

www.pwc.com

Western Power Distribution: consumer- led pension strategy

Workstream 3: Stakeholder
engagement
Electricity consumer survey

June 2016

Contents



Workstream
overview

1

Key findings

2

Appendix

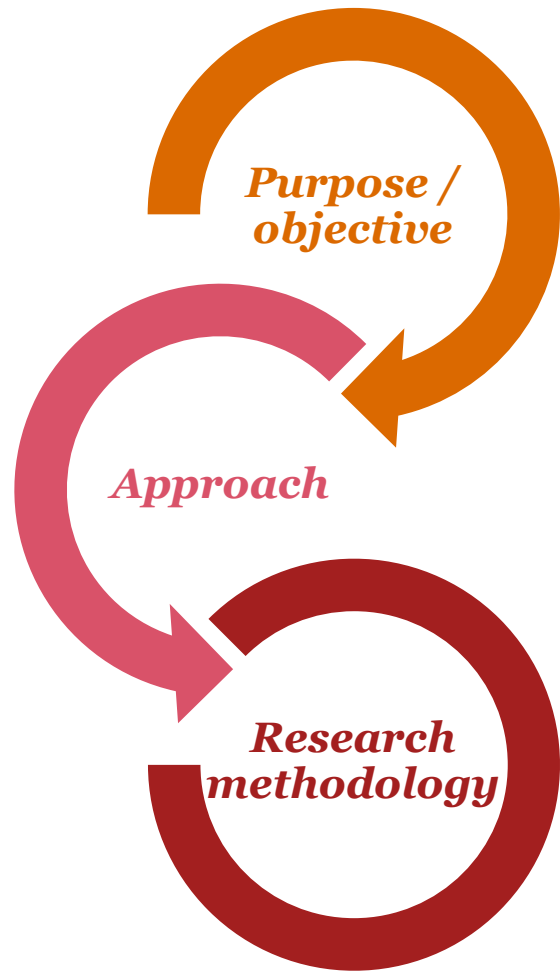
3

Workstream overview

1

1. Workstream overview

Background and methodology



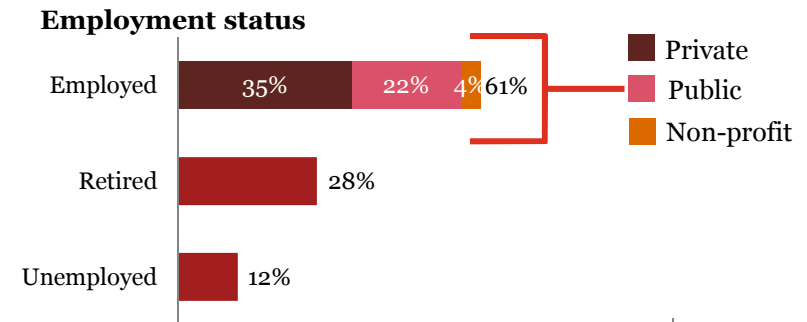
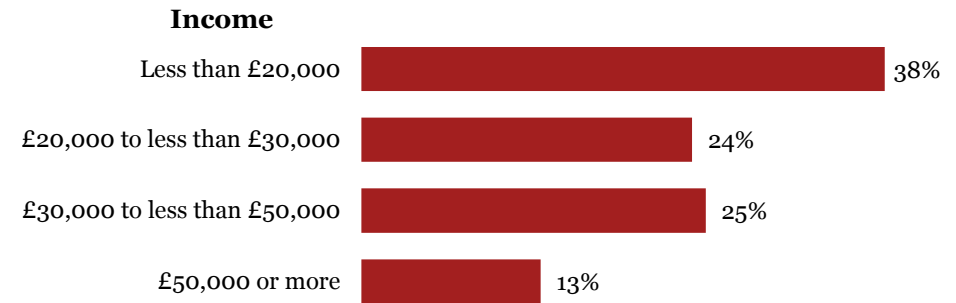
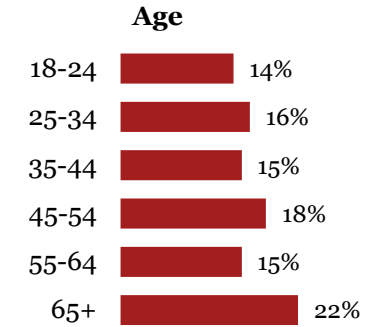
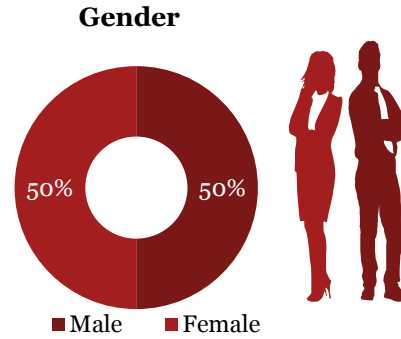
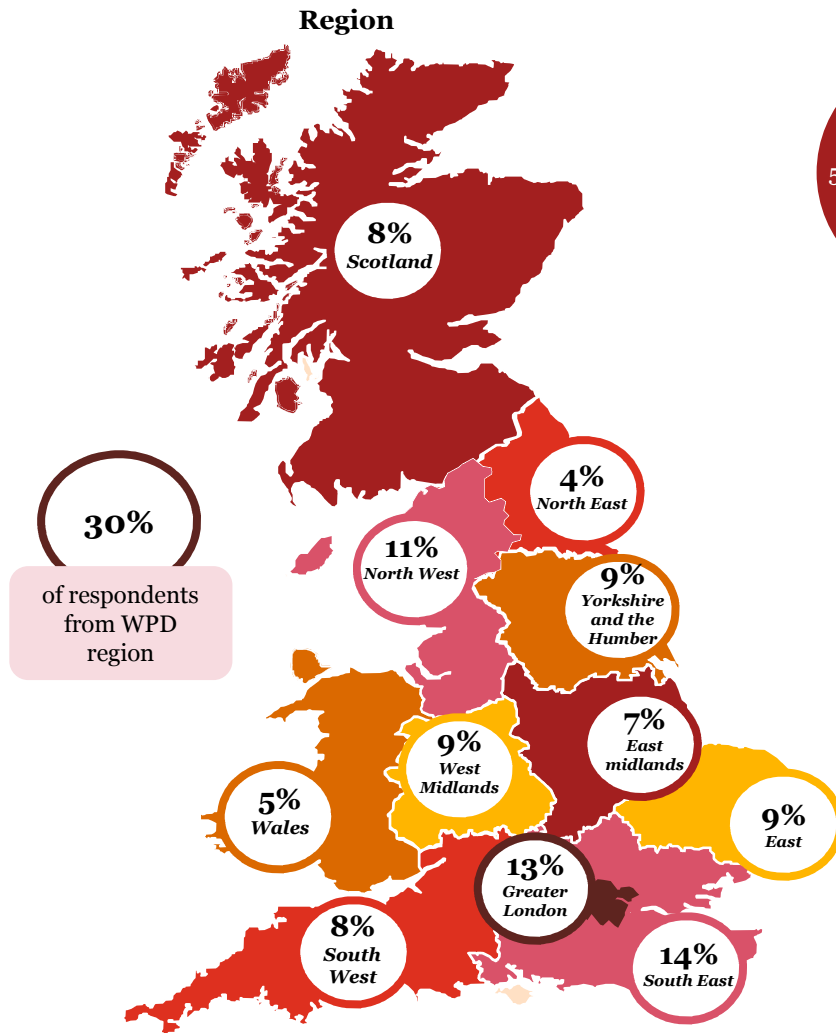
- *Validate the social discount rate conclusion from Workstream 2*
 - *Assess consumer preferences and priorities on bill variability, transparency, and consideration of future generations related to pension costs*
-

- *Domestic and business electricity consumers across England, Scotland and Wales were engaged in order to obtain statistically significant results*
-

- *An online panel survey was deployed to target domestic and business electricity bill payers. Respondents completed an online survey during April 2016*
-

