within the *emerging* practices for energy billing, the UK is one of many other countries whose energy systems are beginning to create more demand-side flexibility in order to prepare for increasing renewable energy penetration.

In a separate briefing paper, IPPR explored the nature of energy bills, billing and supply for domestic customers in five different countries – Germany, Sweden, France, US (California) and Australia – to see which of their arrangements could offer insights and learning to the UK. In doing so we suggested how examples from other countries could be applied to the UK, with a particular focus on the role Ofgem and price comparison websites (PCWs) could play in implementation (Emden and Lloyd 2017).

## 5.1 KEY FINDINGS

In order to understand which initiatives may be relevant to the UK, we reviewed the five countries according to five key criteria:

- market structure (and general market overview)
- level of government control
- switching levels
- initiatives to engage consumers
- smart meter uptake.

The main aspects of each country's retail energy markets are summarised and arranged according to these five criteria in table 5.1.

**TABLE 5.1**

**An international comparison of energy markets**

Country	Market overview	Government control	Switching levels	Engaging consumers	Smart meter uptake
UK	Integrated generation and supply; big six dominate both fuel markets	Deregulated retail; networks regulated by Ofgem	60 per cent still on default tariffs; but increase of 28 per cent in 2016 from 2015 levels	Energy Shopper campaign; personal projections and tariff comparison rates	Rollout for 2020, 53 million meters in total (3 million installed to date)
Germany	Large PV penetration, particularly at domestic level	Deregulated; market authority; rent controls and long tenancies	Many municipal suppliers; modest switching levels; high customer satisfaction	Bundled utility services; large community energy market	Rollout for 2020 only for large energy consumers
Sweden	Heating mostly from district heat; small retail gas market	Deregulated; market authority	Many suppliers; high switching levels; high satisfaction; low comparability of new deals	State-owned PCW for electricity market; gas market too small	For electricity since 2008; customers can request hourly billing
France	Electricity market dominated by state-owned EDF and nuclear	Both fuel prices largely regulated by government	Low switching levels; few suppliers; market tariffs emerging but controversial	Tempo tariff offers day-ahead off-peak energy	Rollout for 2021 to scale up dynamic pricing but inertia from EDF
US (California)	Three main utilities, controlled by state; similar CO2 goals to UK	Regulated retail prices and state-level strategic planning	Limited switching levels; new community aggregators disrupting this model	Net energy metering; incentives for domestic solar, renewables and battery storage	60 million planned for 2020, 8 million to date; plans to scale up time-of-use tariffs
Australia	Three large suppliers dominate; in midst of energy crisis	Some jurisdictions regulate default offers; others are market-based	Variable switching depending on state; generally low confidence and awareness	Some attracted by PV, battery storage and energy management tools	Delayed, expensive rollout in Victoria; optional, piecemeal elsewhere

Emden and Lloyd, *Energising the Market* (Emden and Lloyd 2017)

## 5.2 KEY CONCLUSIONS

The retail energy markets of the countries compared are at various stages of competitiveness, which in turn impacts consumer choice of energy suppliers. In France and California for example, previously regulated markets with low levels of switching are starting to attract new market entrants. By contrast, Germany and Sweden have relatively high numbers of customers switching suppliers.

At the same time, greater switching does not necessarily imply greater competition. In Australia, for example, despite high switching levels the Big Three energy companies are still dominant and prices are rising. Furthermore, as in



Sweden, high switching does not necessarily mean the prices offered by new suppliers are significantly better.

For the UK then, an overarching message should be that, while greater numbers of energy suppliers can increase levels of switching, it is important to ensure that the markets within which they operate does in fact deliver a better deal for the majority of customers.

One of the key ways of achieving this is through greater consumer engagement in more than just the physical bill, i.e. in the wider energy system. Below are some of the key initiatives which are most relevant and applicable to the UK.

