

BAMBOOZLING BILLS & TARIFFS

Which? Energy Campaign
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New Which? research and an analysis of bills by the Plain English Campaign reinforces the need for drastic action to simplify energy bills and tariffs.

- > For the third survey running, overall customer satisfaction with Britain's power giants ranges from mediocre to abysmal and is worst than any other sector, including banking.¹
- > Around a quarter (22%) of those surveyed found it difficult to understand how much they owe their energy supplier, and 46% of people said they found their gas and electricity bills more difficult to understand than their credit card bills.
- > None of the bills looked at met Plain English standards.²
- > 98% of consumers want their supplier to notify them ahead of price rises and eight in ten agree that new tariffs should be fixed for a certain period.

Ofgem's probe has delivered some positive changes for consumers, including a new license condition that bills must be "clear and easy to understand". But the regulator's efforts to address confusing tariffs are weak and impossible to enforce, leaving consumers struggling to find and keep a good deal.

A step change is needed to improve the quality of information provided to consumers, enabling them to understand and reduce their energy consumption and costs.

Which? wants:

- > Suppliers to take immediate steps to simplify their bills and tariffs.
- > Ofgem to introduce license changes that require suppliers to use a summary box on bills to make key information easily accessible, and to introduce minimum standards for tariffs.
- > The Government to recognise that making billing and tariffs more transparent will help people cut their energy usage and costs, and to ensure that Ofgem delivers on its mission to "protect consumers".³

¹ Which? surveyed online panel members to find out how they rate their financial providers, including credit cards, savings accounts, current accounts and mortgages, on an annual basis.

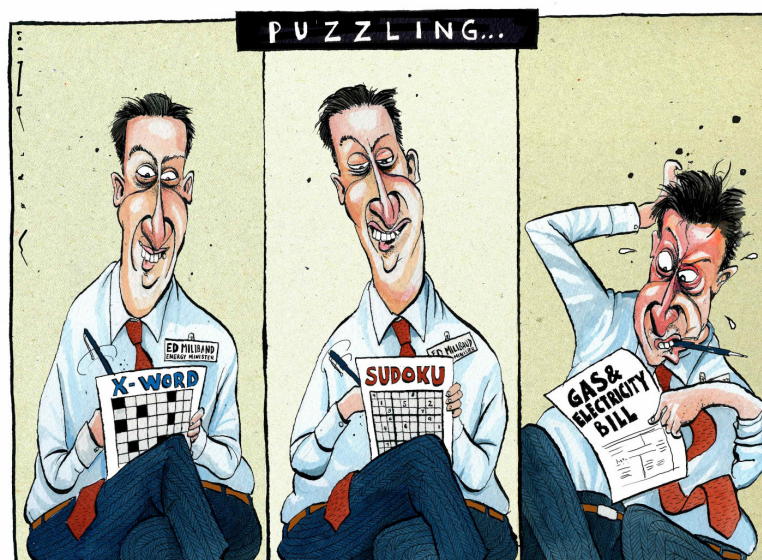
² Defined by the Plain English Campaign as "writing that the intended audience can read, understand and act upon the first time they read it. Plain English takes into account design and layout as well as language".

³ "Ofgem is the Office of the Gas and Electricity Markets. Protecting consumers is our first priority." 'About us', Ofgem website (www.ofgem.gov.uk), August 2009.



for all consumers

Why do we need better bills and simple tariffs?



Better bills

Gas and electricity bills are the single most important communication between consumers and their energy suppliers. They should provide customers with the facts they need to understand their current energy use and costs, and help them make an informed choice about their future consumption and supplier. Only if consumers have the tools they need to play an active role will our energy markets become competitive in reality, not just in name.

