Findings from 2009/2010 research on residential and business attitudes and experience of the electricity market across the island of Ireland

Prepared by The Research Perspective Ltd

On behalf of

Contents

1. Executive Summary

Conclusions are presented at a market sector level with SME and LEU conclusions combined within each market.

Republic of Ireland Residential Consumers

Switching: The level of switching has been rapid with the switching decision motivated by a desire to reduce bill size. However, switching activity is driven by media advertising rather than referral – suggesting a market where switching behaviours are not yet well established. There is a significant group of RoI residential consumers who have yet to switch; most of these consumers have not yet contacted alternative suppliers. This suggests that switching rates may slow as most domestic consumers who have considered switching have not taken action. While FEA (Free Electricity Allowance) recipients are less likely to switch, there is no evidence to suggest this is related to concerns about continuation of FEA payments or changes in payment methods when switching occurs.

- 26% of RoI residential consumers reported having switched and 17% reported considering switching over the last 12 months;
- 77% of switchers identified TV/radio/newspaper advertising as one of their top three sources of information, 47% identify direct contact from a supplier as one;
- Of the 17% who have considered switching, 82% have not made contact with another supplier;
- Saving money is the primary reason for switching (87% agree that this was a reason);
- Lower levels of switching amongst FEA consumers are primarily age related and not related to concerns about continuation or method of payments.

Experience of switching process and benefits delivered: There was a very high level of satisfaction with all aspects of the switching process and most RoI residential consumers with experience of switching believed that they had received the expected benefits.

- 97% of RoI residential switchers found the process easy;
- 78% of RoI residential switchers found the bill reduced by the amount they expected;
- 72% would consider switching again for a further 5% reduction; 90% for a further 10% reduction.

Level and quality of competition: A majority of respondents were able to name each of the three residential electricity suppliers, currently in the market, without prompting. Satisfaction with the existence and level of competition is reasonable. However, domestic consumers believe that prices remain higher than in other jurisdictions and that a high level of profit contributes to this.

- 69% of respondents spontaneously recalled Bord Gais as a supplier; 57% recalled Airtricity;
- 80% of residential consumers are satisfied that there is competition in the market place – 69% are happy with the current level of competition;
- Most residential consumers believe Irish electricity prices are higher than elsewhere with a significant proportion believing the prices are 'much more expensive' (45%);
- RoI residential consumers perceive a high level of profit in the pricing of electricity (21% of the total cost) – much greater than the supplier's costs (12% of the total cost).

Understanding of the PES role and Supply-Networks role difference: The different roles of the ESB businesses are not yet well established with confusion across most attributes of service. For some consumers, switching behaviour may be inhibited due to a concern about reliability of supply and repair service in the case of power failure.

- A significant minority of residential consumers believe that the electricity supplier is responsible for maintenance of the grid (25%) and for repairing power failures (28%).
- Among RoI residential consumers who had not changed supplier from ESB CS, 36% stated that concerns about whether another supplier will provide a reliable supply of electricity was a factor in their decision not to switch; 35% stated that concerns about whether another supplier would be as responsive in a power outage was a factor.

Interest in novel price and tariff options: RoI residential consumer attachment to a single annual price revision depends on the absence of a price premium for this structure. There is some interest in Time of Use tariffs. Dual fuel offerings (with a single bill for gas and electricity) are attractive when coupled with a 5% or higher saving.

- 54% of residential consumers believe that the annual price revision structure is acceptable. However, this falls to 0% when this structure is associated with a 2.5% price premium;
- 46% of residential consumers are interested in a time of use tariff (with the understanding that the price will be greater at peak times). However, this may reflect an optimistic interpretation of the impact on their bill.
- The provision of IHD's (In Home Devices) by a supplier would encourage switching (57% would be likely to switch for such a device). While, the actual level of switching would be much lower, this figure does reflect the interest in real time information;
- Interest in dual fuel offers is closely related to discounts. With no discount the level of interest is at 36%, increasing to 50% at 5% discount and 72% at 10% discount.

