

Western Power Distribution: consumer- led pension strategy

Workstream 3: Stakeholder
engagement

Phase 2 – Domestic and Business
bill-payers focus groups

October 2016

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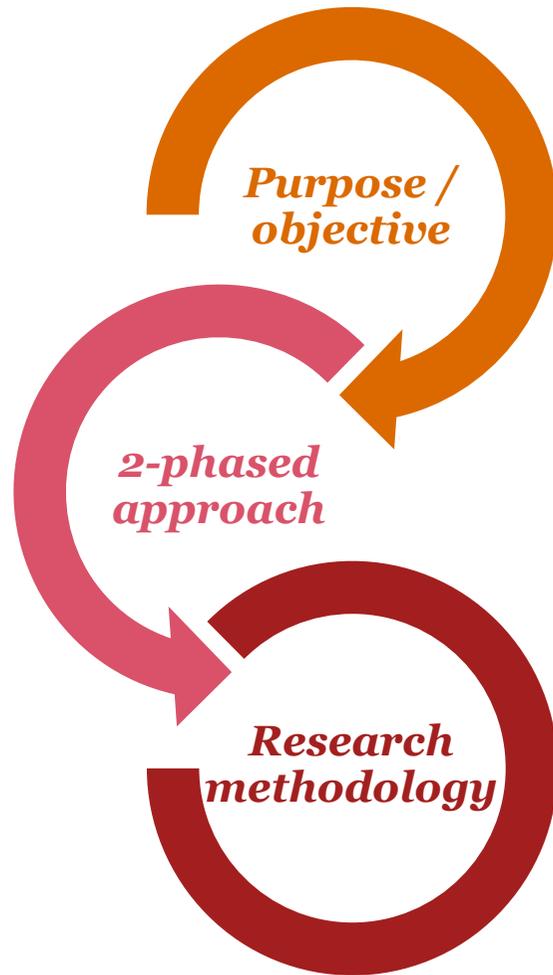
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Workstream overview

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1. Workstream overview

Background and methodology



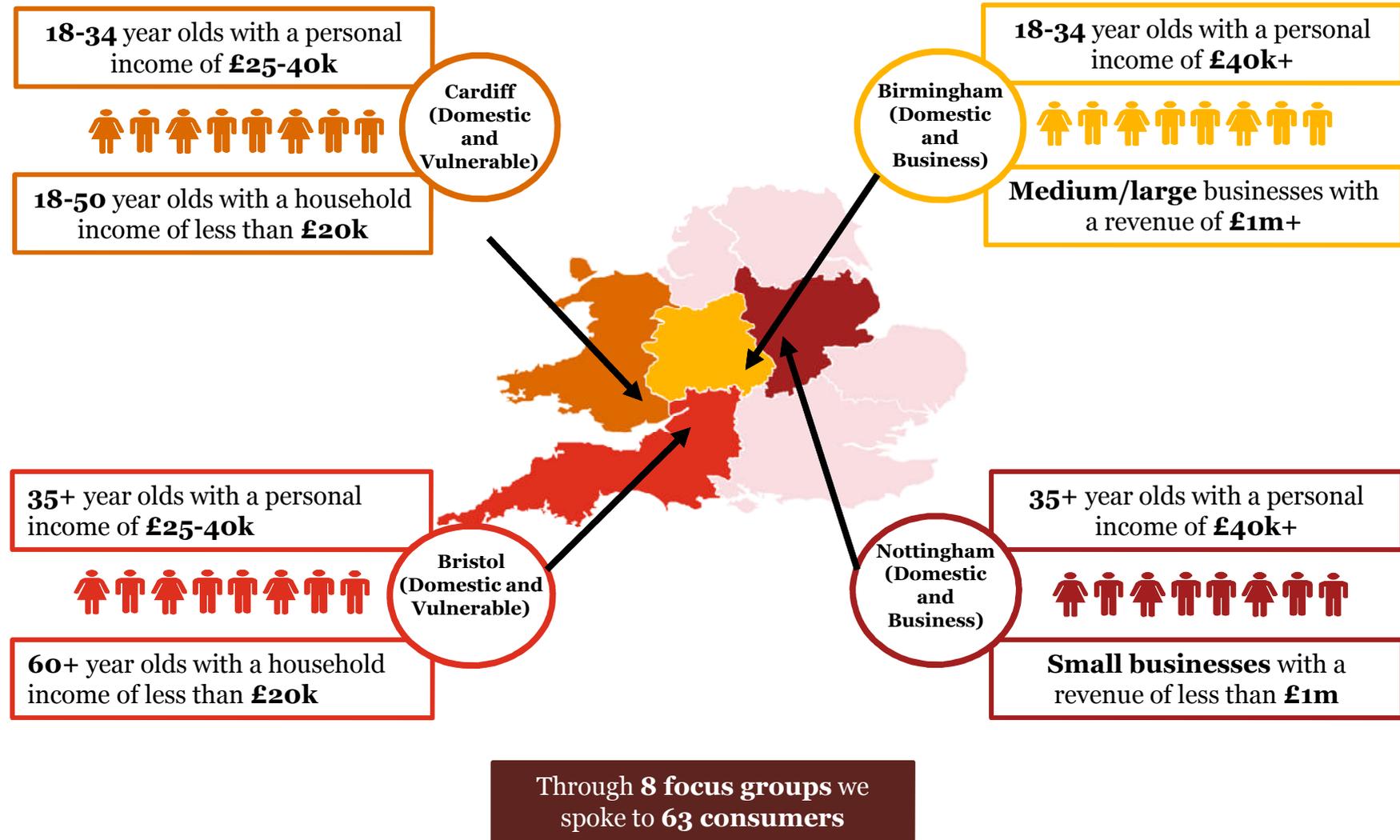
- *Validate the social discount rate conclusion from Workstream 2*
 - *Assess consumer preferences and priorities on bill variability, transparency, and consideration of future generations related to pension costs*
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- *Phase 1 - Domestic and business electricity consumers across England, Scotland and Wales were engaged in order to obtain statistically significant results*
 - *Phase 2 – Focus groups with domestic and business customers in 4 cities within WPD regions*
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- *A total of 8 focus groups were conducted in Cardiff, Bristol, Birmingham and Nottingham, including 2 with vulnerable consumers and 2 with business consumers.*
-

1. Workstream overview

Focus group breakdown



Key findings

2

2.1 Paying for electricity

Do you think about where your money goes when you pay your electricity bill?

- The vast majority of participants had never thought about where the money goes when they pay their bill.
- Some stated that they only care about the total amount they have to pay, and don't understand how the usage is worked out.
- Some respondents discussed switching providers and trying to ensure they get the best deal every year.

"I have never given it a second thought. I've always thought I was paying for what I used".
(Domestic, Age 18-35, Income £25-40k, Cardiff)



"It's just about what you pay per month." (Domestic, Age 18-35, Income £40k+, Birmingham)



"To be honest, never understood the different usages". (Domestic, Age 18-35, Income £40k+, Birmingham)



Do you think about where your money goes when you pay your electricity bill?

- When prompted, some groups mentioned that the costs would be divided out between:



The company that runs the cables/ power lines

“Electricity suppliers have to pay the National Grid”. (Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)



Taxes

“I imagine renewable energy, investment.” (Domestic, Age 35-50, Income £25-40k, Bristol)



Staff costs



Renewable energy

“They have got staff to pay, buildings to run, they have to buy the electricity from the grid, maintenance”. (Domestic, Age 35-50, Income £25-40k, Bristol)



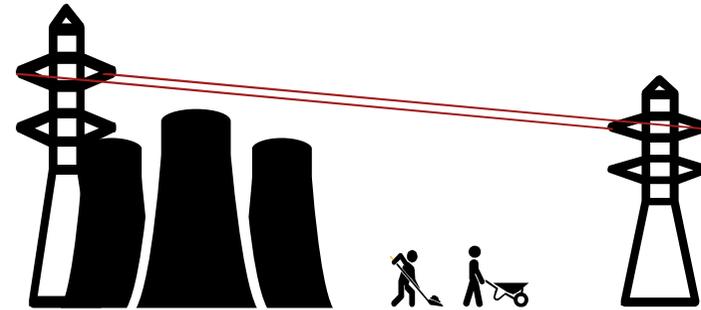
Importing from other countries



Contractors

*Do you think about where your money goes when you pay your electricity bill? **Business***

- The business customer groups had slightly more awareness of how the money might be distributed.



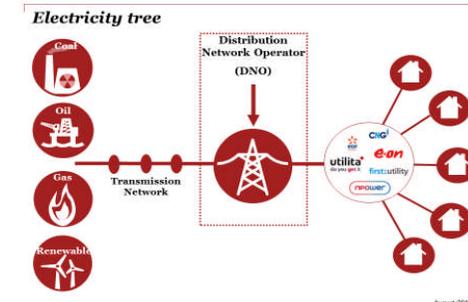
- One respondent mentioned the difference between the night-time and day-time costs of electricity.

“The bill is the bill.” (Large business, £1m+, Birmingham)

“Not sure about the difference between distribution costs and transmission costs. It seems very similar to me.” (Small business, <£1m, Nottingham)

What do you understand a DNO to be?

- Awareness and understanding of the role of the DNO varied among the groups.
- Older age groups and higher income groups tended to be more aware, whilst younger age groups and lower income groups had less of an understanding.
- When prompted with “network” most groups were able to come up with ideas surrounding the grid, cables and pylons etc.
- Some also mentioned words such as “supplier”, “infrastructure” and “usage”.



