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Consumer-led pension strategy – Workstream 3

Investigating UK electricity consumer preferences for bearing DNO pension cost and risk

Western Power Distribution

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Introduction

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1.1 Background and context

Over the current decade the network companies face an unprecedented challenge of securing significant investment to maintain a reliable and secure network. As the regulator, Ofgem's role is to ensure that this investment is delivered at a fair price for consumers.

To help achieve this, Ofgem developed RIIO (Revenue = Incentives + Innovation + Outputs) – A performance based model for setting the network companies' price controls, which lasts for eight years. RIIO is designed to encourage network companies to:

- Put stakeholders at the heart of their decision making process;
- Invest efficiently to ensure continued safe and reliable services;
- Innovate to reduce network costs for current and future consumers; and
- Play a full role in delivering a low carbon economy and wider environmental objectives.

It is relatively early days in the new world of enhanced consumer consultation and to date a number of areas have been excluded from the consultation process by network operators. However, Ofgem have been explicit that pension costs (due to their complex nature and significant cost/risk to consumers) must now be included and the strategies adopted by network operators for running their pension schemes need to be in line with their consumer's views on efficiency.

Western Power Distribution ('WPD') instructed us in November 2015 to support them as they developed their approach to consulting with their consumers to determine the most efficient way to fund their pension schemes. The scope of our engagement included working with WPD to design and implement a methodology to seek consumers' views on how WPD should fund its pension schemes, using a combination of quantitative, qualitative and academic research based techniques. The engagement deadline was September 2016 in order to enable the results from the research to be implemented in the 2016 actuarial valuations of WPD's pension schemes.

During the early days of the engagement, Ofgem published a consultation on 16 March 2016 titled 'Second Consultation on Ofgem's policy for funding Network Operators' Pension Scheme Established Deficits.' This set-out the requirement for network operators to consult with consumers regarding their approach to funding their pension schemes. While the consultation document did not significantly alter the methodologies developed as part of our engagement, it did provide additional validation of the approach taken.

Some relevant excerpts from the consultation document are as follows:

1.6 We also outlined a marked shift from our current approach, that envisages penalties for NWOs that are outliers in the way their Pension Scheme Established Deficits are managed or valued, to **'a new approach that looks instead to NWOs to demonstrate how they are participating in the governance of pension schemes on behalf of the consumers' (who are underwriting the risks involved).**
We believe this approach more constructively recognises the substance of relationships between NWOs and pension scheme trustees who are ultimately responsible for the schemes. Respondents also broadly supported the direction of this thinking.

1.7 The aim of our proposed reforms is two-fold: (a) to underline Ofgem's commitment to consumer funding of Pension Scheme Established Deficits, which should help to minimise the cost of financing the networks themselves to the benefit of consumers, and **(b) to encourage NWOs to pursue consumer-focused strategies for managing their commitments.**

1.10 NWOs have responsibilities towards their consumers and the strength of the employer covenant is in part underpinned by our funding commitment on behalf of consumers. **This means we can reasonably look to NWOs to represent the interests of consumers when they participate in pension scheme governance**

In addition the consultation document included two specific amendments to Ofgem's policy for funding network operators' pension costs (called the pension principles) as follows:

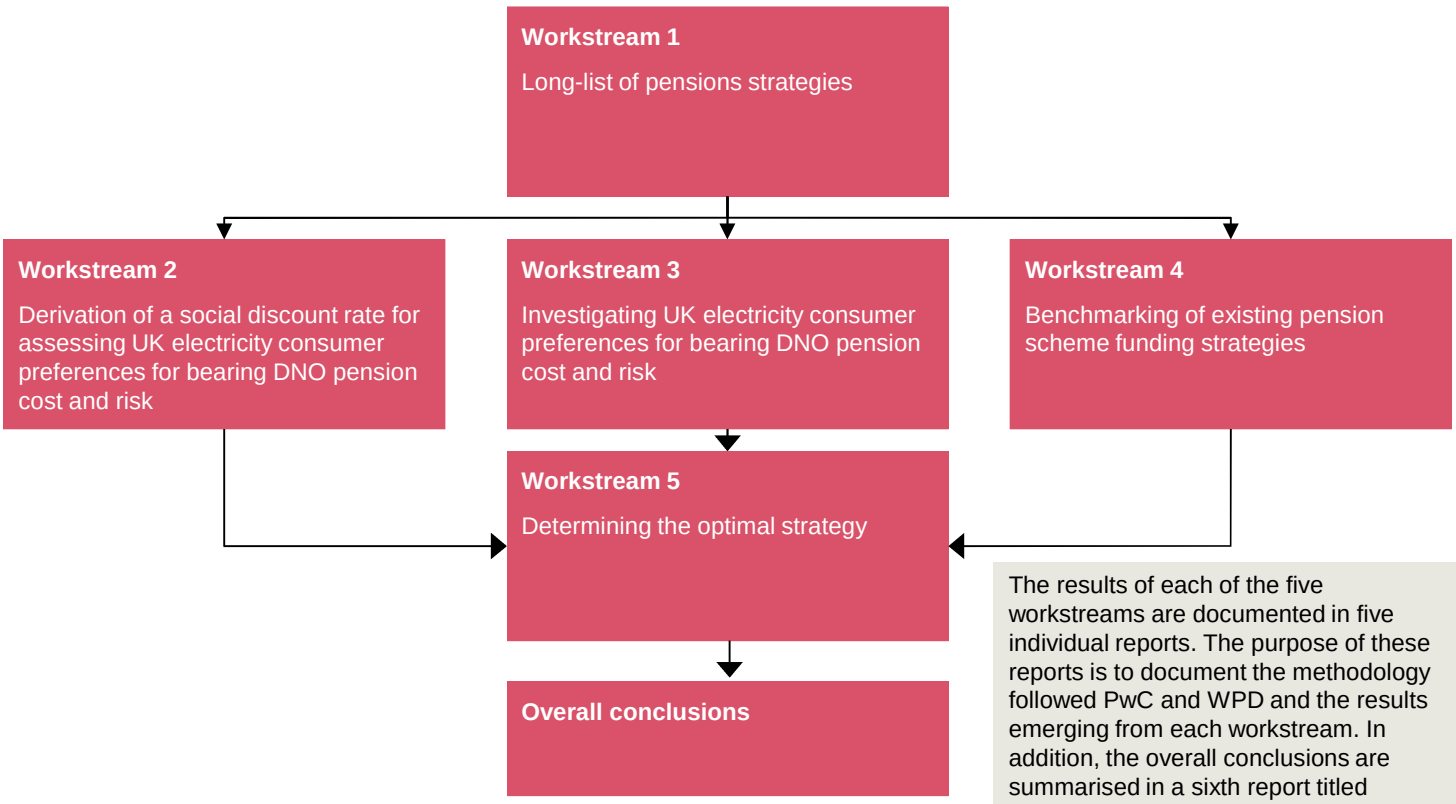
1 Consumers should not be expected to pay any excess costs that are avoidable by efficient management action

8 In light of our funding commitment, we look to employers to participate in the governance of defined benefit pension schemes with the aim of protecting the interests of the consumers who are exposed to any Established Deficit, in balance with the interest of shareholders who would be underwriting any remaining deficit. **To this end, we would look to employers to inform investment, benefit and funding strategies with objective and where possible evidence-based insights into the interests of consumers, recognising that tomorrow's consumers are as relevant as today's.** We look to employers to report transparently on their participation in the governance of these schemes.

1.2 Overview of the methodology

The methodology adopted by PwC and WPD comprised of five workstreams as follows:

Workstream	Purpose
1. Long-list of pensions strategies	• To identify the long-list of pensions strategies which could be adopted by WPD and determine their cost and risk profile for consumers.
2. Derivation of a social discount rate for assessing UK electricity consumer preferences for bearing DNO pension cost and risk	• To determine a discount rate using the academic research carried out to date for the purpose of comparing the relative cost (from a consumer and society perspective) of each of the pension strategies identified in Workstream 1 .
3. Investigating UK electricity consumer preferences for bearing DNO pension cost and risk	• Use primary research techniques to: - Validate and inform an amendment to the social discount rate determined in Workstream 2. - Determine other relevant factors for the purpose of assessing consumers' preferred pension strategy in Workstream 1.
4. Benchmarking of existing pension scheme funding strategies	• To provide relevant UK benchmarks for the funding of defined benefit pension schemes to provide additional validation that consumers' preferences are capable of practical implementation.
5. Determining the optimal strategy	• To assess the long-list of pension strategies using the results of Workstreams 2, 3 and 4 in order to arrive at a pensions strategy arrived at using evidence based insights into the interests of consumers recognising that tomorrow's consumers are as relevant as today's.



The results of each of the five workstreams are documented in five individual reports. The purpose of these reports is to document the methodology followed PwC and WPD and the results emerging from each workstream. In addition, the overall conclusions are summarised in a sixth report titled "Overall conclusions."

1.3 Purpose of this report

The purpose of this report is to document the results of a nationally representative study into the views of domestic and business electricity consumers across England, Scotland and Wales.

The purpose of the study was to understand consumer preferences and priorities in relation to the pensions cost element of electricity bills and to validate and refine (via conjoint analysis) the various components of the social discount rate estimated from the academic literature as documented in the report titled "Derivation of a social discount rate for assessing UK electricity consumer preferences for bearing DNO pension cost and risk."

The research was carried out during the period April 2016 to September 2016. The first stage included responses from 1,006 domestic electricity consumers and 1,005 business electricity consumers in order to obtain quantitative, statistically significant results.

The second stage included focus groups of 63 individuals who reside or have a business in WPD's region in obtain qualitative data for the purposes of validating the results from the first stage.

While the purpose of the study is to determine the appropriate consumer-efficient pensions strategy for WPD's pension arrangements, the study starts by determining the preferences of UK consumers as a whole and then moves on to WPD's specific consumers. From a theoretical perspective there is no reason to assume that these consumers are different from the UK population as a whole given the diversity within WPD's consumer base. However, it is important to either validate this assumption or be able to explain any differences if the conclusions from the analysis result in WPD adopting a strategy in their pension which is significantly different to the rest of the energy sector.

The results of the analysis set-out in this report are then used in the assessment of the long-list of pensions strategies in the report titled "Determining the optimal strategy".