1. Workstream overview

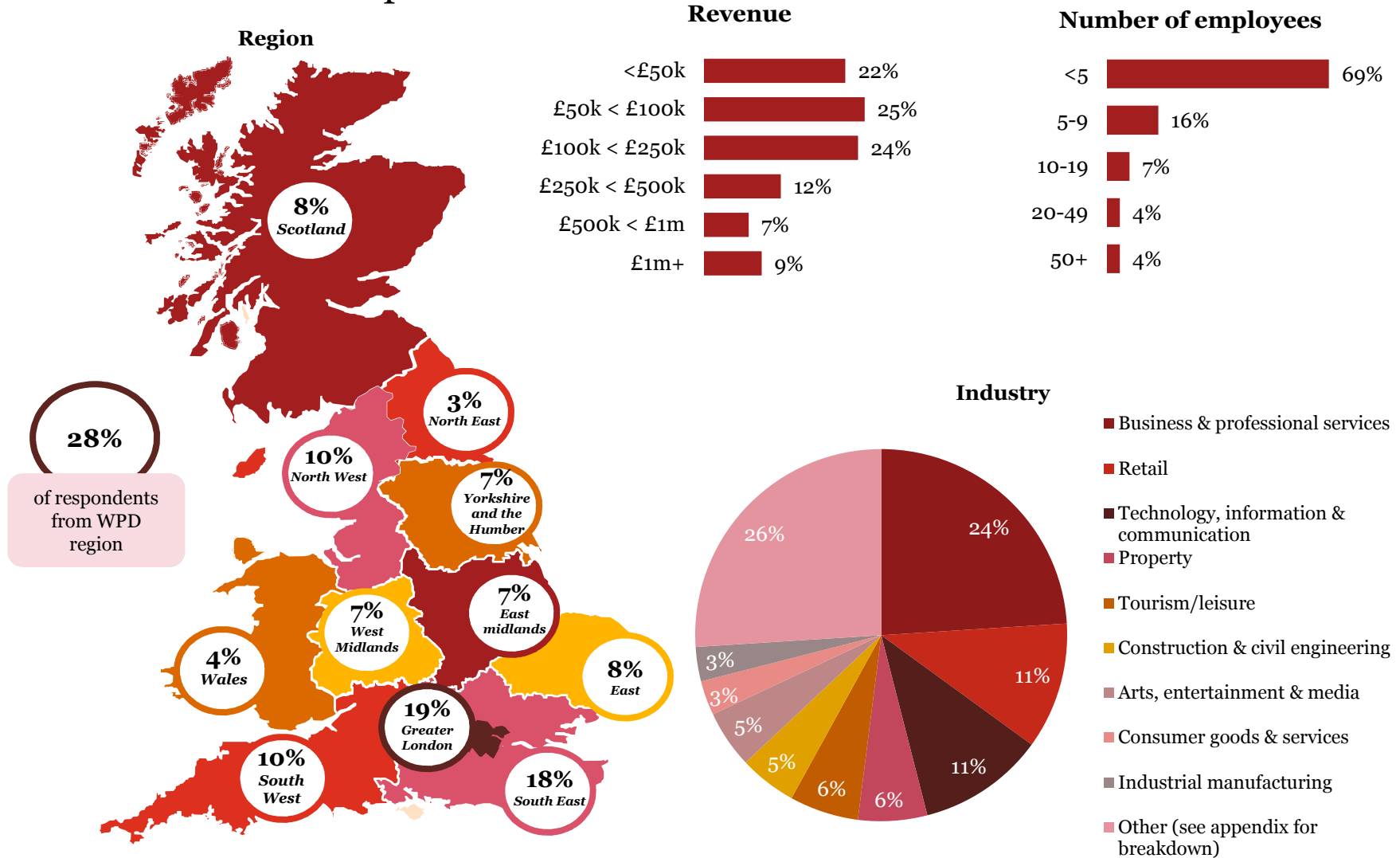
Profile of domestic respondents



Base: 1006. Totals may not add to 100% due to rounding.
PwC

1. Workstream overview

Profile of business respondents



Base: 1005. Totals may not add to 100% due to rounding.
PwC

1. Workstream overview

Context within which the survey questions were posed

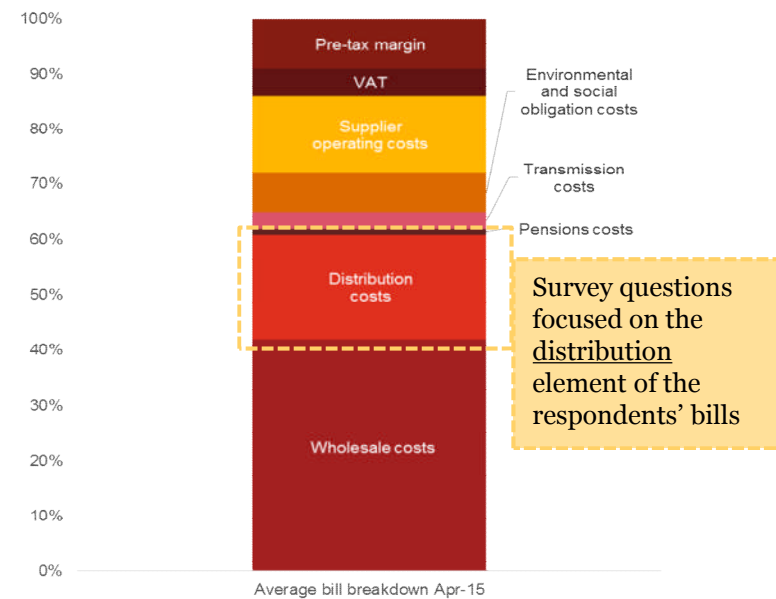
Terminology

- During the survey respondents were asked to consider the distribution element of their electricity bill i.e. the proportion of their bill that is allocated to Distribution Network Operator (DNO) costs (see ‘summary of average bill breakdown’).
- Throughout this paper ‘bill variability’ refers to variability in the distribution element of the bill.

Relevance

- Throughout the survey, where questions were posed to consumer relating to bill variability, the level of potential variability that consumers were asked their views on is consistent with the level of variability that could be expected to emerge from the pensions strategies specified in Workstream 1

Summary of average bill breakdown



Source: Ofgem

Key findings

2

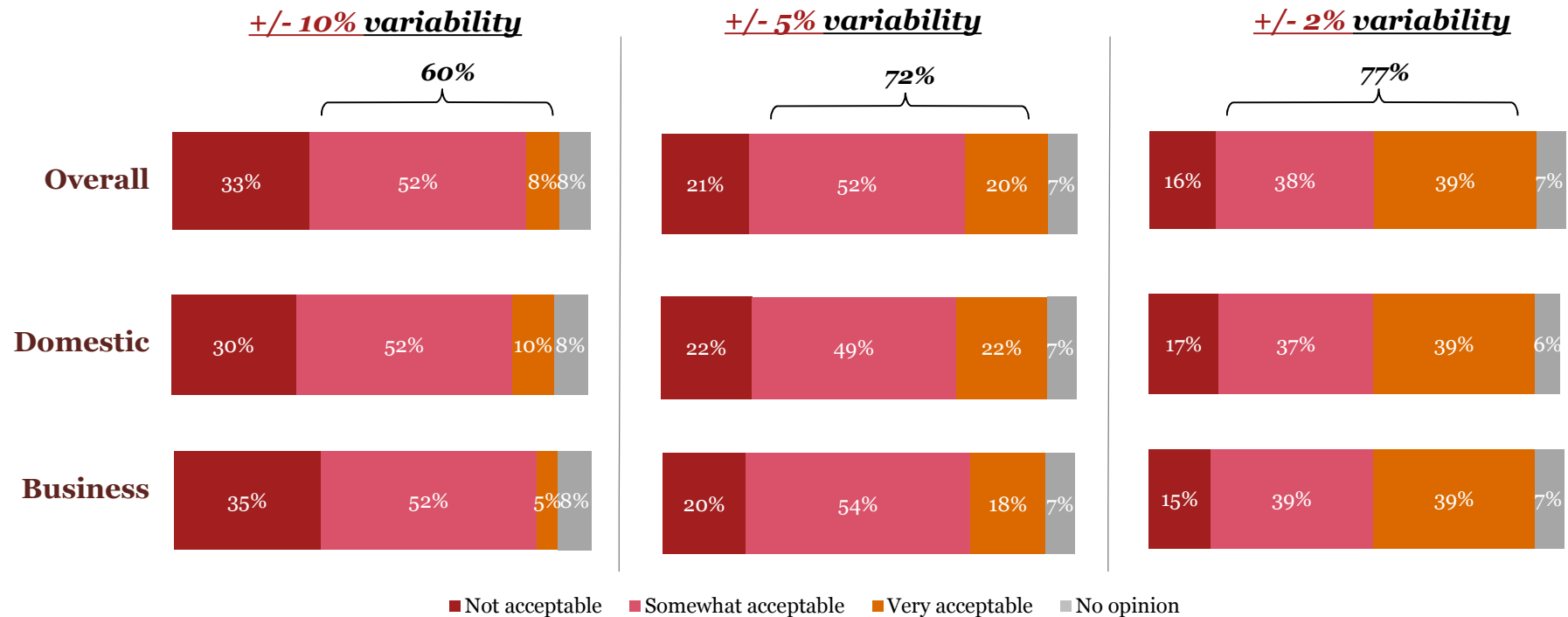
2.1 Bill variability

2.1 Bill variability

Overall summary of preferences – domestic and business

- **Bill variability* is more acceptable as the level of variability reduces**
- **Higher variability is viewed as acceptable, with 60% of electricity consumers indicating that +/-10% bill variability* was ‘somewhat acceptable’ or ‘very acceptable’**

How acceptable is the following variability in the cost of the DNO in your electricity bill?



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

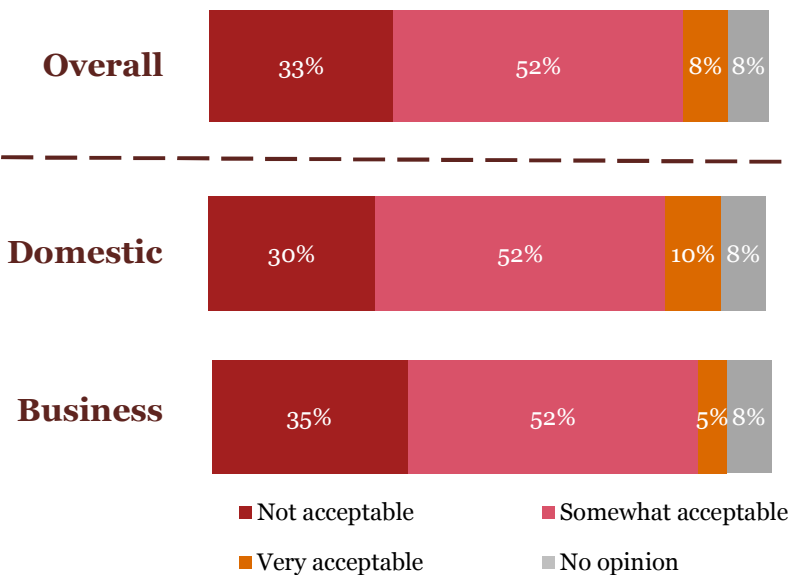
Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

2.1 Bill variability

More detail on preferences relating to a +/-10% bill variability*

- **60% of consumers agree +/-10% variability* is acceptable**
- **Domestic consumers are significantly more likely to agree +/-10% bill variability is acceptable (62%), compared to business consumers (57%)**

How acceptable is +/- 10% variability in the cost of the DNO in your electricity bill?



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

Who is more likely to find +/-10% acceptable?

Younger consumers (under 35) are generally more likely to agree +/-10% is acceptable;

- 79% of **18-24 years olds** agree it is acceptable, with a significantly lower proportion indicating it was 'not acceptable' (17%), compared to domestic overall (30%).

Whilst **35+ years old** are generally less likely to agree +/-10% is acceptable;

- **35-44 year olds** are significantly more likely to select 'not acceptable' (37%), compared to 30% domestic overall

Businesses with **£1m+ revenue** are significantly more likely agree +/-10% variability is acceptable with only 20% stating it's 'not acceptable', compared to 35% overall for business consumers.

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

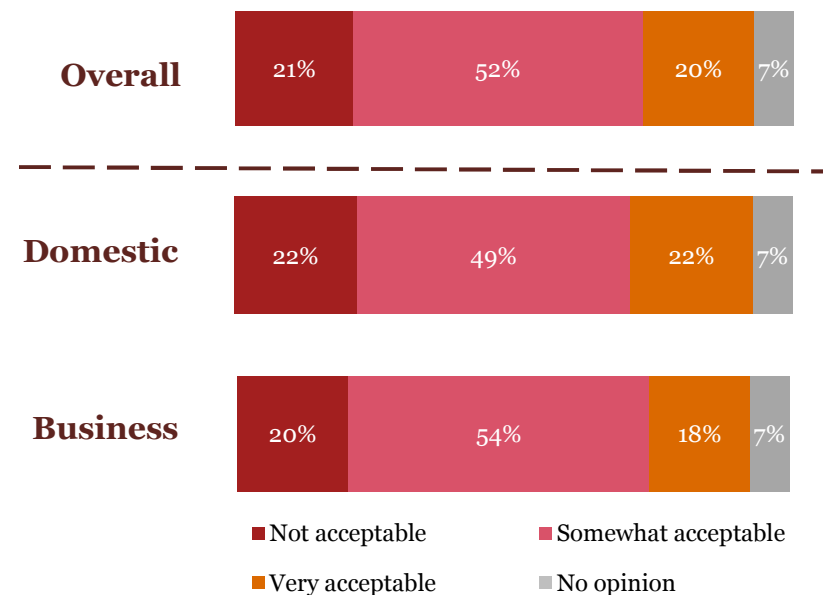
PwC

2.1 Bill variability

More detail on preferences relating to a +/-5% bill variability*

- **Around 70% of both domestic and business consumers agree +/-5% is 'somewhat acceptable' or 'very acceptable'**
- **Around 20% across both consumer types indicate it's 'not acceptable'**

How acceptable is +/- 5% variability in the cost of a DNO in your electricity bill?