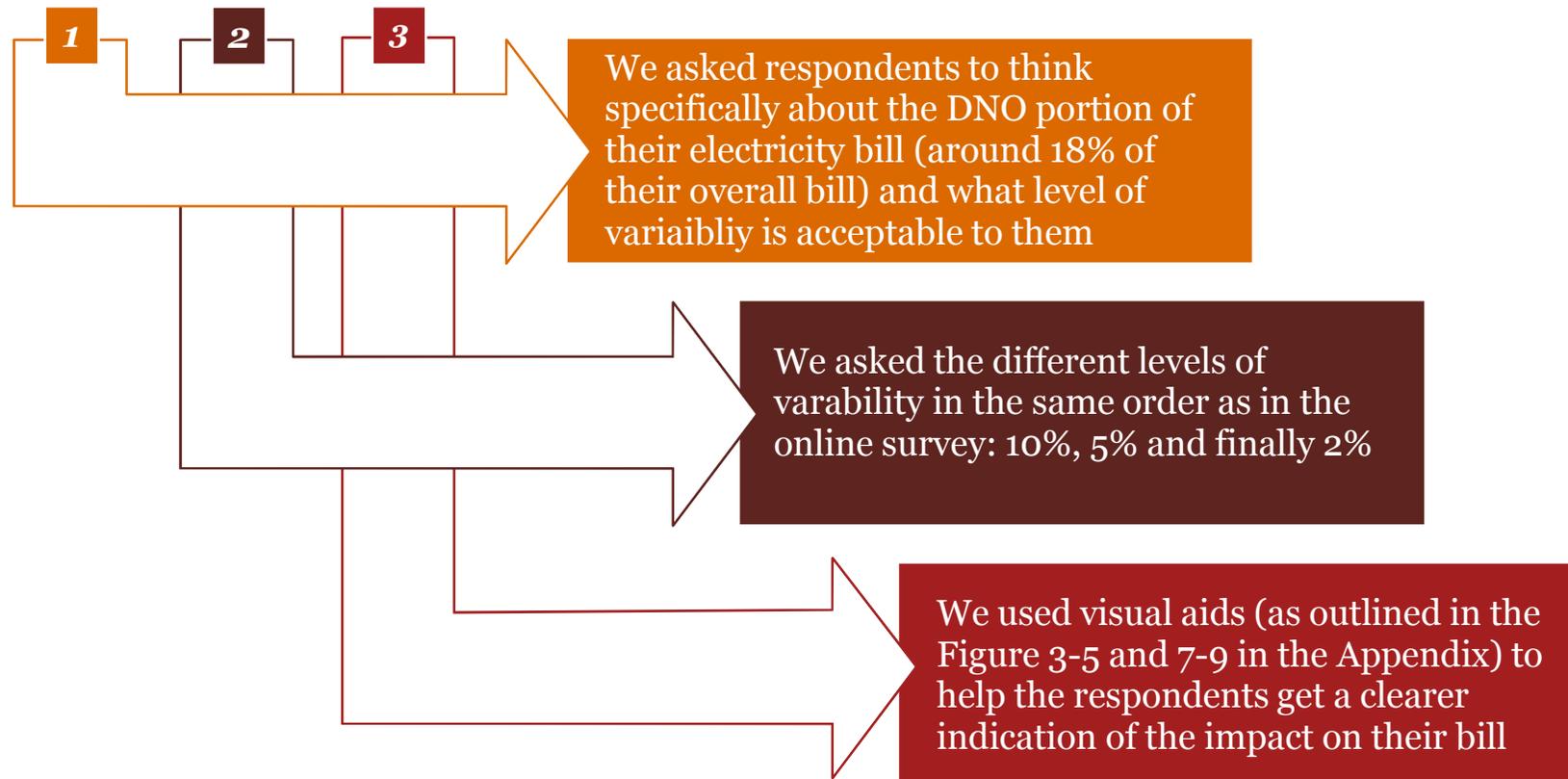
“To me, it’s everything infrastructure. From the point of manufacturing of electricity to turning it on in my house, everything in between, potentially they manage.”
(Domestic, Age 35+, Income £40k+, Nottingham)

“They maintain all the overhead cables to your property.” (Domestic, Age 35-50, Income £25-40k, Bristol)

“The people you complain to when you have a power cut.”
(Domestic vulnerable, Age 60+, Income <£20k, Bristol)

2.2 Bill variability

Bill variability* – preferences relating to bill variability

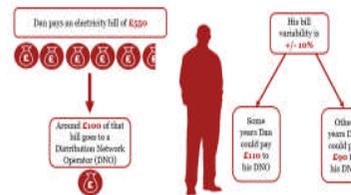


* Bill variability refers to variability in the distribution element of the bill

Bill variability – preferences relating to a +/-10% bill variability

- Overall this was felt to be fairly acceptable and participants thought that over the space of a year this would not be a huge amount of money.
- Many participants recognised that the DNO plays a huge role in the supply chain, and the services are vital, therefore they did not mind paying more.
- Some recognised that the variability could go down as well as up, and welcomed the reduction.
- A minority mentioned they would not want it to rise continuously.

This is Dan...



Dan's electricity bill variability – 10%

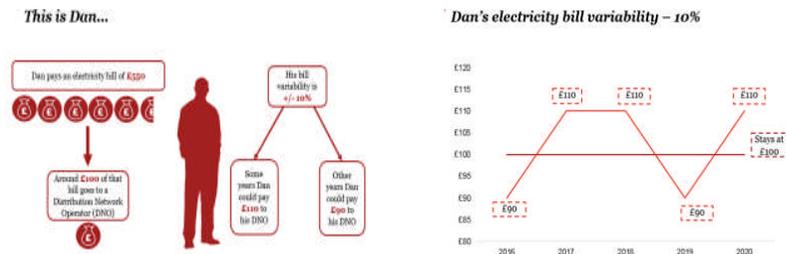


“If all they are doing is covering their overheads then I don’t think there is an issue with it.” (Domestic, Age 35-50, Income £25-40k, Bristol)

“I would rather pay it to them so that if something went wrong they would fix it.”
(Domestic, Age 18-35, Income £25-40k, Cardiff)

Bill variability – preferences relating to a +/-10% bill variability (cont'd)

- At this point some participants mentioned that it would be helpful to know more about the DNO, and they would be happy with the variability if this was explained to them.
- After being able to explain the role of the DNO to participants they recognised how important they are.

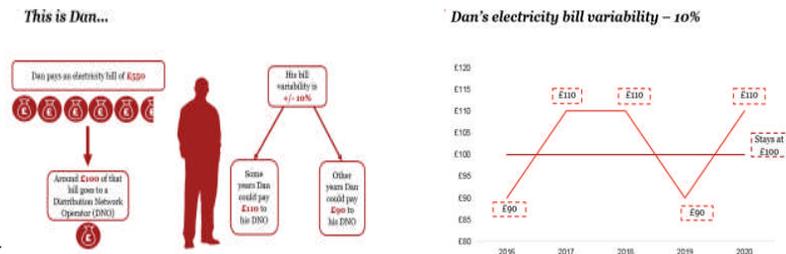


“They seem to have the biggest part of the job, so its fair to pay that as they seem to do a lot for their money.” (Domestic, Age 18-35, Income £25-40k, Cardiff)

“If they told us that actually DNOs existed and most people would recognise that and actually the changes and variability year on year is because of X, Y, Z – that’s more acceptable.” (Domestic, Age 35+, Income £40k+, Nottingham)

Bill variability – vulnerable customers preferences relating to a +/-10% bill variability

- Views of vulnerable customers did not vary hugely from other customers in the focus groups.
- However, when presented with the +/- 10% variability some vulnerable customers stated this would be the maximum amount of variability they would be comfortable with.
- Interestingly, the older (60+) age group spontaneously mentioned the need to secure and invest in the network for future generations.
- The older age group also had a greater awareness of the role of the DNO and its place in the overall electricity supply.

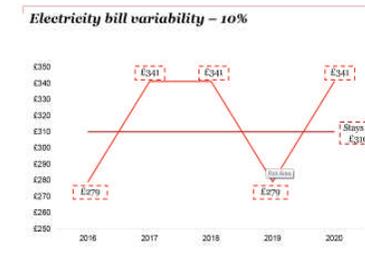


“We are an energy thirsty society. The more we demand electricity, the more stress it puts on the infrastructure – the DNO. We have to invest in that all the time, otherwise we will flick a switch and nothing will happen one day.” (Domestic vulnerable, Age 60+, Income <£20k, Bristol)

“It doesn’t seem like a crazy amount to me. I guess with the economy changing all the time and new lines having to go up in different areas it must cost them (DNO) quite a lot.” (Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

Bill variability – business customers preferences relating to a +/-10% bill variability

- Business customers were also largely accepting of a +/- 10% variability amount.
- However, they did tend to question this more and requested to be given more information from the DNO or supplier on why the costs were changing.
- Business customers also felt that this variability should already be built-in and the DNO should be confident their costs are covered and thus avoid a variability situation.
- Almost all business stated that +/- 10% variability would be the maximum amount that was acceptable to them.



“10% is neither here nor there.” (Small business, <£1m, Nottingham)

“You would want to know why your bill was fluctuating.” (Large business, £1m+, Birmingham)

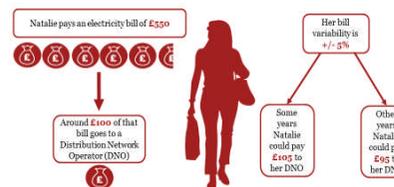
“I wouldn’t want to see anymore fluctuation than 10%.” (Large business, £1m+, Birmingham)

“If there were opportunities to pay less, if they had a good year, great.” (Small business, <£1m, Nottingham)

Bill variability – preferences relating to a +/-5% bill variability

- Participants were then presented with a scenario of +/- 5% variability.
- Despite the fact that most people were happy with the first scenario, when presented with +/- 5% they were more comfortable with this.
- Most respondents felt that with less fluctuation in cost they would be able to manage their finances better.
- At this point some respondents mentioned they would like to be made aware when fluctuations occurred and the reasons why.

This is Natalie...