1.4 Structure of this report

This report sets-out the results of the research in the following areas:

Area	Section of report
The maximum of annual bill variability that consumers are willing to bear (where variability is calculated as the potential variability in electricity bills as a result of adopting different strategies within WPD's pension schemes)	Section 4: Consumer preferences relating to bill variability
The degree to which consumers are happy to pay a bear a higher electricity bill in order to reduce electricity bills or reduce electricity bill variability for future generations	Section 5: Domestic consumer preferences for bill profiles today and costs for future generations
Consumer preferences relating to how the DNO proportion of the electricity bill are spent by the DNO e.g. would consumers prioritise investment to reduce pensions deficit and risk at the expense of other priorities	Section 6: Consumer preferences relating to factors that should determine DNO costs
Consumer preferences relating to how proactive DNOs should be in reducing pension costs	Section 7: Preferences relating to pension deficits in DNOs
Consumer preferences relating to the degree of information which consumers would like to see on DNO's running costs	Section 8: Billing transparency and preferences relating to how the distribution element of the bill is used by the DNO
Conjoint analysis to determine the social discount rate (excluding the pension risk premium element)	Included in the report titled 'Derivation of a social discount rate for assessing UK electricity consumer preferences for bearing DNO pension cost and risk'
Conjoint analysis to determine the pension risk premium element of the social discount rate	Included in the report titled 'Derivation of a social discount rate for assessing UK electricity consumer preferences for bearing DNO pension cost and risk'

Research methodology

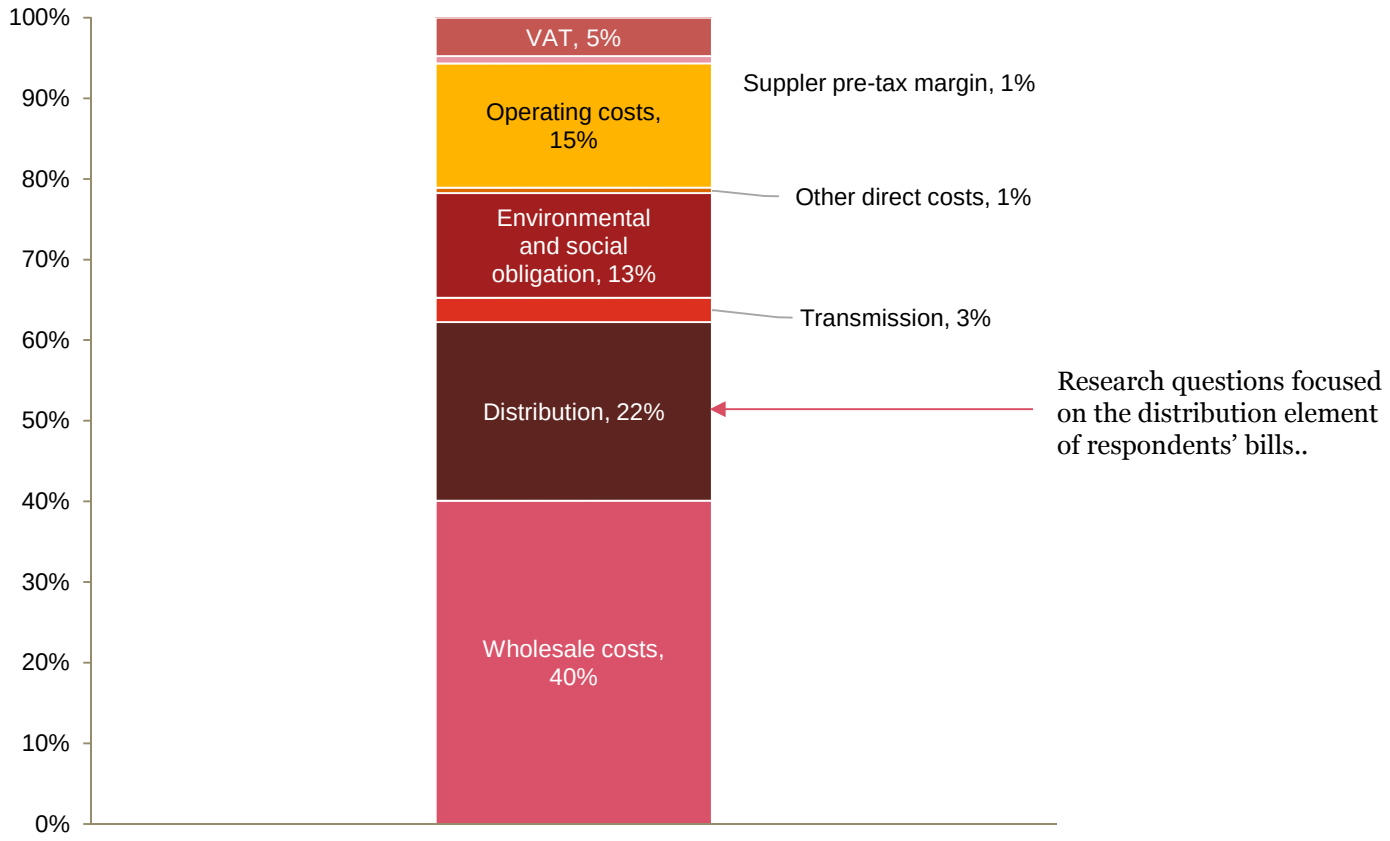
2

2.1 Context within which the research was conducted: Terminology

During the research, 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.

Throughout this report 'bill variability' refers to variability in the distribution element of the bill.

Figure 1 breakdown of typical electricity bill



Source: Ofgem

2.2 Context within which the research was conducted: Relevance

Throughout the research, where questions were posed to consumers relating to bill variability, the level of potential variability that consumers were asked their views on was consistent with the level of variability that could be expected to emerge from the pensions strategies set-out in the report titled 'Long-list of pension strategies.'

2.3 Research methodology

Online research panels were used to target domestic and business electricity consumers. Research panels are comprised of pre-recruited individuals and businesses who have agreed to participate in market research. Panelists are rewarded for taking part in surveys with a structured incentive scheme. They are supported by a panel support team with an option to unsubscribe at any time. Panel management is compliant with all relevant market research industry standards, data protection and privacy laws.

Before fieldwork commenced, quota targets were determined and implemented for panel respondents, based on a number of demographic variables (including gender, age and region and for business consumers, revenue size), to aim for responses to be statistically representative of the population across England, Scotland and Wales.

Respondents were targeted using these quotas to ensure the responses met the demographic profile required. The panel targeted respondents using profiling attributes held on each panel member. Panelists who enroll into online panels complete a website panel registration form, providing their personal details (such as name, email address, etc), and then complete a registration survey. Panel registrations are automatically checked at the time of registration for duplicate email addresses. Following initial registration, there are additional checks to identify potentially fraudulent or duplicate panelists including a check for matches across several demographic variables. There are also quality management systems in place in order to help confirm identities on all panels with continual review of member data and analysis of suspicious member profiles to ensure members are who they say they are. In order to avoid 'professional panelists', panelists' survey participation is limited both in terms of the number of surveys they are invited to participate in and the number of qualified completes. This avoids excessive survey participation which would otherwise create survey fatigue and potential bias.

Sample selection was based on the demographic profile required and once selected, email invites were automatically randomized so as not to induce bias. Screening questions were also included at the beginning of the survey to confirm demographic information and ensure that responses were achieved from a spread of respondents that met the demographic profile required and achieve a representative sample of the target population.

As well as ensuring the correct mix of respondents, the completed survey is subject to creditability checks such as the length of time to taken to complete each survey to identify and remove responses from 'survey speeders'. The responses provided are reviewed to identify and remove invalid responses which are then removed. For example respondents who have 'flat-lined' e.g. anyone who has clearly gone through survey and just kept clicking the same button and writing nonsensical answers under the 'other specify' options, or overused non-response items e.g. 'Don't know'. Such responses are identified and removed from the data set.

1,006 domestic and 1,005 business electricity consumers participated in the research in April 2016. Responses achieved were statistically representative of the demographic profile of the target population across England, Scotland and Wales. The confidence interval (margin of error) is +/-4% at a 99% confidence level at the full base of 1,006 for domestic consumers and the full base of 1,005 for business customers.

Profile of respondents

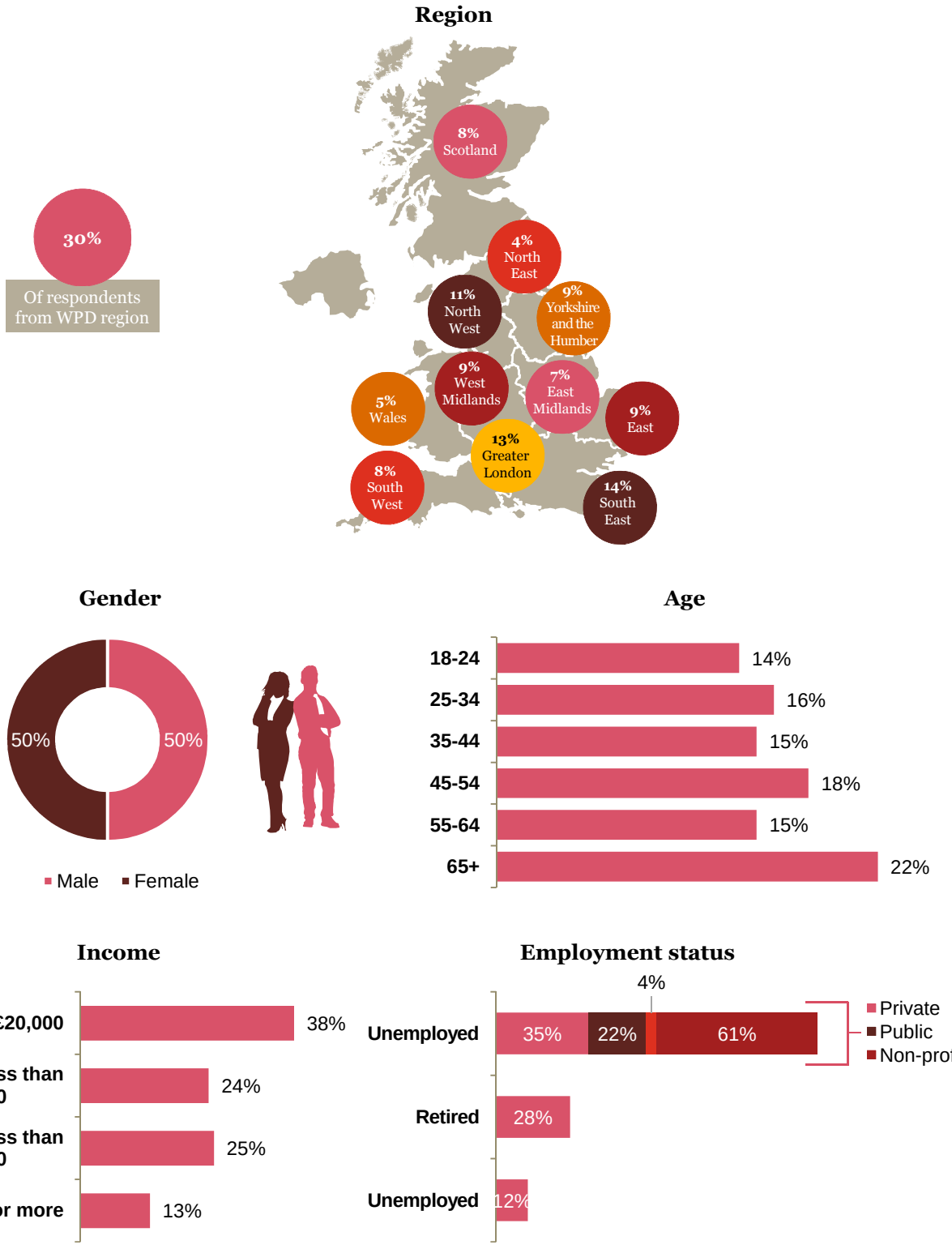
3

3.1 Profile of domestic respondents

3.1.1 Stage 1: Quantitative research

1,006 completed responses from domestic electricity consumers were achieved. The achieved responses were nationally representative of the UK population and 30% of respondents were from the WPD region. The profile of domestic electricity consumer respondents to this study are broken down into the following sub-regions, male/female ratios, age categories, income brackets and employment categories.

Figure 2



Base: 1006 (totals may not add to 100% due to rounding)

3.1 Profile of domestic respondents (Cont'd)

3.1.2 Stage 2: Qualitative research

Six focus groups were conducted with domestic electricity consumers across the four cities within WPD's region including those classed as 'vulnerable consumers' with an income of £20,000 or less. The profile of the respondents involved in the focus groups are detailed below:

Group	Consumer	Location	Age	Income (£) k	Number of participants
1	Domestic	Cardiff	18-35	25-40	8
2	Domestic	Bristol	35-50	25-40	7
3	Domestic	Birmingham	18-35	40+	8
4	Domestic	Nottingham	35+	40+	8
5	Domestic	Bristol	60+	<20	8
6	Domestic	Cardiff	18-50	<20	8

Figure 3

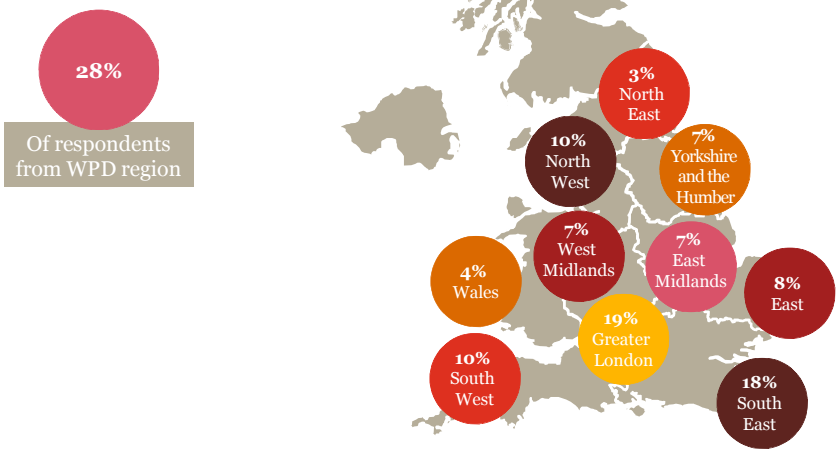
3.2 Profile of business respondents

3.2.1 Stage 1: Quantitative research

1,005 completed responses from business electricity consumers were achieved. The achieved responses were nationally representative of the UK business population and 28% of respondents were from WPD's region. The profile of business electricity consumer respondents to this study are broken down into the following sub-regions, revenue brackets, employee brackets and industry categories.

