



CONSUMER STUDY ON “PRE-CONTRACTUAL INFORMATION AND BILLING IN THE ENERGY MARKET – IMPROVED CLARITY AND COMPARABILITY”

Executive Summary

27 June 2018

1) Objectives, scope and main tasks

On 30 November 2016, the European Commission (EC) presented the Energy Union’s “Clean energy for all Europeans” legislative package. One of the main goals of this package is to provide a fair deal for consumers. By providing a fair deal for consumers, the EC wants to make sure that every European has more possibilities to engage in the energy market and is more in control of their energy costs. It is also central to this goal that consumers can trust the energy policies and services.

In November 2016, Ipsos, London Economics and Deloitte were commissioned to conduct a consumer market study on pre-contractual information and billing in the energy market, in order to:

- Investigate possible **minimum requirements** and **options for standardisation of pre-contractual information (offers) and bills** that could ensure increased clarity, comparability and transparency of contractual conditions, energy prices and consumption information.
- Put forward **better alternatives for “bill design”** that prominently display key information elements, by identifying and testing through behavioural experiments different ways of presenting bill formats that contribute to increased clarity and comparability.
- Examine whether **exit fees**, and their interplay with behavioural biases, discourage energy consumers from switching, and the extent to which these play a role in their decisions.
- Examine potential problems with price comparison tools (**PCTs**) **in the energy sector**, identify (independent) verification schemes where they exist, and make recommendations for certification requirements that ensure a high level of transparency and quality of the information provided.

Between December 2016 and March 2018, several tasks were carried out:

- Overall analysis of national policies and practices related to pre-contractual information and billing, requirements on switching and exit fees, and certification schemes for PCTs in the energy sector.
- Analysis of a sample of energy bills in order to assess typical elements included in the bills and to verify whether information on fuel sources, and on switching and exit fees is clearly presented.
- A mapping of the number of energy PCTs across the EU28, Iceland and Norway and an in-depth review of a sample of 85 PCTs.
- Consultations with national stakeholders (e.g. energy regulators and managers of PCTs).
- A consumer survey in the 28 EU Member States, Norway and Iceland, targeting energy consumers.¹ In total, 20,244 interviews were carried out via an online methodology.²
- An online behavioural experiment, conducted in conjunction with the consumer survey, in France, Germany, Greece, the Netherlands, Poland, Romania, Slovenia, Spain, Sweden and the UK, and a laboratory experiment and focus groups in Germany and Slovenia. In total, 10,134 respondents participated in the online experiment and 240 in the laboratory experiment and focus groups.

¹ Energy consumer: consumers who are (jointly) responsible for paying the energy bills in their household. Note: consumers who did not receive energy bills, e.g. because energy costs are included in the rent, were excluded.

² In Cyprus, the survey was conducted using a computer aided telephone interviewing (CATI) method.

2) Comparability of energy offers

The Consumer Rights Directive 2011/83/EU requires energy suppliers to provide customers with pre-contractual information in a clear and comprehensible manner. Despite this Directive being implemented in most Member States, and even stricter regulatory requirements being in place in some countries, consumers are facing difficulties in comparing gas and electricity offers.

- Across the EU28, 46% of energy consumers surveyed had looked for, or received, offers from energy suppliers in the 12 months preceding the interview; this figure showed a large variation across countries – from 8% in Iceland, 14% in Luxembourg and Lithuania to 63% in Portugal.
- 38% of survey respondents who had received or had looked for energy offers answered that it had been **very or rather difficult to compare the main features of the offer** and 41% said the same about the **conditions for terminating the contract**. Payment options, contract duration and the total price of the offer were considered easier to compare.
- The largest share (48%) of survey respondents who had switched suppliers in the past 12 months had found out about alternative offers via a PCT. Door-to-door and other uninvited sales channels remain important in certain countries (such as Italy and Portugal).
- **Survey respondents who had used PCTs to look for alternative deals were most likely to reply that comparing energy offers had been easy**, while respondents who had received offers via door-to-door and other uninvited sales channels were less likely to describe comparisons as easy (e.g. 41% of respondents who had used a PCT to look for alternative deals replied that it had been “very easy” to compare contract duration of the offers, compared to just 23% for those who had received offers through a phone call from a salesperson).
- When survey respondents were presented with a list of **policy options that could be implemented to increase the comparability of offers** and make it easier for consumers to calculate savings, a slight preference was observed for increasing comparability by **presenting total price and main features of all offers in the same way**. In the consumer focus groups conducted in Germany and Slovenia, participants stressed that energy suppliers should present offers in the same standardised way, following the same structure and listing the same characteristics, preferably in a table format. In addition, consumers with less digital experience may find it helpful for the language on PCTs to be standardised with respect to energy bills.