Northern Ireland Residential Consumers

Consumer attitudes towards lack of competition and the market: A majority of NI residential consumers believe that the lack of competition in the residential electricity market is related to 'institutional' reasons. A small minority believe that it is caused by structural reasons related to the market size. Domestic consumers believe that prices are higher than in other jurisdictions and a high level of profit contributes to this.

- 63% of NI residential consumers believe that the utility regulator has not encouraged competition to NIE Energy Supply;
- 20% believe that the NI market is too small to attract alternative suppliers;
- Domestic consumers perceive a high level of profit in the pricing of electricity (24%) – much greater than the supplier's costs (13%);
- Most domestic consumers believe NI electricity prices are higher than elsewhere with significant proportion believing the prices are 'much more expensive' (44%).

Expectations of future competition and interest in switching: A majority of NI residential consumers expect little or no competition within the next 2 years. However, a majority of NI residential consumers state an interest in switching when competition is available.

- 58% of NI residential consumers believe that there will be little or no competition in the next 2 years; 13% expect the market to be 'competitive' or 'very competitive';
- 36% state that they would be 'very interested' in switching immediately if competition were available; 24% state that they would be 'interested'.
- The interest in switching is driven by cost (89% state as a reason) with service also significant (54% state as a reason).

Understanding of the PES role and Supply-Networks role difference: The different roles of the NIE businesses are not well established with confusion across most attributes of service. This is expected in a pre-competitive market where the supply business is not differentiated in the consumer's mind. However, this issue will slow the rate of switching once competition enters the market.

- Many domestic consumers are not aware of NIE Energy Supply as a business name (57% are aware); most are not aware of NIE Transmission and Distribution (16% are aware)
- There is limited understanding of the responsibilities of NIE T&D and NIE Energy Supply.

Interest in novel price and tariff options: NI residential consumer attachment to a single annual price revision depends on the absence of a price premium for this structure. There is a lower level of interest in Time of Use tariffs. Dual fuel offerings (with single billing) are attractive to NI residential consumers when linked to a discount.

- 59% of NI residential consumers believe that the annual price revision is acceptable. However, this falls to 0% when this structure is associated with a 2.5% price premium
- 29% of residential consumers are interested in a time of use tariff (with the understanding that the price will be greater at peak times). However, this may reflect an optimistic interpretation of the impact on their bill.
- 41% are interested in the concept of a dual fuel offering. This increased to 77% if a 10% discount was available as part of the offering.

Republic of Ireland Business Consumers

Switching and switching patterns: The level and awareness of switching options suggests a good level of competition between suppliers and engagement among the business consumers in switching. Cost was the most common factor in the switching decisions. Good service provided by supplier was the most common reason for not switching among both SME's and LEU's.

- 40% of RoI SME's have switched and 20% have considered switching over the last 12 months. Competition between suppliers exists with businesses that switch typically considering more than 1 potential supplier.
- 34% of RoI LEU's have switched in the last 12 months and 35% have considered switching over the last 12 months. A high proportion of LEU's considered switching and made contact

with suppliers but did not complete the process (21% of all LEU's) suggesting established market review activity in many cases.

- On average, RoI SME's could spontaneously recall 3.2 suppliers. On average, RoI LEU's could spontaneously recall 2.8 suppliers. This suggests a reasonable knowledge of alternative suppliers.
- 89% of SME's and 90% of LEU's who had switched in the previous 12 months identified cost as a factor in the decision to switch. 51% of SME's and 55% of LEU's who did not switch identified good service provided by their current supplier as a reason for not switching.
- In RoI, SMEs and LEUs rely on similar sources for information on switching with the same top four selected: The internet is most commonly used (SME: 46%, LEU: 49%), followed by direct contact (SME: 51%, LEU: 47%), advertising (SME: 45%, LEU: 35%) and business associations or organisations (SME: 17%, LEU: 22%).

Experience of switching process and benefits delivered: A high degree of satisfaction was reported by RoI business consumers with all aspects of the switching process and delivery of expected benefits.