Who is more likely to find +/-5% acceptable?

There is less variance by age for +/-5% variability, although there are some differences;

- Only 14% of **18-24 year olds** indicated 'not acceptable', significantly lower than UK domestic consumers overall (22%)
- Whilst a significantly higher proportion of **45-54 year olds** selected 'not acceptable' (28% vs 22% domestic overall).

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

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

Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

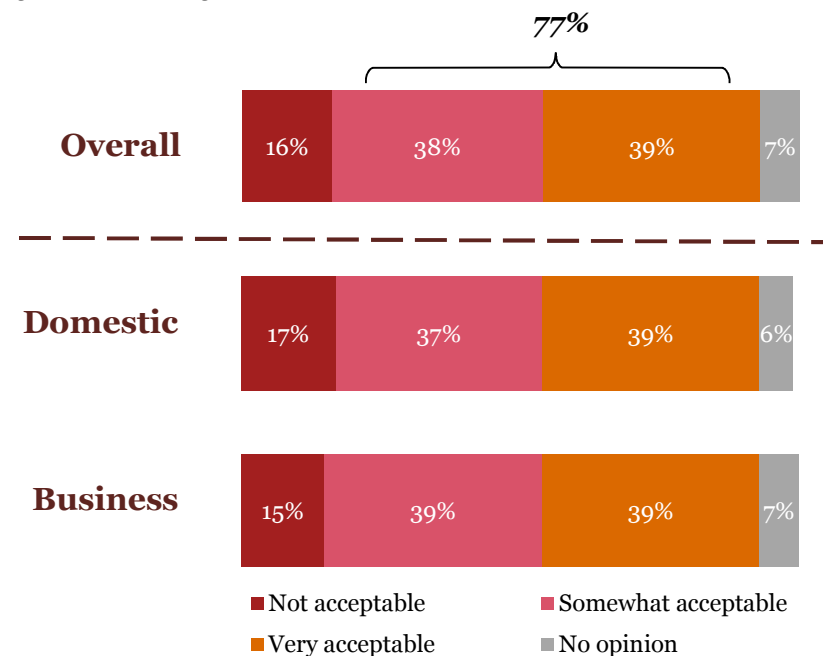
PwC

2.1 Bill variability

More detail on preferences relating to a +/-2% bill variability*

- Over three quarters of consumers agree +/-2% bill variability is 'somewhat' or 'very acceptable'

How acceptable is +/- 2% variability in the cost of a DNO in your electricity bill?



Who is more likely to find +/-2% acceptable?

There is minimal variation in the level of acceptance for +/-2% bill variability amongst those aged 25 and over, however;

- **18-24 years olds** are significantly less likely to indicate +/-2% is 'not acceptable', compared to domestic consumers overall (11% vs 17%).

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

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

Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

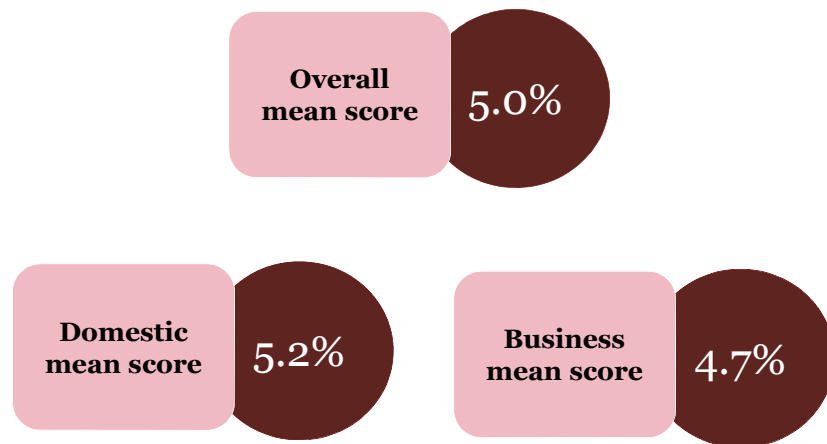
PwC

2.1 Bill variability

Average acceptable level of bill variability* – domestic and business

- **When provided with the option of bill variability* ranging from 0% to 20%, on average domestic consumers are willing to accept 5.2% bill variability***
- **Business consumers indicated that 4.7% bill variability is acceptable.**

How much variability in the DNO price of your electricity bill is acceptable? (Respondents were asked to select from 0% to 20% bill variability*)



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

Generally, **younger consumers** (under 35) indicated a higher level of variability was acceptable, compared to those over 35;

- **18-24 year olds** indicated 6.9% bill variability on average, significantly higher than domestic consumers overall (5.2%)
- 65+ indicated 4.1% on average, significantly lower than domestic overall (5.2%).

The level of variability viewed as acceptable generally increases with organisation size and businesses with **£1m+ revenue** indicated a significantly higher level of variability (5.9%), compared to business consumers overall (4.7%).

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

Mean base: Overall 1791; Domestic 871; Business 920

PwC

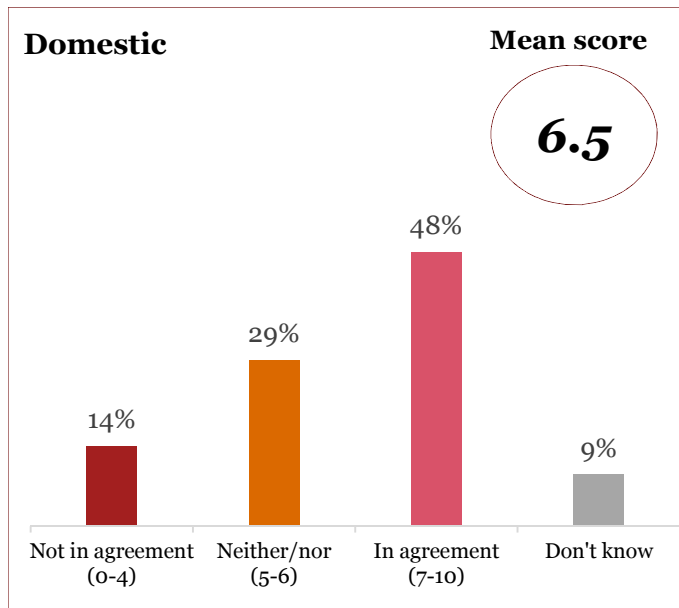
2.2 Domestic consumers' preferences relating to higher costs now (potential lower for future generations) vs. lower costs now (potential higher for future generations)

2.2 Consumer preferences relating to higher costs now (lower for future generations) vs. lower costs now (higher for future generations)

Degree to which costs for future consumers should be a consideration

- **Around half of domestic consumers agree that Government and regulators should consider the price future bill payers will pay when setting prices for today's bill payers.**

To what extent do you agree that government or regulators should consider the price future generations will pay when setting the current price to cover the cost of the DNO?



Those aged **18-24** indicated significantly higher level of agreement (7.0) compared to domestic consumers overall (6.5), unsurprisingly as the youngest age category therefore most certain to be a 'future bill payer'.

However domestic consumers aged **45-54** indicated significantly lower levels of agreement (6.0), compared to domestic consumers overall.

Domestic consumers within the WPD region exhibit a similar level of agreement with UK consumers overall (both 6.5).

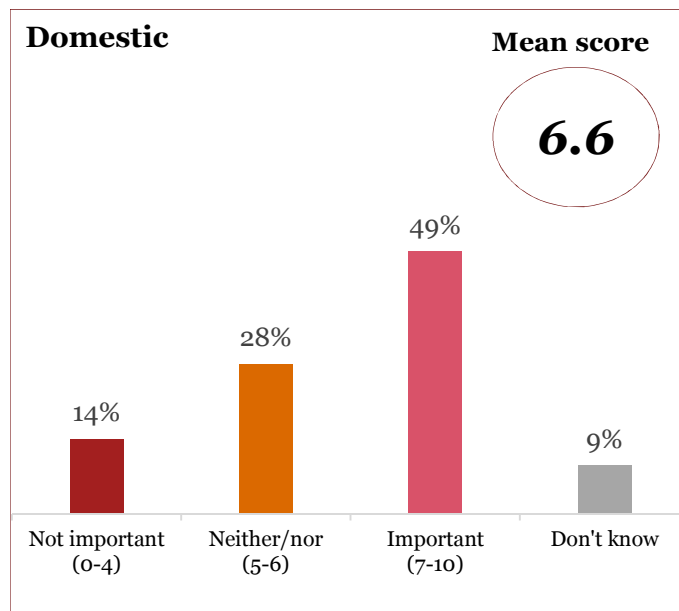
Base: Domestic 1006. Mean base: Domestic 919. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/in agreement, 5-6 is neither/nor and 0-4 is not important or not in agreement. Totals may not add to 100% due to rounding.

2.2 Consumer preferences relating to higher costs now (lower for future generations) vs. lower costs now (higher for future generations)

Degree to which avoiding a cost increase for future consumers is important

- **Almost half of domestic consumers consider it important that future bill payers should not pay a higher bill* than the bill payers of today.**

How important is it that future generations do not pay a higher DNO cost than the bill payers of today?



* Bill refers to the distribution element of the bill

Base: Domestic 1006. Mean base: Domestic 914. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/in agreement, 5-6 is neither/nor and 0-4 is not important or not in agreement. Totals may not add to 100% due to rounding.

PwC

Female consumers are significantly more likely to consider it important (6.8), compared to male consumers (6.4).

Consumers **with children** also are significantly more likely to consider it important (6.9), whilst consumers with no plans to have children find it significantly less important (5.9).

Consumers aged **65+** are significantly more likely to consider it important (6.9), compared to domestic consumers overall (6.6).

However domestic consumers aged **45-54** indicated significantly lower levels of importance (6.1), compared to domestic consumers overall (6.6).

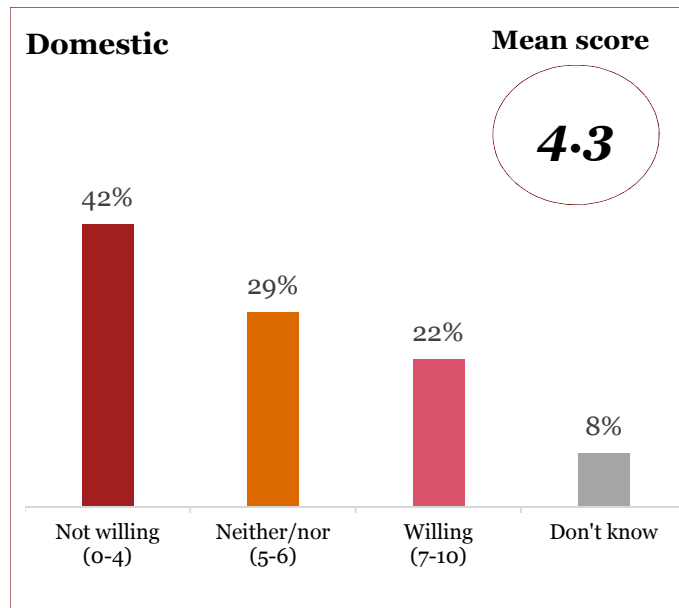
Domestic consumers within the **WPD region** are significantly **less likely** to consider it important (6.3) compared to UK consumers overall (6.6).

