



The trust deficit

Last year's CMA investigation was supposed to re-establish trust in the energy sector but as far as politicians are concerned, the energy sector is still Public Enemy No 1.

Our party did not end the unjust and inefficient monopolies of the old nationalised energy corporations only to replace them with a system that traps the poorest customers on the worst deals."

So said prime minister Theresa May earlier this year. Her comments tell of more than the Conservative party's new, hard line on energy prices and its promised price cap. They speak of an energy market that is viewed with suspicion by customers, vilified by politicians and the press, and suffering, still, from broken trust with the public.

Energy prices are front and centre of the national agenda once again, with May convinced that promising action will win her votes – just as Labour leader Ed Miliband was at the last election, in 2015. Current Labour leader Jeremy Corbyn has gone even further, pledging to renationalise the water sector and parts of the energy sector if elected. The politicians are not creating the problem with utilities – they're tapping into an anger that already exists.

Energy companies have long been aware that poor customer service and rising prices has left them with more than an image problem. Indeed, the companies themselves called for a Competition and Markets Authority (CMA) investigation into the industry as far back as 2013, with then-Eon chief executive Tony Cocker speaking for his peers when he told the Utility Week Congress: "Eon has worked very hard in the past two years to improve our transparency and rebuild trust but at the same time, it is clear we are not fully succeeding.

"We have absolutely nothing to hide and we are transparent as we can be, but it

would be helpful to have a group of experts to look in from the outside, who don't have a vested interest in the industry."

The CMA investigation went ahead, taking two years to come to conclusions that many in the industry take issue with – including its infamous claim that energy customers are being overcharged by £1.4 billion a year. Yet it also concluded that fundamentally, the market was not broken. It stopped short of calling for a universal price cap, limiting such intervention to customers on prepayment meters. Instead, it made a number of recommendations now being enacted by the sector.

Today it is apparent that the CMA didn't go far enough. The public is still angry with energy suppliers, and politicians are still prepared to exploit that anger to win votes. And this is an issue not just for energy suppliers, as Labour's manifesto has shown.

Whatever the outcome of the election, the fundamental issue of broken trust will remain. That's why *Utility Week*, in association with WNS Global Services (WNS), is launching the Customer Trust Council. The council will work with representatives of energy suppliers and other utilities to ask what has gone so badly wrong – and what the industry can do to fix it.

Talking points



Proposed price caps offer consumers a "safety net".

Stephen Fitzpatrick, chief executive, Ovo Energy, welcomes political intervention in the energy market – read more on p22



"The future of energy is not about the plug in the wall, but about all of the additional things that come from it."

Jo Causon, chief executive at the Institute of Customer Service on one of the solutions – read more on p24



"Consumers' trust in the sector is also diminishing..."

Alex Neill, managing director of home products and services, Which? – read her column on p23



"It's all to do with communication and providing a consistently good service"

Chris Lloyd, senior vice president, energy and utilities, UK and Europe, WNS, on what suppliers can do to try and regain trust – Q&A on p25

The Customer Trust Council

Utility Week, in association with WNS, is launching the Customer Trust Council to look at practical ways the industry can rebuild trust with the public.

There will be monthly updates on the council's activity in **Utility Week** and on utilityweek.co.uk

The first Council meeting takes place in London on 31 May. Attendance is by invitation only, so please email ellen.bennett@fav-house.com if you would like to know more.

The heart of the problem

A poor track record on mis-selling and customer service has been exacerbated by political cynicism to convince the general public that 'something must be done'.

As the UK prepares for June's snap election, energy prices have returned to the top of the political agenda. Prime minister Theresa May has followed the example of Labour leader Ed Miliband in 2013 by promising to impose a price cap on energy suppliers if elected. Today's Labour party has gone even further, with talk of renationalisation of the energy and water sectors. But what is it that makes energy prices play so well as a political issue? The answer is trust – or rather, the public's lack of trust in energy companies.

The problem of broken trust is well documented. Energy suppliers come 12th out of 13 on the Institute of Customer Service's trust index – beating only the telecoms and media sector. What is less well understood are the reasons behind it. Energy suppliers have made mistakes, with mis-selling and poor customer service tainting their reputation. But the biggest challenge to trust is the rising cost of energy, which the public sees as profiteering – a perception politicians are only too willing to exploit.