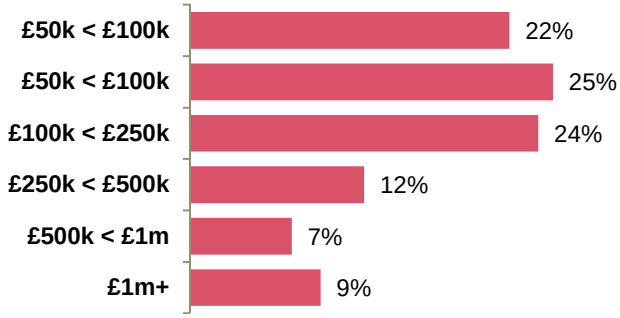
Figure 4

Region

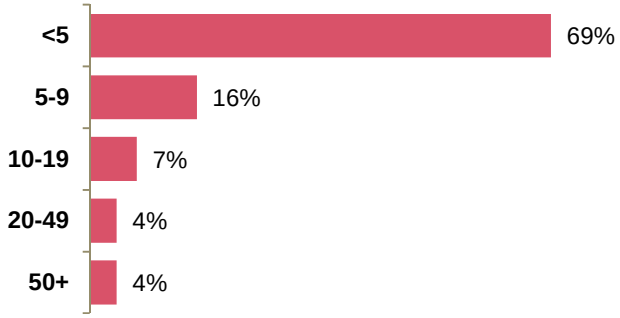


Base: 1006 (totals may not add to 100% due to rounding)

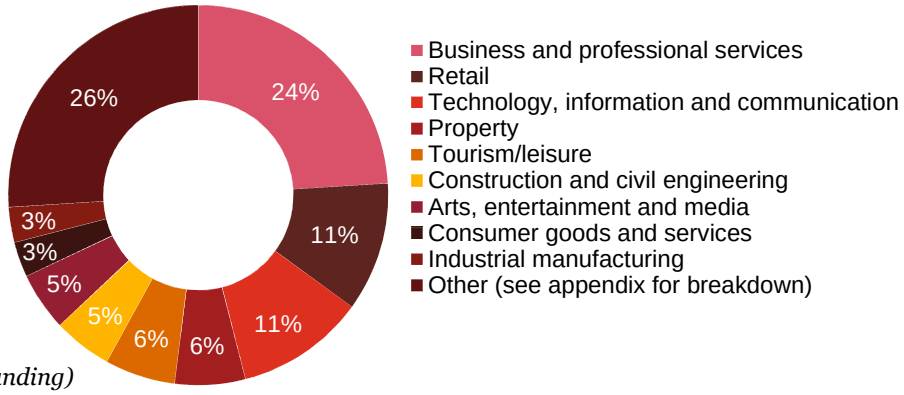
Revenue



Number of employees



Industry



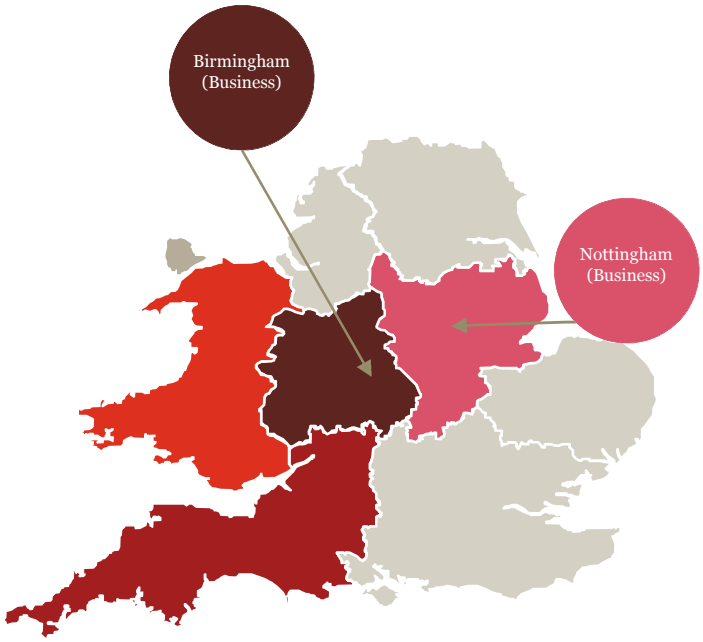
Base: 1006 (totals may not add to 100% due to rounding)

3.2 Profile of business respondents (Cont'd)

3.2.2 Stage 2: Qualitative research

Two focus groups were conducted with business electricity consumers across the two cities within WPD's region to capture responses from both a small and medium/large business. The profile of the businesses involved in the focus groups are detailed below:

Figure 5



Group	Consumer	Location	Revenue	Number of participants	Size
1	Business	Nottingham	<£1m	8	Small business
2	Business	Birmingham	<£1m+	8	Medium/large business

Consumer preferences relating to bill variability[1]

4

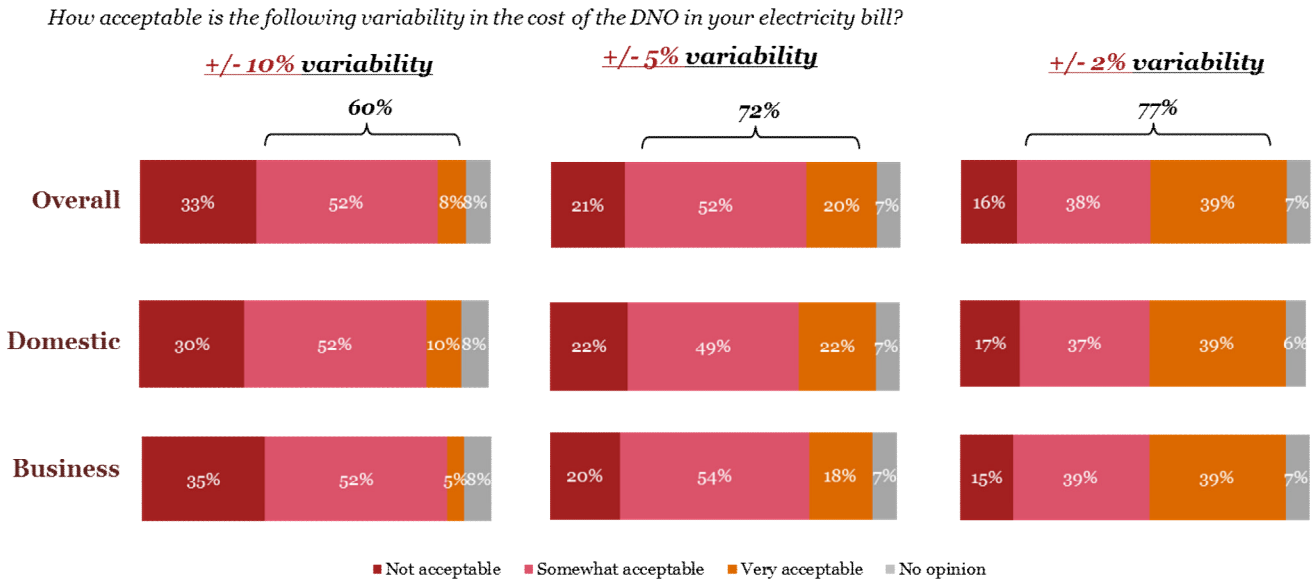
[1] *Bill variability refers to potential variability in the distribution element of the bill as a result of pensions risk*

4.1 Overall summary of preferences – Domestic and business electricity consumers

Consumers were asked to consider how acceptable different levels of variability were in relation to the DNO cost element of their electricity bill. Consumers were first asked to consider the acceptability of +/-10% variability in the cost of the DNO element of their electricity bill. They were also asked to consider the acceptability of +/-5% and +/-2% variability.

The results show that lower levels of bill variability are more acceptable, as may be expected. However, while 77% of consumers considered +/2% variability as 'somewhat acceptable' or 'very acceptable', higher variability is also viewed acceptable, with 60% of electricity consumers indicating that +/-10% bill variability is 'somewhat acceptable' or 'very acceptable'.

Figure 6 How acceptable is the following variability in the cost of the DNO in your electricity bill?



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

A higher rate of variability (+/-10%) is significantly more acceptable to domestic (62%) than business consumers (57%).

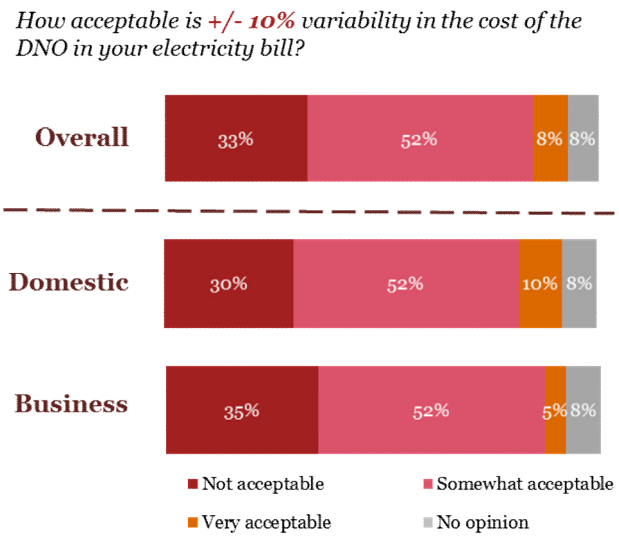
More detail on these differences is set-out in the following sections.

4.2 Key trends in reference relating to a +/-10% variability

4.2.1 Findings from stage 1: Quantitative research

60% of electricity consumers agreed that +/-10% variability in the DNO cost element of their electricity bill is 'somewhat acceptable' or 'very acceptable'.

Figure 7 How acceptable is a +/-10% variability in the cost of a DNO in your electricity bill?



Base: Overall 2011; domestic 1006; business 1005 (totals may not add to 100% due to rounding)

Responses were also reviewed to identify differences in preferences among different consumer demographic profiles:

- 62% of domestic consumers agreed that+/-10% bill variability is 'somewhat acceptable' or 'very acceptable', compared to 57% of business consumers.
- Among domestic consumers, younger consumers (those aged under 35) are generally more likely to agree that +/-10% variability in the DNO cost element of their electricity bill is 'somewhat acceptable' or 'very acceptable'.
  - 79% of 18-24 years olds agreed that +/-10% variability is 'somewhat acceptable' or 'very acceptable', with a significantly lower proportion of 18-24 year old indicating it was 'not acceptable' (17%), compared to domestic consumers overall (30%).
- While domestic consumers aged 35 and over are generally less likely to agree that +/-10% bill variability is acceptable,
  - 35-44 year olds in particular are significantly more likely to indicate that +/-10% is 'not acceptable' (37%), compared to 30% of domestic consumers overall.
- Among business consumers, organisations with an annual revenue of £1 million and over, are significantly more likely to agree that +/-10% bill variability is acceptable with only 20% stating it is 'not acceptable', compared to 35% of business consumers overall.
- Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

4.2 Key trends in reference relating to a +/-10% variability (Cont'd)

4.2.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Overall domestic consumers felt this was fairly acceptable and over the space of a year this would not be a huge amount of money. After being able to explain the role of the DNO to participants they recognised how important they are and variability became more acceptable.

