

Smart tariffs – balancing innovation and complexity

GB Smart Customer Response Trials Workshop

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Smart tariffs – potential consumer benefits

Smart deals to incentivise load shifting and overall energy reduction such as:

- Fixed price time of use tariffs – charged different amount depending on when during the day, week or year use energy (seasonal)
- Dynamic pricing - critical peak pricing, off peak rebates
- Automation – direct load control/remote control appliances within the home
- Energy deals which combine supply energy with displays/energy monitoring and advice

Potential customer benefits:

- Some households may benefit from relatively cheaper energy bills
- Security of supply – helping to keep the lights on
- Carbon reduction – society benefit/do customers care?

What's really in it for the consumer?

Challenge – who will be the winners and losers?

- DECC's Impact Assessment states:
“Bill savings for some customers may be offset by bill increases for other customers”
- Not all households will be able use energy at low cost times
- Do low income customers have less discretionary load?
- Low income customers may not be able to afford smart appliances
- Cost reflectivity v equity and tackling fuel poverty?



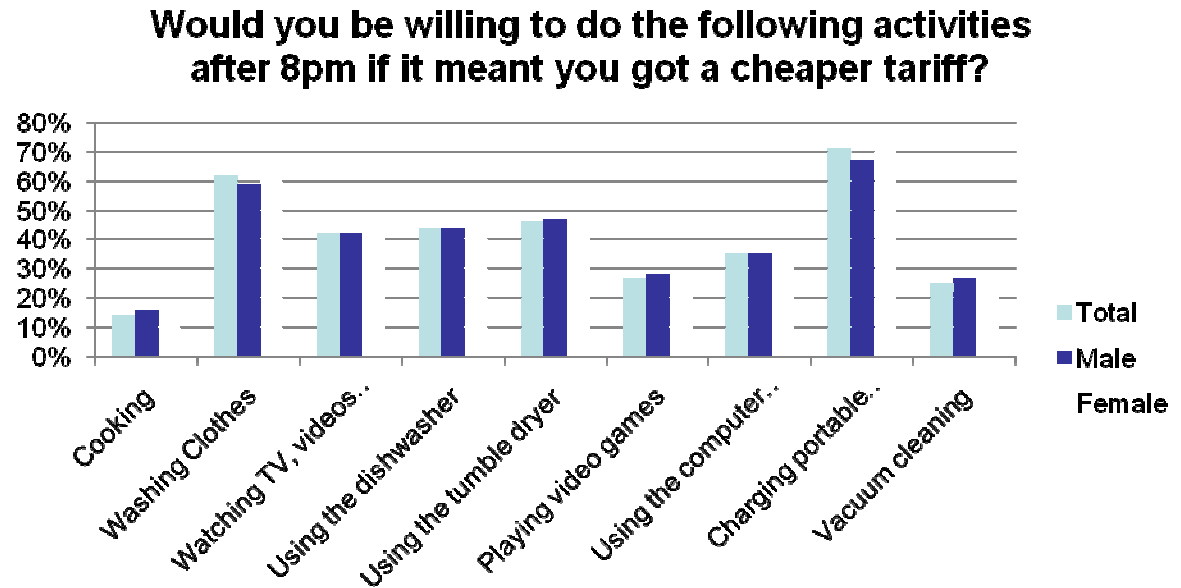
Recommendations

- Research to understand the distributional impact of smart tariffs – not just low income, and vulnerable but broken down by social group, heating type, dwelling, location
- Treat international comparisons with caution & more evidence about automation needed
- If needed put protections in place – Victoria, Australia concerns that smart metering was “a tax on the poor”
- GB customers must have a choice – the right to say no



Challenge: low consumer interest

- People unwilling to change behaviour
- Appetite for automation not yet properly tested
- Charging devices and washing only two where 50% + willing to shift



Online survey
Base 2048
March 2010

Reasons:

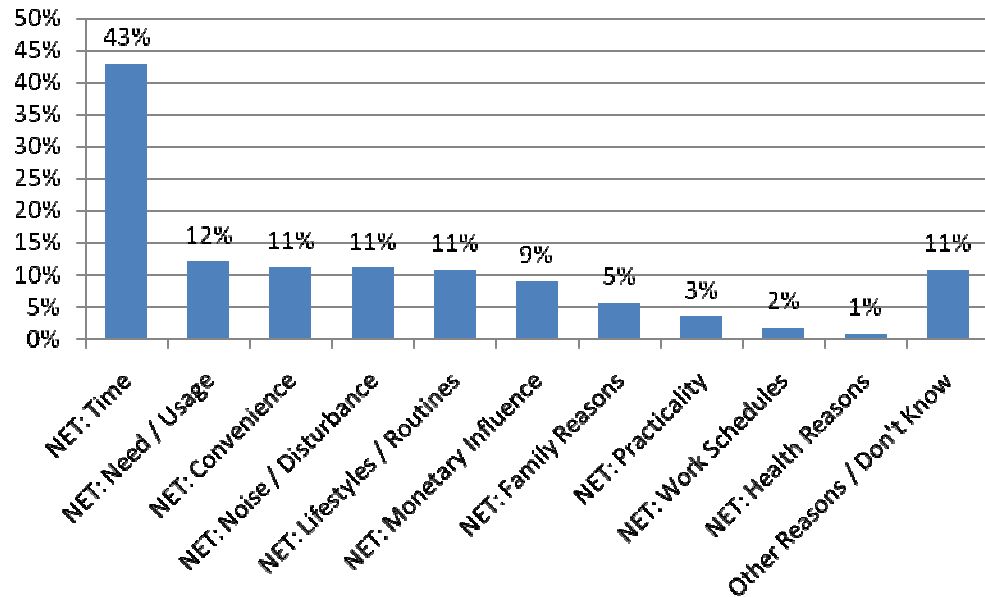
Households with children less willing to shift

Key reason against not taking action link with inconvenience/lifestyle

Recommendations

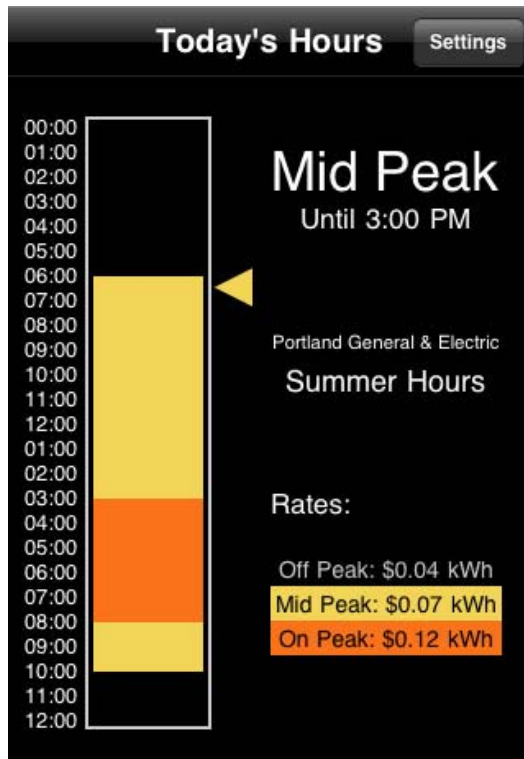
-Social marketing strategy to deliver behaviour change including national awareness campaign

...what are you reasons for this?



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Challenge: how ensure consumers make informed choices



- Around third consumers when switch not get price reduction - 42-48% on doorstep
Potential to further increase tariff complexity – add to customer confusion
- How can customers compare these complex deals easily?
- How ensure properly understand advantages and disadvantages for their lifestyle?
- How ensure they understand what to do to benefit and that mechanisms to deliver price signals are reliable?

Recommendations

Future proof the proposals in the Ofgem Retail Market Review:

1. Customers should be provided with **projected bills** based on **actual** past energy use over a number of seasons e.g. Ontario, Canada
2. Ofgem regulate against long-term contracts – customer exposed to too much volatility with dynamic pricing
3. Customer must have access to data on their energy consumption in a format that allows them to compare deals at no upfront cost – may need some **standardisation**
4. Guidance on what information suppliers should provide to customers

LCNF and industry must:

1. Pilot different strategies to identify best way to communicate, inform and engage customers.
2. Offer a lowest price guarantee for customers on trials – good will gesture which can be offered at the end to prevent influencing customer behaviour
3. Don't introduce smart tariffs at the same time as smart meters – e.g. California contributed towards 'bill shock and backlash'

Learn from the experiences of current users ToU and dynamic tele-switching customers

Challenge: customer protection

- Regulation for energy supply, products and services split between different regulators – hard for customers to get problems resolved
- Data protection legislation is not fit for purpose – how ensure customer has choice and control
- Health concerns associated with new technologies
- What are fair terms and conditions e.g. will there be penalties if the customer overrides direct load control? Do they have control to over-ride? How do they get signal that peak time?
- How ensure vulnerable consumers not sign up to tariffs don't understand?



Recommendations

- Clear roles and responsibilities
- Single point of contact for all customer complaints and clear process to follow
- Robust appliance and communication standards
- Guidance on fair terms and conditions for new deals
- Update privacy, security, health safeguards and provide advice to customers to maximise protection
- Include vulnerable and low income customers in trials, and those on PPMs
- Interoperability of devices and in home communications systems not just meters



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