Natalie's electricity bill variability – 5%



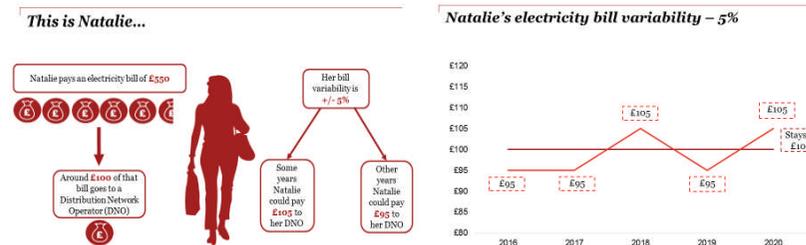
“Without knowing all the details it would be hard to comment. But as a figure it would look more acceptable.”
(Domestic, Age 18-35, Income £40k+, Birmingham)

“I think for people who would be trying to manage their bills and working them out, then I think the 5% would be a little bit easier.” (Domestic, Age 35+, Income £40k+, Nottingham)

“It would be nice if we were told, ‘it’s gone up by 10% because we have had to replace 1000 pylons in your area.’ (Domestic, Age 35-50, Income £25-40k, Bristol)

Bill variability – vulnerable customers preferences relating to a +/-5% bill variability

- The +/- 5% variability was still acceptable to them, but many also mentioned if there was better planning the impact of variability could be reduced.
- Most vulnerable customers recognised the importance of the work of the DNO and upgrading the infrastructure was considered to be vital, meaning the variability was acceptable.
- Some also mentioned the potential impact on services, and the fact they may be willing to accept a greater level of variability if it meant service standards would be maintained.



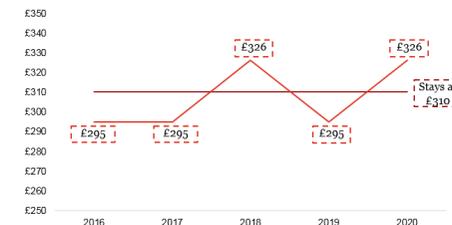
“Less will always be better.” (Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

“If I am paying less does that mean I have to wait 4 days for someone to come out if I had a power cut? If that was the case I’d rather pay 10%.”
(Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

Bill variability –business customers preferences relating to a +/-5% bill variability

- When presented with the +/- 5% variability amount, business customers were also more accepting of this level of variability.
- Most felt that the actual amount would be fairly small and would barely be noticeable to them.
- Many felt that the 5% level would be better in terms of consistency and financial planning.

Electricity bill variability – 5%

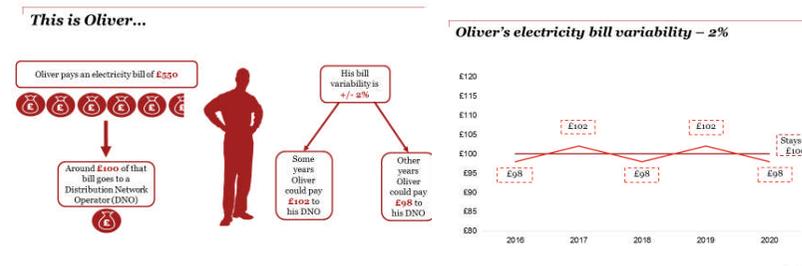


“It’s so small, the actual amount each year.”
(Small business, <£1m, Nottingham)

“We want consistency so 5% is better.” (Small business, <£1m, Nottingham)

Bill variability - preferences relating to a +/-2% bill variability

- Finally, participants were presented with a scenario of +/- 2% variability.
- Unsurprisingly, all participants felt this was acceptable, and had no issues with this level of variability.
- Almost all stated that they would prefer the lowest level of variability if they had the ability to make that choice.
- Some respondents stated that they would accept higher variability if it meant a more reliable service in the future.



“It’s the cost of a cup of coffee. It’s neither here nor there.”

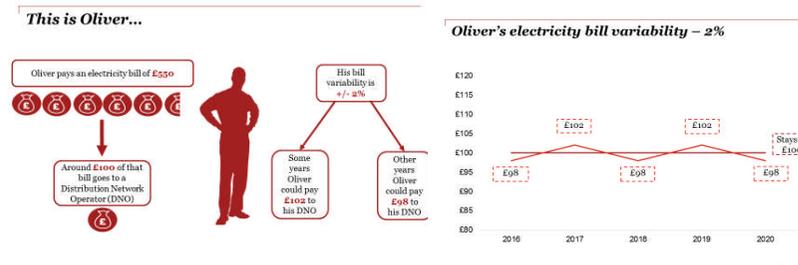
(Domestic, Age 35-50, Income £25-40k, Bristol)

“In this day and age 10% doesn’t seem that big, but 2% seems better.” (Domestic, Age 18-35, Income £25-40k, Cardiff)

Bill variability – vulnerable customers preferences relating to a +/-2% bill variability

- Similar to the previous findings, views of vulnerable customers did not vary hugely from other customers when presented with +/- 2% variability
- Most stated that this amount was so small they would be unlikely to notice the amount on their bills.
- Some also felt that this was “more acceptable” than a higher variability which customers may be more likely to notice.

“Its so small its negligible.” (Domestic vulnerable, Age 60+, Income <£20k, Bristol)

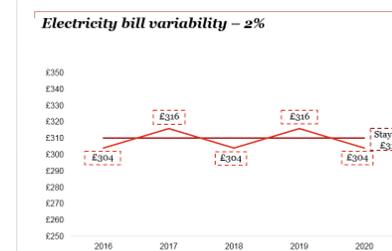


“I think as long as you know where it is going and why and that they are transparent about it, then it's OK.”

(Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

Bill variability – business customers preferences relating to a +/-2% bill variability

- Again, business customers were also largely accepting of a +/- 2% variability amount, having already been in agreement with the 2 previous options.
- However, some business customers mentioned the fact that they would not benefit from larger discounts that may be on offer with a higher variability, particularly in the smaller business group.
- Business customers felt that the +/- 2% variability would be easier to budget and plan for.



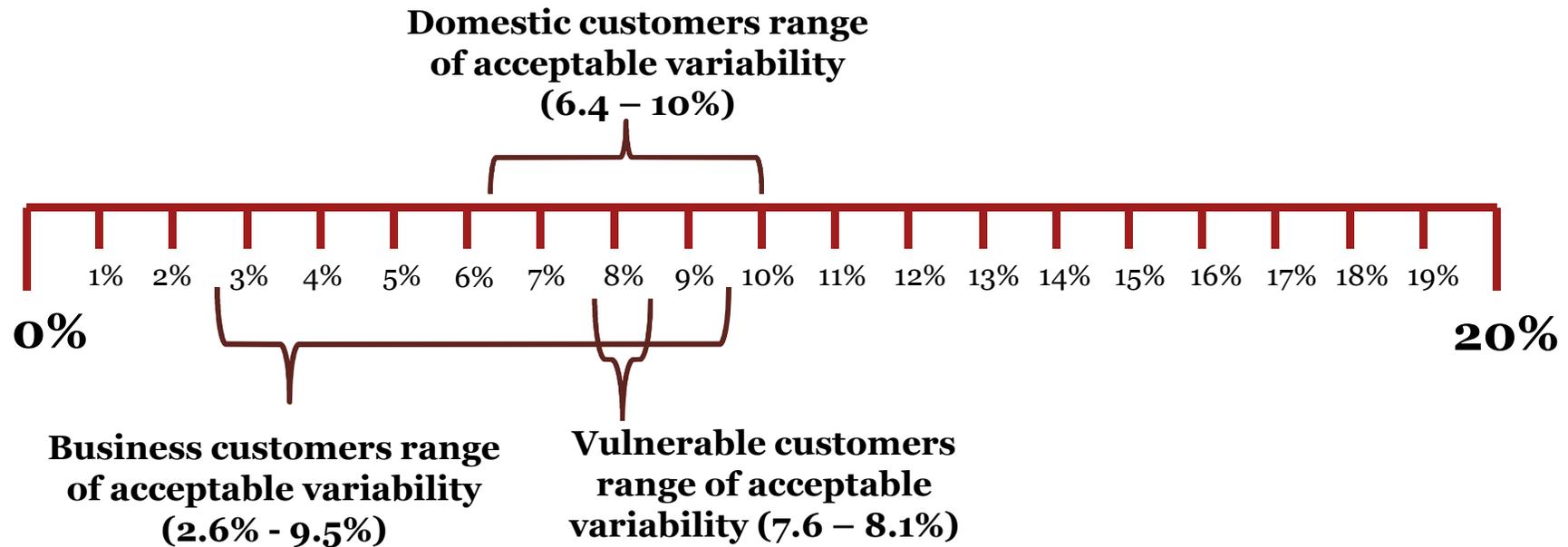
“It’s psychological. It’s the lower percentage.” (Large business, £1m+, Birmingham)

“(Lower variability) helps with forecasting and taking out as many of the uncontrollable as possible” (Small business, <£1m, Nottingham)

Overall acceptable level of variability

Participants were asked the maximum level of variability that was acceptable to them.

The range provided is based on the average level of variability from each group of respondents: domestic, vulnerable and business. The results for vulnerable and business consumers are indicative only due to the small sample size.



2.3 Setting electricity prices – today and in the future

How prices are set today will impact the price that future generations will pay. Should the government or regulators keep that in mind when setting the price to cover the cost of the DNO?

- Almost all agreed that the cost for future generation should be kept in mind.
- However some participants were sceptical and didn't trust the Government/regulators that if customers paid more now that future generations would benefit.
- Most agreed that future generations should not have to pay more, although it was recognised that overall the cost of living is going up.

“They are going to be paying more for everything in the future anyway....We can't protect them from everything.”
(Domestic, Age 18-35, Income £40k+, Birmingham)

“That could be us. We are all living longer now anyway so it could have a big impact on us.”
(Domestic, Age 35-50, Income £25-40k, Bristol)

“In theory that sounds nice as long as it wasn't going to affect my annual bill too much, but I wouldn't trust them (the Government/regulators) to have a pot for future generations.”
(Domestic consumer, Age 18-35, Income £25-40k, Cardiff)

Should the government or regulators keep that in mind when setting the price to cover the cost of the DNO? (cont'd)

- Some respondents stated that future generations should pay a similar proportion of the cost of their bill as consumers do now. Not all felt that they should pay more now.
- Others felt that, because of renewable energy and other changes in the energy market, things will be very different in the future, and that includes costs.