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

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

- Business consumers 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.
- Almost all business stated that +/- 10% variability would be the maximum amount that would be acceptable to them.

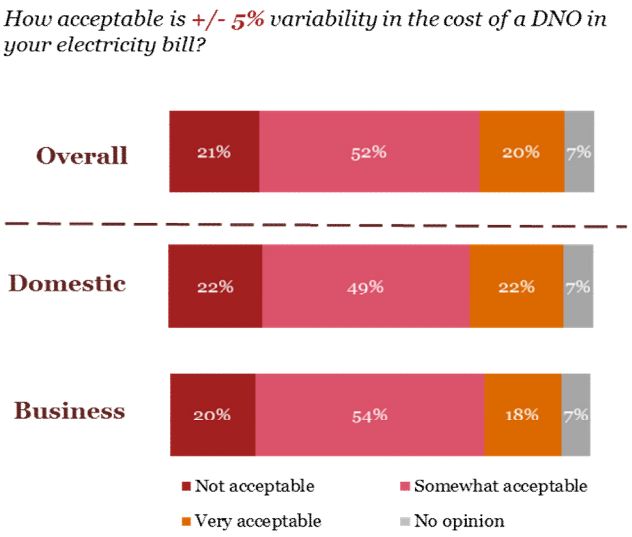
"I wouldn't want to see any more fluctuation than 10%."
(Large business consumer, £1m+ revenue, Birmingham)

4.3 Key trends in preference relating to a +/-5% variability

4.3.1 Findings from stage 1: Qualitative research

Around 70% of both domestic and business consumers agreed that+/-5% bill variability is 'somewhat acceptable' or 'very acceptable' and around 20% of both domestic and business consumers indicated it is 'not acceptable'.

Figure 7 How acceptable is a +/-5% variability in the cost of a DNO in your electricity bill?



Base: Overall 2011; domestic 1006; business 1005 (totals may not add to 100% due to rounding)

Responses were also reviewed to identify differences in preferences among different consumer demographic profiles:

- Among domestic consumers there is less variance by age in the level of acceptance for +/-5% bill variability compared to +/-10%, although there are some notable differences.
  - Only 14% of 18-24 year olds indicated that +/-5% is 'not acceptable', which is significantly lower than UK domestic consumers overall (22%).
  - However, a significantly higher proportion of 45-54 year olds indicated that +/-5% bill variability is 'not acceptable' (28% vs 22% of domestic consumers overall).
- Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

4.3.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Despite the fact that most domestic consumers were happy with the first scenario, when presented with +/-5% they were more comfortable with this. Most consumers felt that with less fluctuation in cost they would be able to manage their finances better.

"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 consumer, Age 35+, Income £40k+, Nottingham)

- When presented with the +/- 5% variability amount, business consumers were also more accepting of this level of variability. Many felt that 5% would be better in terms of consistency and financial planning.

"We want consistency so 5% is better."

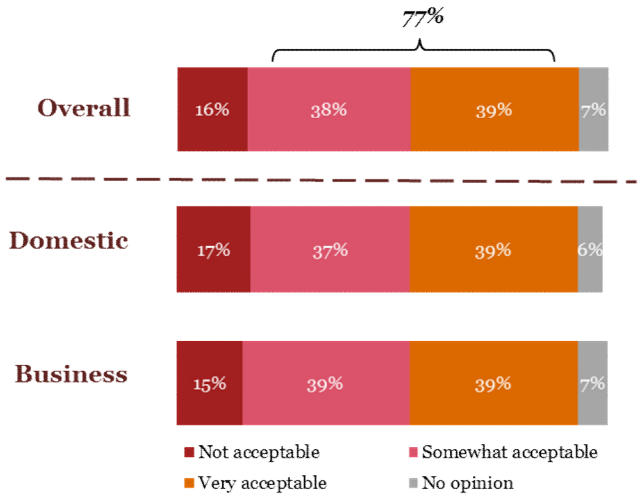
(Small business consumer, <£1m revenue, Nottingham)

4.4 Key trends in preference relating to a +/-2% variability

4.4.1 Findings from stage 1: Quantitative research

Over three quarters of both domestic and business consumers agreed that +/-2% bill variability is 'somewhat acceptable' or 'very acceptable'.

Figure 8 How acceptable is a +/-2% variability in the cost of a DNO in your electricity bill



Base: Overall 2011; domestic 1006; business 1005 (totals may not add to 100% due to rounding)

Responses were also reviewed to identify differences in preferences among different consumer demographic profiles:

- The level of acceptance for +/2% is highest among domestic consumers aged 18-24, 83% indicated that +/-2% was 'somewhat acceptable' or 'very acceptable' compared to 77% of domestic consumers overall.
- Results from domestic and business consumers within the WPD region are in line with results from UK consumers overall.

4.4.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- All domestic consumers felt this was acceptable, and had no issues with this level of variability.

"In this day and age 10% doesn't seem that big, but 2% seems better."

Domestic consumer, Age 18-35, Income £25-40k, Cardiff)

"It's the cost of a cup of coffee. It's neither here nor there"

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

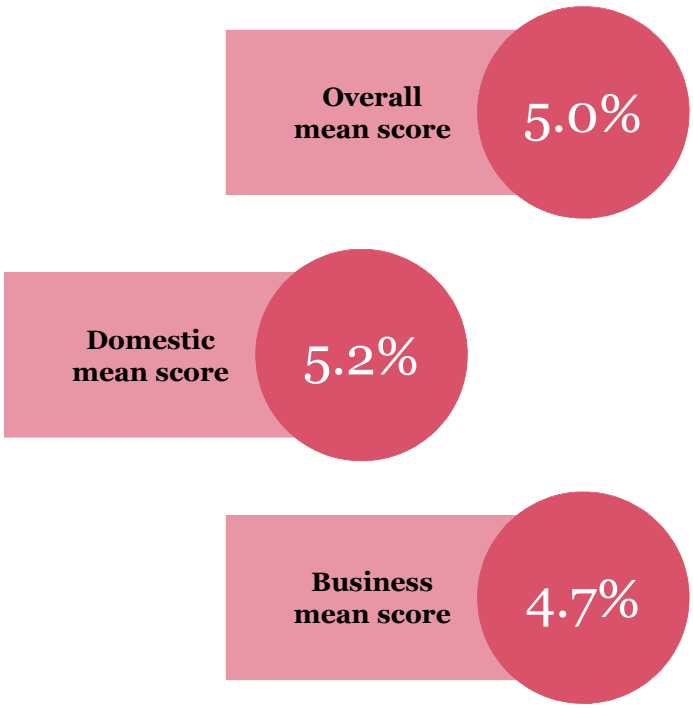
- Again, business consumers were also largely accepting of a +/- 2% variability amount, having already been in agreement with the 2 previous options. They felt that the +/- 2% variability would be even easier to budget and plan for.

4.5 Average acceptable level of variability

4.5.1 Findings from stage 1: Quantitative research

When provided with bill variability options ranging from +/-0% to +/-20%, on average domestic consumers indicated that +/-5.2% bill variability is acceptable. Business consumers indicated that +/-4.7% bill variability is acceptable.

Figure 9 How much variability in the DNO element of your electricity bill is acceptable? (Respondents were asked to select from 0% to 20% bill variability)



Mean base: overall 1791; domestic 871; business 920

Responses were also reviewed to identify differences in preferences among different consumer demographic profiles:

- Among domestic consumers, generally younger consumers (those aged under 35) indicated that a higher level of variability was acceptable, compared to those over 35.
  - 18-24 year olds are less sensitive to higher variability. On average they indicated that +/-6.9% bill variability was acceptable, which is significantly higher than domestic consumers overall (+/-5.2%).
  - However those aged 65 and over indicated a significantly lower level of variability (+/-4.1% on average), compared to domestic consumers overall (+/-5.2%).
- Among business consumers, the level of variability viewed as acceptable generally increases with organisation size. Businesses with annual revenues of £1 million and over 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.

4.5.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- When domestic consumers are asked to select the level of variability acceptable to them, the averages ranged from 6.4 %– 10%. This is slightly higher than the results from the survey, which may be due to the increased discussion and understanding of variability that focus groups enabled.
- Business consumers' level of acceptable variability averaged at 5.9%, however as this was based on two business groups, this score is indicative only.

Domestic consumer preferences for bill profiles today and costs for future generations

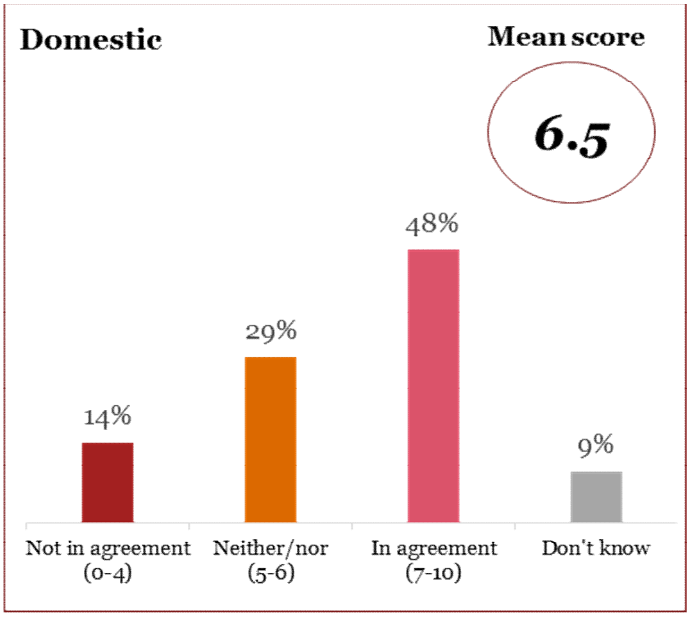
5

5.1 Degree to which costs for future consumers should be a consideration

5.1.1 Findings from stage 1: Quantitative research

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

Figure 10 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



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.

Responses were also reviewed to identify differences in preferences among different domestic consumer demographic profiles:

- Domestic consumers aged 18-24 are significantly more likely to agree that the Government and regulators should consider the price future bill payers will pay when setting prices for today's bill payer (mean score of 7.0 out of 10), compared to domestic consumers overall (6.5).
- However domestic consumers aged 45-54 indicated significantly lower levels of agreement (6.0), compared to domestic consumers overall (6.5).
- Domestic consumers within the WPD region exhibit a similar level of agreement with UK consumers overall (both 6.5).

5.1.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Almost all domestic consumers agreed that the cost for future generation should be kept in mind.

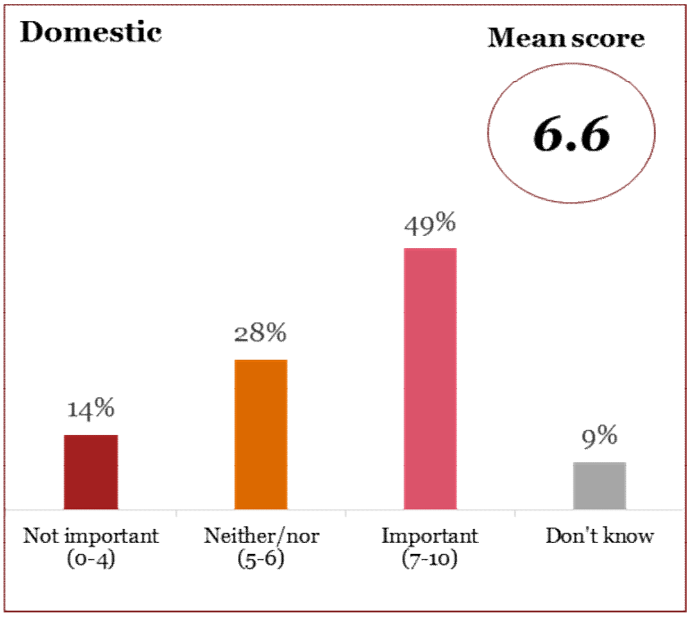
> ***"That could be us. We are all living longer now anyway so it could have a big impact on us."***
>
> (Domestic consumer, Age 35-50, Income £25-40k, Bristol)

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

5.2.1 Findings from stage 1: Quantitative research

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

Figure 11 How important is it that future generations do not pay a higher DNO cost than the bill payers of today?