#### *5.2.1 Domestic energy incentives*

The extent to which incentives can be applied within the UK energy system would have to form part of wider, coherent energy policy. However, for future energy users, these kinds of initiatives can be an important stimulus for greater engagement in the energy market beyond the physical bill.

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### **Increased domestic Solar PV incentives**

Incentives in California, Germany and Australia have helped to dramatically increase the penetration of domestic Solar PV. Since these incentive schemes have been implemented, the cost of solar power has fallen dramatically. In the UK, new business models are emerging, such as where energy companies pay for installing solar panels and sell electricity back to consumers at a lower rate than the market price (Stoker, 2017). This model has recently been applied in a scheme that will see 800,000 households across the UK installed with solar panels (Parnell, 2017). While this model is very encouraging, it currently applies to social housing where housing associations are able to provide large clusters of customers. For individual house-holds, moderately higher feed-in tariffs, combined with emerging models for financing upfront capital, could help to stimulate further uptake and so further engagement in billing in general, as has been the case in other countries with these incentives.

### **Net energy metering**

Net energy metering in California provides customers who feed surplus solar, wind or biogas energy back into the grid with a financial credit equal to the price at which the consumer would normally pay for energy. This credit can then be subtracted from the cost of any other energy that consumers take from the grid, allowing them to potentially reduce their overall bill to zero or even end up with a surplus payment (CPUC, 2017). Consultation with Ofgem on the technical feasibility of including net energy metering within the current smart meter rollout should be considered, in order to provide consumers with a greater incentive to manage energy use and look for suppliers offering net energy metering as an option.

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#### *5.2.2 Domestic energy management*

The smart meter rollout will generate a vast amount of data on consumers' energy costs and usage habits. Once collected, this information could radically change the retail energy market by creating two different models of engagement, be that personal/collective engagement or deferral to third parties (Hardy, 2017).



For both of these paths, there are examples that can be taken from international comparisons that suggest what these models could look like.

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### **Engagement model**

Initiatives relating to personal or collective engagement are already under way in several countries. For example, in France the “Tempo” tariff provides consumers with day-ahead information on the cost of their energy (out of three possible options). Combined with smart meters, this time-of-use example could be refined to offer consumers individualised energy offers based on their usage patterns. This could be communicated by following methods already under way in Sweden and Australia, where consumers can download apps and connect their energy usage to smart appliances that interact with their meters. In the UK, these features could be added to deals listed on PCWs as a way of attracting consumers with additional perks.

### **Deferred model**

As an alternative to greater engagement, some consumers may opt to defer responsibility for managing their energy use and finding cheaper deals to third parties. In this respect, both California and Australia are starting to offer consumers the chance to switch to suppliers who aggregate members’ energy usage profiles in order to find them the best deals. Though these Third Party Intermediaries (TPIs) already exist to some extent in the UK – PCWs are arguably an example of TPIs already well entrenched – there is a question over how involved they are with the consumer. For example, in California, Community Choice Aggregators (CCAs) actively supply consumers, rather than simply finding them the best deals from a range of suppliers. By broadening the definition of TPIs, this more customer-facing option could be applicable in the UK where consumers are less engaged in finding the best deals for themselves. In order to access this less engaged market in the first place, these TPI options would have to be advertised as a one-time switch option on PCWs, likely through further marketing campaigns.

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# 7.

## FUTURE OPTIONS FOR ENERGY BILLING THAT ENGAGES CONSUMERS

Here we offer a design for a simpler bill, based on feedback and research to date; with further recommendations on consumer engagement and the wider energy system given billing and its usefulness are a product of that system.

### 7.1 DESIGNING A SIMPLER BILL

For the vast majority of customers all they see is the bill they periodically receive. Based on our research, interviews and focus group findings, energy bills need to be simpler to understand if consumers are to be more engaged.

In developing the simple bill it has been helpful to consider which elements of existing bills are what might be described as essential, and which elements considered as desirable, or nice to have. Doing so prompted the following design of a simple bill.