2.2 Consumer preferences relating to higher costs now (lower for future generations) vs. lower costs now (higher for future generations)

Degree to which current consumers are willing to pay more now to avoid a cost increase for future consumers

- **Only 20% of consumers agree they would be willing to pay more now so that future bill payers do not experience a cost increase.**

To what extent would you be willing to pay for higher DNO costs in 2016 so that this cost is not passed on to future generations?



Younger consumers (under 35) are significantly more likely to agree that they are willing to pay higher DNO costs so that this cost is not passed on to future generations, perhaps unsurprisingly as they are most certain to qualify as a 'future bill payer';

- **18-35 year olds** significantly more likely to agree (18-24: 5.6, 25-34: 5.1 vs. 4.3 overall)
- Whilst those aged 45+ are significantly less likely to agree (45-54: 3.6, 55-64: 3.8, 65+: 3.7 vs 4.3 overall).

Consumers that earn **less than £20,000** per year are significantly less likely to agree they are willing to pay more (4.0), compared to domestic consumers overall (4.3).

Consumers with **no plans to have children** are significantly less likely to agree (3.9), compared to domestic overall (4.3).

Domestic consumers within the WPD region exhibit a similar level of agreement with UK domestic consumers overall (4.2 vs 4.3 overall).

Base: Domestic 1006. Mean base: Domestic 930. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/in agreement, 5-6 is neither/nor and 0-4 is not important or not in agreement. Totals may not add to 100% due to rounding.

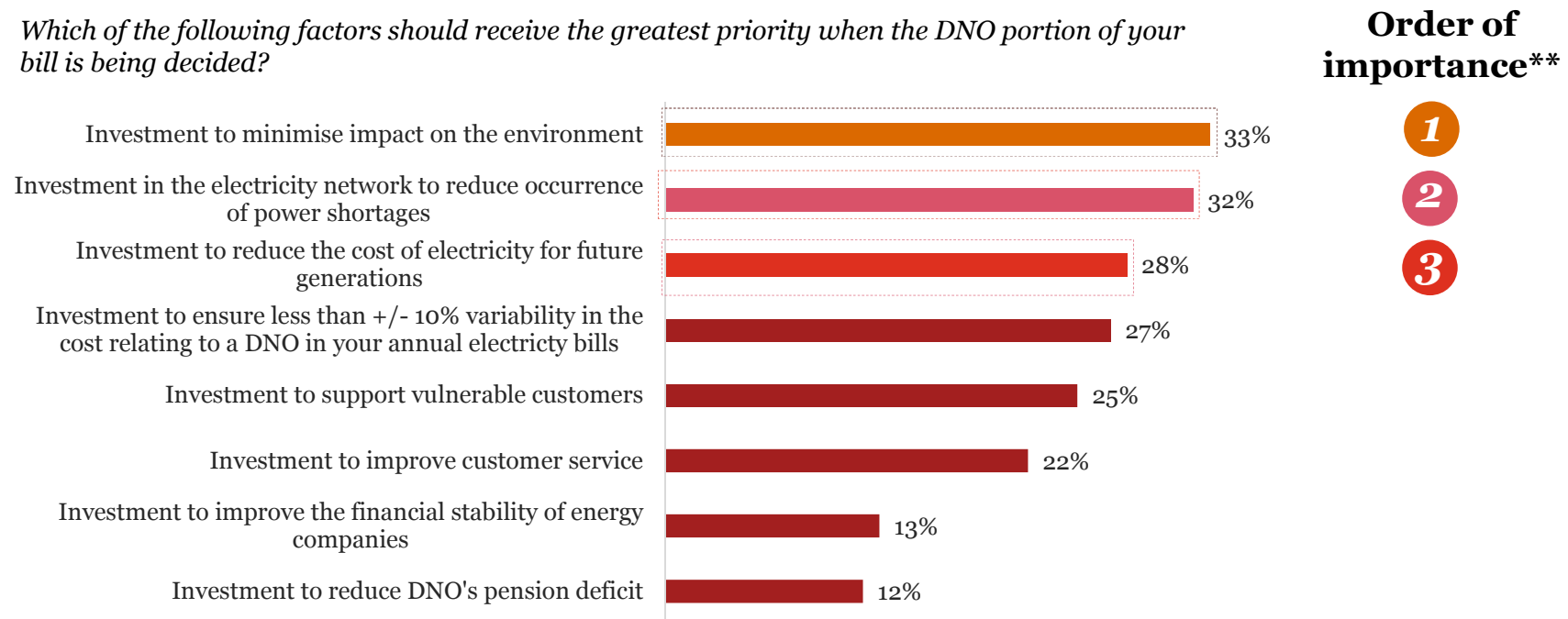
2.3 Preferences relating to which factors should receive the greatest priority when prices* are set

2.3 Preferences relating to which factors should receive the greatest priority when prices* are set

Domestic consumers priorities

- Investment to reduce pension deficit is a lower priority amongst domestic consumers when considering which areas should receive the greatest priority when electricity prices* are being set**

Which of the following factors should receive the greatest priority when the DNO portion of your bill is being decided?



* Price refers to the distribution element of the bill

Respondents were asked to rank up to 3 factors in order of importance. Chart shows percentage of respondents ranking each factor number 1.

**Based on index analysis. Index analysis takes into consideration the position the attribute or statement was ranked, and the frequency it was ranked in the top 2. It is considered a fairer way to review the results of a ranking style question. Index analysis ordering is consistent with order shown in chart above. Base: 873 (excludes don't knows)

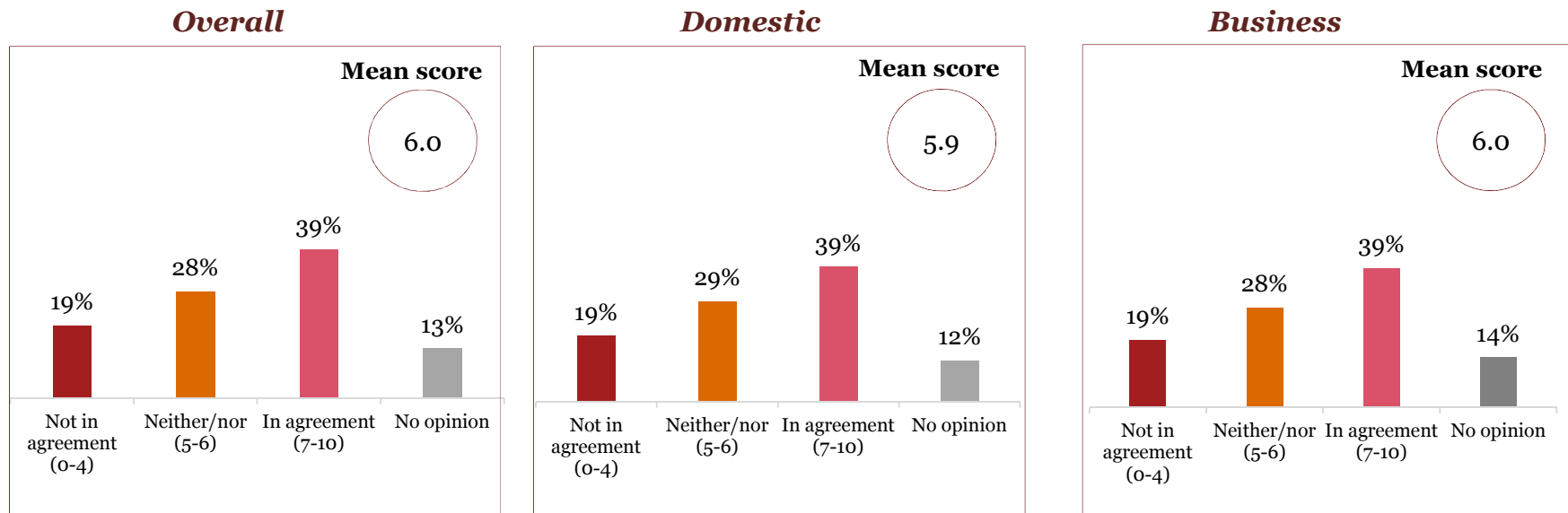
2.4 Preferences relating to pension deficits in DNOs

2.4 Preferences relating to pension deficits in DNOs

Preferences relating to delivering bill reduction via DNO pension cost reduction

- **Around 40% of consumers agree that bills should be reduced by reducing DNO pension costs**
- **40% are 'on the fence' or have no opinion**

To what extent would you agree with a decision by the DNO to reduce the price consumers pay for electricity by reducing the pension costs of the DNO?



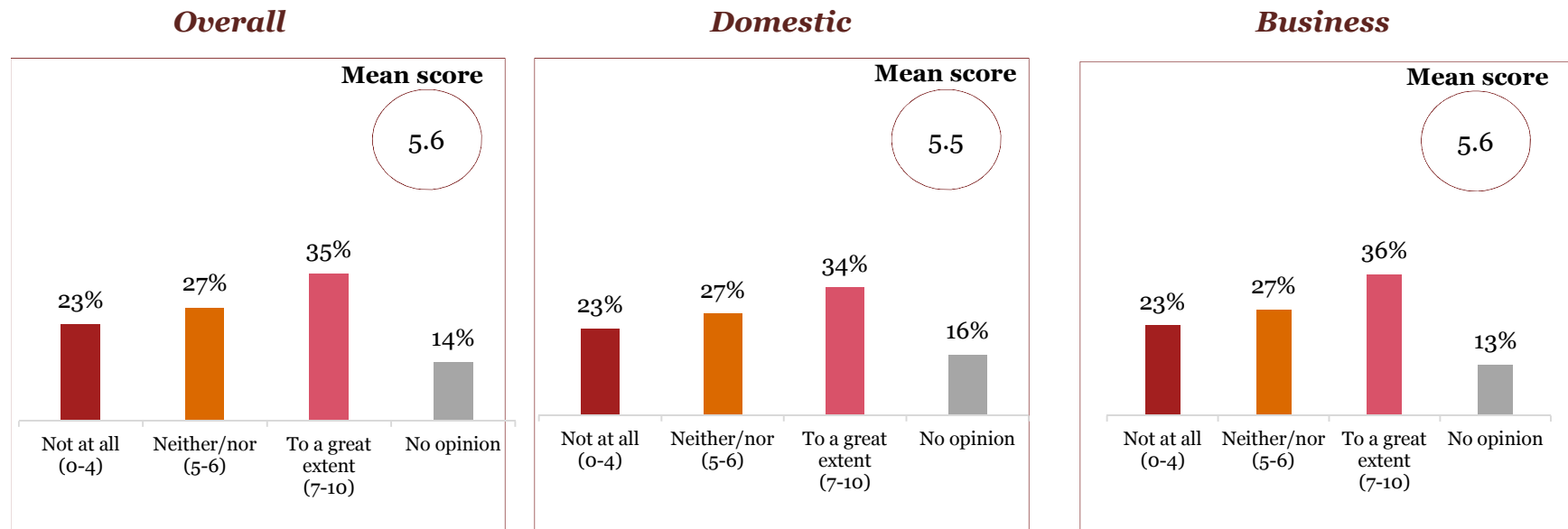
Base: Overall 2011, Domestic 1006, Business 1005. Mean base: Overall 1747, Domestic 881, Business 866. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/not in agreement, 5-6 is neither/nor and 0-4 is not important or in agreement. Totals may not add to 100% due to rounding.