3) PCTs in the energy market

In its Staff Working Document evaluating the EU Framework for Metering and Billing of Energy Consumption³, the EC observed that, at the time of drafting the Second and Third energy packages, consumer bills and pre-contractual information formed the basis of consumer comparability. However, since then, the use of PCTs has risen significantly across the EU.

- Consumers in 26 out of the 30 countries covered in this study have access to at least one PCT to compare electricity and/or gas offers. Only in Bulgaria, Cyprus, Hungary and Malta, consumers do not appear to have access to a PCT for energy offers. On average, five PCTs for energy were found per country; the highest number of PCTs that compare energy offers was observed in the Netherlands (25 PCTs).
- In 17 countries, consumers have access to a **publicly owned PCT** (i.e. owned and ran by the national energy regulator, an ombudsman or a consumer organisation). Overall, publicly owned PCTs represent only 11% of the total number of PCTs identified in this study. Among the **privately owned PCTs** (164), the number of **certified PCTs** (18) is much lower than the number of non-certified ones (146). Certified PCTs are found in Belgium, Ireland and the UK.
- Across the EU28, **37% of survey respondents had used an energy PCT once or more in the past 12 months**. In countries, such as Belgium, Germany and the UK, roughly one in two respondents had used energy PCTs in the past 12 months; this proportion drops to less than one in four in countries such as Luxembourg, Lithuania, Denmark and France.

Considering PCTs play a key role, it is essential that consumers receive clear and independent information via these tools. Therefore, regardless of who is running the PCT, it must be ensured that the information consumers get is impartial, up to date and accurate, and is provided in a user-friendly

³ Available at: https://ec.europa.eu/energy/sites/ener/files/documents/mdi_impact_assessment_main_report_for_publication.pdf

way and free-of-charge. The Commission included provisions in the new proposed Electricity Directive⁴ regarding PCTs aiming at ensuring that all EU consumers get free-of-charge access to at least one certified PCT that meets specific certification criteria.

- A sample of 85 PCTs was analysed, and **a low level of business model transparency** was observed for more than half of these PCTs; for example, information on market coverage was found on 43 PCTs and just 23 PCTs displayed information about the frequency for updating offers.
- The highest number of energy PCTs was observed in the **Netherlands** (25 PCTs); this country, however, also has one of the highest proportions (26%) of survey respondents who replied that they had not used PCTs in the past 12 months **because they do not trust them and think they are not independent and impartial**. In **France, the Czech Republic and Germany**, a similar proportion was observed (between 25% and 28%).
- Among **PCT users** in the consumer survey, 74% were at least ***rather satisfied with accuracy of the PCT and ease of comparing offers***, and 79% said the same about coverage of suppliers and offers. Just one in four respondents, however, said to be *very satisfied* with these aspects.
- 59% of survey respondents agreed that they would have **a lot more trust in PCTs if it is ensured that all information on prices is accurate and up-to-date**. Consumers also valued the **use of plain and unambiguous language and user-friendliness**. However, just 34% of respondents replied that accreditation by the national energy regulator or an independent body would increase trust in a PCT.
- Various studies suggest that accredited PCTs perform better on some criteria (e.g. user-friendliness, price clarity and consumer understanding). This study identified three accreditation schemes for PCTs (in Belgium, Ireland and the UK). The Council of European Energy Regulators (CEER) has formulated 'Guidelines of Good Practice on Price Comparison Tools'. Although survey respondents were unlikely to state that accreditation would increase trust in PCTs, they did attach high value to the certification requirements set in each of the aforementioned schemes and guidelines.

