

# energywatch super-complaint + 10: **The Lost Decade**

## **Consumer Experience of Energy Billing Issues 2005–2015 – Executive Summary**

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# Executive summary

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Average energy prices for consumers have risen, at rates considerably above inflation and growth in household incomes, over the last decade.<sup>1</sup> As a result, public and political concern about the affordability of energy has also increased.

The Citizens Advice Service's work on energy ranges from the provision of direct advice to consumers, to longer term policy and advocacy work on a wide range of specific issues. Policy work includes, for example, campaigning to improve the services provided to consumers using prepayment meters (PPMs), ensuring that everyone has access to appropriate energy efficiency advice and services, and advocacy work to ensure that the roll-out of smart meters brings the promised benefits to consumers in practice.

However, we recognise that any actions on the part of consumers to reduce their energy costs may depend on trust in the sector, and surveys show consistently that levels of trust remain at very low levels. While lack of trust is a complex issue that requires a response across the industry<sup>2</sup>, clarity of bills and reliable billing processes are fundamental building blocks. Not least because they represent the central function of energy suppliers, and the main means through which they communicate with their customers.

## The energywatch super-complaint

Concern about billing issues in the energy sector is not new. On 31 March 2005, energywatch, then the statutory watchdog for the energy sector, submitted a super-complaint<sup>3</sup> on the subject of billing. The super-complaint was prompted by energywatch's direct experience of many similar concerns raised by different consumers, a situation which suggested systemic failings across the energy supply industry. The most important of these failings were lack of understanding of bills, problems with estimated bills and associated problems with customer service processes.

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/368069/table\\_211\\_and\\_212.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368069/table_211_and_212.xls)

<sup>2</sup> Ofgem's consumer panel has explored what trust means in practice in the energy sector. The paper also highlights the results of lack of trust in terms of consumer behaviour: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-year-6-second-workshops-consumer-engagement-and-trust-energy-market-retail-market-review-reforms>

<sup>3</sup> A super-complaint is defined in the UK Enterprise Act 2002 as a complaint submitted by a designated consumer body that "any feature, or combination of features, of a market in the UK for goods or services is or appears to be significantly harming the interests of consumers."

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The impacts on consumers of these issues, identified by energywatch, fell into two categories:

- Firstly, and most obviously, there were direct impacts on affected consumers. These were most significant in circumstances when vulnerable consumers received large bills that left them with significant debts and associated social impacts.
- Secondly, energywatch highlighted wider issues. Lack of understanding of bills, and of trust in billing processes, undermined the longer term aims of both encouraging a competitive energy market through switching, and of supporting consumers to take action to reduce their bills through energy efficiency.

Ofgem's response to the super-complaint, also published in 2005, was that while individual problems did exist, they were the exception rather than the rule. It believed the problems could be addressed through a combination of improved supplier performance together with some substantive changes, most notably limits on back-billing and the introduction of the (then voluntary) Energy Ombudsman, which is now known as Ombudsman Services: Energy.

## **Changes to bills since 2005**

The existence of wider impacts on the market, although initially questioned in the response to the super-complaint, was subsequently recognised by Ofgem during the Energy Supply Probe process (2008–2009). As a result of the Energy Supply Probe, and of the subsequent Retail Market Review (RMR) (2010–2013), Ofgem introduced a number of changes to energy bills, and separately required the production of an annual statement for all energy consumers.

Individual changes to bills have helped clarify the information available to energy consumers and were welcomed by consumer bodies as a result. However, a wider impact of the changes, in aggregate, has been that the range and depth of information required in energy bills has increased considerably, meaning that bills themselves are now much longer and contain more information than was the case in the past.

A central aim of Ofgem’s changes was to improve information available to energy consumers in order to encourage greater participation in the market. This has not occurred in practice. Switching rates between suppliers has generally declined over time, with an exceptional spike in late 2013 when media and political interest in energy issues was very high.<sup>4</sup>

There have been wider changes in energy use since the 2005 super-complaint – most notably a rise in energy costs considerably above inflation, but also changes in consumption patterns and payment methods. Rising prices, in particular, influence consumers’ reported levels of trust in the sector as well as satisfaction levels, which may have an influence on consumers’ willingness to make a complaint.