2.4 Preferences relating to pension deficits in DNOs

Preferences relating to the DNO having no pensions deficit

- **Only a third of consumers indicated they would care if their DNO had a pension deficit**
- **Results are similar across both domestic and business consumers.**

To what extent would you care if your DNO had a pension deficit?



Base: Overall 2011, Domestic 1006, Business 1005. Mean base: Overall 1724, Domestic 850, Business 874. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/not in agreement, 5-6 is neither/nor and 0-4 is not important or in agreement. Totals may not add to 100% due to rounding.

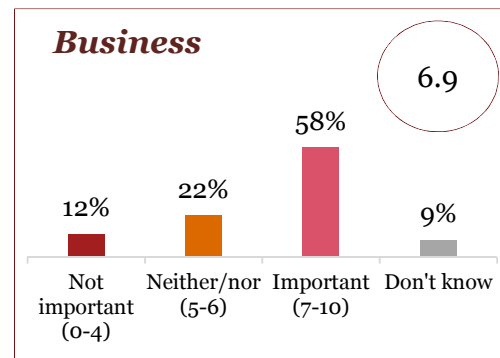
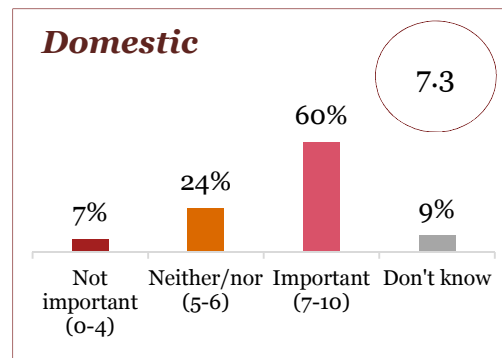
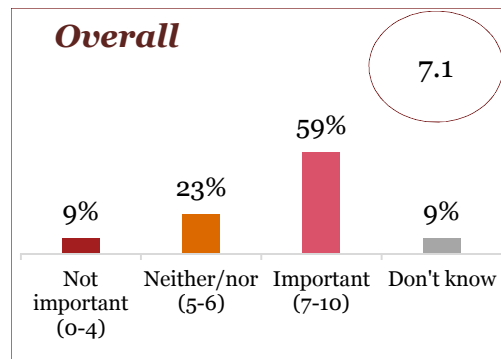
2.5 Preferences relating to how the distribution element of the bill is spent by the DNO and billing transparency

2.5 Preferences relating to how the distribution element of the bill is spent by the DNO and billing transparency

Preferences around consumer visibility of DNOs' running costs

- **Almost 60% of consumers consider it important to have visibility over how the distribution element of their bill is spent.**

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



Having access to a breakdown of DNO spend is significantly more important for **domestic** consumers (7.3), compared to business consumers (6.9).

Older age groups generally indicated that visibility of DNO spend is important, and it is significantly more important to consumers aged **65+** (7.8), whilst those aged 18-24 indicated a significantly lower level of importance (6.8), compared to domestic consumers overall (7.3).

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

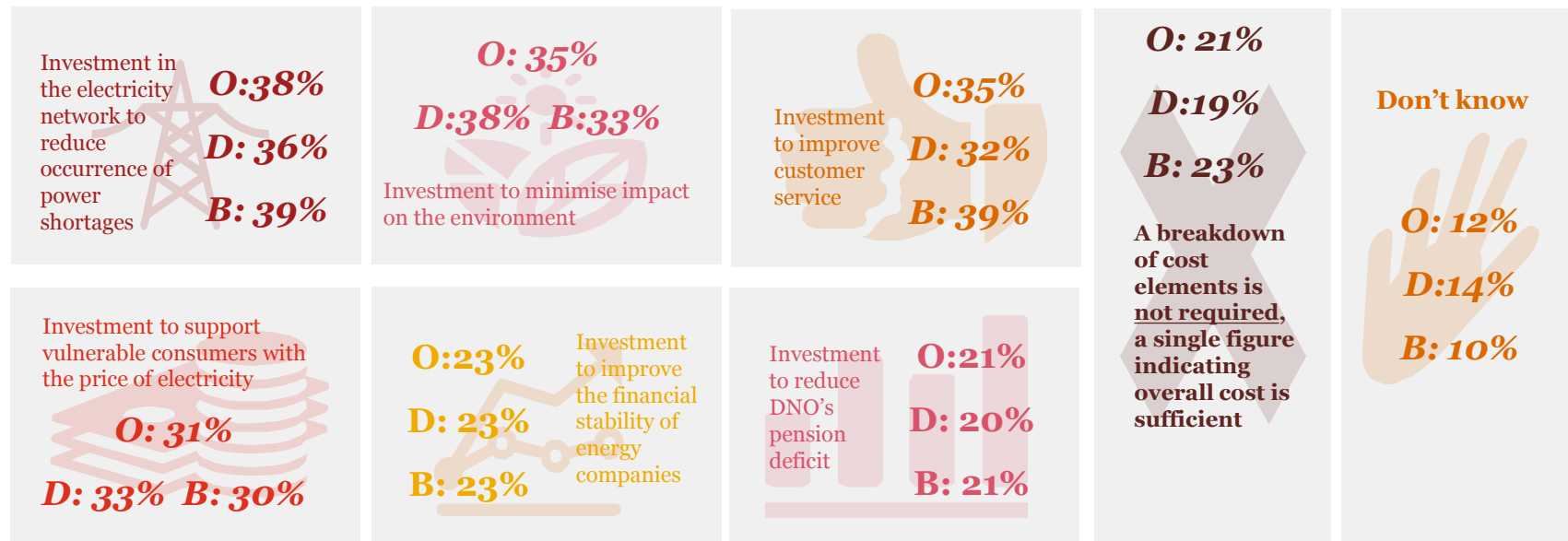
Base: Overall 2011, Domestic 1006, Business 1005 Mean base: Overall 1831, Domestic 913, Business 918. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/not in agreement, 5-6 is neither/nor and 0-4 is not important or in agreement. . Totals may not add to 100% due to rounding.

2.5 Preferences relating to how the distribution element of the bill is spent by the DNO and billing transparency

Preferences around consumer visibility of specific elements

- **20% of consumers indicated that a breakdown of how the distribution element of the bill is spent was not required and a further 12% were unsure**
- **Of those who did want further breakdown, investments relating to reducing power shortages, minimising environmental impact, improved consumer service and supporting vulnerable consumers were the elements most frequently chosen – with around a third of consumers selecting one or more of these.**

Which, if any, of the following elements from your DNO would you like to see detailed on your electricity bill in the future?



Base: Overall 2011, Domestic 1006, Business 1005.

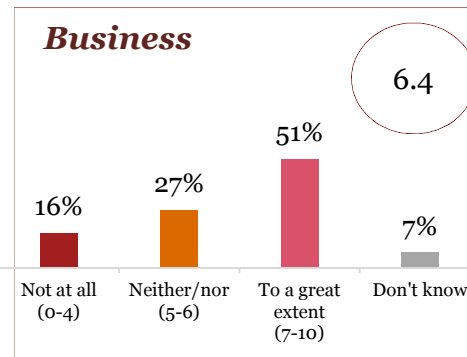
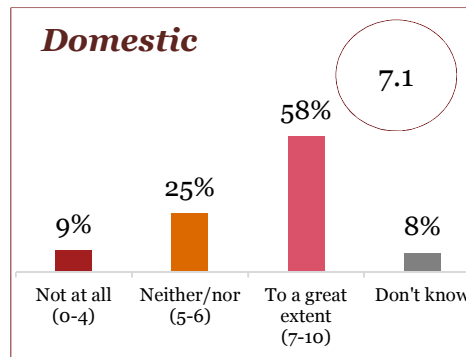
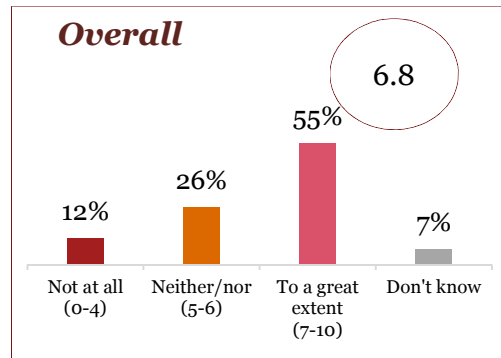
PwC

2.5 Preferences relating to how the distribution element of the bill is spent by the DNO and billing transparency

Preferences relating to how DNOs spend the distribution element of the bill

- Over half of respondents agree that they care how the distribution element of the bill is spent by DNOs.

To what extent do you care how the money you pay for electricity is spent by DNOs?



Business consumers are significantly **less concerned** than domestic consumers about how the money they pay for electricity is spent by DNOs (6.4 vs. 7.1).

Those aged **65+** indicated a significantly higher level of concern (7.5), compared to domestic consumers overall (7.1).

Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

Base: Overall 2011, Domestic 1006, Business 1005 Mean base: Overall 1866, Domestic 928 Business 938. Where importance/agreement is ranked on a 0-10 scale, 7-10 is taken as important/in agreement, 5-6 is neither/nor and 0-4 is not important or not in agreement. Totals may not add to 100% due to rounding.