4) Switching and exit fees

The impact assessment accompanying the proposal for the revised Electricity Directive reports that "switching-related fees such as contract termination charges continue to constitute a significant financial barrier to consumer engagement."

- Across the EU28, 14% of survey respondents in the consumer survey had switched gas and/or electricity suppliers in the past 12 months. The highest switching rates were observed in Germany, Finland, Belgium and the UK (between 20% and 28%); in countries, such as Bulgaria and Lithuania, less than 1 in 20 respondents had switched suppliers in the past 12 months.
- **A low awareness of exit fees was observed across countries**, even among respondents who had switched suppliers in the past 12 months. Among the latter type of respondents, 30% "did not know" whether they would be charged an exit or contract termination fee if they had switched suppliers at the time of the survey.
- There is **a large variation across Member States in the prevalence of exit and termination fees**. In the UK, the Netherlands and Greece, between 25% and 28% of survey respondents said that they would be charged an exit or contract termination fee if they had switched suppliers at the time of the survey.
- Although there was a low awareness of whether exit or termination fees apply, this type of fees does play a role in consumers' decision making. When asked which factors would influence their choice of an alternative supplier, 52% of survey respondents in the EU28 replied that it would be **very important that the supplier does not apply exit or termination fees**. In consumers' decision making when switching suppliers, the absence of exit or termination fees was considered as important as the quality of services offered by suppliers, and was rated more important than the suppliers' green credentials.
- Participants in the behavioural experiment were statistically significantly more likely to switch at higher levels of monthly savings, relative to the original deal, and they were statistically significantly more likely to indicate that they were willing to switch at low levels of exit fees compared to high

⁴ Proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity (recast). COM/2016/0864 final/2 - 2016/0380 (COD)

exit fees. The results of the **behavioural experiment suggest that consumers may be dissuaded from switching if they need to pay exit fees, even if they can make savings that outweigh the exit fees by switching.** This finding was also confirmed by the consumer survey, where 35% of respondents who replied that they would need to pay an exit or termination fee, explained that they would not switch until their contract terminates.

- Consumers may be **more willing to switch if they receive clear information about switching benefits**, even at high levels of exit fees or lower monthly savings. 63% of behavioural experiment participants who were informed of the benefits of switching indicated that they would switch, compared to just 55% of participants who were not informed about the benefits (statistically significant at 99%).

5) Energy billing

The proposal for the revised Electricity Directive⁵ contains a specific annex (Annex II) on minimum requirements for billing and billing information. Energy bills can enable consumers to assess their energy consumption and make choices that can further affect their budget and the environment.

Bill characteristics

- **Monthly billing** was the most commonly used frequency in half of the countries surveyed. In France, Austria, the Netherlands, the Czech Republic and Germany, the largest share of energy consumers surveyed received their energy bill only once a year (from 39% in France to 72% in Germany).
- 46% of survey respondents received (only) a paper energy bill and 48% received an electronic bill or e-bill (via email or online via the supplier's website); 6% received both a paper bill and an e-bill. **Bills sent by email** were the most common in Estonia (75%), the Netherlands and Portugal (both 60%), Latvia (58%) and Belgium (54%). One in two survey respondents in the UK managed their energy bills **online via their supplier's website**.
- **Automatic bill payment (or direct debit)** was the most dominant payment method in half of the countries surveyed; this is the case in 12 of the EU15 countries, but in just two of the EU13 countries.