Consumer views⁴

"It is impossible from my bills to see exactly how much I am paying per 'unit' of gas or electricity, or to compare offers by different suppliers. We need a system which is completely transparent and answers the questions - how much have I used? How much did each 'unit' cost? - and sets this out so I can then compare with other suppliers' charges, like for like." [Duncan]

"I find it very difficult to understand my energy bills. I endeavour to be as economical as possible but have no idea whether I am succeeding." [Julia]

"[Energy bills] are far more complicated than they need to be and I think that is the intention." [Neil]

"I, as most people, find the bills confusing, but then the energy suppliers have a vested interest in avoiding comparisons." [Michael]

"Energy bills are far too confusing. I always have difficulty trying to work out how our bills have been calculated. In terms of information, our energy bills seem to have a lot of unclear, in the margins, extraneous information than other bills (credit card, council, etc.) have." [John]

Instead, most energy suppliers provide bills that their customers find overly complicated and confusing.⁵ In the latest Which? utilities satisfaction survey⁶ energy suppliers received an average rating of just 42%, even lower than the preceding two surveys and the lowest score for any industry Which? has looked at. Only two of the suppliers looked at got more than three stars (out of five) for

⁴ Quotes from consumers who have shared their views via the Which? website in April 2009.

⁵ "Discussions around supplier failings were dominated by billing and communication difficulties, with bills perceived as being too complicated/lacking useful information on pricing", Experience of Suppliers, Ofgem's Consumer First Panel Group Summary, November 2008.

⁶ Which? magazine. October 2009.

how easy their bills are to understand (Utility Warehouse and Ebico). 46% of people surveyed said they found their gas and electricity bills more difficult to understand than their credit card bills.

Plain English Campaign - summary analysis of major suppliers

Which? commissioned the Plain English Campaign (PEC) to assess direct debit bills from the main energy suppliers to see if they met its criteria for 'plain English' - that a bill is well designed and laid out and can be understood and acted upon the first time it is read. The bills received a mixed review, with improvements needed from all suppliers.

Scottish Power

- ☺ Calling the bill 'your gas and electricity statement - estimate', so straight away the customer knows what the statement is for and that it is based on an estimated reading; black text on a white background is easy to read.
- ☹ Cluttered layout; use of a minus sign for a credit amount (this is a confusing way to show a payment or credit as this usually denotes a debit); and failing to explain what 'calorific value', 'volume correction' and 'kWh' mean.

Utility Warehouse

- ☺ Layout is clear and easy to follow, there's a key to abbreviations used on the back of the bill and an explanation in simple terms of how the kWh have been calculated.
- ☹ Not being clear what 'Ft³ consumption' or 'M³ consumption' means.

Npower

- ☺ It's clear that the statement is based on an estimated reading and that the account balance is 'for information only'.
- ☹ Printing important information in red and green, making it difficult for people with poor eyesight or colour blindness to read it; no explanation for the terms 'credit' and 'debit'; no explanation for how the account balance has been calculated.

E.ON

- ☺ It's clear that the account is in credit and there is nothing for the customer to pay now, and the phone number is prominently displayed.
- ☹ Not explaining terms like 'calorific value' and 'conversion factor', and what 'normal primary units' and 'secondary units' are.

EDF

- ☺ The amount of the bill is shown clearly and the contact details are easy to find. In general the language used is clear, concise and jargon free.
- ☹ Not being clear about how they have arrived at the final total and causing confusion by calling the balance bought forward from the previous bill 'Amount of last bill'.

British Gas

- ☺ The graph showing the breakdown of the cost of electricity is clear and helpful and the headings in the statement are helpful, e.g. 'Electricity you've used this period' and 'What you paid - thank you'.
- ☹ Using the abbreviation 'cr' to show a credit amount, but, unlike E.ON, not telling customers what it means.

Southern Electric/SSE

- ☺ Easy to read with a good type size and black text on a white background; they have tried to use everyday language and avoid jargon.
- ☹ Using the phrase 'Debit balance carried forward' but not saying what this is; use of block capitals which can be difficult for people to read.