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.

Responses were also reviewed to identify differences in preferences among different domestic consumer demographic profiles:

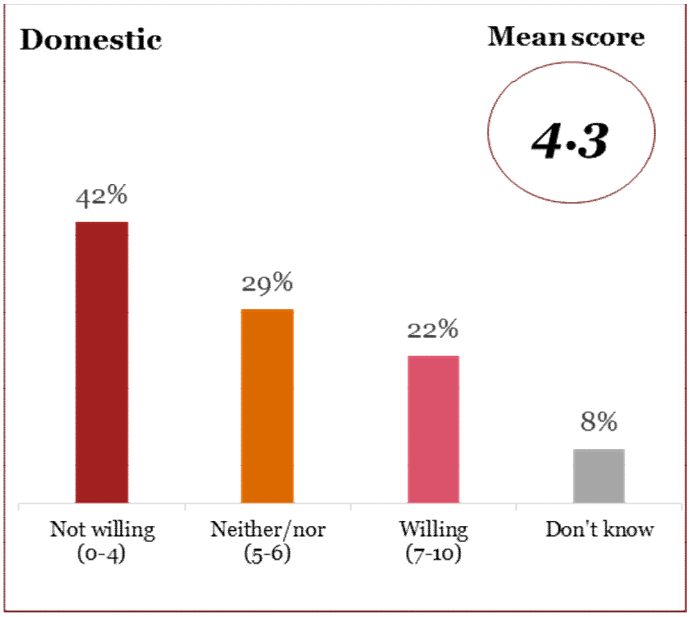
- Female consumers are significantly more likely to consider it important that future bill payers should not pay a higher bill than the bill payers of today (mean score of 6.8 out of 10), compared to male consumers (6.4).
- Consumers with children also are significantly more likely to consider it important (6.9), while consumers with no plans to have children indicated that they find it significantly less important (5.9).
- Domestic consumers aged 65 and over are significantly more likely to consider it important (6.9), compared to domestic consumers overall (6.6).
- While 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).

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

5.3.1 Findings from stage 1: Quantitative research

While the majority of consumers agreed in principal that consideration for future generations is important and that Government and regulators should take this into account, only 20% of domestic consumers agreed that they would be willing to pay more now so that future bill payers do not experience a cost increase.

Figure 12 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. Mean base: domestic 930.
NOTE: 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.

Responses were also reviewed to identify differences in preferences among different domestic consumer demographic profiles:

- Younger consumers (those aged under 35) are significantly more likely to agree that they are willing to pay higher DNO price so that this cost is not passed on to future generations, as they are almost certain to qualify as a 'future bill payer'.
  - 18-35 year olds significantly more likely to agree that they are willing to pay higher DNO price (18-24: mean score of 5.6 out of 10, 25-34: 5.1 vs. 4.3 overall).
  - While 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 who earn less than £20,000 per year are significantly less likely to agree that 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 that they are willing to pay more (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).

5.3 Degree to which current consumers are willing to pay more now to avoid a cost increase for future consumers(cont'd)

5.3.2 Findings from stage 2: Qualitative research

- A small proportion of domestic respondents stated that they were willing to pay more, although mostly a small amount.

> ***"As long as it's a small percentage and it wouldn't impact our bills too much"***
>
> (Domestic consumer, Age 18-35, Income £25-40k, Cardiff)

- Others wanted to know more about how the investment was being made, before agreeing to pay more to benefit future generations.

> ***"Would be willing to pay as long as I know where it's being spent, as long as it's justified"***
>
> (Domestic consumer, Age 35-50, Income £25-40k, Bristol)

- However, generally it was felt that salaries would increase over time and future generations would not be heavily impacted.
- Domestic consumers who earned under £20,000 per year were less likely to want to pay more now to cover future generations.

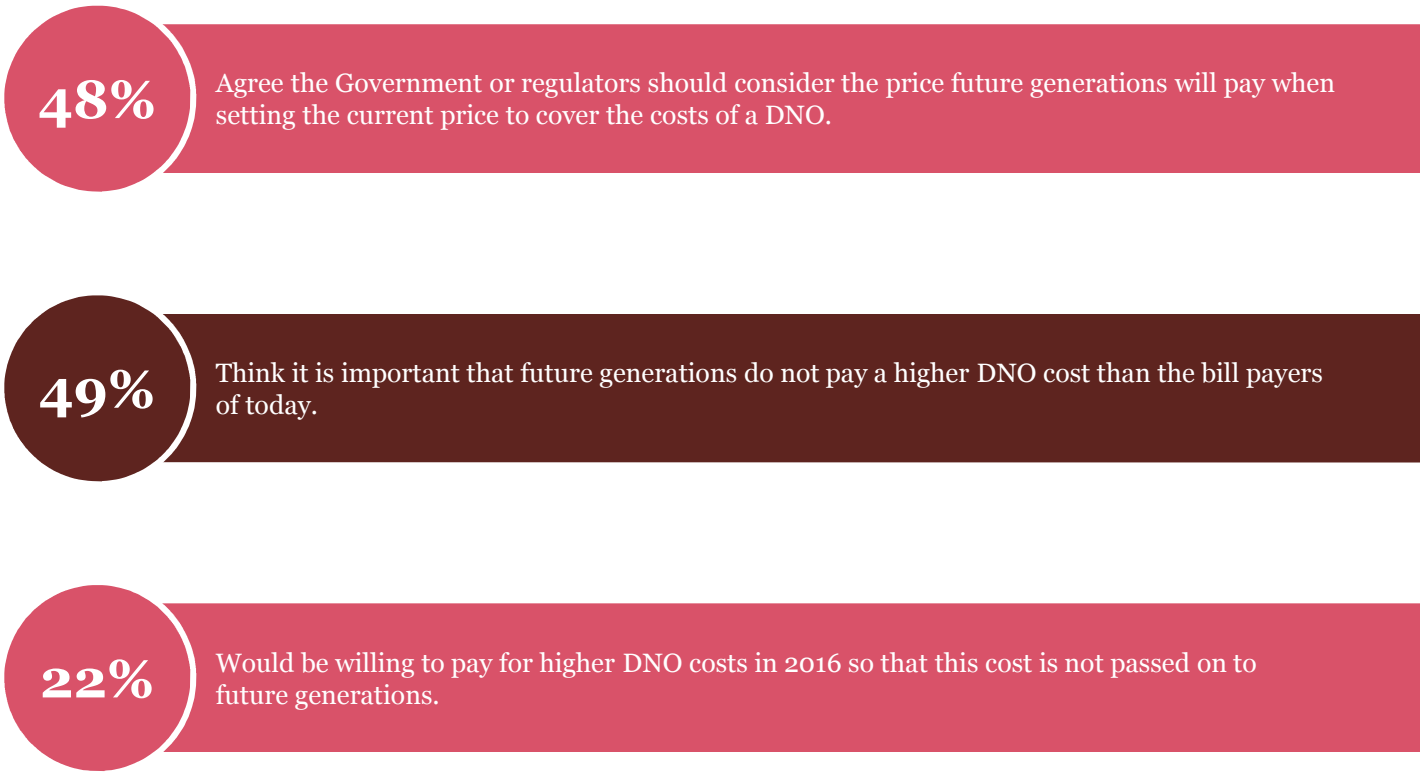
> ***"I'm not willing to pay more. My parents didn't."***
>
> (Domestic consumer, Age 18-50, Income <£20k, Cardiff)

5.4 Summary

While the majority of consumers agreed in principal that consideration of future generations is important and that Government and regulators should take this into account, only 20% of domestic consumers agreed that they would be willing to pay more now so that future bill payers do not experience a cost increase.

A summary of the results from the study is set-out below:

Figure 13



Consumer preferences relating to factors that should determine DNO costs

6

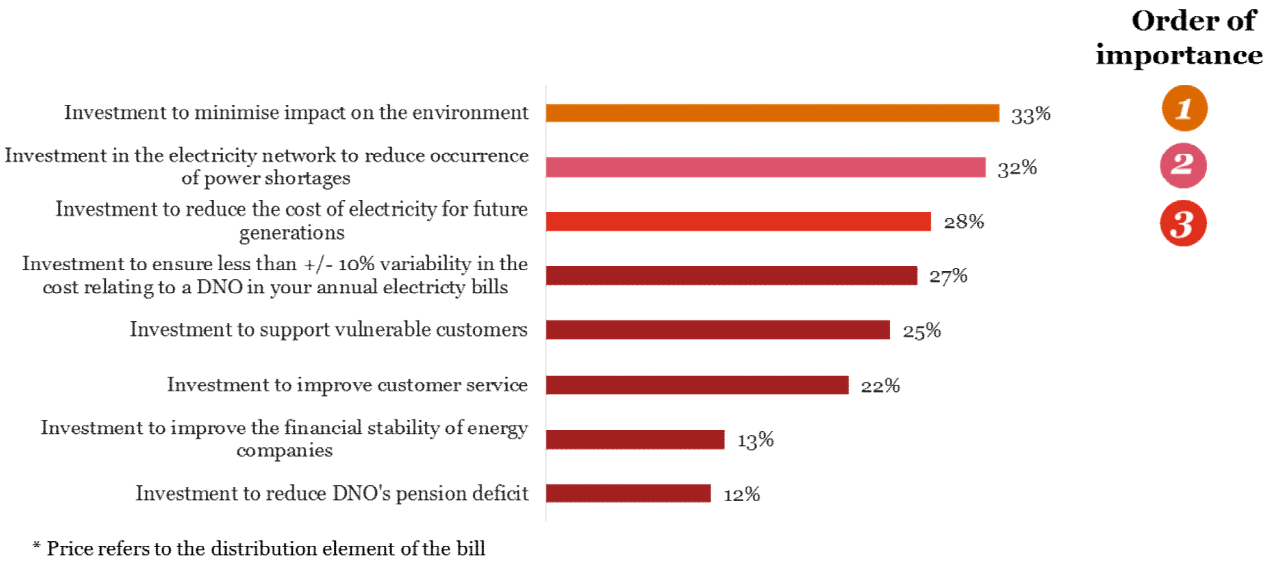
6.1 Domestic consumers' preferences

6.1.1 Findings from stage 1: Quantitative research

Respondents were asked to rank the top three priorities which should be considered when the DNO element of electricity prices are being set. Investment to reduce environmental impact, power outage and the cost of power to future generations were the most important.

Investment to reduce pension deficit is a lower priority among domestic consumers when considering which areas should receive the greatest priority when the DNO element of electricity prices is being set.

Figure 14



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)

6.1.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- The issues such as impact on the environment, reducing power cuts and less than +/- 10% variability ranked highly. Some consumers also ranked supporting vulnerable consumers highly.
- In almost all groups, reducing the pensions deficit ranked within the bottom two.