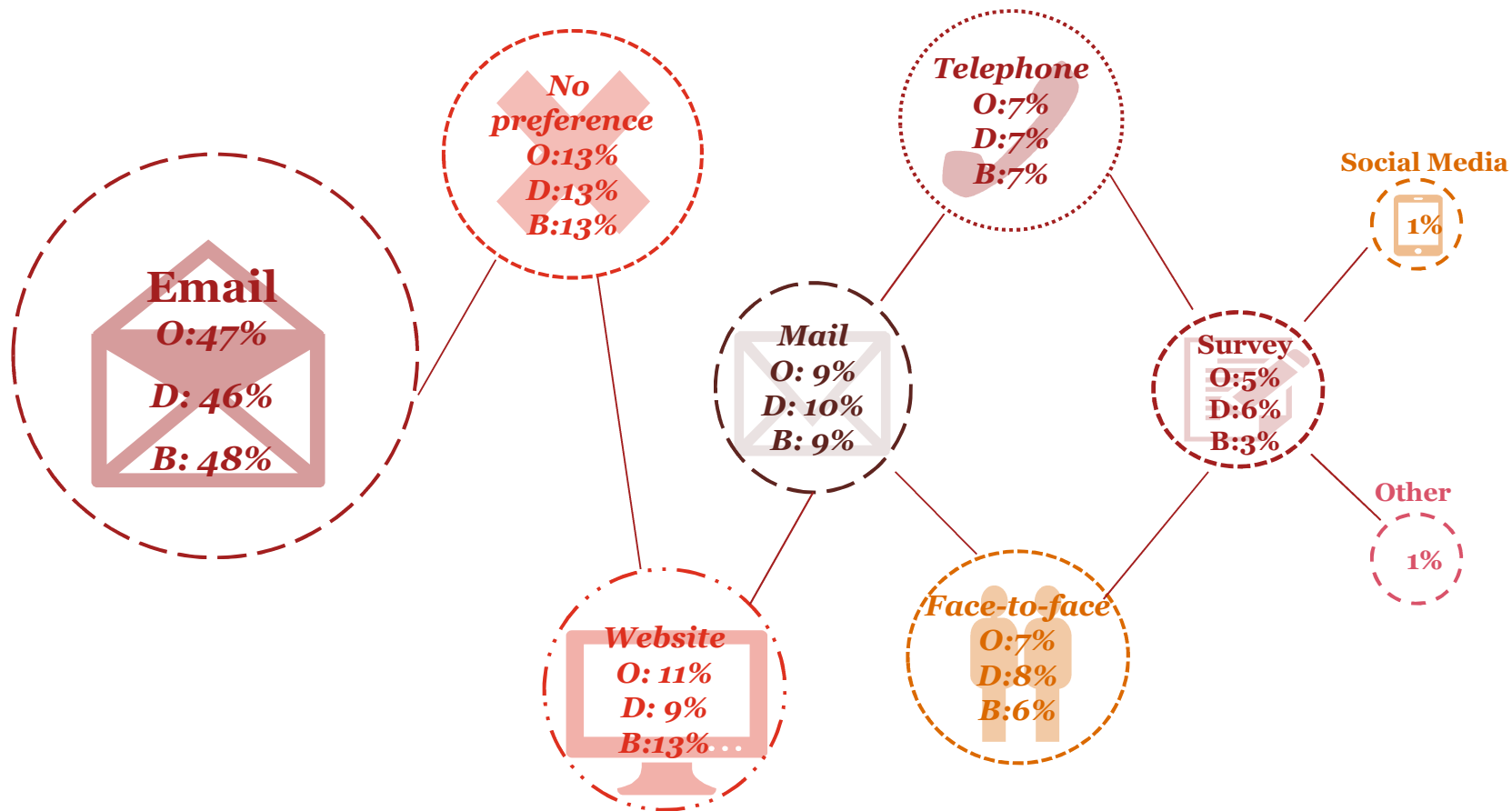
Appendix 1 – additional question

3

Appendix 1 – additional question

Preferred method of contact

Thinking about how DNO's consult with their consumers, which method of contact would you prefer?



Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.
PwC

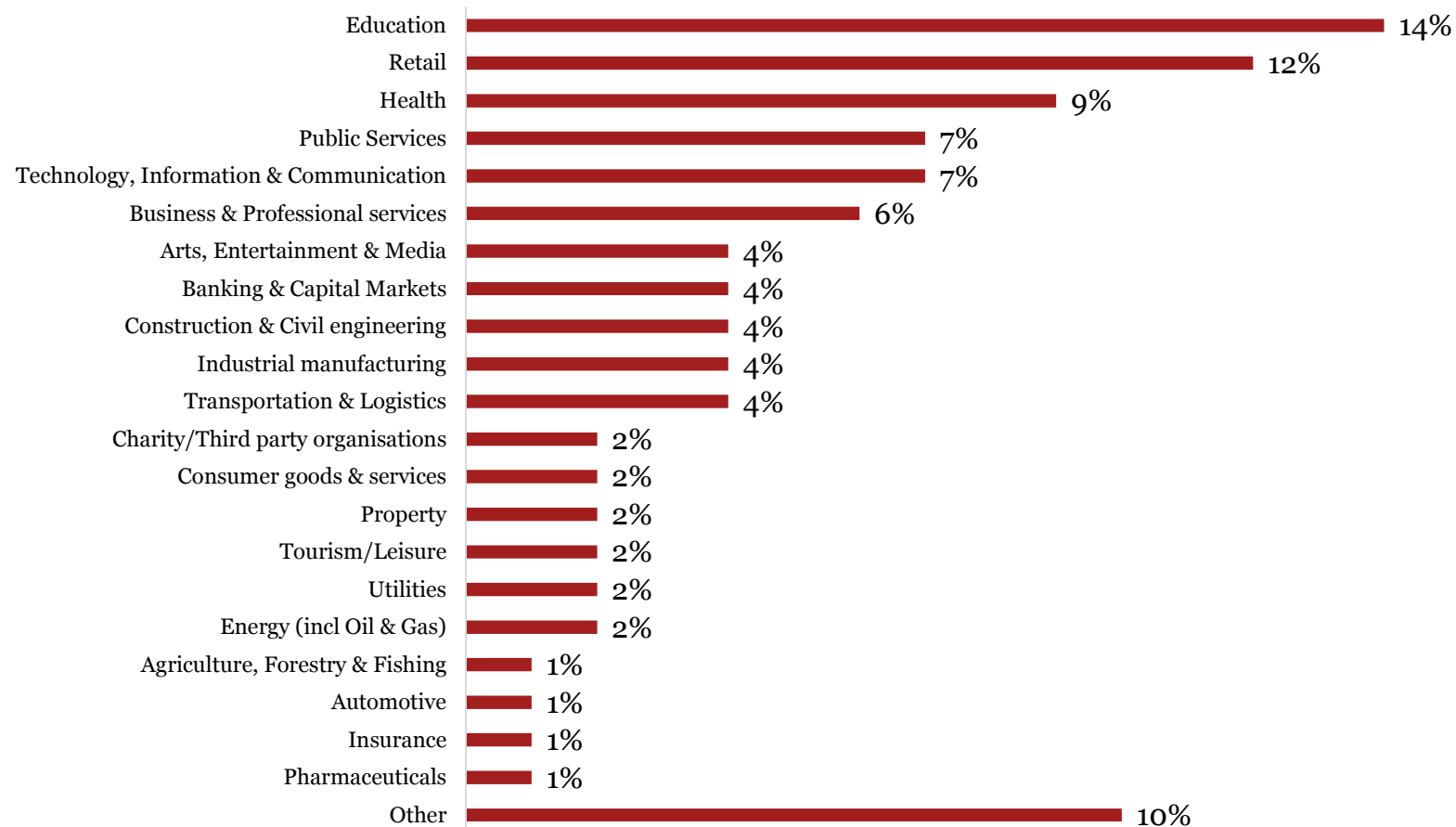
Appendix 2 – profile of survey respondents

4

Appendix 2 – profile of survey respondents

Domestic consumers: Employment sector

Which of the following best describes the sector in which you are currently employed?

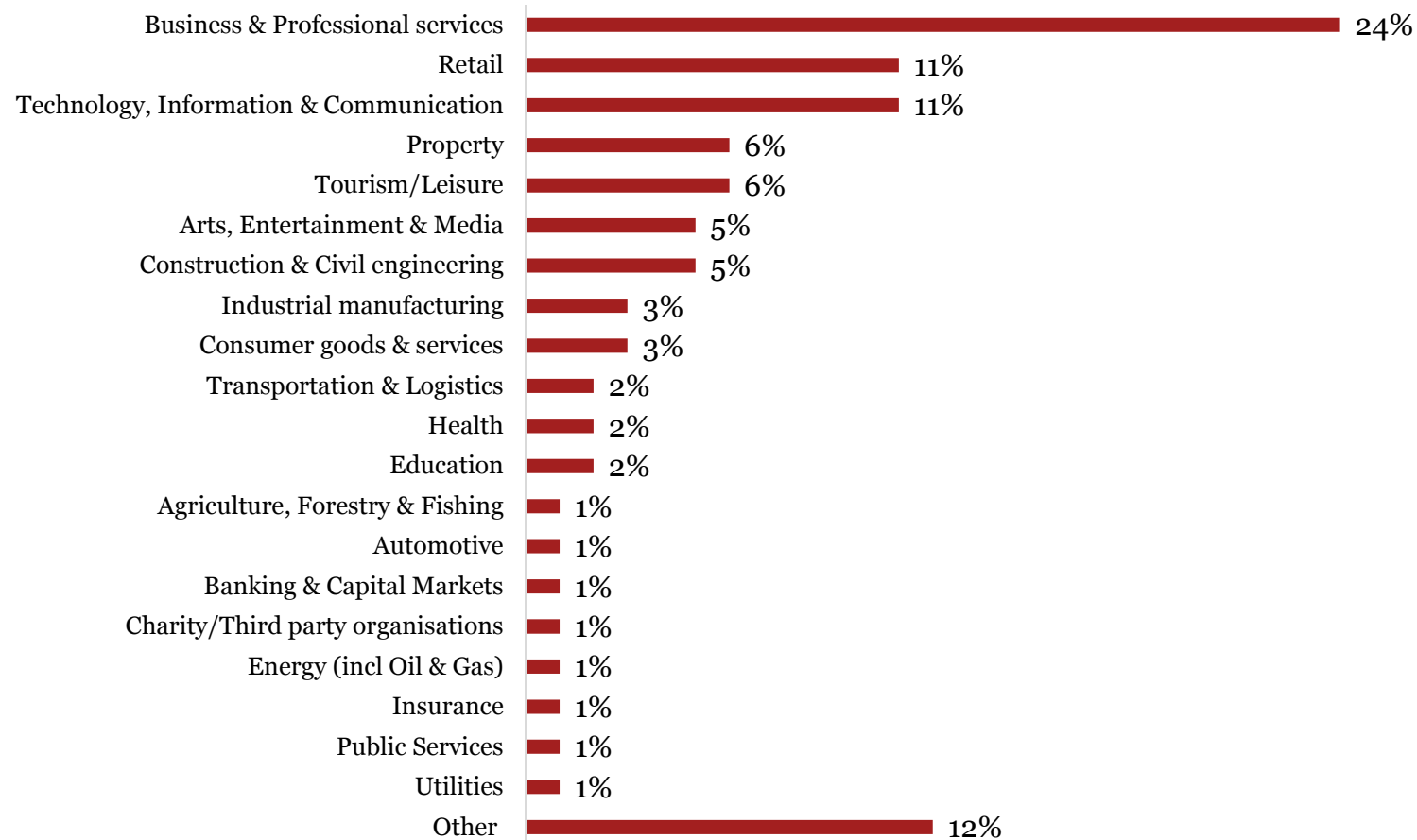


Base: 613 (only asked to those currently employed). Totals may not add to 100% due to rounding.