Simpler tariffs

Whichever supplier you choose, for the vast majority of the population, electricity and gas come from the same national grid and your home is heated or your appliances powered in the same way. It's therefore surprising that there are such a large number of different tariffs - over 4,000⁷ - on the market.

Consumers can choose single fuel or dual fuel, standing charge or no standing charge, green tariffs, fixed or tracker tariffs. Tariffs may be discounted, such as for payment by direct debit or for online bill management, but discounts may be 'introductory', reverting to a higher rate after a short period of time. Multiple versions of very similar tariffs are offered with a range of different special offers, from Airmiles to Nectar points.

Energy suppliers argue that the large number and structure variations of tariffs in the market reflects innovation and choice for consumers. But Which? believes overwhelming choice is no choice. This is supported by research from the University of East Anglia which shows that consumers who switch from a three-part tariff to a two-part tariff make significantly less accurate switching decisions than other switchers.⁸

Consumer views

"The complexity of tariffs seems to be designed to confuse and baffle. I am sure that most folk simply stay with their company as it is too much trouble to find out or work out which is better." [Herbert]

"I just hate the infinite variety of tariffs that each company has. You are never quite sure whether you are paying the right amount for your services. I also find it despicable that they have not reduced the energy prices by anywhere near the amount needed." [Kathryn]

"I also feel that the energy companies have too many products with confusing price structures. So it is not easy to tell if you have the best deal. Indeed I am currently with E.ON and reviewed my energy costs using your Which? Switch site last month. It turned out that I could save over £200 per year by staying with E.ON, but changing the tariff I was on. Surely that is something E.ON should have pointed out to me themselves?" [Chris]

"Why are there so many different rates of charging to choose from, it's too confusing to know what you are on and what you ideally need to be on? Why is there a difference in charging in different areas by the same company? Their supply charge is the same so why alter the delivery charges depending on area you live?" [Colin]

"Different companies charging different tariffs on differing amounts; the first X units vary making it very difficult to compare suppliers." [Roger]

"The tariffs have similar names and there are far too many of them to make sense." [Graham]

A lack of clear or accurate information makes it very challenging for consumers to determine whether the tariffs available are good value for money or how long a 'good' deal may last. Ofgem's own research shows that 70% of consumers find the number of tariffs available confusing and just over half find it too hard to work out whether they would make any saving if they did switch.⁹ Nearly 50% of consumers have either never switched supplier or do not intend to again.¹⁰ Of those

⁷ Tariffs are defined separately if they vary in one of the following measures: type of fuel, method of payment, method of bill management, pattern of consumption (Economy 7 or similar) and additional tariff options - green, fixed, special offers (Airmiles/wine vouchers etc). On this definition, there were 4,111 in April 2009.

⁸ *Energy prices, fuel poverty and Ofgem*, Eleventh Report of Session 2007-08, House of Commons Business and Enterprise Committee, Memorandum submitted by the University of East Anglia, Ev 510, Volume II, HC 293-II, 16 July 2008.

⁹ *Key facts, Consumer First- Consumer Engagement Summary*, December 2008.

¹⁰ *Energy Supply Probe - proposed retail market remedies*, Paragraph 3.1, Ofgem, 15 April 2009.

that do switch, more than one fifth actually end up paying more.¹¹ Suppliers have benefited from customers who have opted-out of such a complex choice, and are bamboozling engaged consumers with choice overload¹², a point which Ofgem has recognised.¹³

New research from Which?¹⁴ reveals that:

- > 98% of people want their supplier to notify them ahead of price changes.
- > Eight in ten (gas - 83%, electricity - 82%) agree that new tariffs should be fixed for a certain period.
- > 95% think their supplier should notify them when a cheaper tariff becomes available.

In reality, suppliers have up to 65 working days, the equivalent of three months, after a price increase to inform their customers of the change and by the time you switch to a new tariff the price may have changed so that you would have been better off sticking with your previous deal. Energy companies are not under any obligation to let you know if you could benefit from a cheaper tariff.