Mis-selling scandals have dealt a major



Price caps are "the wrong answer"

SCOTTISH POWER CHIEF CORPORATE OFFICE KEITH ANDERSON



Plans for intervention are "nonsense"

FORMER ENERGY SECRETARY AND LIB DEM CANDIDATE ED DAVEY



"The SVT cap will not harm consumers or competition"

OVO FOUNDER AND CHIEF EXECUTIVE STEPHEN FITZPATRICK

blow to the industry's reputation, and most of the major players have been hit with multi-million pound fines for doorstep selling and other aggressive tactics.

Poor customer service, especially around billing, has also blighted the industry, in particular the big suppliers. Npower's tale is fairly typical. In 2011 it implemented a new billing system, which led to more than 500,000 bills being sent out late and more than two million complaints, which often were not dealt with promptly. As a result, at the end of 2015 Ofgem ordered the company to pay £26 million in consumer redress.

Even more damaging than tales of mis-selling and poor customer service are those ever rising energy bills (see Rising bills, below). Every year brings a fresh round of price rises, with accompanying "fat cat" headlines and politicians throwing their hands up in horror. Even the regulator, this year, stepped in, when Ofgem chief executive Dermot Nolan warned suppliers he would view price rises "very poorly" if they weren't based on rising costs.

But behind the headlines, the truth is more complicated. Energy prices, while they have increased over the past decade, have largely followed wholesale prices. Coupled with this, the impact of environmental and social tariffs on the end bill has also increased, growing from 4 per cent in 2010/11 to 11 per cent by 2016/17.

Whatever the reasons for rising energy prices, politicians are not interested in a debate. They see the public's ire as a way to win votes. Prime minister Theresa May and the Conservatives earmarked action on the energy companies as far back as March when she promised a "crack down" on bills.

The proposed solution is for a price cap "to protect those who are paying an unfair amount" and to protect loyal customers – or those remaining on standard variable tariffs having failed to switch. Details of the Tory cap are scarce, although energy secretary Greg Clark has stated that the plan will be similar to the Competition and Markets Authority's (CMA's) recommended cap on prepayment meters.

and 86.57p/therm respectively, before falling to the current levels of £53.37/MWh and 53.39p/therm.

The long-term outlook is for these prices to gradually increase as UK capacity – both in terms of electricity generation and gas from the UK Continental Shelf – declines. Older forms of electricity generation, such as coal, are being phased off the system, while more expensive and variable sources – such as wind and solar – are replacing

it. In the wholesale gas market, the UK is becoming more susceptible to global prices, which remain volatile, and faces competition from other markets for the available supplies.

The "central" price assumptions from the department for Business, Energy and Industry Strategy predict the cost of gas will increase to 62p/therm by 2030, while electricity is also expected to increase, potentially by up to a third compared with 2013 levels.

RISE IN BILLS

IT'S ALL ABOUT THE MONEY



Energy bills have been rising. In 2009, the typical annual dual fuel bill for a big six customer was £1,095. This had shot up to £1,286 by 2013, although it has dipped slightly since then to £1,165 a year.

This movement in the average bill reflects the movement in the wholesale price of electricity and gas. At the middle of 2010 these were £42.18/MWh for electricity and 42.15p/therm for gas. These prices peaked in March 2013 at £62.9/MWh

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A former senior Conservative MP told *Utility Week* the main aim of the cap is not to provide immediate billing relief to customers but to allow for reforms of the market and for suppliers to drastically improve their customer service, "kick-starting competition" once the temporary cap has been lifted.

Labour is planning deeper intervention in the market, should leader Jeremy Corbyn triumph on 8 June. There are plans to introduce a £1,000 "emergency price cap" alongside wider reforms such as renationalising water companies, transmission and distribution companies and developing state-owned regional energy suppliers.

Former energy secretary and Lib Dem candidate Ed Davey slammed the plans for intervention as "nonsense" and anti-competitive, adding that a cap would see prices being pushed up. He says the best solution is to continue to develop the competitive energy retail market, which now features more than 50 suppliers, and that this will see customer service levels increase and prices fall in the long run.