This design was considered by the focus groups, of homeowners and renters respectively, who were asked what they thought of it – almost unanimously they felt it was simpler and clearer.

Further interrogation of the simple bill design with the focus group highlighted elements of the bill that they felt were essential, and other elements that were nice to have, summarised below. In doing so issues of the nature of the bill (paper or digital), and the potential to add other information were discussed, which have informed a further design and our wider recommendations, in the following chapter.

#### *Essential elements of an energy bill*

The great majority of focus group members considered the following elements to be essential:

- What is the amount to be paid this month (period)?
- What did I pay last month (period)?
- Important numbers (customer services and the account number)
- Who do I call in an emergency? (Emergency contacts)

For these elements, there was one key issue – what information, if any, should be provided that showed energy use as metered, and hence how many kWhs were being billed. About a third of each group did want to be able to see, and check, what these billed figures were, while more than half of each group did not think this to be essential. A number of participants expressed an interest in energy use being shown graphically over time on a bill.

## SIMPLE BILL – FIRST DESIGN

### YOUR MONTHLY STATEMENT

**DUE DATE: 30TH SEPTEMBER**

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Bill holder name  
Address line 1  
Address line 2  
Postcode

---

**Total bill to pay this month**  
(1st August – 31st August):

**£110**  
£50 from gas, £60 from electricity  
£0 from last month's bill

---

**Total bill paid last month**  
(1st July – 31st July):

**£105**  
£45 from gas, £60 from electricity  
£0 from last month's bill

---

**Consumers with similar households in**  
**your area are spending:**

**£100**  
£45 from gas  
£55 from electricity

---

**IMPORTANT NUMBERS**

**Customer service:**  
07XXX222333

**Your account number:**  
4375 0243

---

**EMERGENCY NUMBERS**

**Gas leak:** 07XXX222333

**Power outage:** 07XXX222333

**Fire:** 999

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**ADVICE FOR SAVING ENERGY**

**Visit:**  
[www.energysavingtrust.org](http://www.energysavingtrust.org)

**Call:**  
07XXX222333

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**CAN YOU GET A BETTER DEAL?**

**Visit:**  
[www.compare\\_energy\\_prices.com](http://www.compare_energy_prices.com)

**Or call your supplier on:**  
07XXX222333

Source: IPPR analysis

### *Desirable elements of an energy bill*

The majority of focus group members considered the following elements to be desirable, nice to have, but not essential component of their energy bill:

- Consumers with similar households in your area are spending...
- Can you get a better deal?
- Advice for saving energy

For the comparison with a similar household many queried how such a comparison could be done remotely, or effectively, given the various household

forms each were aware of in homes such as their own. This in turn suggested, to them, debatable validity and usefulness of such comparison figures.

For energy saving some focus group members thought they did do a good job on reducing their use, while noting that “what they used was what they needed”. Others noted that the language describing energy savings should change to being ‘advice’ as this would make them more likely to engage with this part of the bill.

#### *Other elements of an energy bill*

In discussion with the focus groups the following were identified as additional elements of a bill that would be useful for most customers:

- How can it be paid?
- What tariff am I on?
- When is the payment due?

These observations have been taken into account in the final design.

#### *The final design of a simple bill*

In light of the observations of the two focus groups, their views of ‘essentials’, ‘desirables’ and also a consideration of the wider context of what communications could play a role in engaging consumers, the following idealised bill emerges. We think this would make accessing, understanding and potentially even acting on information simpler for many customers almost immediately.

In creating this design, we have weighed up the balance of evidence between the literature, the focus groups and interviewees, as well as the alternative means by which a piece of information could otherwise be communicated.

While we feel this represents the best effort to triangulate this information we accept there are a number of parts of the bill which could yet be altered, removed or added to.