At the same time, new voluntary codes of practice have been introduced by the suppliers themselves. Ofgem has also introduced Standards of Conduct to which companies are expected to adhere. However, the levels of direct complaints reported by energy suppliers since the start of 2013 have been consistently at levels of up to 20 per cent of all domestic households each year.<sup>5</sup>

Although detailed demographic data on the impact of billing problems is limited<sup>6</sup>, that which is available suggests strongly that consumers who are already disadvantaged in other ways – for example, because of income or poor literacy or numeracy skills – are those most likely also to be disadvantaged by poor billing practices. Our survey work, as part of this research, backs up this finding.

## **Future changes:**

### **Smart meter roll-out**

Smart meters will be rolled out from 2016 through to 2020; the central benefits for consumers are promoted as the end to estimated bills and clearer, near real-time information on energy use and costs in pounds and pence.

The Citizens Advice Service supports the smart meter rollout as a means to help consumers take control of their energy use. While welcoming these benefits, we consider that their delivery is conditional as much on suppliers’ billing systems as on the technical challenges of the smart meter roll-out.

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<sup>4</sup> There has also been a recent increase in switching levels in 2015, which appears to be linked to the Department of Energy and Climate Change’s (DECC’s) Power to Switch campaign: <https://www.gov.uk/government/news/switch-to-save-27-billion-up-for-grabs-by-switching-energy-supplier>

<sup>5</sup> For detail, see Section 6.

<sup>6</sup> The main source of this information is Ofgem’s report on energy company complaints handling, discussed in Section 5: <https://www.ofgem.gov.uk/publications-and-updates/complaints-energy-companies-research-report-2014>

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Recent experience of migration of billing systems among four of the six largest suppliers creates particular concerns in this respect.

We present evidence in this report which suggests that more attention on supplier billing practices is needed to ensure that the promised benefits of smart meters – including access to new dynamic tariffs in the longer term, as well as more immediate improvements – are delivered in practice.

### **Recommendations**

#### **1. Complaints handling**

##### **Findings**

Ten years after the energywatch super-complaint, it is clear that complaints about energy billing and associated processes remain the largest single source of complaints, and, for at least some companies, constitute more than half of all complaints<sup>7</sup>. While the pattern has varied between different suppliers since the beginning of 2013, when the data was first published, overall complaint levels across the industry have not changed significantly.

Further, it seems from the information available on the detail of complaints that the individual complaints are – as was the case in 2005 – the result of companies failing to meet the standards set out in the (current) Energy UK Code of Practice for Accurate Bills.<sup>8</sup> Complaints are not the result of the standards themselves being unclear.

As mentioned in the previous section, this research has found that up to 20 per cent of all GB households register a complaint against their energy supplier each year. Further, we have estimated the annual cost to suppliers of handling billing complaints alone – conservatively – at £111–£125m each year<sup>9</sup>. As highlighted by energywatch in 2005, complaints at these levels suggest systemic failings across the industry.

We accept that the assumptions made mean that these complaint figures may be somewhat greater or fewer than the true number. We also accept that both Ofgem data, and our own experience, demonstrate that there are significant differences in company performance in relation to complaints and customer service.

However, from the perspective of consumers, the exact financial costs are not the critical issue. While a significant amount in absolute terms, the financial figures involved are relatively small in comparison with the energy sector as a whole, and the trend data on complaints demonstrates clearly

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<sup>7</sup> Includes direct complaints to suppliers, Ombudsman Services: Energy cases and contacts made to the Citizens Advice consumer service.