- For SME's switchers, 91% found the process easy and 71% state the bill reduction was as expected. 91% would consider switching again;
- For LEU's switchers, 92% are satisfied with the experience and 86% state the bill reduction was as expected. 91% would consider switching again;

Level and quality of competition: While the level of switching suggests good competition, satisfaction with the competition itself is low. RoI businesses believe that prices are higher than in other jurisdictions and a high level of profit contributes to this. Businesses believe that this puts their business at a competitive disadvantage to businesses in other countries. This suggests that there is an underlying pricing challenge for supplier: to better justify current pricing with the business consumers or to provide better pricing options.

- Among RoI SME's, 42% were satisfied with the level of competition and 44% were satisfied with the quality of competition;
- Among RoI LEU's, 32% were satisfied with the level of competition and 33% were satisfied with the quality of competition;
- SME's estimate the level of profit in the proving of electricity at 16% and while LEU's estimate it at 15%; suppliers costs are estimated at 13% by SME's and at 12% by LEU's;
- 73% of SME's and 82% of LEU's believe that Irish electricity prices are 'higher' than elsewhere - 41% of SME's and 59% of LEU's believe that the prices are 'much higher';
- 40% of SME's and 70% of LEU's believe higher prices put their business at a competitive disadvantage to businesses based in other countries.
- However, 66% of SMEs and 48% of LEUs do not review their electricity usage more often than once a year and 19% of SMEs never review usage.

Understanding of the PES role: The brand names and different roles of the ESB businesses are well established with the business consumer, reflecting a mature competitive market.

- 90% of SME's and 94% of LEU's are aware of ESB Customer Supply as a business name;
- SME's and LEU's understanding of the supply/networks role is good except for meter reading responsibility (57% of SME's/49% of LEU's believe supplier is responsible);
- 77% of RoI SME's knew that ESB Networks was responsible for repair of power failures ;
- 80% of RoI LEU's knew that ESB Networks was responsible for repair of power failures.

Interest in novel price and tariff options: RoI businesses are interested in more frequent price revisions, and would consider switching to suppliers who could provide additional information on usage (associated with Smart Meters) or dual fuel offerings (defined as including a single bill and when coupled with a discount).

- 41% of RoI SME's believe that annual price setting is the best match to their business needs;
- 43% of RoI LEU's believe that annual price setting is the best match to their business needs;
- Availability of real-time information on usage (such as available from Smart Meters) from a supplier would increase switching likelihood among business consumers to that supplier - 65% of business consumers who do not currently have automatically read meters expressed an interest in switching if an in-office-display was provided; 60% expressed an interest in switching if real-time online billing information was provided;
- 44% of RoI SME's who are also consumers of natural gas and 40% of RoI LEU's who are also consumers of natural gas expressed an interest in a dual fuel tariff. Offered in conjunction with a 10% discount, 63% of natural gas consuming SME's and 57% of natural gas consuming LEU's stated an interest in switching.

Northern Ireland Business Consumers

Switching and switching patterns: The level and awareness of switching options suggests competition is not strong with NI businesses less likely to switch than RoI businesses and much less aware of the available electricity suppliers. The low level of shopping around (considering multiple suppliers when considering switching) suggests a low level of engagement among the business consumers in the electricity supply market. Cost was the most common factor cited in the switching decision. Good service provided by supplier was the most commonly stated reason for not switching, among both SME's and LEU's.

- 20% of NI SME's have switched and 22% have considered switching over the last 12 months - where switching occurred 68% did not consider any other supplier;
- 16% of NI LEU's have switched and 35% have considered switching over the last 12 months - most LEU's (75%) who switched did not consider any other supplier;
- On average, NI SME's could spontaneously recall 1.9 suppliers. Among NIE ES's SME customers, the average recall was lower at 1.5 which means that in many cases no other supplier was recalled. On average, NI LEU's could spontaneously recall 2.4 suppliers. Among SME's, this suggests a poor knowledge of alternative suppliers;
- 89% of SME's and 88% of LEU's who had switched in the previous 12 months identified cost as a factor in the decision to switch. A total of 45% of SME's and 50% of LEU's who did not

switch identified good service provided by their current supplier as a reason for not switching.