Appendix 2 – profile of survey respondents

Business consumers: Industry profile

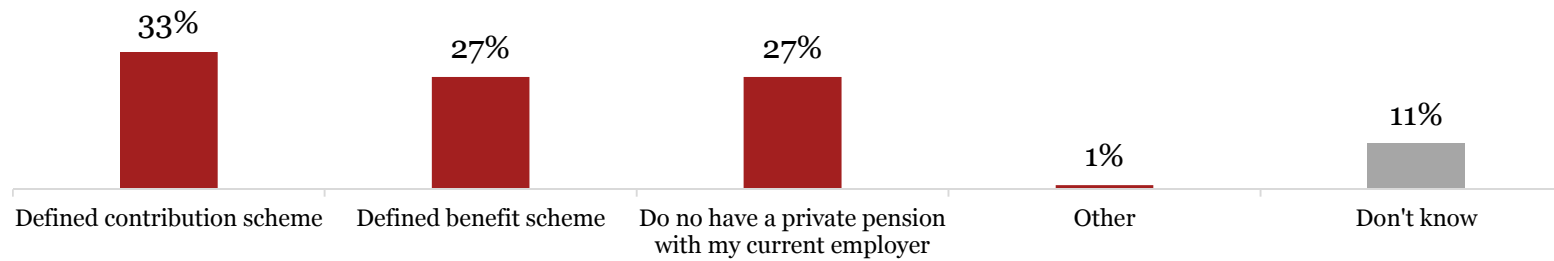
How would you define your organisation's industry sector?



Appendix 2 – profile of survey respondents

Pension provision profile

What type of pension do you have with your current employer?



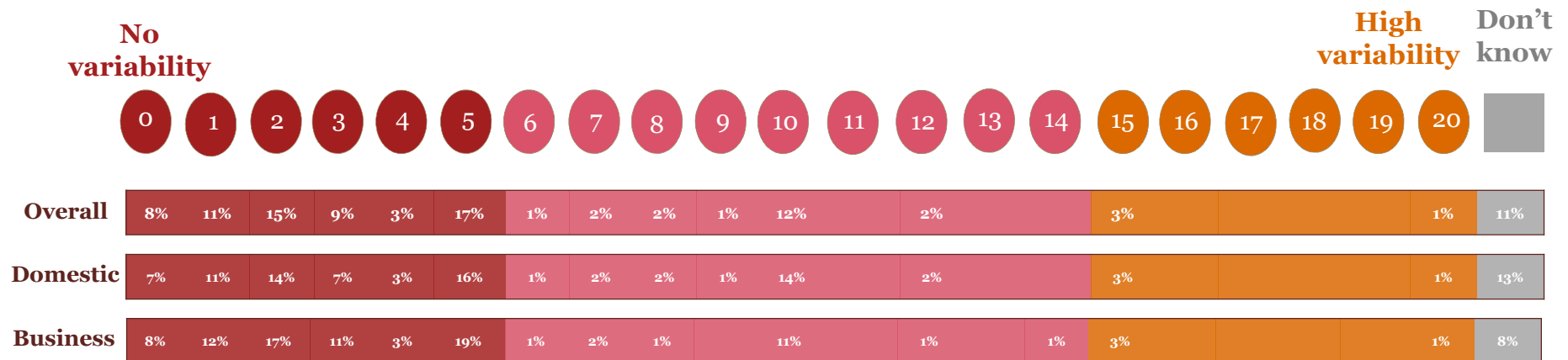
Base: 613 (asked to only those currently employed) (Single response question). Totals may not add to 100% due to rounding.

*Appendix 3 – more detailed
information on responses to
individual questions*

5

Appendix 3 – more detailed information on responses to individual questions

How much variability in the DNO price of your electricity bill is acceptable?

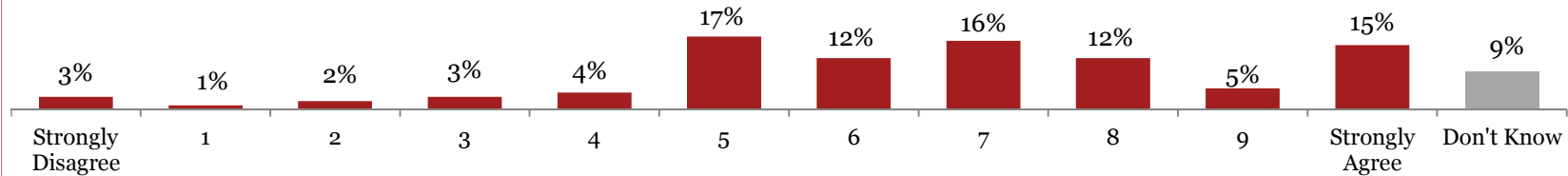


Base: Overall 2011; Domestic 1006; Business 1005. Mean base: Overall 1791; Domestic 871; Business 920. Totals may not add to 100% due to rounding.
PwC

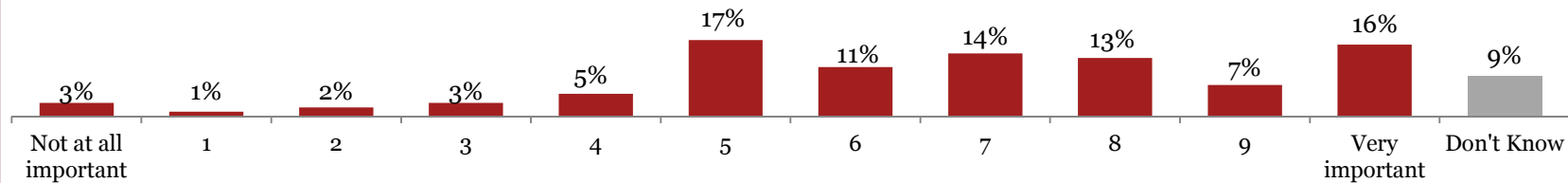
Appendix 3 – more detailed information on responses to individual questions

Domestic consumers only

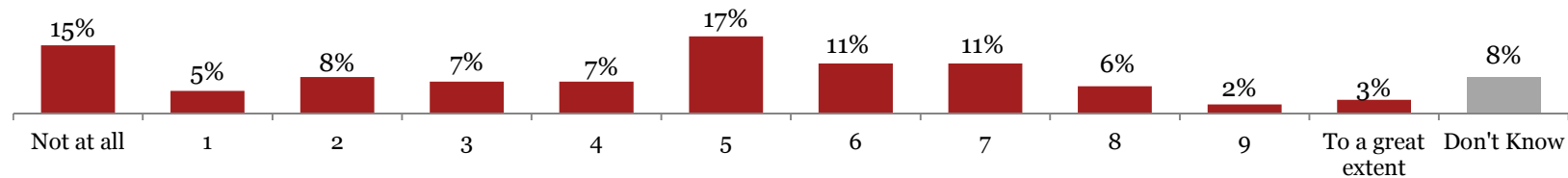
To what extent do you agree that government or regulators should consider the price future generations will pay when setting the current price to cover the cost of a DNO?



How important is it that future generations do not pay a higher DNO cost than the bill payers of today?



To what extent would you be willing to pay for higher DNO costs in 2016 so that this cost is not passed on to future generations?

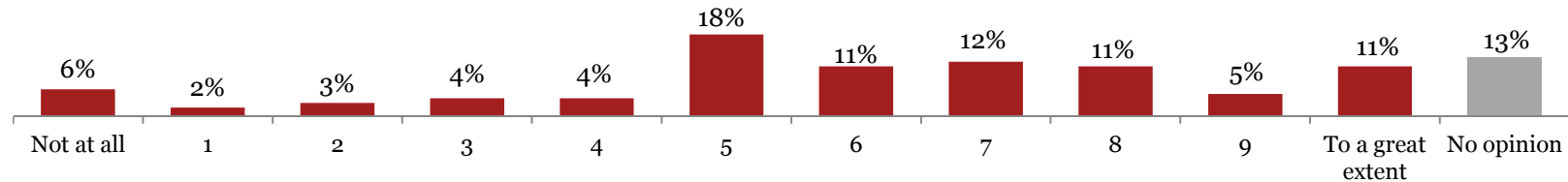


Base: Domestic 1006. Totals may not add to 100% due to rounding.

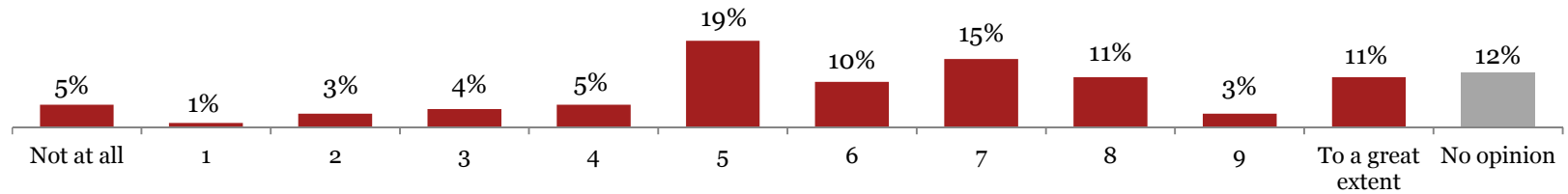
Appendix 3 – more detailed information on responses to individual questions

To what extent would you agree with a decision by a DNO to reduce the price consumers pay for electricity by reducing the pension costs of the DNO?

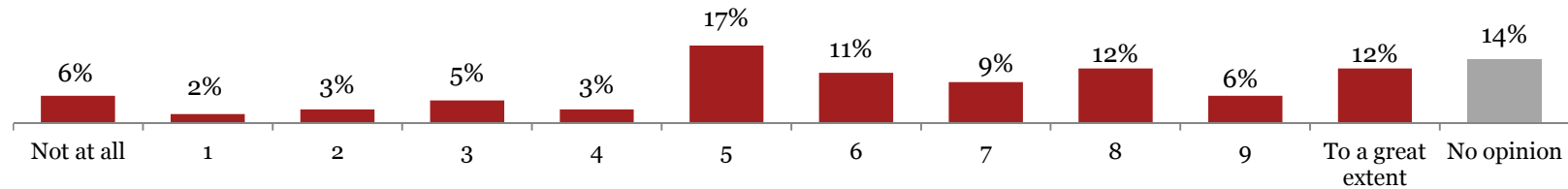
Overall



Domestic



Business

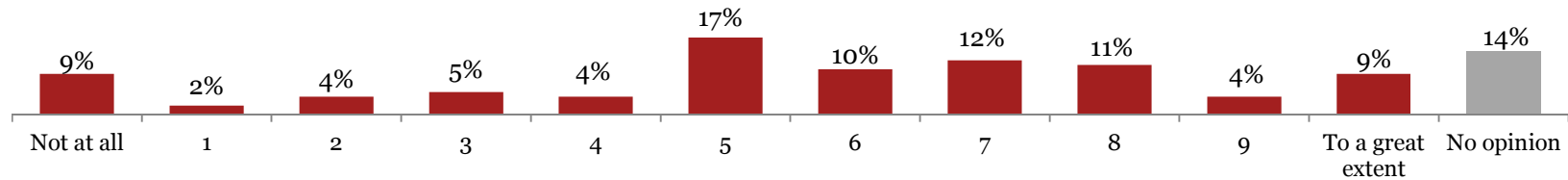


Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

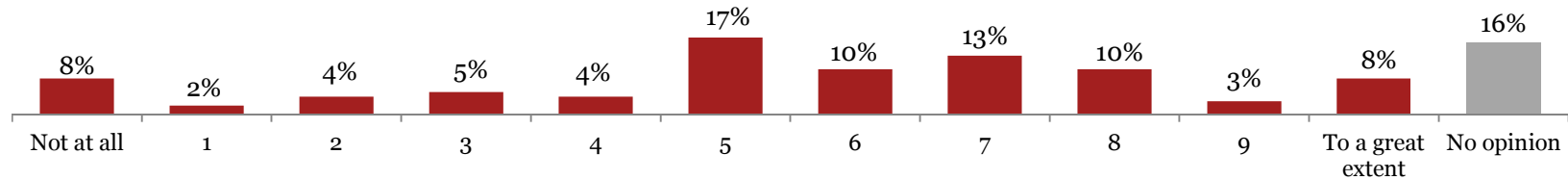
Appendix 3 – more detailed information on responses to individual questions

To what extent would you care if your DNO had a pension deficit?