Has anything been done?

Ofgem has made some welcome recommendations in its Retail Market Probe.¹⁵ Consumers will now be provided with some additional information on their bills, an illustrative cost (in pounds) per year basis for price comparisons and an annual statement. The annual statement will show the exact tariff name, consumption over the previous 12 months and forecast for the coming 12 months. In response to concern from consumer groups, including Which?, Ofgem has extended new tougher license conditions on marketing to cover telesales as well as face-to-face sales, and introduced a new license condition that key information on bills should be presented "*in a form that is clear and easy to understand*". However, the implementation timetable for the changes has already been pushed back to July 2010 despite assurances from Ofgem that "*We are keen that consumers can start benefiting as soon as possible from the measures contained in our package of proposed retail market remedies*".¹⁶

What action is needed?

Ofgem's remedies are a reasonable start but they need to go much further, particularly in relation to enabling consumers to make a meaningful choice between the thousands of different tariffs on the market.

Ofgem has introduced new overarching standards of conduct, including an expectation that suppliers take all reasonable steps not to offer products that are unnecessarily complex and confusing. However, the standards are not incorporated into licence conditions so do not have any force, and despite recognising that confusing tariffs are a serious problem for consumers, Ofgem has done next to nothing to address this.

The new remedies package increases the period consumers have to switch supplier after they are informed of a price rise from ten to 20 working days. This is welcome but still leave suppliers with a staggering 65 working days after a price rise to inform their customers that they've put the price up.

A simpler tariff structure, achieved through the introduction and implementation of minimum standards, would make it easier for consumers to understand the implications of each tariff and

¹¹ *Energy prices, fuel poverty and Ofgem*, Eleventh Report of Session 2007-08, House of Commons Business and Enterprise Committee, Paragraph 77, Volume I, HC 293-1, 16 July 2008.

¹² *Energy prices, fuel poverty and Ofgem*, Eleventh Report of Session 2007-08, House of Commons Business and Enterprise Committee, Paragraphs 77 and 82, Volume I, HC 293-1, 16 July 2008.

¹³ *Energy Supply Probe - Initial Findings Report*, Ofgem, 6 October 2008.

¹⁴ 7,215 Which? panel members responded to an online survey between 26 May - 12 June 2009. 3,357 respondents answered about their gas supplier, while 3,957 respondents answered about their electricity supplier.

¹⁵ *Energy Supply Probe - proposed retail market remedies*. Ofgem. August 2009.

¹⁶ *Energy Supply Probe - proposed retail market remedies*. Ofgem. August 2009.

make an informed choice on which tariff is most appropriate for them. The development of a mandatory summary box for tariff promotional materials - providing key information at a glance - would enable consumers to make an assessment as to whether the tariff on offer is best for them. This proposal has recently been endorsed by a European Commission working group on billing¹⁷ and the Citizens' Energy Forum.¹⁸

A similar summary box on bills would give consumers the information they need to understand their current energy use and costs.

Which? is calling for:

Better bills

An itemised summary box on bills and statements - so consumers can see key information at a glance. The summary box should show the following:

- > The exact tariff name.
- > The amount of energy used.
- > The rate of gas and/or electricity per kWh and how this is broken down on a daily basis.
- > How the cost has been calculated.
- > Any discounts you are benefiting from and when they end.
- > Any fees you will have to pay if you change supplier.

Transparency on estimated bills and meter readings - it must be absolutely clear if a bill is based on an estimated reading, and there should be an explanation for how the estimate has been calculated.

Simpler tariffs

Introduce minimum standards for all tariffs. These would include the following elements:

- > **No hidden charges** - no more 'no standing charges' tariffs when these costs are just subsumed into the overall price, and no unfair penalties if you want to change energy tariff.
- > **A time guarantee if you change tariff** - tariffs should be guaranteed for a minimum of 12 weeks.¹⁹
- > **Reasonable warning about price changes** - companies should commit to provide a minimum of 12 weeks notice if a tariff is going to be changed, or when special deals are going to end.
- > **Tracker tariffs need to track something meaningful** - until there is a standard measure used to benchmark tracker tariffs they should be removed from the market.
- > **No misleading names** - 'green tariffs' shouldn't be called green when they don't and can't deliver energy from renewable sources.