Experience of switching process and benefits delivered: Among those businesses who have switched, there was a high degree of satisfaction with all aspects of the switching process. While a large majority of LEU businesses believed the benefits had been delivered, a significant minority of SME's did not agree that the expected savings were delivered.

- For NI SME businesses who have switched in the previous 12 months, 91% found the process easy and 69% stated that the bill reduction was as expected. 85% would consider switching again;
- For LEU SME businesses who have switched in the previous 12 months, 87% found the process easy and 81% stated that the bill reduction was as expected. 81% would consider switching again.

Level and quality of competition: Satisfaction with the level and quality of competition is low for both SME's and LEU's. NI businesses believe that prices are higher than in other jurisdictions and a high level of profit contributes to this. Businesses believe that this puts their business at a competitive disadvantage to businesses in other countries. Combined with the lack of knowledge of the available competition, this suggests a lack of engagement by business consumers and lack of effective communication among electricity suppliers in the NI business market.

- 18% of NI SME businesses were satisfied with the level of competition, 22% were satisfied with the quality of competition;
- 26% of NI LEU businesses were satisfied with the level of competition, 26% were satisfied with the quality of competition;
- Businesses perceive a high level of profit in the pricing of electricity (SME: 19%, LEU: 14%) – greater than the perceived level of supplier's costs, estimated at 14% by SME's and 15% by LEU's;
- 66% of SME's and 66% of LEU's believe that Irish electricity prices are higher than elsewhere - 39% of SME's and 32% of LEU's believe that the prices are much higher;
- 39% of SME's and 51% of LEU's believe higher prices put their business at a competitive disadvantage to businesses based in other countries.
- However, 68% of SMEs and 58% of LEUs do not review their electricity usage more often than once a year.

Understanding of the PES role and Supply-Networks role difference: The different roles of the NIE businesses are not well established among SME's and LEU's. This reflects the lower level of market awareness which may have a consequence of reducing or inhibiting levels of switching as some businesses are concerned about reliability of supply and speed of repair if they switch from NIE ES.

- 59% of NI SME's and 69% of NI LEU's are aware of NIE Energy Supply as a business name;
- 42%% of NI SME's knew that NIE Transmission and Distribution was responsible for repair of power failures, 31% stated NIE ES was responsible;
- 53% of NI LEU's knew that NIE Transmission and Distribution was responsible for repair of power failures, 29% stated NIE ES was responsible;

- Among NI business consumers who had not changed supplier in the last 12 months, 32% of SME's and 25% of LEU's stated that concerns about whether another supplier will provide a reliable supply of electricity was a factor in their decision not to switch; 30% of SME's and 23% of LEU's stated that concerns about whether another supplier would be as responsive in a power outage was a factor.

Interest in novel price and tariff options: NI businesses are interested in more frequent price revisions, and would consider switching to suppliers who could provide additional information on usage (associated with Smart Meters) or dual fuel offerings (defined as including a single bill and when coupled with a discount).

- 43% of NI SME's believe that annual price setting is the best match to their business needs;
- 40% of NI LEU's believe that annual price setting is the best match to their business needs;
- Availability of real-time information on usage (such as that available from Smart Meters) from a supplier would increase likelihood of switching among business consumers to that supplier: 56% of business consumers who do not currently have automatically read meters expressed an interest in switching if an in-office-display was provided; 50% expressed an interest in switching if real-time online billing information was provided;
- 35% of NI SME's who consumers of natural gas are also, and 53% of NI LEU's who are consumers of natural gas also, expressed an interest in a dual fuel tariff. Offered in conjunction with a 10% discount, 64% of natural gas consuming SME's and 72% of natural gas consuming LEU's stated an interest in switching.