Bill comprehension

- 34% of survey respondents in the EU28 replied that they usually needed one or two minutes to review their energy bill and 33% usually spent more than two minutes reviewing their bill. Across most countries, a sizable share of respondents did not review their energy bill or spent only a few seconds reviewing it; in Luxembourg and Iceland, this share is higher than 50%.
- The **main reasons why consumers did not spend more time reviewing their energy bill** is because they only needed to know how much they have to pay (48%) or because they used direct debit for bill payment (30%). It should, however, also be added that 14% of respondents did not review their energy bill because it was too difficult and 8% said that they could not find the information they needed. These latter reasons were more frequently mentioned by consumers in a more precarious financial situation.
- Across the EU28, 17% of survey respondents *strongly agreed*, and 42% *somewhat agreed*, that **energy bills were clear and easy to understand**; 37% tended to disagree with this statement. Similar results were observed for the statements that it was easy to find information in energy bills and that energy bills used plain and unambiguous language. No differences were observed between respondents answering questions about their gas, electricity or combined energy bill. Respondents in **Finland, Germany and Estonia** evaluated their energy bills most positively, while respondents in **Spain, Greece, Italy and Iceland** were the least positive in their evaluation.
- The behavioural experiment showed that participants were significantly more likely to report that the **'best practice' bill (with simple design, framing of key information and comparability box on page 1)** was easy to understand, compared to the 'current market practice' bill (based on examples of bills found in the desk based review). The higher subjective rating of the best practice bill was also reflected in participants' objective comprehension scores. The 'best practice' bill was structured in a way that aimed to assist participants to comprehend bill elements and find

⁵ Proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity (recast). COM/2016/0864 final/2 - 2016/0380 (COD)

information more easily. by presenting information in a clear and striking way, with a ‘comparability box’ helping participants to find information related to comparability or energy consumption.

- When survey respondents were presented with a list of policy options designed to improve the clarity of energy bills, the option that all suppliers would place relevant information on the first page of the energy bill was most frequently ranked as being the most efficient in making energy bills easier to understand.

Optimising consumer decision making via “bill design”

Bill content, bill presentation and terminology used are important in assisting consumers to select offers that best suit their needs. Research also shows that bill format and content can encourage behavioural change towards reduced consumption or choosing green energy offers. This study looked at ways to promote switching behaviour and stimulating behaviour change towards reduced energy consumption and choosing green energy offers.

- 17% of survey respondents across the EU28 had reviewed their energy bill to find information to compare prices and switch to a better offer, and 28% remembered having seen their switching or EAN (European Article Numbering) code in their energy bill. Across a sample of energy bills, however, few bills contained **information about switching procedures** and few countries have legislation in place requiring that this type of information is included in energy bills.
- In the focus groups in Germany and Slovenia, **comparison prompts (notifying customers if a cheaper tariff is available)** and **prompts notifying customers when their fixed term contract is about to expire** were evaluated positively, although no effect was observed from this type of prompts in the behavioural experiment.
- The behavioural experiment showed that **standardisation of language between PCTs and energy bills** could be important for vulnerable consumers with less experience using the internet.
- In the UK, the use of QR codes in energy bills was introduced in 2014. The **QR codes contain all the information needed to compare and switch energy suppliers**, and by scanning the code in a QR code app, PCTs provide consumers with an instant, customised energy comparison. The behavioural experiment simulated the greater ease of comparing alternative deals with QR codes by implementing a ‘real effort’ treatment, and participants were either assigned to a low effort treatment (simulating the lower search costs of a QR code app) or to a high effort task where participants needed to search for information in a mocked-up energy bill in order to compare deals. As a result, 58% of experiment participants in the low effort treatment chose the cheapest deal versus 41% of participants who had to carry out real effort to compare deals (statistically significant at 99%).
- 55% of survey respondents across the EU28 thought that a **comparison of their current energy use with that of the same time one year before** would “definitely help” them to better manage their energy use; 33% shared a similar view about a comparison of their energy use with that of other consumers.
- Although energy consumption location and frequency detail in the mocked-up energy bills in the behavioural experiment did not have a significant impact on comprehension, experiment participants were more likely to correctly identify energy consumption for the billing period if it was explicitly and saliently communicated to them.
- Participants in the focus groups in Germany and Slovenia did not find generic energy-saving tips useful. However, they were interested in receiving **information about energy use of each appliance** in their household.
- 35% of survey respondents replied that they would “definitely like” their energy bill to contain information about the **fuel mix of the electricity they use**. The focus groups, nonetheless, showed a lack of knowledge regarding how the different sources of energy impact the delivery to individual households, both in Germany and Slovenia. The behavioural experiment found that participants preferred fuel mix presentation with a salient aggregate renewables’ share, and were likelier to report an intention to find out their own fuel mix when renewables were presented simply and saliently.

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