The industry has largely come out against the proposed price caps. Scottish Power chief corporate office Keith Anderson calls the move "the wrong answer"; SSE called on the next government to follow the CMA remedies and not act on "superficial analysis"; while Centrica said the move would lead to "reduced competition and choice, and potentially higher average prices".

One senior figure at a major energy supplier told *Utility Week* a price cap would be introduced just as competition and innovation in the market is beginning to take off, and it would "set the sector back at least five years".

But not all suppliers are fearful of government intervention. Peter Haigh, chief executive of Bristol Energy, told *Utility Week* that in the build up to the election with energy grabbing the headlines, "that actually encourages people to switch as it's front of mind". As for the potential of the cap, he says that his business is "well placed" to ride out any interventions.

Ovo Energy has been a vocal supporter of the proposed intervention by the two big political parties, saying it will offer customers a "safety net". Founder and chief executive Stephen Fitzpatrick said: "The standard variable tariff cap will not harm consumers or competition, but will act as a catalyst for innovation and efficiency among suppliers."

What the price cap won't do is help rebuild the relationship between the energy industry and its customers. For that, more complex, thoughtful, and long-term solutions will be required.

The percentage of the average bill that goes to finance environmental and social initiatives has increased from 4 per cent in 2010/11 to 11 per cent by 2016/17.



"This should not be a one-sided affair. Industry too must play its part."



With speculation about future government intervention and price caps rife in the run-up to the general election, the broken energy market is something that is never out of the news. After the competition regulator's lengthy investigation highlighted the problems consumers face in this market, it's no surprise that trust remains low.

Two-thirds (66 per cent) of people that we spoke to told us they are worried about energy prices – that's more than at the same time last year (61 per cent). Consumers' trust in the sector is also diminishing with more than a third (36 per cent) of people saying they simply do not trust energy companies, compared with a lower figure (32 per cent) last year.

This disconnect between energy companies and their customers is further underlined when we see reports in the media of suppliers bumping up their prices – often hitting the most hard-pressed families. People whose fixed deals are coming to an end this month and next could be faced with inflation-busting price hikes of up to £400 a year for dual fuel if they don't shop around and switch. Ofgem is trialling ways to reach disengaged customers to encourage them to switch suppliers, but there is more that energy companies could do it the meantime.

Just over half (51 per cent) of people told us energy prices remain a concern for them and their families and that they must be a top priority for the next government. Which? wants to

see a clear position on energy market competition, with the next government making sure that any intervention in the market is tested, does not lead to price reductions overnight but higher prices longer-term, does not stifle innovation or remove the incentives for providers to improve. Any intervention in the energy market must be time limited.

But this should not be a one-sided affair. Industry too must play its part. Smart meters can be beneficial in engaging customers with their energy use, but the roll out of SMETS2 smart meters has already been delayed a number of times. With some suppliers not yet rolling them out at all, the 2020 deadline looks under threat.

If the rollout is delayed, there's a danger that much-needed innovation will remain in the distance, further harming trust in the industry. Energy providers must now take the lead and help bring about change that can have an immediate and beneficial impact on consumers.

Which? will continue to campaign for fairer energy prices and press for a competitive energy market that works for everyone. We will be keeping a watchful eye on energy companies and the next government's plans for improving the market. By working with the industry, government and the regulator, we'll be pushing to ensure trust is restored and the market is a truly competitive one that works for the benefit of all consumers. **Alex Neill, managing director of home products and services, Which?**

Regaining the initiative

Price is just one factor in the customer experience. A bigger one is customer service, and here the energy industry's hopes rest on the new age heralded by the smart meter rollout.

While politicians seek to capitalise on the public's broken trust with energy suppliers, the industry itself faces the much harder challenge of rebuilding the relationship. But with little prospect of lower bills, can companies ever win back the hearts and minds of customers?

There are several routes to rebuilding trust. There's the old-fashioned approach of good customer service and communication, which is already showing benefits for some suppliers. Then there are the remedies set out by the Competition and Markets Authority (CMA) which, though dismissed by politicians, were designed to restore customer faith. Finally, there's the arrival of new technologies such as smart meters, which have the potential to transform the way customers view energy and interact with suppliers.