2. Research background

The research was completed between January and March 2010. The research was undertaken by The Research Perspective, a market and customer research company which specialises in utility and service industries. The Research Perspective has a reputation for delivering insightful research with strong statistical and market research expertise. In the energy sector, The Research Perspective is currently has also been engaged by Sustainable Energy Authority of Ireland (**SEAI**) to provide market research and experimental design capabilities to the National Smart Meter pilot in the Republic of Ireland.

Market background

The Single Electricity Market (**SEM**) came into effect on the 1st November 2007, introducing a single wholesale market for electricity on the island of Ireland. In recognition of the potential benefits of competition, in March 2007, The Commission for Energy Regulation (**CER**) and the Northern Ireland Authority for Utility Regulation (**NIAUR**) signed an addendum to the original 2004 MoU1, Section 6 of the SEM Memorandum of Understanding states that;-

"CER and NIAUR will apply a transparent, consistent and harmonised approach to the regulation of the wholesale and retail markets in a manner which supports effective competition and equal treatment of participants and customers regardless of their location. Such approach will encompass application of the same principles of regulation to:

a. ESBPG and PPB, including ring-fencing arrangements:
b. PES in both markets, including:
- *i. ring fencing arrangements;*
- *ii. tariff/revenue regulation;*
- *iii. economic purchase obligations;*
- *iv. the operation of PSO arrangements.*

c. and for all suppliers:
- *i. supplier switching arrangements/requirements;*
- *ii. codes of practice"*

Since the markets were fully opened in Northern Ireland (**NI**) and Republic of Ireland (**ROI**), competition has progressively developed in the industrial and high energy user sectors of the market and these customers are no longer subject to price regulation. In RoI, there is also competition in the small and medium sized enterprises (SME) sectors. In NI, while there is competition in the SME sectors, The Utility Regulator still regulates the tariffs of SMEs on the same fixed annual basis as for Domestic Customers. In February 2009 the CER welcomed the entry of Bord Gáis Energy Supply and Airtricity into the previously uncontested ROI domestic market, with approx 23% of domestic ROI customers having switched by Spring 2010. Domestic competition in NI is still to be developed.

Purpose of the research

The SEM Committee approved a proposal for the RA's to conduct market research on residential and business (SME & Large Electricity Users [1](**LEU**)) consumer attitudes and experiences of the electricity market across the island in both retail markets north and south.

The RAs see the potential benefits of retail competition to include competitive pressure on supply margins and operating costs; innovation in tariff design and wider electricity "product" offerings; and better ability of customers to reflect their own preferences in how they buy.

This research covered domestic and business (SME & LEU) customers and focused on determining the level, quality and benefits of competition in each sector and market as perceived by the consumer. The research included the following areas:

(i) Attitudes to supply services and general awareness of competition;

(ii) Switching and the experience of the switching process;

(iii) Consumer interest in variable tariffs including annual/bi-annual/quarterly tariff reviews;

(iv) Consumer interest in dual fuel and smart meters offerings in the context of switching.

Structure of the surveys

The objective of the research was to address the four identified areas of investigation across the three identified customer sectors (residential, SME and LEU) across the two jurisdictions in a manner which is sympathetic to the differences between sectors, differences across each jurisdiction but also allows conclusions to be drawn across both markets.