Preferences relating to pension deficits in DNOs

7

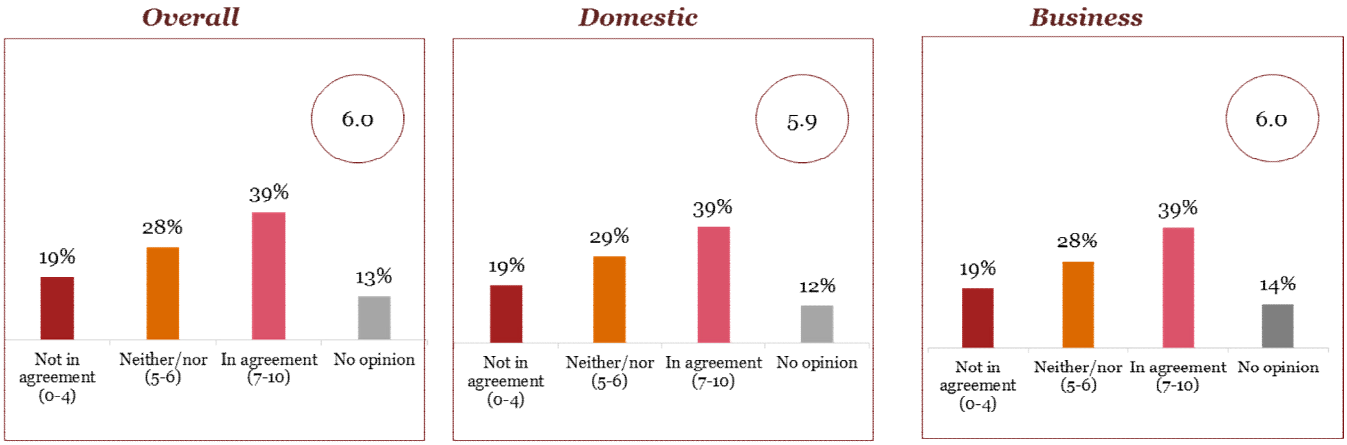
7.1 Preferences relating to delivering bill reduction via DNO pension cost reduction

7.1.1 Findings from stage 1: Quantitative research

Around 40% of both domestic and business consumers agreed that bills should be reduced by reducing DNO pension costs. A further 40% of both domestic and business consumers are 'on the fence' (selected 5 or 6 out of 10 'neither/nor') or have no opinion.

Figure 15 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 a DNO?

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.

7.1.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Almost all domestic and business consumers agreed that if the deficit could be reduced by lowering the cost of the pension e.g. running the scheme more efficiently, that this should be implemented immediately..

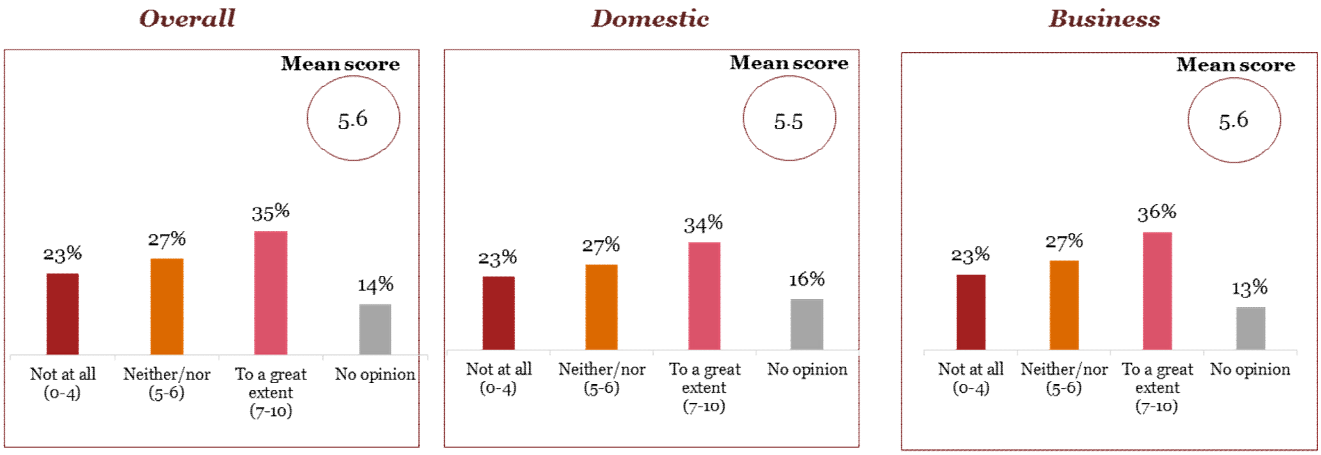
> ***"That would be a 'no-brainer', if they could reduce pensions costs and reduce the amount we pay."***
>
> (Small business, <£1m revenue, Nottingham)

7.2 Preferences relating to a DNO having a pensions deficit

7.2.1 Findings from stage 1: Quantitative research

Only a third of both domestic and business consumers indicated they would care if their DNO had a pension deficit.

Figure 16 To what extent would you care if your DNO has 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.

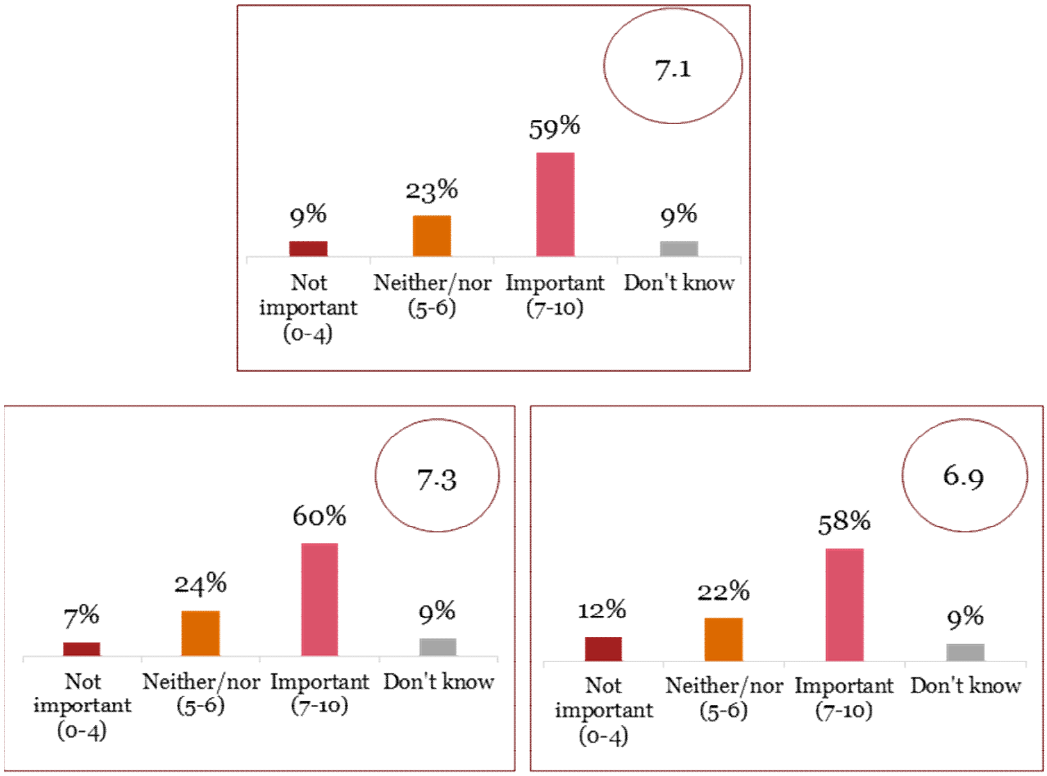
Billing transparency and preferences relating to how the distribution element of the bill is used by the DNO

8.1 Consumer preferences on the visibility of DNO running costs

8.1.1 Findings from stage 1: Quantitative research

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

Figure 17 How important is it to you to have visibility of your DNO's running costs?



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.

- Having visibility of the DNO's running costs is significantly more important for domestic consumers (mean score of 7.3 out of 10), compared to business consumers (6.9).
- Among domestic consumers, older consumers generally indicated that visibility of DNO's running costs is important, and it is significantly more important to consumers aged 65 and over (7.8), while consumers 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.

8.1 Consumer preferences on the visibility of DNO running costs (Cont'd)

8.1.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Most domestic consumers 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 and did not feel they needed to see this information on a quarterly bill.

> ***"I wouldn't want a breakdown through my post every month"***
>
> (Domestic consumer, Age 35+, Income £40k+, Nottingham)

- Business consumers also felt that they would like a simplified breakdown of the full electricity bill cost, not just the DNO element. Some felt this would be more transparent, but they would not necessarily have time to look in detail at the full breakdowns to see which costs were changing.

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

> ***"There needs to be balance between useful information and information you won't look at."***
>
> (Small business consumer, <£1m revenue, Nottingham)

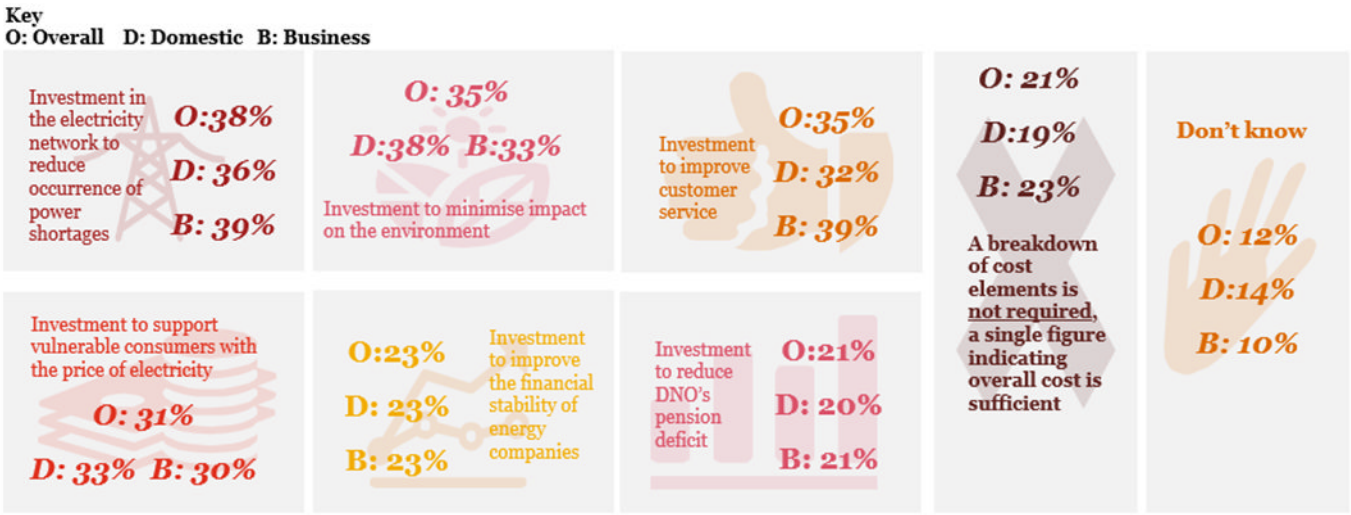
8.2 Preferences around consumer visibility of specific elements

8.2.1 Findings from stage 1: Quantitative research

Around 20% of domestic and business consumers indicated that a breakdown of how the DNO element of their electricity bill is spent was not required and a further 12% were unsure.

Of those consumers who indicated that they would like a breakdown of DNO costs on their electricity bill, 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.

Figure 18 Which, if any, of the following elements from your DNO would you like to see detailed on your electricity bill in the future?



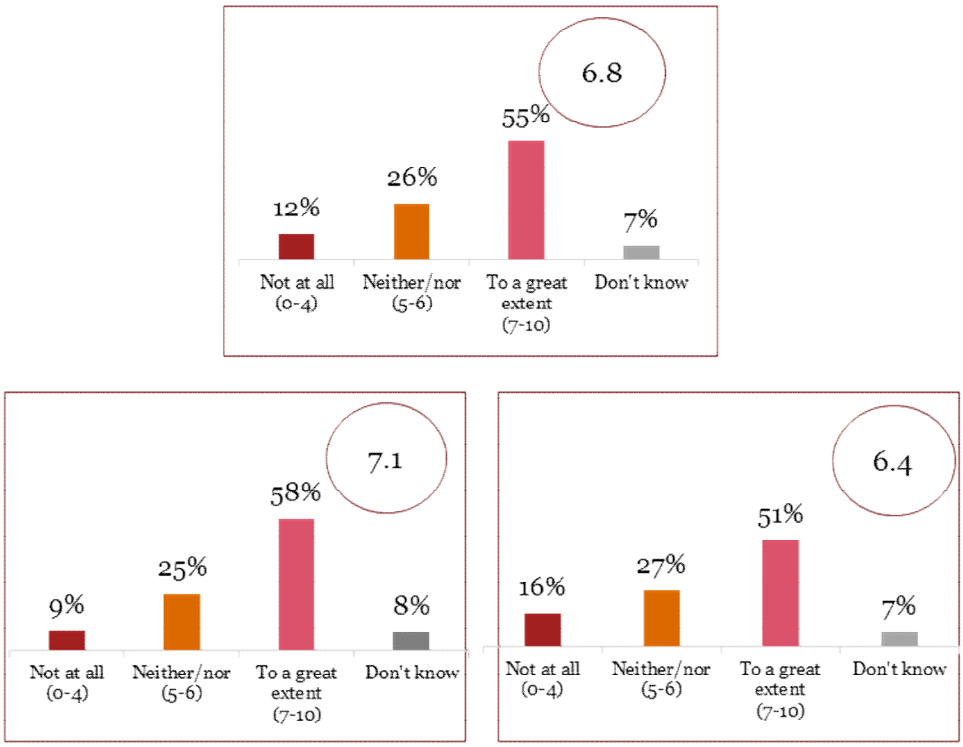
Base: Overall 2011, Domestic 1006, Business 1005.