First up, customer service. Institute of Customer Service (ICS) chief executive Jo Causon tells *Utility Week* that customer service and "getting the basics right" are the most important elements in regaining customer trust.



"Price is not the most important thing."

JO CAUSON, CHIEF EXECUTIVE, INSTITUTE OF CUSTOMER SERVICE



Suppliers must "sell the benefits of smart meters".

PETER HAIGH, CHIEF EXECUTIVE OF BRISTOL ENERGY

"We do get a bit fixated as a nation about the importance of price. All my evidence shows price is not the most important thing from a customer point of view. It's not all about price," says Causon. "It's actually about the service experience and what I would be encouraging organisations and regulators to continue to think about is that, and not just price."

Eon and British Gas are among those

who have taken on board these lessons from other sectors and have tried to adapt accordingly (see Case Studies, below).

Eon's reset programme saw the company overhaul its customer service regime and empower its frontline staff to "do the right thing".

British Gas, meanwhile, has just introduced a loyalty scheme whereby it is offering its customers – new and old – rewards, which include a Hive smart thermostat.

So much for the industry's own initiatives. Energy suppliers have also been handed a to-do list by the CMA following its two-year investigation into the sector.

Ofgem is now engaged in programmes to trial and implement a number of these remedies, some of which have already benefitted customers, including a price cap for customers on prepayment meters and the removal of a number of barriers to switching.

Away from the regulator's actions, the development and deployment of new technology is perhaps the most promising route to rebuilding trust. Smart meters could change the public's perception of energy, its value, and their own role in managing their consumption and keeping costs down.

Eon has already begun offering additional services to its smart meter customers, such as a smart phone app. It is being offered to some customers instead of a physical in-home smart energy display when they have a smart meter installed.

Chris Lovatt, director of residential operations at Eon, said: "Through innovative solutions like Eon See, we're making it even easier for our customers to benefit from complete clarity about their energy habits by providing detailed, personalised insights through a convenient and easy-to-use app."

The ICS's Causon states that data from smart meters is a valuable asset for suppliers, and their use of it is one way in which trust can be earned.

"The future of energy is not about the plug in the wall, but about all of the additional things that come from it." She gives the example of an additional service where if the normal behaviour pattern of an elderly

relative changes and is detected through the smart meter data, an alert is sent out.

The experience to date of those customers who have had smart meters installed reflects the sector's optimism.

Despite some functionality problems, such as SSE's issues with its in-home display showing customers consumption of up to £44,000 per day (affected customers were quickly notified and billed correctly) and some switching issues, trust levels and customer service experience for smart meter customers have increased.

Research carried out by YouGov shows these positive experiences are improving customer perceptions of their energy suppliers, with the proportion of consumers that considered energy suppliers to be "reliable" increasing from 26 to 29 per cent, coinciding with the proportion of homes with smart meters growing from 8 per cent to 16 per cent.

All that being said, the rollout is not without complications. With trust levels as low as they are across the sector, there are fears that the public could refuse to engage – which would be a fatal blow, because individual customers must agree to having a smart meter installed.

So far five million of the first generation smart meters (SMETS1) have been rolled out. There have been relatively few issues getting into properties, but that could be because the meters have largely gone to "early adopters" who are enthusiastic about the technology.

Only now, warns Peter Haigh, chief executive of Bristol Energy, could there be issues of meter installers being refused access to properties. "It's beholden on the supplier to sell the benefits to their customers and they need to be convinced, otherwise they will decide it's not for them."

A further challenge the rollout has created for retailers is that of multiple visits. The government predicted that 5 per cent of properties would require more than one visit to get a smart meter installed. However, an exclusive study undertaken by Harris Interactive for *Utility Week* revealed that 13 per cent of properties have needed multiple visits to date. This not only slows down the rollout but also tarnishes the experience for the customer.

Nevertheless, the industry remains optimistic about the smart meter rollout's potential to improve customer relationships. And once smart meters are in place, a whole host of other options open up, such as demand-side response and time-of-use tariffs. This could create a conversation with customers that is much more constructive and nuanced than today's talk of price caps.