“Everything is changing when it comes to energy – how we source it and how it is delivered will have changed so much in 30 years.”

(Domestic, Age 35+, Income £40k+, Nottingham)

“I’m all for things for the future, but it doesn’t mean I want to pay for the future.” (Domestic, Age 35-50, Income £25-40k, Bristol)

Are you willing to pay more now so future generations do not have to cover the costs?

- There were mixed opinions around willingness to pay for future generations. Some stated that they were willing to pay more, although mostly just a small amount. Others wanted to know more about how the investment being made, before agreeing.
- The lack of trust was issue was raised again many felt there were no guarantees that additional money would be used correctly. If they knew it would be invested in their local area they may be more willing to pay.
- Some mentioned that, in terms of the small variability amounts we had been discussing, they would be willing to pay within that level (10%).

“As long as it’s a small percentage and it wouldn’t impact our bills too much.” (Domestic, Age 18-35, Income £25-40k, Cardiff)

“Would be willing to pay as long as I know where its being spent, as long as it’s justified.” (Domestic, Age 35-50, Income £25-40k, Bristol)

“You might as well maintain it to the standard we want now and let things evolve naturally and if it costs more, let the people that are using it pay more.” (Domestic vulnerable, Age 60+, Income <£20k, Bristol)

“If it’s used for infrastructure and it’s offsetting someone’s bill, it’s about making sure that long term they felt the benefits of their investment.” (Domestic, Age 18-35, Income £40k+, Birmingham)

Are you willing to pay more now so future generations do not have to cover the costs?

Vulnerable customers

- For the most part, vulnerable customers did not want to pay more now to cover future generations.
- It was felt that salaries would increase in the future and future generations would not be heavily impacted.
- Some mentioned their lack of trust that any money would be invested properly, and also providing more information for their customers as to where the money was going.

“I’m not willing to pay more. My parents didn’t.” (Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

“It comes back to knowing what the contribution is doing at this moment in time. I want to know the master plan.” (Domestic vulnerable, Age 60+, Income <£20k, Bristol)

2.4 How DNOs invest in the network

Which areas should the DNO invest in...

Renewable energy



"They have got to make sure that their network can keep up with what the energy providers are doing. If the providers are doing a windfarm in Scotland the DNO need to have a way of getting that electricity to a power station."

(Domestic, Age 35-50, Income £25-40k, Bristol)

Environment and future planning



"They need to be thinking about how they can future-proof distribution. At the moment we have cables in the air, the weather brings them down. Is there something else they could be doing?"

(Domestic, Age 35-50, Income £25-40k, Bristol)

Awareness of the DNO



"I would like more information on them and what they do. It's difficult to answer the question because I didn't know much about the DNO."

(Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

Safety



"I trust that they understand the industry more than I do and they are looking at safety accordingly."

(Domestic, Age 18-35, Income £40k+, Birmingham)

Customer services



"So you actually get to speak to a person and it's not automated."

(Domestic vulnerable, age 18-50, <£20k, Cardiff)

Which areas should the DNO invest in...*business customers*

Transparency



"It would be good if they could provide a bit more of this kind of information about where your money goes."

(Small business, <£1m, Nottingham)

"It's very muddled." (Large business, £1m+, Birmingham)

Environment and aesthetics



"It would be nice not to see as many power lines or cables hanging around."

(Small business, <£1m, Nottingham)

New connections



"We are in the process of building new homes and the waiting time – the red tape around it – takes forever."

(Large business, £1m+, Birmingham)

Safety



"I would hope that safety is already a priority of the DNO."

(Small business, <£1m, Nottingham)

Technology



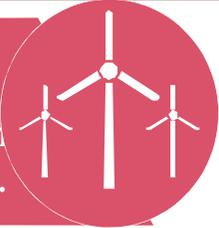
"There are so many other ways that they could use cutting edge technology, use what is state of the art now rather than something they were using 3-5 years ago." (Domestic vulnerable, age 18-50, <£20k, Cardiff)

2.5 Electricity companies and pension costs

Electricity companies and pension costs

8 factors Participants were asked to rank 8 factors in order of priority for the DNO to make investments.

In most groups issues such as impact on the environment, reducing power cuts and less than +/- 10% variability ranked highly.



Some groups also ranked supporting vulnerable customers highly.

In almost all groups, reducing the pensions deficit ranked within the bottom 2.



Investment to ensure less than +/-10% variability in the cost relating to a DNO in your annual electricity bills	Investment to reduce the cost of electricity for future generations (e.g. bill payers in 2046)
Investment to reduce Distribution Network Operator's (DNO's) pension deficit	Investment in the electricity network to reduce occurrence of power shortages
Investment to minimise impact on the environment	Investment to support vulnerable customer
Investment to improve the financial stability of energy companies	Investment to improve customer service (e.g. increase customer satisfaction, improve complaints resolution, improve telephone response times)

Electricity companies and pension costs

- A small minority mentioned other company pension deficits that they had heard about in the news (e.g. BHS) and felt this was shocking.
- When it was mentioned that the deficit could be reduced by running the scheme more efficiently, almost all participants felt that this should be implemented immediately.

“It’s win-win, if employees are receiving their pensions OK and we are paying less.” (Domestic, Age 18-35, Income £40k+, Birmingham)

Electricity companies and pension costs – business customers

- Business customers also ranked reducing the pensions deficit as a lower priority.
- Again when it was discussed about running the scheme more efficiently, business customers felt this was something that should be already in place.

*“We care more about the worker’s pensions than the bosses of the DNO.”
(Small business, <£1m, Nottingham)*

“We all look after ourselves in terms of pensions, why would we look after other people’s pensions?” (Large business, £1m+, Birmingham)

“That would be a no-brainer, if they could reduce pensions costs and reduce the amount we pay.” (Small business, <£1m, Nottingham)

2.6 Billing transparency

How important is it to you to have visibility of the DNO's running costs?

"I wouldn't want a breakdown through my post every month." (Domestic, Age 18-35, Income £40k+, Birmingham)

- Most respondents had some level of interest in finding out more about where their money goes.
- However, for the most part they felt this could be something they could access online and did not feel they needed to see this information on a quarterly bill.

How important is it to you to have visibility of the DNO's running costs? **Vulnerable customers**

"It should be seen and be available, but I don't want to see it on my bill. If I want to view it I can see it on the internet." (Domestic vulnerable, Age 18-50, Income <£20k, Cardiff)

"I don't want any more information sent to me. I want to look it up when I want to."
(Domestic vulnerable, Age 60+, Income <£20k, Bristol)

- Vulnerable customers felt the same – they would like to know more about where their money goes but did not feel this should be included on their quarterly bill.
- Now that they felt more informed about the DNO they would like to know more about the bill and what exactly their money was used for.
- A few respondents also mentioned that if the cost of their bill went up they would like to be informed about the reasons why.

*How important is it to you to have visibility of the DNO's running costs? **Business customers***

“There needs to be a balance between useful information and information you won't look at. The DNO is only 18% of the bill so I would be interested in finding out about the rest as well.” (Small business, <£1m, Nottingham)

“A simple illustration like a pie chart that is easy to consume. We don't want to read lots of text.” (Large business, £1m+, Birmingham)

- Business customers also felt that they would like a simplified breakdown of the full electricity bill cost, not just the DNO.
- Some felt this would be more transparent, but they would not necessarily have time to look in detail at all the breakdowns and see what costs were changing.
- Some business respondents felt they would like to know more about the DNO in general, particularly their future plans.

Conclusions

3

To finish...

Almost all were happy with some level of variability.

Vulnerable customers preferred less variability.



Small business customers tended to think more about the short-term so **preferred more risk** in the hope of reducing their costs at the present time.

Everyone agreed that the Government should keep **future generations** in mind, however only a small number of participants were willing to pay for this.



Some of the most **important** areas the DNO should invest in are...

1. **Renewable energy**
2. **Health and safety**
3. **Raising awareness of the DNO**
4. **The environment**

Participants agreed with **reducing pension costs** as long as this was **through efficiencies** rather than reducing the amount the staff member receives.



Most participants were interested in being able to access a bill breakdown, but this needs to be easy to understand.

Very few participants had any awareness of the DNO and, when they learned more, this sparked their interest to know more details about what the DNO is doing in their area.