For example, in the focus groups the great majority felt the Emergency details were essential, yet in discussion issues of practicality and usefulness of an emergency number being on a bill, filed away, gave rise to the suggestion of a glow in the dark fridge magnet as something that would be more accessible. Other options included participants who took a photo of the details, others who would use a smart phone to search and call, and even the suggestion of an ICE equivalent number, such as an Energy Emergency Number (EEN) for contacts in a mobile phone. Although no participant mentioned the 105 electricity power cut emergency number, as the awareness of that grows there will be less reason to have a separate number on the bill.

However, not all of these solutions (other than perhaps the fridge magnet) would be accessible to all customers, which leaves us to conclude that, on balance, the emergency number does need to be on the bill, as a regular reminder to customers.

As another example, in order to keep the initial presentation simple but also accommodating those who wanted extra information on energy usage, how the tariff was calculated and potentially even graphs of use over time, we envisaged a clickable link to access more information on these elements of the bill for those interested. However, in a paper bill, this would need to be adapted, possibly on the back of the bill itself, though this does risk adding to the overall complexity.

## SIMPLE BILL – ALTERNATIVE DESIGN

### YOUR MONTHLY STATEMENT

<b>DUE DATE: 30TH SEPTEMBER</b>	<b>Your tariff is:</b>
Bill holder name Address line 1 Address line 2 Postcode	13.20 pence/kWh for electricity 3.65 pence/kWh for gas kWh is the unit measuring how much energy you use + 48 pence/day maintenance costs
	<b>For information on your tariff and energy use (click here) turn over</b>
<b>Total bill to pay this month</b> (1st August – 31st August):	<b>Total bill paid last month</b> (1st July – 31st July):
<b>£110</b> £50 from gas, £60 from electricity £0 from last month's bill	<b>£105</b> £45 from gas, £60 from electricity £0 from last month's bill
<b>For information on how to pay, turn (click here) turn over</b>	

#### IMPORTANT NUMBERS

**Customer service:**  
07XXX222333

**Your account number:**  
4375 0243

#### EMERGENCY NUMBERS

**Gas leak:** 07XXX222333

**Power outage:** 07XXX222333

**Fire:** 999

Consumers with similar households in your area are spending:  
**£100** (£45 from gas, £55 electricity)

#### ADVICE FOR SAVING ENERGY

**Visit:**  
www.energysavingtrust.org

**Call:**  
07XXX222333

#### CAN YOU GET A BETTER DEAL?

**Visit:**  
www.compare\_energy\_prices.com

**Or call your supplier on:**  
07XXX222333

Source: IPPR analysis and focus groups

One route to addressing that could be in a form of annual summaries, which some focus group members expressed a desire for. This could also be more likely to contain additional information such as graphs showing energy use over time. Making this information available on request could also ensure a less cluttered primary bill.

## 7.2 RECOMMENDATION FOR THE WIDER ENERGY SYSTEM, NOW AND IN THE FUTURE

As we have noted before, the route to a simple bill starts well before the bill itself.

The bill is a product of our energy system and the governance and regulation of that system. Therefore, we make a number of recommendations on the wider energy system that should accompany the design in order to help facilitate a simpler bill, noting work currently being undertaken by both Ofgem and Energy

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UK on the issues of simplifying bills and promoting consumer engagement in the market.

In doing so, we are keenly aware that the ongoing rollout of smart meters progressively changes the environment within which a simple bill is generated and used. With that in mind we have distinguished a shorter-term period where the majority remain on un-smart meters and a longer-term view, where the majority are on smart meters.

#### *7.2.1 Immediate recommendations*

##### **Recommendation one: Removing jargon from bills**

As our simplified bill template suggests, the removal of jargon from bills is a key part of consumer understanding. In many cases, as indicated by our focus groups, the simplicity of the template may well help with access to information in the first place, building trust and removing physical barriers such as poor English.

We recognise that this template has been designed at the same time as Ofgem are conducting their Licence condition review, which is partly aimed at removing much of the aforementioned jargon. As such, our simplified template can be seen as a submission to the ongoing process, suggesting what a jargon-free bill could look like, while striking a balance between essential, legally required information, and desirable information that suppliers would be freer to adapt.