<sup>8</sup> <http://www.energy-uk.org.uk/customers/energy-industry-codes/code-of-practice-for-accurate-bills.html>

<sup>9</sup> See Section 6.

that neither the commercial cost of complaints handling, nor any associated reputational risk, is providing sufficient commercial incentive for companies to take action.

### **Recommendation**

Ofgem should, firstly, understand why competitive and regulatory pressures within the supply licence have not delivered a reduction in billing complaints. It should also seek to establish the scale of the detriment to consumers. The introduction of an ombudsman function was a key outcome of the super-complaint and Ofgem's review should further examine the impact the redress backstop has had on driving improvements in supplier performance<sup>10</sup>. Dependent on the findings of the review, possible next steps could lead to the introduction of sharper incentives for suppliers to ensure measurable improvements in billing performance and the associated customer service performance are delivered.

## **2. Bill simplification**

### **Findings**

Individually, many of the changes to bills introduced as a result of Ofgem's Retail Energy Probe and subsequent RMR were welcomed by consumer representative groups. Indeed it was surprising that some changes – such as requiring suppliers to provide the name of the consumer's current tariff on each bill – required regulation in the first place, given the essential nature of this information.

However, in aggregate, changes have resulted in both increasing complexity and increasing volume of information on bills, without any observable gains in consumer engagement as measured by switching rates between suppliers. Although there is limited trend data, there is some early evidence that growing numbers of consumers are changing tariff with their existing supplier.<sup>11</sup>

It therefore seems appropriate to revisit the range and presentation of information to consumers. In particular, we consider that there are cases both for bill simplification and for greater differentiation between bills and annual statements.

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<sup>10</sup> Ofgem announced a review of Ombudsman Services: Energy on 21 May 2015: <https://www.ofgem.gov.uk/publications-and-updates/energy-ombudsman-review-1>

<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/domestic-retail-market-review-%E2%80%93-evaluation-framework-and-baseline-results>

### **Recommendation**

Ofgem, in collaboration with the Consumer Bills and Communications Roundtable Group (CBCRG) created by Ofgem to advise it, should develop and conduct a research programme to investigate consumer views on the range and presentation of information in bills and annual statements. Specifically, research should draw on and extend previous work carried out as part of the Energy Supply Probe and RMR, and should start from the position of asking consumers what information they *want* presented at different times and in different formats. Research should also be open to the idea that different groups of consumers may want a different balance of content, given research findings on the extent to which consumers access digital as opposed to print information.

### **3. Smart meters**

Citizens Advice recognises that the introduction of smart meters presents opportunities to bring significant benefits to consumers, including the increasing proportion of consumers who use PPMs.

However, the delivery in practice of the central and immediate benefits on which smart meters are being promoted to consumers – elimination of estimated bills and provision of real-time information on energy use and costs in pounds and pence – depends absolutely on robust energy supplier billing systems. Omnibus survey work carried out as part of this research shows that a clear majority of consumers would be dissatisfied were they to continue to receive estimated bills after the installation of smart meters in their homes.

This research has shown that billing systems and processes are, clearly, far from meeting this standard at present. We consider there to be a significant risk that poor or poorly integrated billing systems may undermine consumers' views of smart meters, and by extension make the roll-out more difficult, more expensive and less comprehensive than might otherwise be the case. If the smart meter roll-out is seen as failing to deliver even its core early promises, then consumer confidence in the roll-out can be expected to drop significantly.

### **Recommendation**

In addition to the measures proposed under Recommendation 1, above, consumers using smart meters should be given additional protection from poor billing practices. In line with the benefits of smart metering, the best way to achieve this – and to provide further incentives to companies to get the process right and ensure accuracy – is to limit back-billing to one billing cycle for consumers who have had smart meters installed. Ofgem’s own research<sup>12</sup> shows that poor back-billing practices are a significant concern for consumers. Correspondingly, the same research shows that the elimination of estimated bills, which leads to a significant improvement in back-billing, is currently seen by consumers as the single biggest benefit of smart meter roll-out.

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12 <https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-year-6-wave-3-smart-billing>