Appendix
Slide pack used during focus groups

4

4.1 Domestic consumers

Figure 1: Summary of average electricity bill breakdown

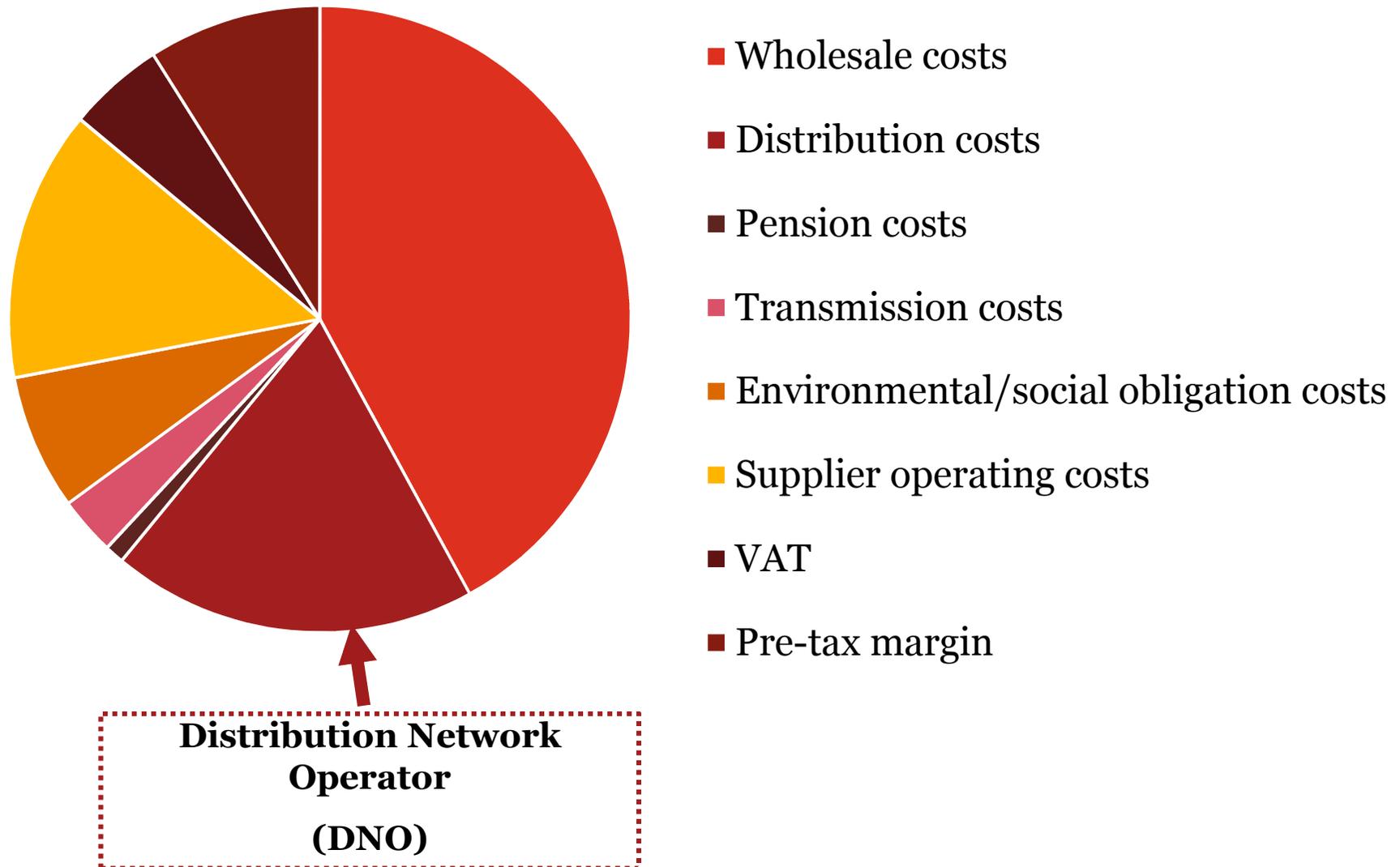


Figure 2: Electricity tree

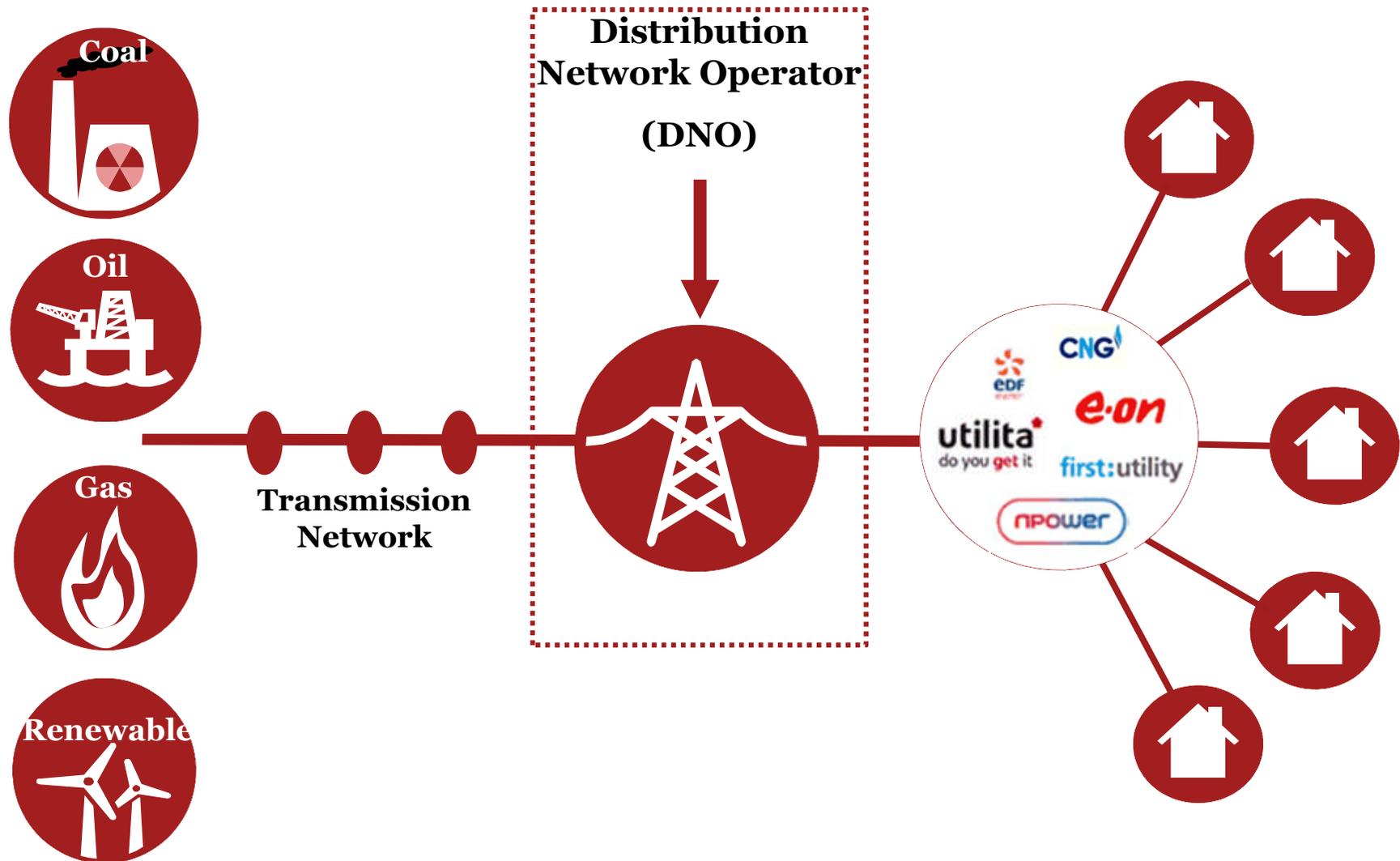


Figure 3.1 : This is Dan...