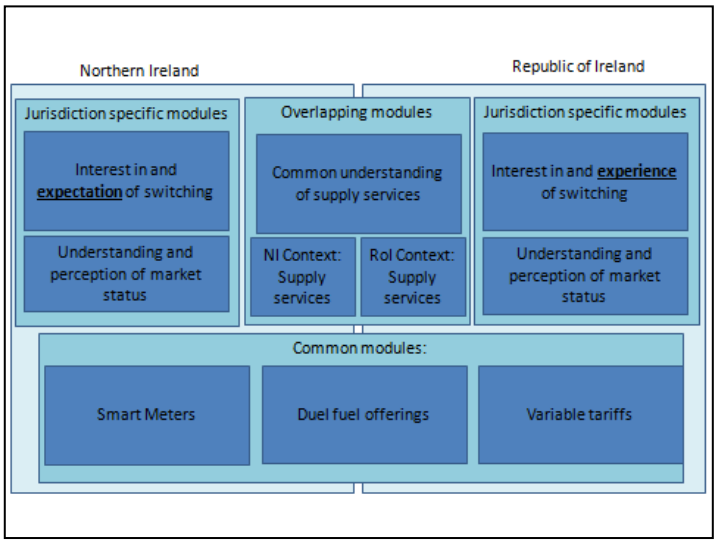

Figure 1: Structure of Residential Survey in NI and RoI

[1] For the purposes of this research, a large electricity user is defined as use of greater than 500 Mwh per annum. Respondents to business surveys were asked to verify their level of usage and this was validated against external sources to ensure correctness of allocation.

In order to achieve these objectives, the structure of the residential survey, shown in Figure 1, included:

1. Modules which are *common to both markets* (questions relating to potential variable tariffs, the impact of smart meters derived offers and dual fuel offerings on interest in switching),

2. Modules which are *specific to each market* but follow a similar structure and vary only in specific details such as the name of the PES, general awareness of the PES, the consumers understanding of the role of electricity suppliers compared to that of the transmission/distribution or generation businesses and perceptions of the PES brands and

3. Modules which are *distinct to each market* (The modules associated with actual competition and switching were asked of RoI residential consumers. NI residential consumers were asked about their perceptions of why there was no competition and their expectations of potential future competition).

A common survey for both SME and LEU surveys was developed with differences at a module level reflecting the common experience of the range of business consumers as well as ensuring full comparability of respondents across these surveys. The structure of this survey is shown in Figure 2. The market differences between Northern Ireland and Republic of Ireland relate only to the specific electricity suppliers and PES. Therefore, the combined business survey includes more common modules than the residential survey. The module assessing the level of interest in smart meter related offers is the only module which was not appropriate for all respondents as it was only applicable to those consumers who do not currently have meters which capture time-based usage (e.g. every 15 minutes) as the other business consumers can already avail of smart meter type benefits of increased usage information and time of use type tariffs.

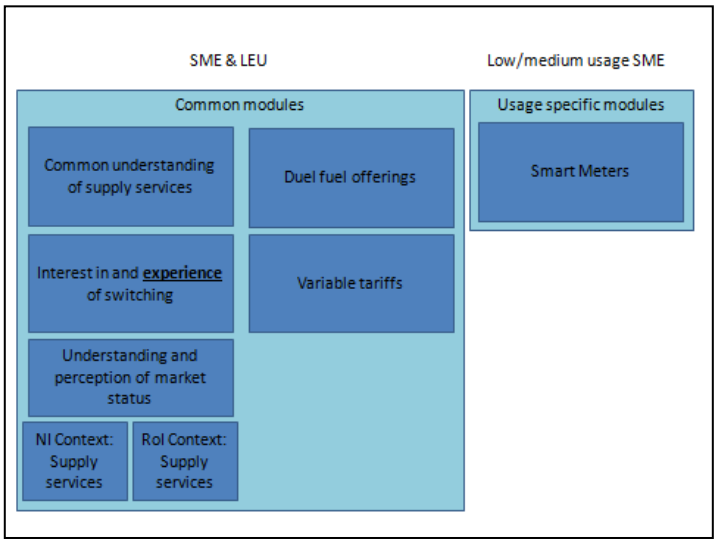

Figure 2: Structure of SME and LEU surveys in the NI and RoI

Data Collection Methodology

The data followed best practise methods and processes executed under internationally recognised quality standards. The data collection used a combination of quantitative data collection techniques: the residential surveys used face-to-face interviewing; the business surveys used CATI (computer assisted telephone interviewing).

The sample size for each survey is shown in Figure 3. The sample size was designed to ensure efficient representivity across sectors and markets while constrained in the case of the LEU sector in the NI market by the number of LEU's in that market.