An itemised summary box for all tariff marketing materials - so consumers can see key information at a glance and can more easily compare tariffs on the market. The summary box should show the following:

- > The tariff name.
- > The rate of gas and/or electricity per kWh and how this is broken down on a daily basis.
- > How the cost has been calculated.
- > Any discounts you are benefiting from and when they end.
- > Any fees you will have to pay if you change supplier.

¹⁷ The Billing Working Group, formed by the European Consumer Consultative Group (ECCG) which sits in Directorate- General for Health and Consumers.

¹⁸ The Citizens' Energy Forum has its second meeting in September 2009, the recommendations included the inclusion of a comparability box: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1418&format=HTML&aged=0&language=EN&guiLanguage=en>

¹⁹ Which? believes consumers should be given notification of a price increase equal to the amount of time that it will take to shop around and switch. On average it takes a consumer 6 weeks to switch energy tariff, followed by a further 6 weeks before they are on the new rate - totalling 12 weeks.

- > The type of account (online or paper-based).
- > The payment method and frequency of payments.

Conclusions

Good quality information about the electricity or gas you are buying is not a big ask but a basic right, essential to ensure consumers are not ripped off or misled and can take control of their own energy use and costs.

Consumer responses to the question “if you could change one thing about your energy bills, what would it be?”

“A simplified standardised billing system that all utility companies have to stick to, the same type format and something endorsed by the Plain English Council. Accurate estimates of how much you are using, how energy efficient your house is in comparison to other similar households and whether you may benefit from switching tariffs within the same energy company.” [Zaheer]

“Simplify the charges so it is just X amount for X pounds.” [Julia]

“Better laid out bills. They need to understand that we are the customer and treat us as such.” [John]

“Tell all the energy companies to state their price tariff in exactly the same way.” [Ian]

“Bills should be simpler and carry an explanation of different tariffs on offer.” [Patricia]

“Clear and unambiguous bills so that I can properly compare all the suppliers charges.” [Kenneth]

Currently, even consumers who have been prompted to make behavioural changes to reduce their costs are confused as to what changes to make to save money.²⁰ There are high numbers of people in fuel poverty²¹ and consumers who wish to cut their bills and their carbon emissions face an upward struggle. Simplifying bills and tariffs is vital to make it easier for people to cut their usage and costs. There is no excuse for inaction.

- > Suppliers should take immediate steps to simplify their bills and tariffs.
- > Ofgem must build on the probe remedies and introduce licence changes that requires suppliers to use a summary box on bills to make key information easily accessible and to introduce minimum standards for tariffs.

The Government must recognise that making billing and tariffs more transparent will help people cut their energy usage and costs and to ensure that Ofgem delivers on its mission to “protect consumers.”²²

²⁰ Highlights from five workshops, Consumer First Panel Group Summary, November 2008.

²¹ In 2007 about 2.9m households and 2.3m vulnerable households in fuel poverty in England. *Sixth Annual Report 2007*, Fuel Poverty Advisory Group (for England), March 2008.

²² “Ofgem is the Office of the Gas and Electricity Markets. Protecting consumers is our first priority.”, ‘About us’, Ofgem website (www.ofgem.gov.uk), April 2009.

About Which?

Which? is a non-profit making organisation that aims to make consumers as powerful as the organisations they deal with in their daily lives.

Which? campaigns to get a fairer deal for all consumers on a wide range of issues, tests more than 2,000 products a year and publishes the test results and advice in a wide range of magazines and books and at www.which.co.uk

More information on Which? work on energy can be found at www.which.co.uk/energy

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