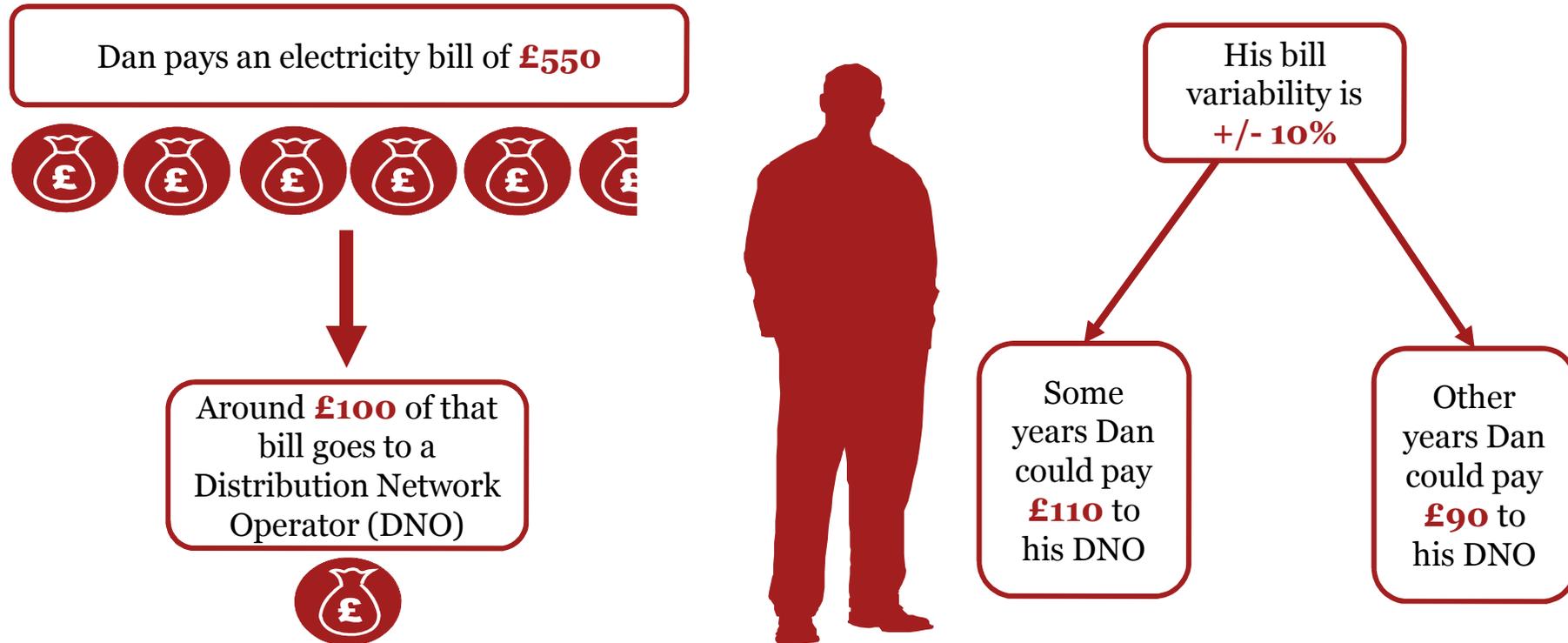


Figure 3.2: Dan's electricity bill variability – 10%

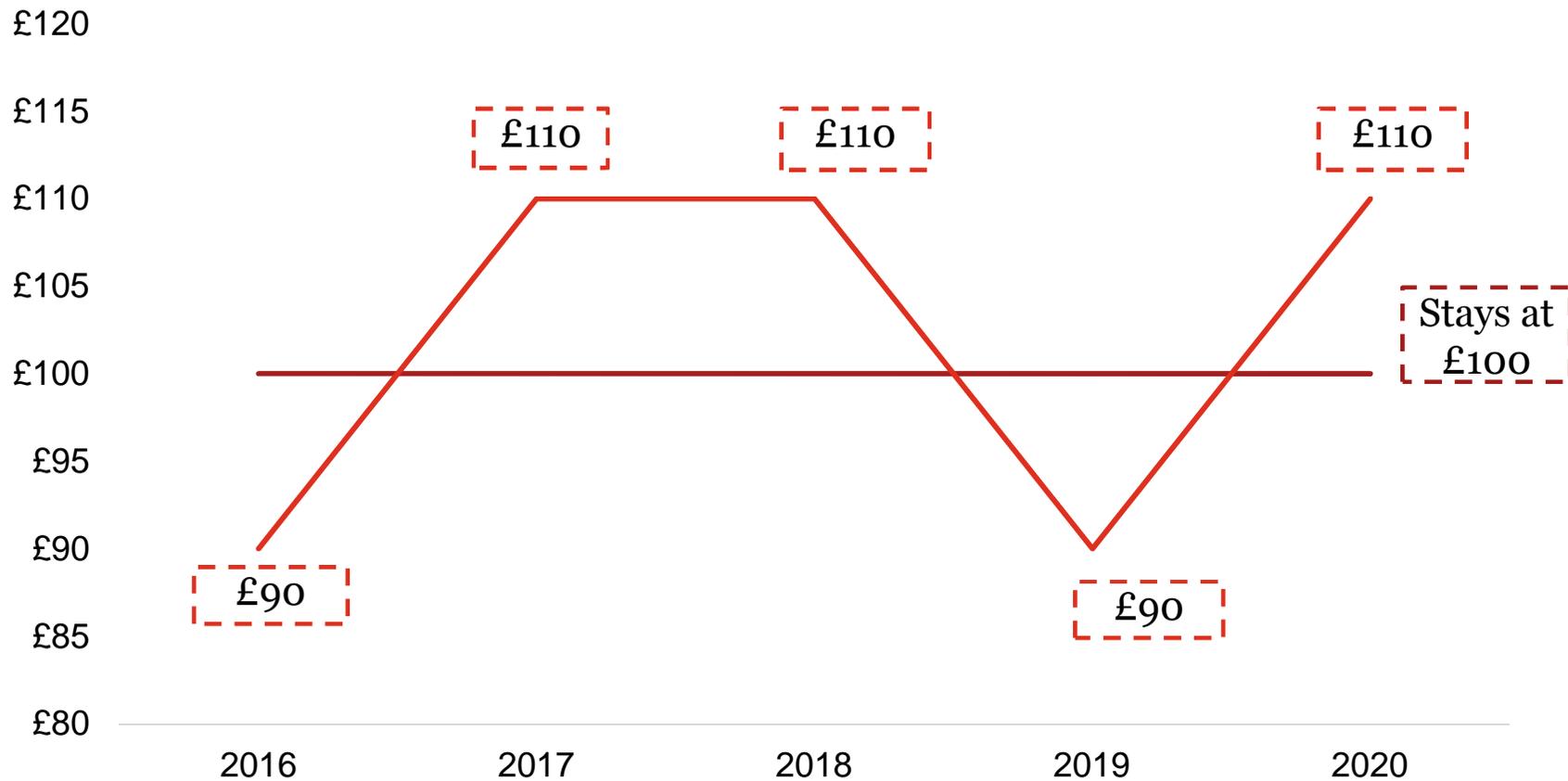


Figure 4.1: This is Natalie...

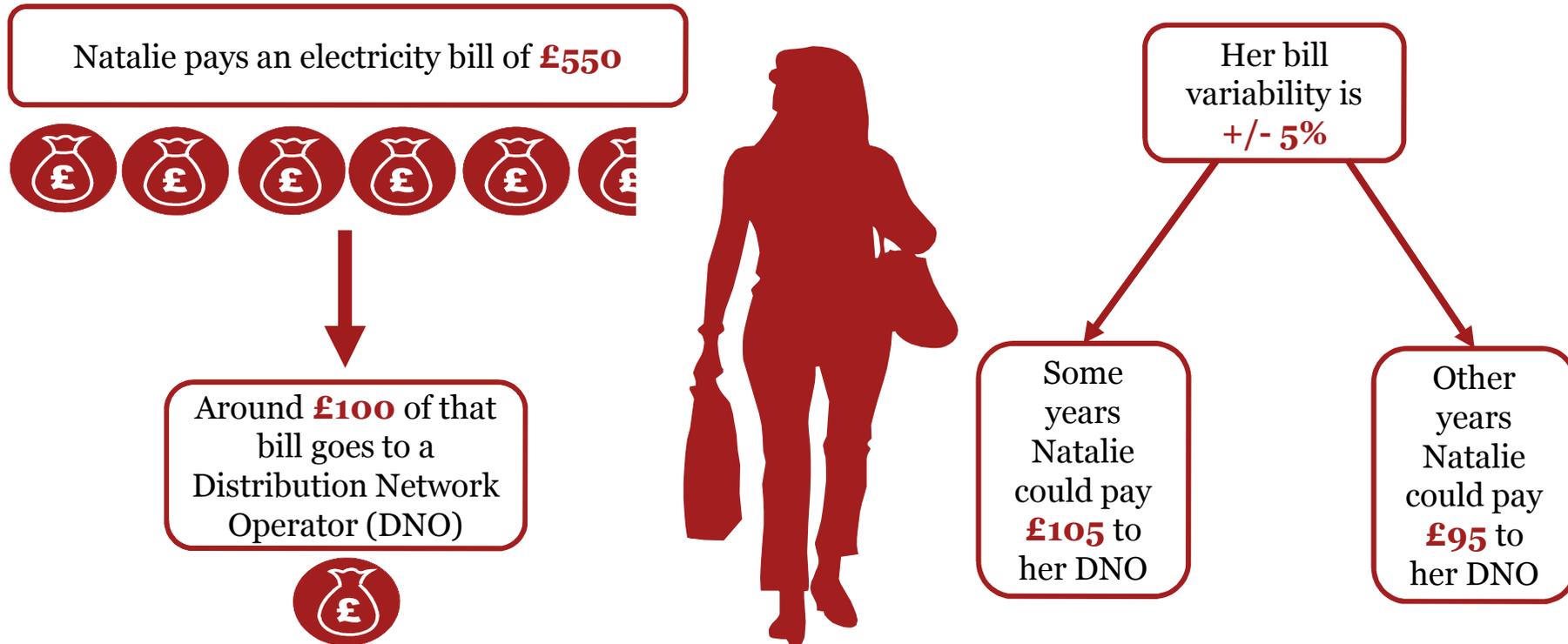


Figure 4.2: Natalie's electricity bill variability – 5%

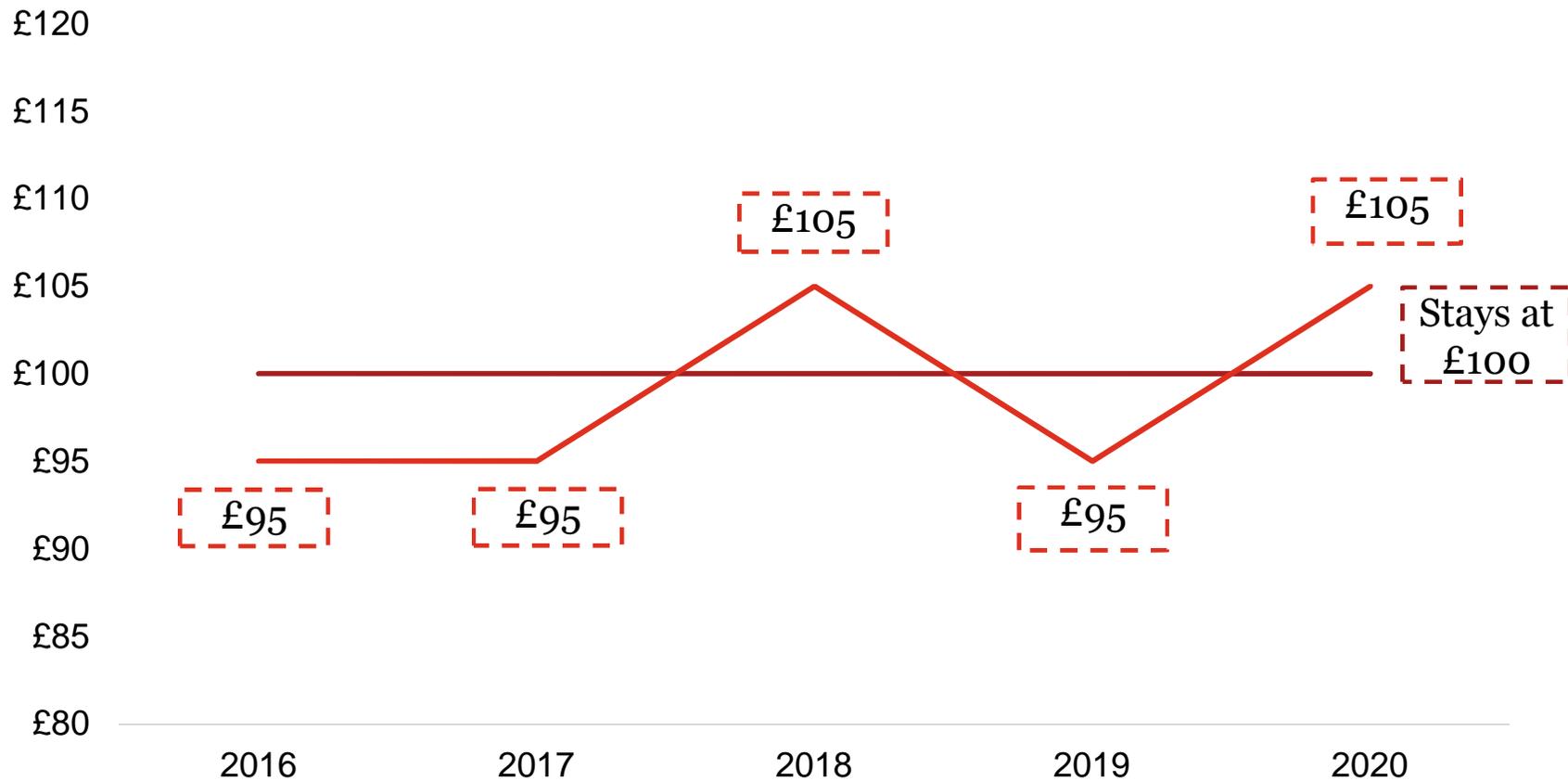


Figure 5.1: This is Oliver...