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

8.3.1 Findings from stage 1: Quantitative research

Over half of respondents indicated that they care how the distribution element of their electricity bill is spent by DNOs.

Figure 19 To what extent do you care how the money you pay for electricity is spent by DNOs?



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.

Responses were also reviewed to identify differences in preferences among different domestic consumer demographic profiles:

- Business consumers are significantly less concerned than domestic consumers about how the money they pay for electricity is spent by DNOs (mean score of 6.4 out of 10 among business consumers vs. 7.1 among domestic consumers).
- Among domestic consumers, those aged 65 and over indicated a significantly higher level of concern (7.5), compared to domestic consumers overall (7.1).
- Results from both domestic and business consumers within the WPD region are in line with results from UK consumers overall.-

8.3.2 Findings from stage 2: Qualitative research

Findings from the focus groups showed that:

- Both domestic and business consumers' would have some interest in the DNO portion of their bill and the breakdown of how it is spent.

> ***It's around a fifth of your energy bill that you are actually paying to the DNO, so it would be nice to know exactly where it's going."***
>
> (Domestic consumer, Age 35+, Income £40k+, Nottingham)

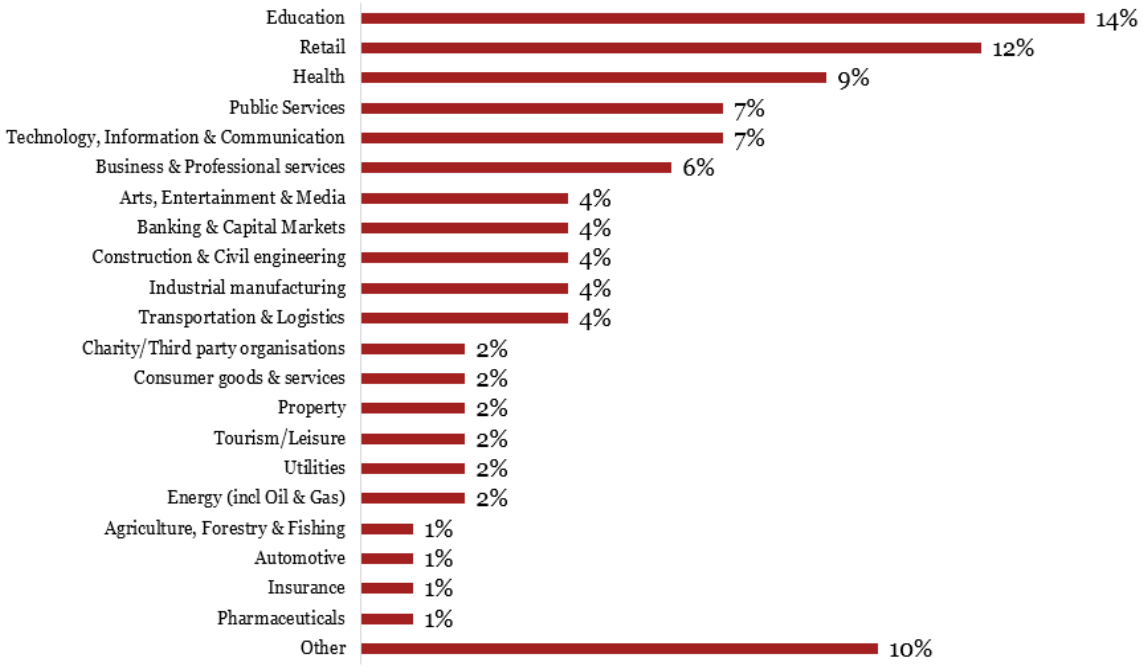
Appendix – More detailed breakdown of research results

9

Appendix – More detailed breakdown of research results

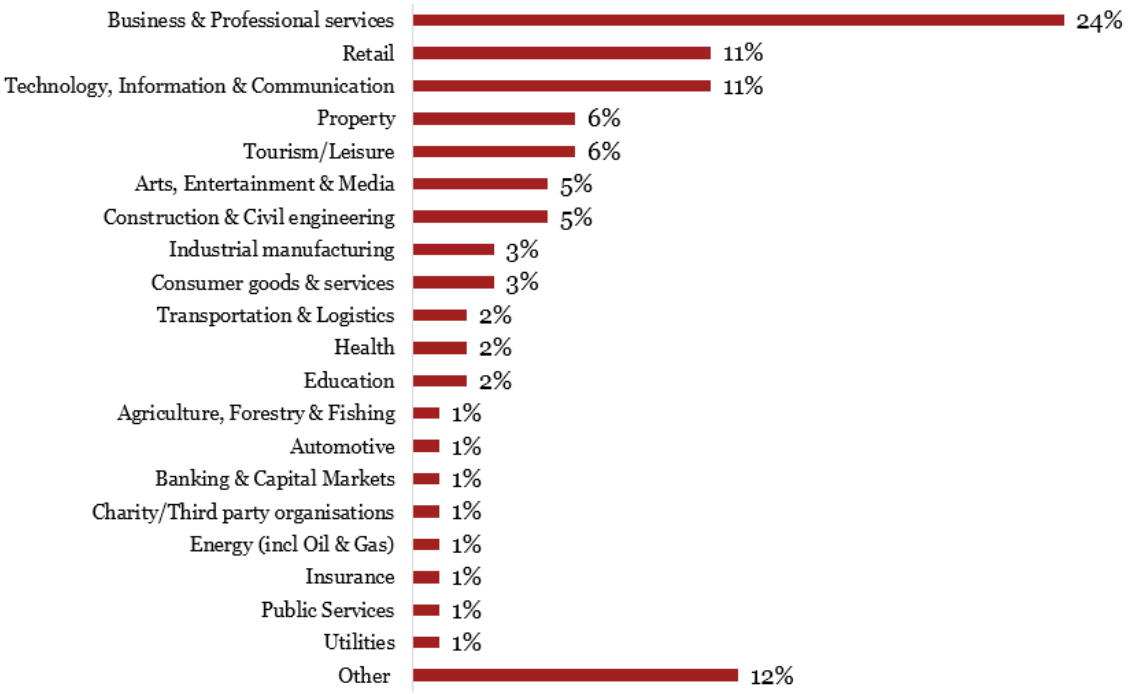
The following sections provide a more detailed breakdown of the research results.

Question: which of the following best describes the sector in which you are currently employed?
Figure 20: summary of results



Question: How would you define your organisation's industry sector?

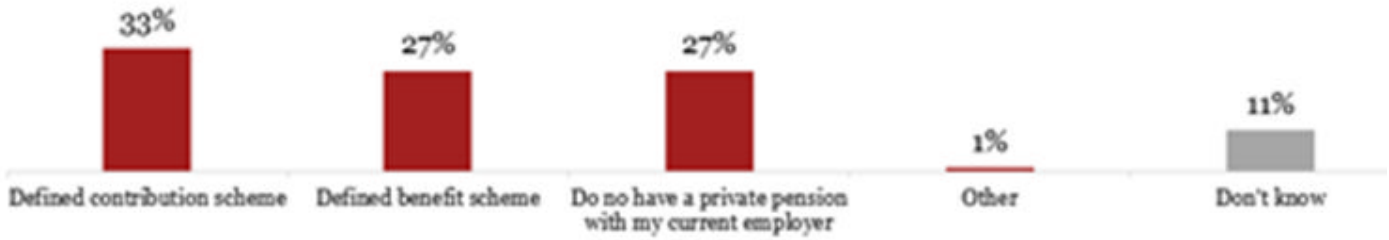
Figure 21: summary of results



Appendix – More detailed breakdown of research results (Cont'd)

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

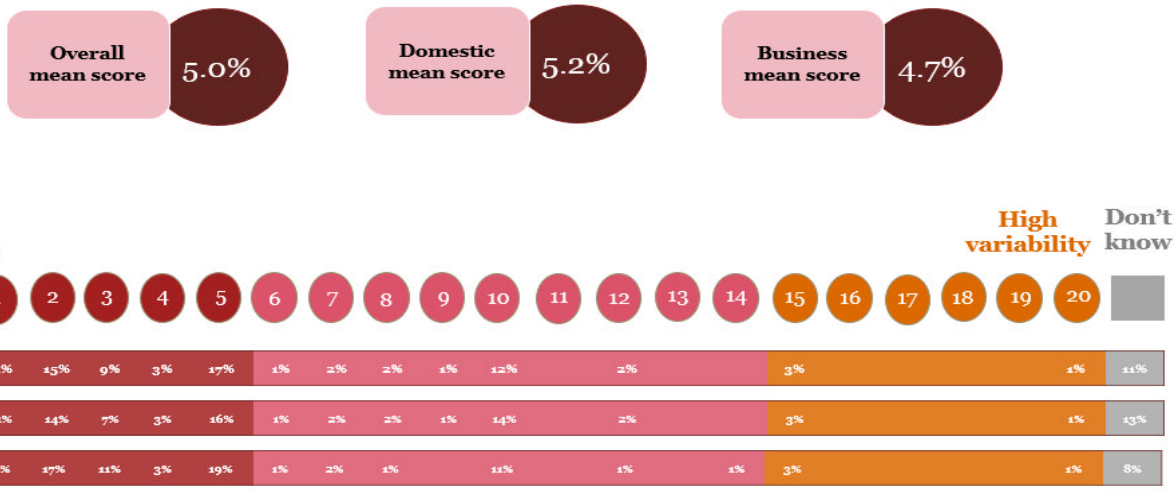
Figure 22: summary of results



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

Question: Question: How much variability in the DNO element of your electricity bill is acceptable?

Figure 23: summary of results

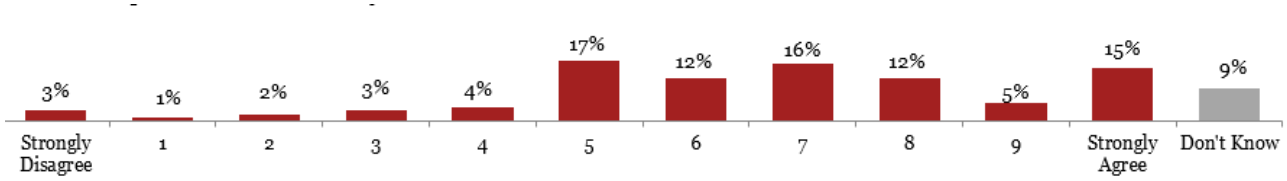


Base: overall 2011, domestic 1006, business 1005. Mean base: overall 1791, domestic 871, business 920. Totals may not add to 100% due to rounding.

Appendix – More detailed breakdown of research results (Cont'd)

Question: 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?