##### **Recommendation two: Text alerts**

As noted in our focus groups and Ofgem surveys, previous efforts to prompt consumer action through TCRs or personal projections have had mixed results, erring towards lower engagement than initially hoped. Though a simple bill may help consumers find more information for themselves, once they move beyond the bill to find this, they must still navigate either PCWs or energy suppliers over the phone.

One way of remedying this would be for consumers to receive text alerts if cheaper deals were available, with instructions on how to access them, who to call, or which website to go to. While there was some discussion within focus groups about the hassle of receiving regular alerts, it was felt that either yearly or twice-yearly updates would not be too invasive. It should be noted that to some extent, this is already happening with Martin Lewis' Cheap Energy Club (Money Saving Expert, 2017). However, we recommend this should become standard practice for all PCWs, suitably regulated.

#### *7.2.2 Smart Metered environment*

##### **Recommendation three: A single tariff per supplier**

In 2016, the CMA recommended that Ofgem's Retail Market Review reform – mandating suppliers to offer four core tariffs – should be abandoned on the basis that suppliers could not offer innovative deals. However, energy is the only type of utility bill where different prices are offered within the same company for, essentially, the same quality of product.

A single tariff would continue to allow energy companies to compete directly with each other on price, while also reducing the information on a breadth of alternatives that consumers have to take on board about what supplier to use, and when deciding whether or not to switch.

We anticipate an argument that such a recommendation will stifle the opportunity to offer innovative pricing to consumers who do manage to find

cheaper deals. However, as the CMA also notes, over two thirds of consumers are still on standard variable tariffs, often the most expensive tariff by up to £300 per year (CMA, 2016). For simplicity and greater engagement of the unengaged majority of consumers, we consider it vital that there is a significant degree of choice editing such that energy suppliers should only be able to offer one tariff per company. Just engaging the 'middle' third of customers could bring forward just over 10 million new potential switchers.

If there were to be an exception to this recommendation that would only be for the continuation of discounted tariffs that some vulnerable, low-income consumers already receive.

#### **Recommendation four: An independent body to utilise smart meter data**

As the smart meter rollout continues, the opportunity for data recording is huge, and has potential usefulness both for consumers and for those responsible for overseeing the energy system. As such, we would recommend the creation of a not-for-profit, arm's length government body (possibly as an extension of Ofgem). With this acquired data, the role of this body would go beyond a simple database and perform a number of functions:

1. Extend text alerts beyond the remit of PCWs – An arm's length body could use data on the cost of energy to provide personalised advice to consumers which it could identify as being most in need
2. Promote dynamic pricing – An independent body could provide energy suppliers with data on consumer energy use and allow them to offer personal incentives to consumers to reduce their energy usage at certain times (as currently the case in France), while the baseline tariff would be the same for all consumers
3. Alternatively, with consumer consent, this data could be passed on to Third Party Intermediaries who would manage price saving activities on consumers' behalf.

#### **Recommendation five: Support the growth of 'pro-sumers'**

As in other countries compared in this report, initiatives that promote domestic renewables could help to engage consumers by enabling them to reduce or net-out their bills. In this context, we would recommend including net energy metering within the smart meter rollout.

These recommendations are summarised in the table below, with reference to the barriers to consumer engagement they endeavour to address.

**TABLE 7.1****Summary of recommendations**

Barrier	Access to information	Understanding information	Acting on information	Legal requirement resulting in jargon on bills	Low engagement with TCRs & personal projections
<b>Immediate Recommendations</b>					
Removing jargon from energy bills	✓	✓	✓	✓	
Text alerts when cheaper energy deals are available			✓		✓
<b>Smart Metered Recommendations</b>					
One tariff per supplier	✓	✓	✓		✓
Arm's length body holding smart meter data	✓	✓	✓		✓
Support the growth of 'pro-sumers'	✓	✓	✓		✓

Source: IPPR analysis



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