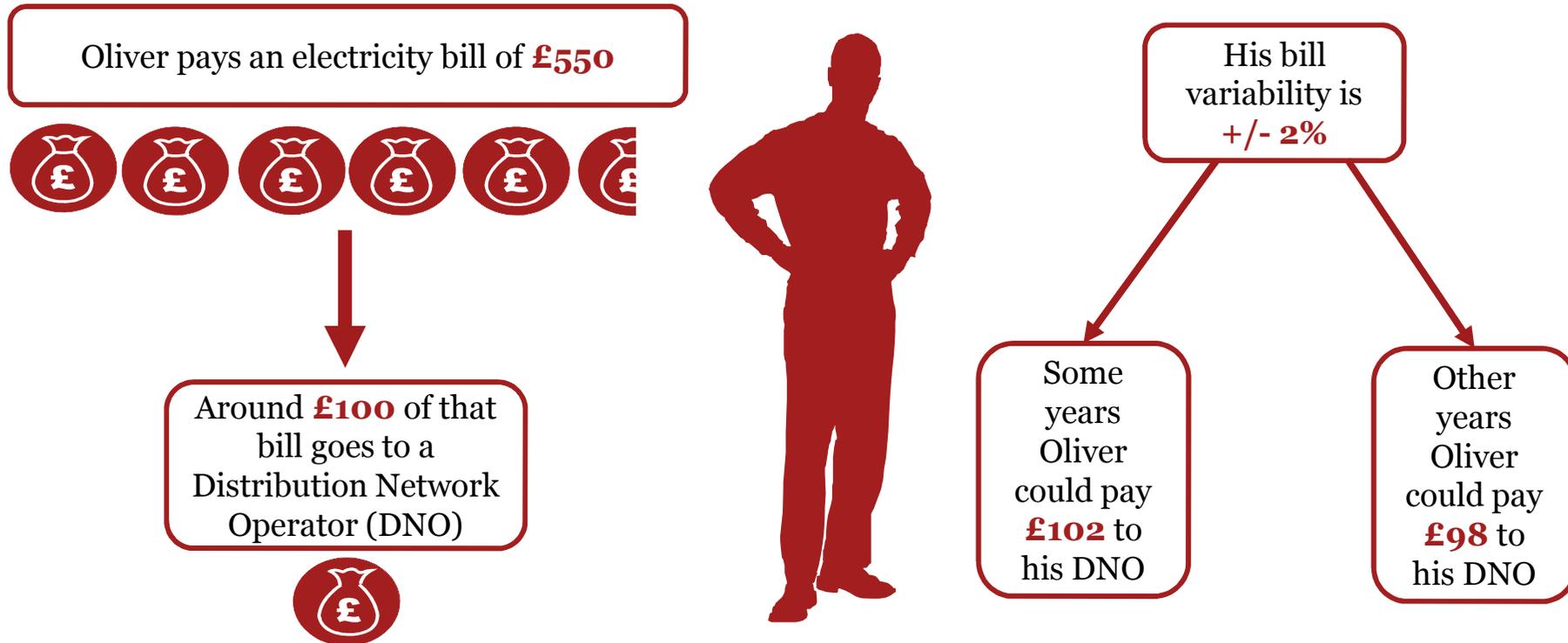


Figure 5.2: Oliver's electricity bill variability – 2%

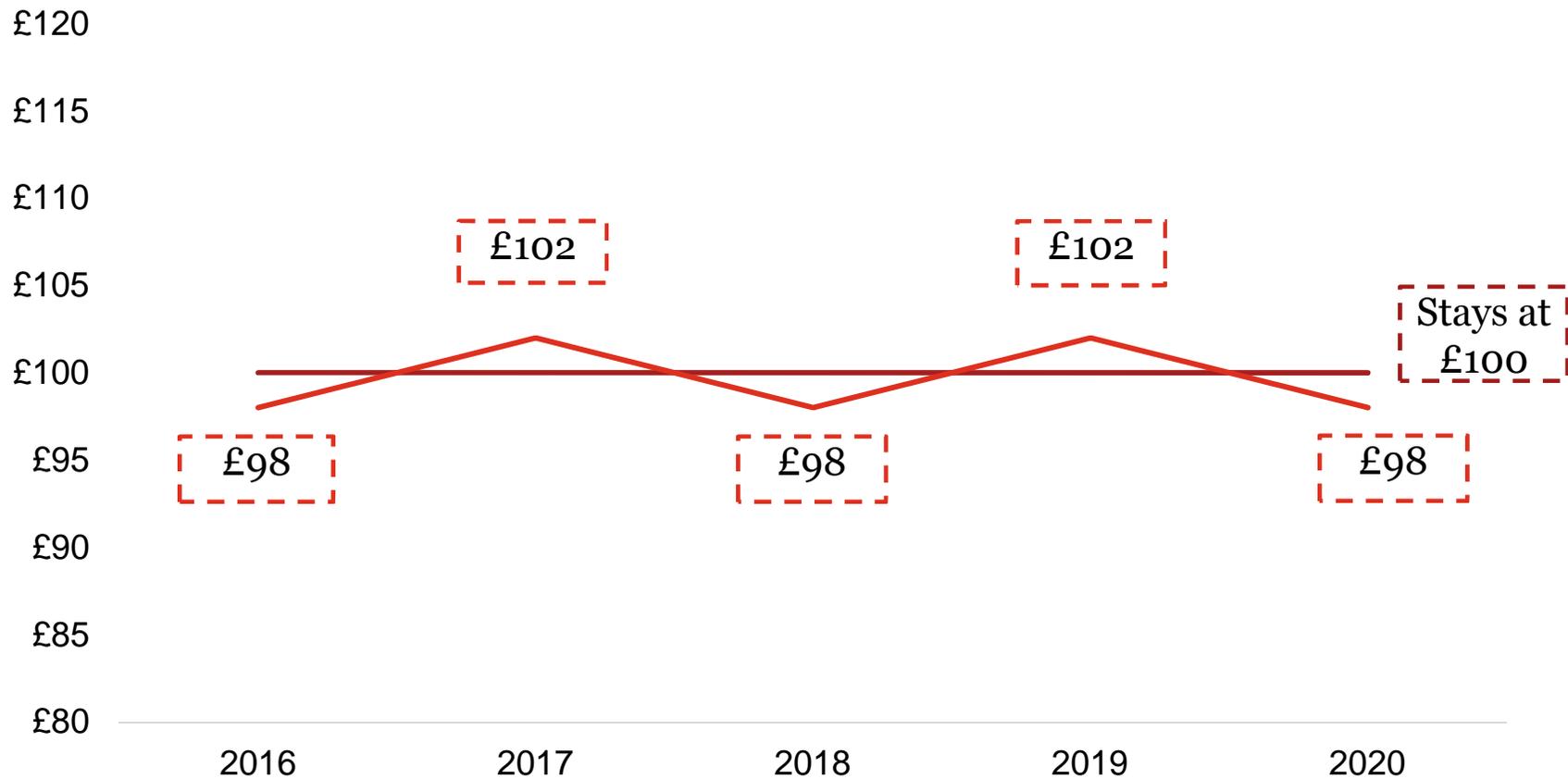


Figure 6: Which option should Dan pick?