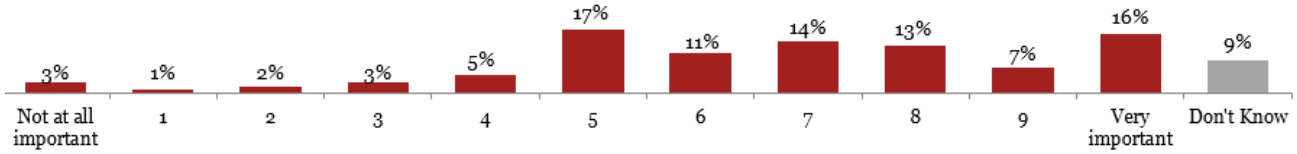
Figure 24: summary of results



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

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

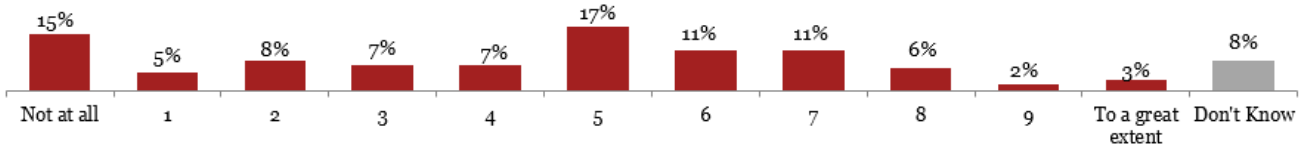
Figure 25: summary of results



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

Question: 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?

Figure 26: summary of results

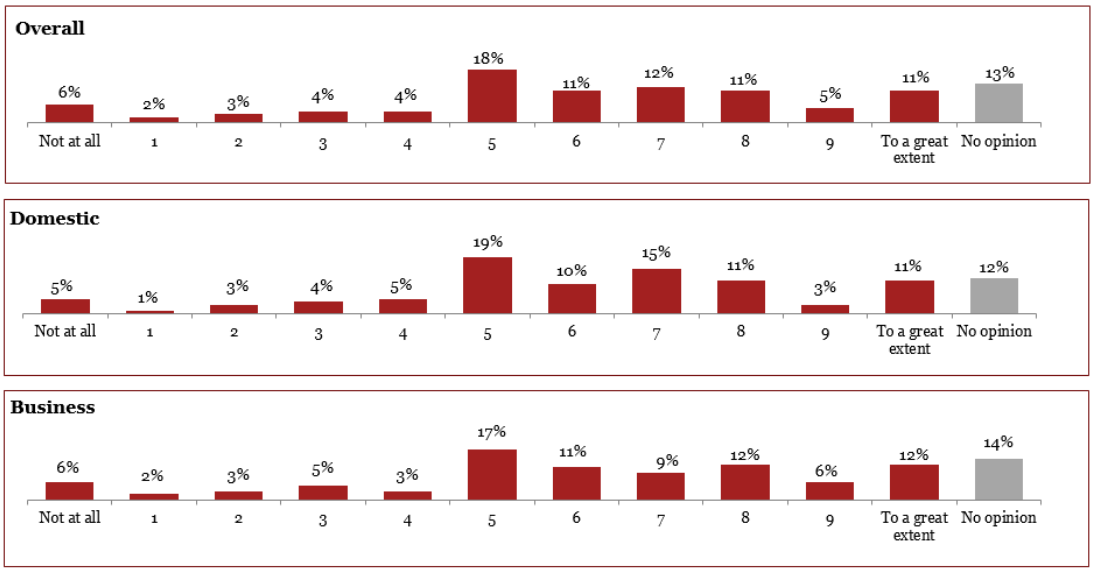


Base: Domestic 1006. Totals may not add to 100% due to rounding.

Appendix – More detailed breakdown of research results (Cont'd)

Question: 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?

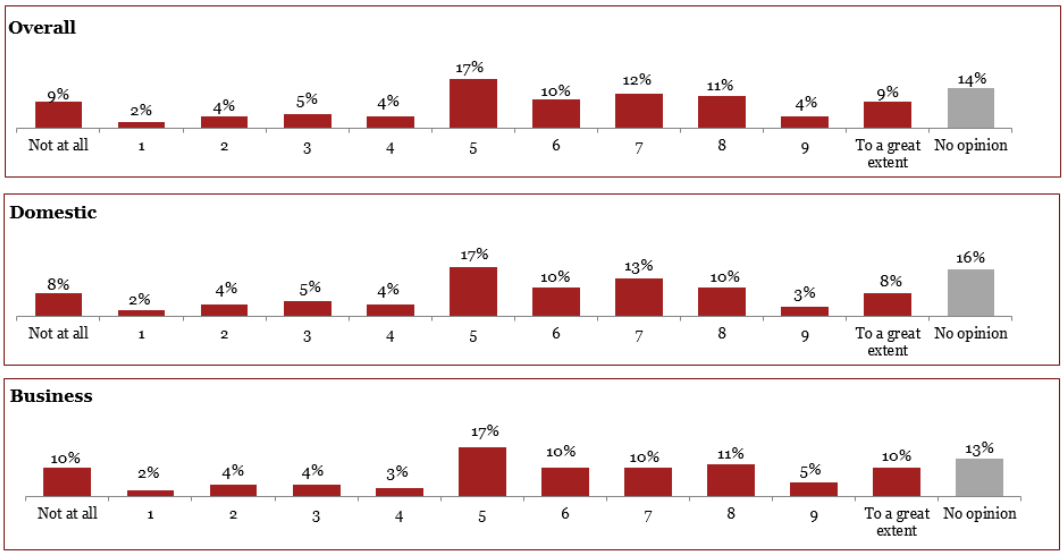
Figure 27: summary of results



Base: overall 2011, domestic 1006, business 1005. Totals may not add to 100% due to rounding.

Question: to what extent would you care if your DNO had a pension deficit?

Figure 28: summary of results

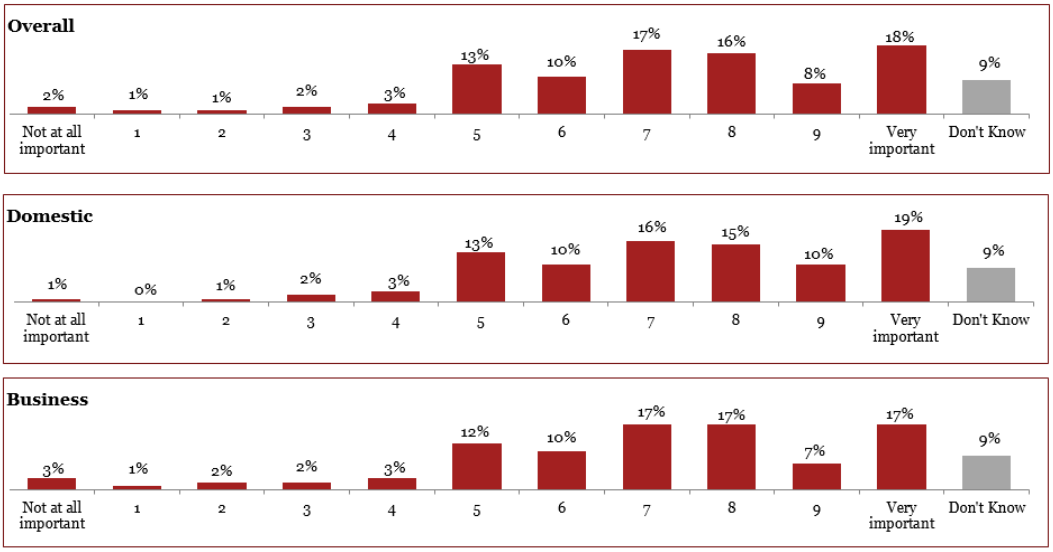


Base: overall 2011, domestic 1006, business 1005. Totals may not add to 100% due to rounding.

Appendix – More detailed breakdown of research results (Cont'd)

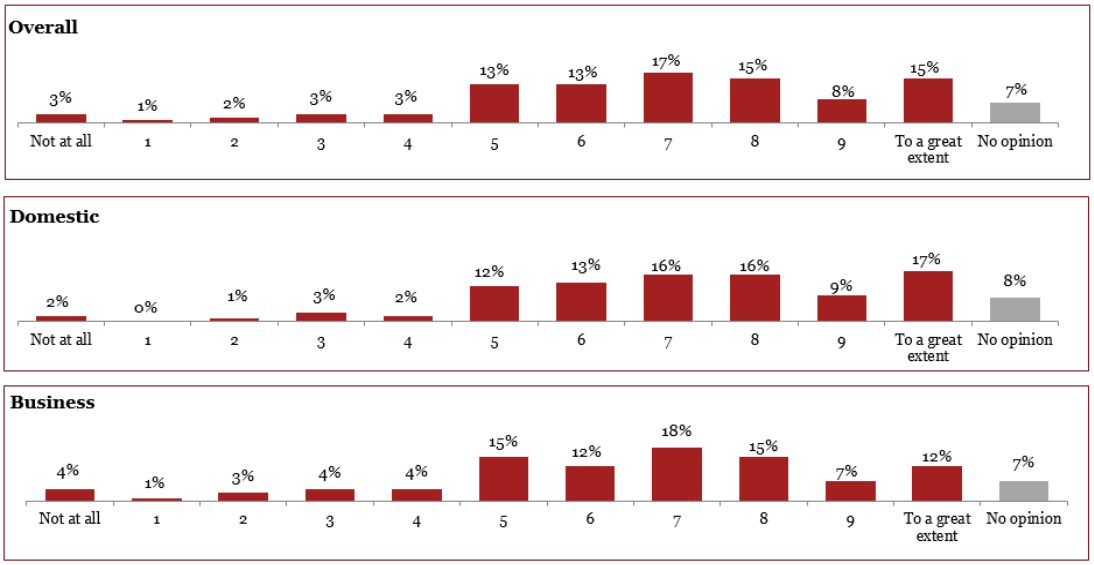
Question: How important is it to you to have visibility of your DNO's running costs?

Figure 29: summary of results



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

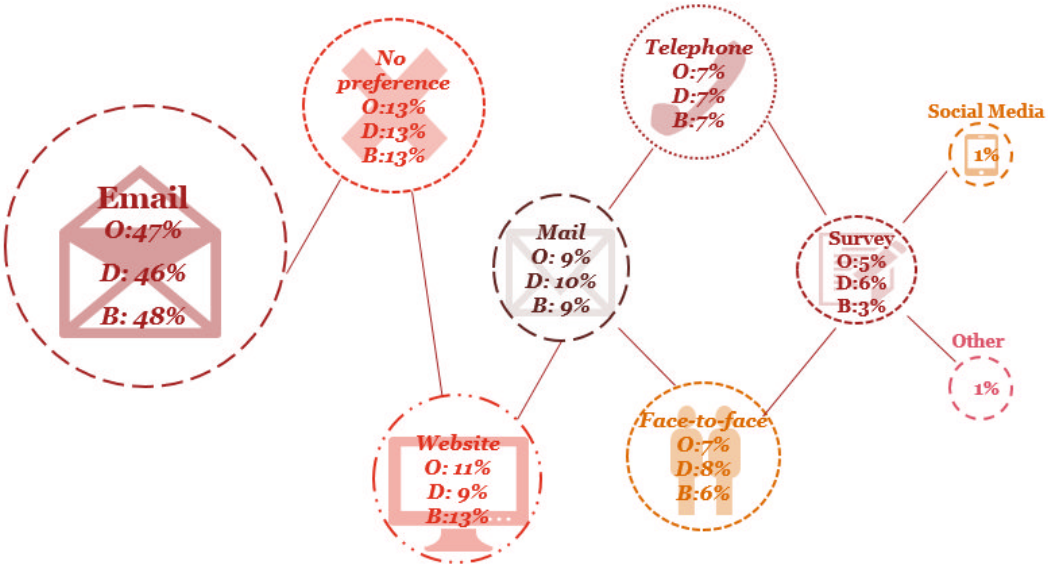
Figure 30: summary of results



Appendix – More detailed breakdown of research results (Cont'd)

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

Figure 31: summary of results



Base: overall 2011, domestic 1006, business 1005. Totals may not add to 100% due to rounding.