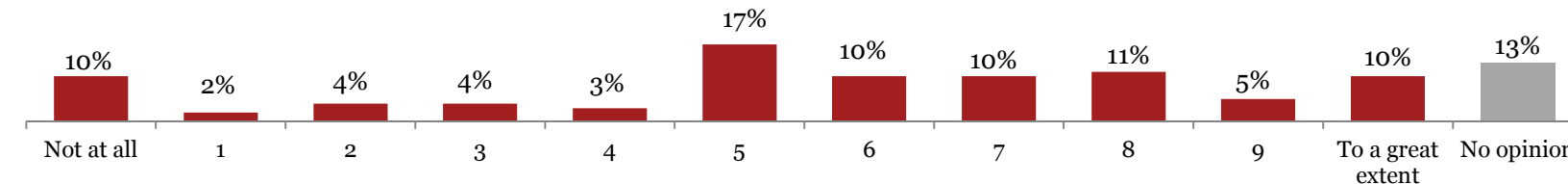
Overall



Domestic



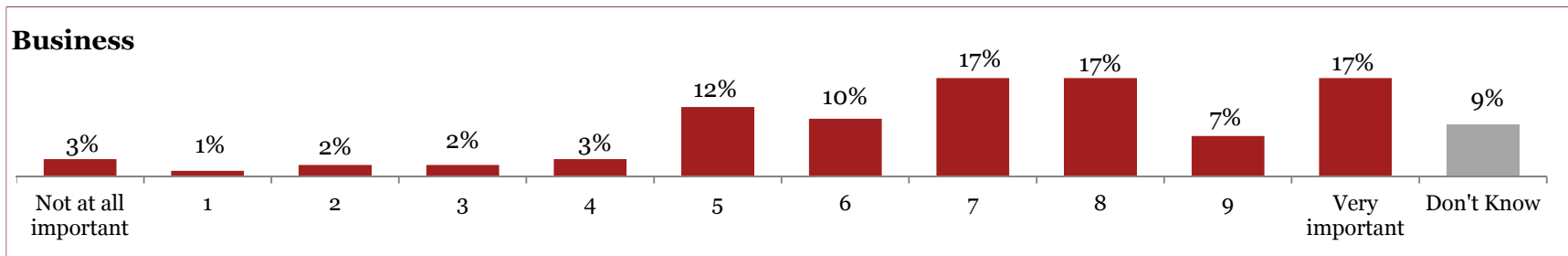
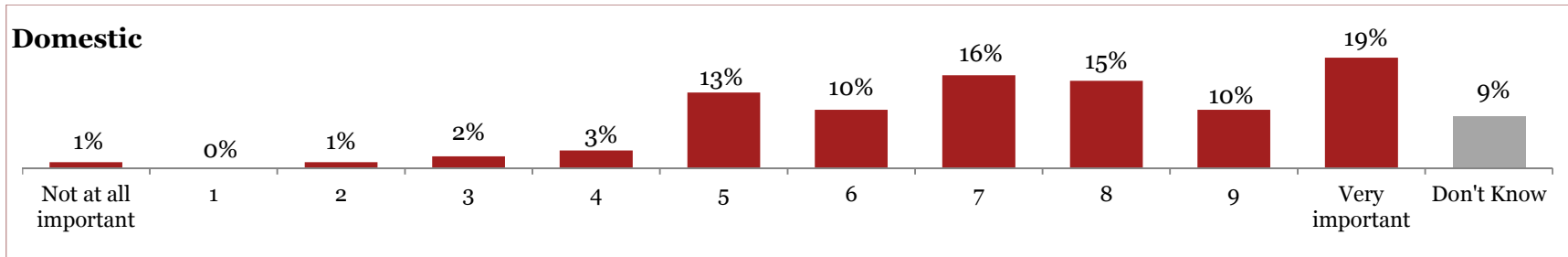
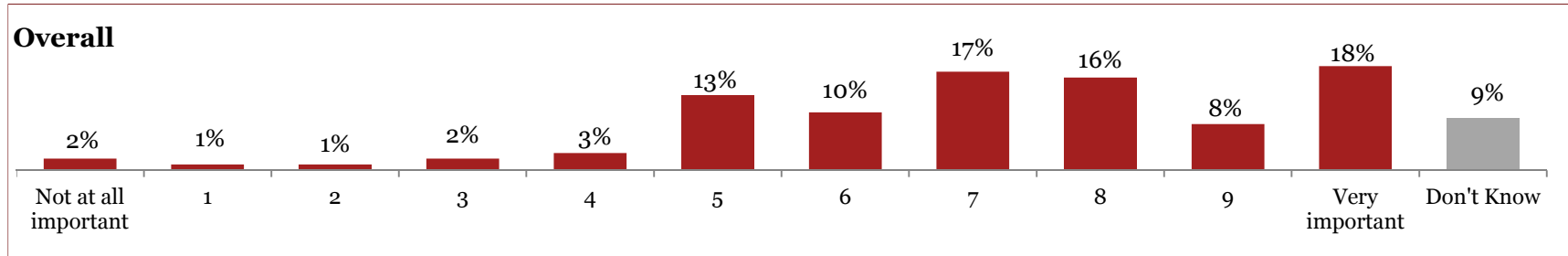
Business



Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

Appendix 3 – more detailed information on responses to individual questions

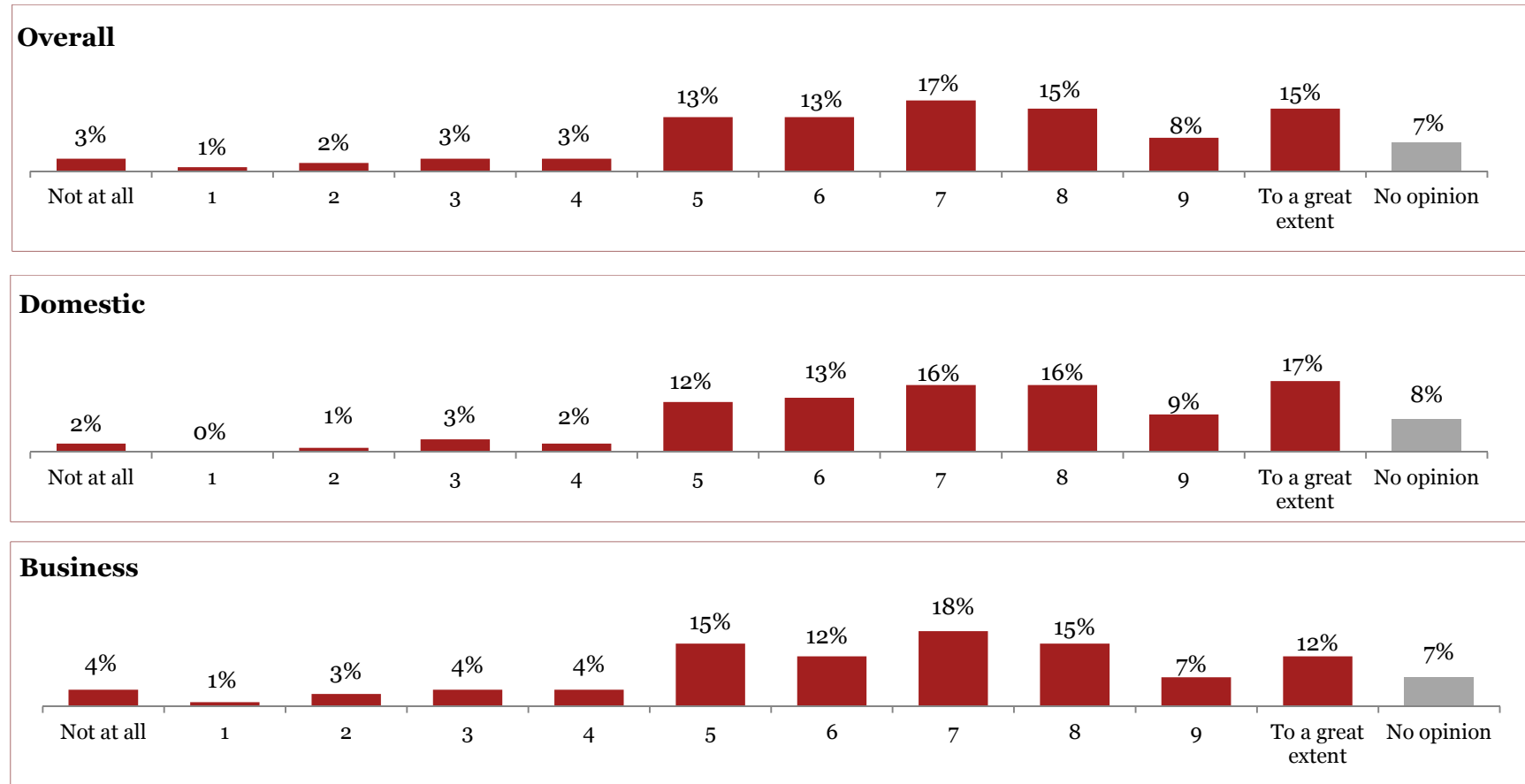
How important is it to you to have visibility of your DNO's running costs?



Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

Appendix 3 – more detailed information on responses to individual questions

To what extent do you care how the money you pay for electricity is spent by DNOs?



Base: Overall 2011; Domestic 1006; Business 1005. Totals may not add to 100% due to rounding.

PwC

This document has been prepared only for Western Power Distribution and solely for the purpose and on the terms agreed with Western Power Distribution in our agreement dated 18 September 2015. We accept no liability (including for negligence) to anyone else in connection with this document.

© 2016 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.