The smart meter rollout

Smart meters will allow suppliers to end estimated billing and offer a host of value-added services.

1. TIMETABLE The rollout is scheduled to be completed in 2020.

2. SCOPE All 26 million households in the UK should have a smart meter for electricity and another for gas, if connected to the mains network.

3. MULTIPLE VISITS The rollout has factored in that 5% of homes may need to be visited more than once, although early evidence on the ground suggests the true figure may be nearer 11%.

4. COVERAGE Householders have the right to refuse a smart meter, although there are no numbers yet to suggest what percentage this will be.



Q&A

Chris Lloyd, senior vice president, energy and utilities, UK and Europe, WNS



Poor customer service coupled with the perception of ever increasing energy bills and growing company profits have eaten away at trust in the sector, according to WNS senior vice president, energy and utilities, UK and Europe, Chris Lloyd.

Speaking to *Utility Week*, he says all parts of the industry need to work together to get the basics right and engage more with consumers to rebuild faith in the sector.

customers, or drive the energy companies to do so, the more it will rebuild trust. The energy companies know the regulator but the consumers don't so much. The regulator needs to step up, to promote things that are happening for consumers in the market – and they've got an opportunity to do so with smart meters. The uninformed are those with most distrust, and the regulator can assist with that.

Q: How has the political debate around energy affected trust?

A: With an election coming up, the energy sector was always going to get a kicking as the parties try to win votes. However, the promises of price caps or wider intervention will have a huge impact on the way the sector is run, and drive energy companies to reduce their cost to serve. This could lead to more distrust as energy companies take their eye off rebuilding trust and have it on reducing their cost to serve. Politicians should be supportive of measures to gain trust instead of using the energy sector as a political football to gain votes.

Q: Why is there a lack of trust?

A: One of the main problems is the perceived levels of profit. A lot of energy users see large figures being bandied around the profits companies are making, and this comes as consumers are seeing their bills rise. That harms trust levels.

On top of this there is the poor level of customer service. There is the feeling that the whole market is broken and nothing is working.

Q: What can suppliers do to rebuild trust?

It's all to do with communication and providing a consistently good service. It doesn't have to be outstanding or excellent, as that costs a lot of money to provide and that's not what people want. They just want a consistent service that works.

The suppliers also need to offer clear and simple tariffs, which can be compared between companies, because being unable to compare deals leads to confusion, and ultimately a lack of trust. On top of this, more communication with consumers would help bust some of the myths about energy providers and increase levels of trust.

Q: What can the regulator do to increase trust?

A: The more a regulator can engage with uninformed

Q: Why is WNS getting involved with the Customer Trust Council, and what do you hope it will achieve?

A: As a sector, utilities are looking to gain trust and improve customer service. WNS has wide experience in other sectors and in the utilities space globally and feel we can use our experience as part of the Council to help achieve this. We would like the Council to help the sector to get away from the bottom of the customer service satisfaction table, and for net promoter scores across the sector to increase. These are good indications of things improving and that stability, and trust in the sector, is growing.

CASE STUDIES REBUILDING TRUST

Eon UK's Reset Review

Eon UK's Reset Review was launched in January 2012 as a response to poor customer service ratings and a strained relationship with consumers.

The overhaul saw the company stop doorstep selling, supporting those who need help the most, including older people or those who struggle to pay their bills, empowering frontline staff to "do the right thing" to help consumers.

This has seen

net promoter scores increase by 11 points from the 2012 low of -25, as well as the retailer climb customer satisfaction rankings to be rated the third highest in the sector and the best of the major suppliers by Uswitch.

British Gas' loyalty scheme

This was announced in February and only went live in April, so the impact of the programme is yet to be felt.

The £100 million reward programme, British Gas Rewards,

allows customers to select the benefits they want, from a selection ranging from discounted energy through to home and entertainment offers. The deals are open to all British Gas energy and services customers.

Centrica Consumer chief executive Mark Hodges said: "In the competitive services and energy markets where consumers have many choices, we know we have to work hard to win new business and keep loyal customer happy."