4.2 Business consumers

Figure 7: Electricity bill variability – 10%

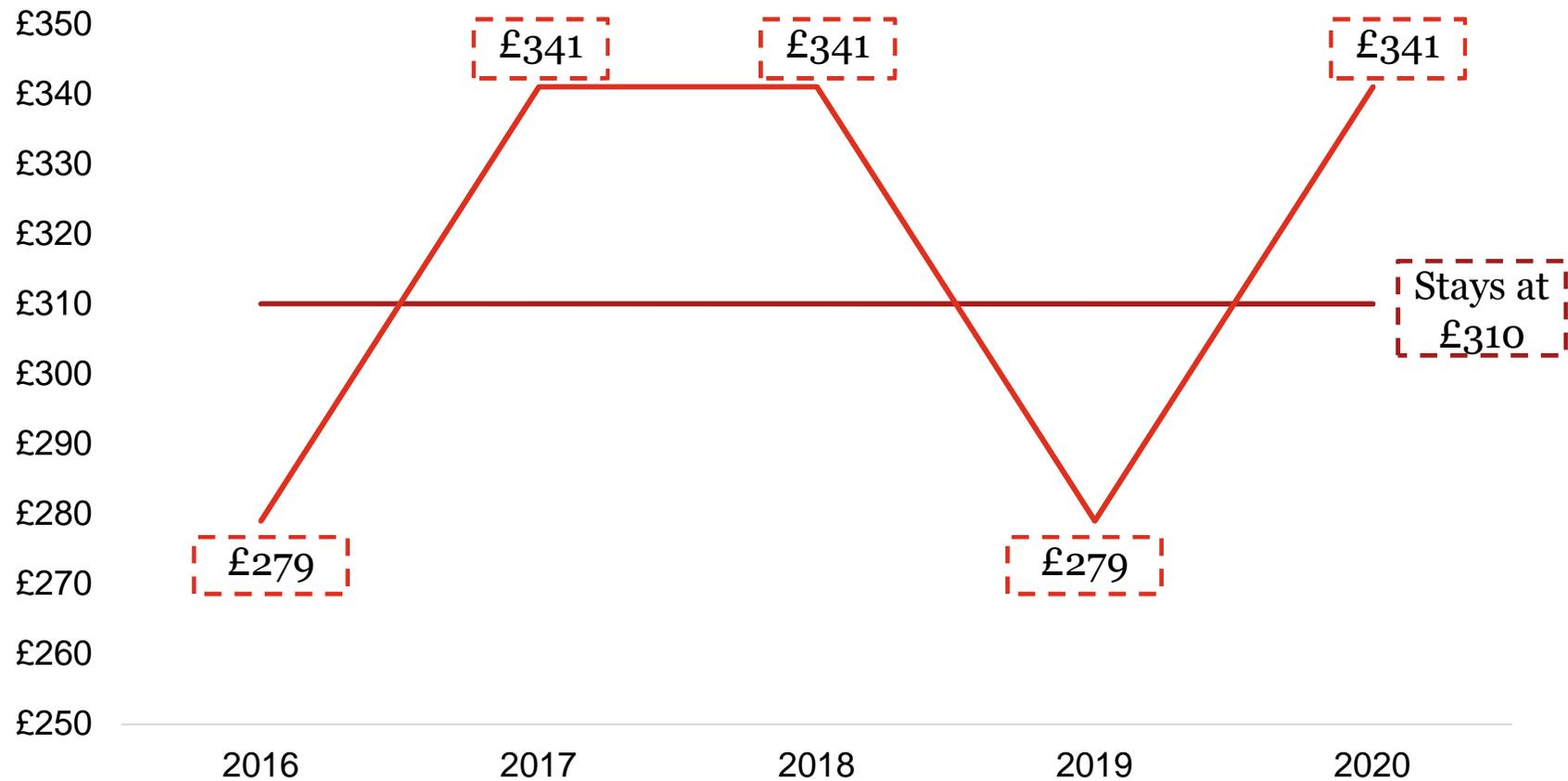


Figure 8: Electricity bill variability – 5%

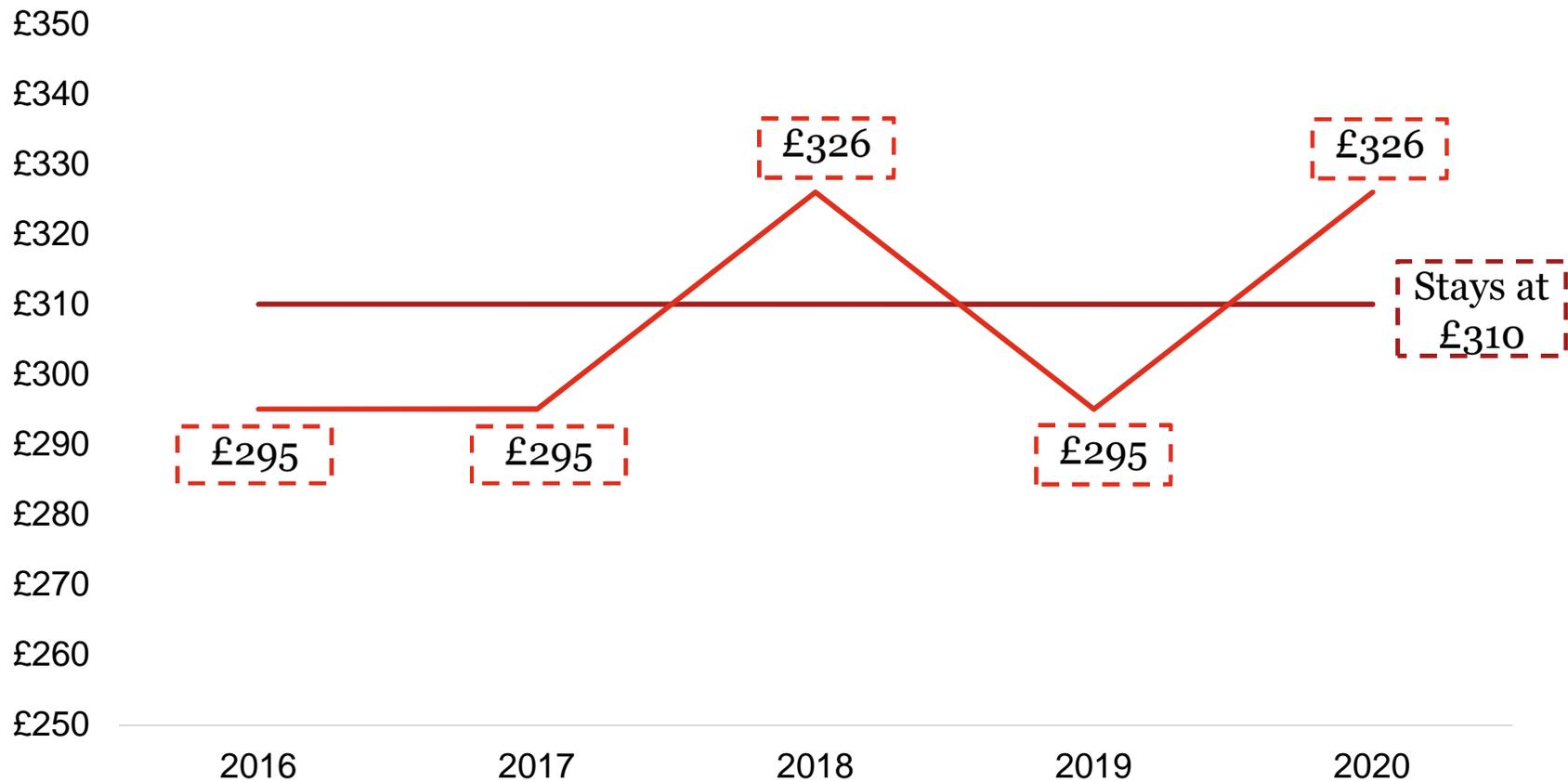


Figure 9: Electricity bill variability – 2%

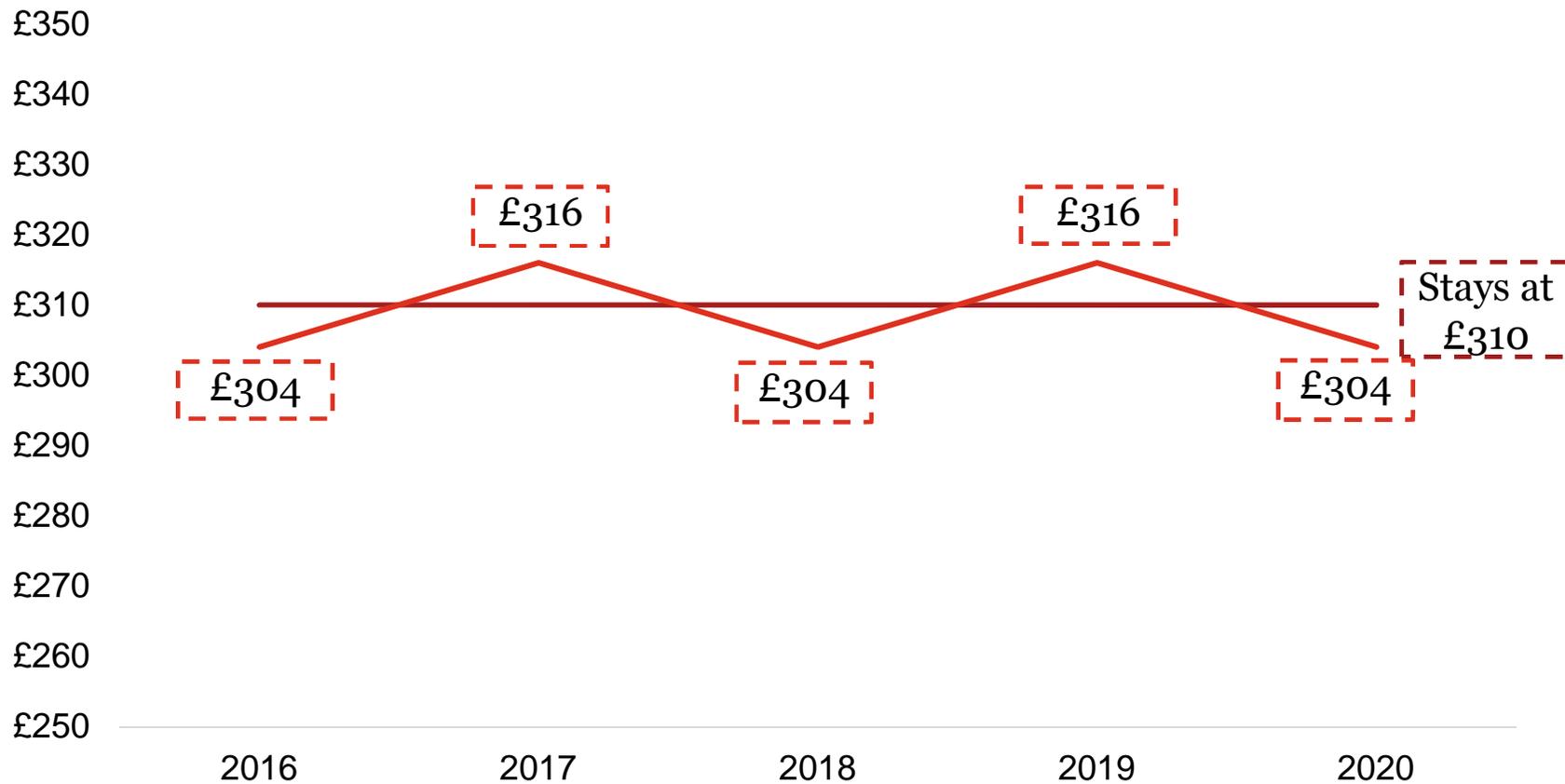


Figure 10: Which option do you prefer?



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