Sample Size	Residential	SME	LEU
Republic of Ireland	780	400	150
Northern Ireland	750	400	100

Figure 3: Sample size for each sector and market survey

Business surveys

The business survey fieldwork was completed by Millward Brown Ulster using the Computer Assisted Telephone Interviewing (**CATI**) system in their facility which is both the ISO9001 standard and The Interviewer Quality Control scheme certified. In the context of this research, telephone interviewing was selected as it is both fast and accurate. Adopting the CATI system delivers significant additional quality control over the data and the "quality" of responses. Telephone interviewing is particularly appropriate for business respondents because calls can be easily scheduled for times when the respondent is available and flexible enough to allow rescheduling at short notice at the respondent's request

Residential surveys

The residential survey fieldwork was completed by Millward Brown Ulster and Millward Brown Ireland using face-to-face interviewing in the respondents home. The main benefit of face-to-face is the ability to show relevant information on cards (such a visual cues or reminders of advertising copy or brand logos). In the context of this survey, samples were used of in-home display (IHD) and bills showing real-time usage information associated with smart meter related offers.

Representivity of the survey

The face-to-face surveying methodology requires careful management to ensure representivity. This was achieved by selecting sufficient and representative sampling points. In the Republic of Ireland, the survey was conducted at 75 locations. In Northern Ireland, the survey was conducted at 55 locations. The locations were randomly selected based upon district electoral divisions (in ROI) and electoral wards (in NI). Within each sampling location, interviewers were set strict interlocking quota controls to achieve, calculated on age and class targets within gender. Overall, demographic quota controls were based upon the latest Census / Central Statistics Office population estimates

On the case of the business survey, the population from which respondents were randomly drawn was checked for representivity across sub-sectors and other demographic dimensions both during the survey and upon completion of the survey.

Finally, the respondent sets were checked for representivity across other market specific dimensions in the different markets and for both residential and business sectors such as use of different electricity suppliers or payment methods.

3. Attitudes to supply services and awareness of competition

Consumer awareness of and attributes towards Public Electricity Suppliers

A number of potential enablers or barriers to competition which relate to the PES were analysed:

- The position of the PES brand within the markets as measured by the association between the brand and service attributes such as value for money or reliability– this may positively or negatively impact on the level of competition in the market;
- The awareness of the separation of PES from transmission and distribution company. This assesses the degree to which the supply business is regarded as distinct from the other businesses in the public utility;
- The level of awareness of the roles of electricity supply companies *vis-a-vis* transmission/distribution businesses.

An examination of the combination of these three dimensions allows an assessment of the degree to which competition can be successful.

The PES brands

The position of the PES brand (ESB CS and NIE ES) within the markets may impact on the level of competition. For instance, the PES brand could be strongly associated with key aspects of the competitor's value propositions (such as value for money) and therefore hinder the successful development of competition suppliers.

For the residential sectors the PES's *parent* brands (ESB and NIE) were measured in preference to the specific PES brand (ESB CS and NIE ES), because residential consumers may be unaware of the PES brand distinction or confused by the PES name, using the PES parent brand is an effective proxy for an assessment of the PES brand. Within the context of the face-to-face interviews by presenting respondents with a list of terms that could be potentially associated with the PES in that market. Respondents were asked to select up to 3 terms which they most strongly associated with the PES without any constraint on the number of terms they wished to select. The same set of terms was also presented to business respondents. However, business respondents were unconstrained in the number of terms they could select - reflecting the methodological differences between the telephone based-interviewing used for the business sectors and the face-to-face interviewing used for the residential surveys.

The terms ***reliable***, ***efficient*** and ***monopoly*** were most commonly associated with NIE among NI residential consumers (shown in Figure 4). Note that this does not identify which aspects of NIE are associated with these terms. However, it should be noted that consumers typically associate 'reliable' with the provision of electricity supply. This will be further explored in the next section.

Conversely, ***Committed to renewable energy*** (associated with NIE by 6%)***, help customers to reduce their energy usage*** (associated with NIE by 5%)***, modern*** (associated with NIE by 9%) and ***value for money*** (associated with NIE by 7%) were least often associated. This suggests a brand image focused on the core provision of electricity and not yet focused on added value services which could

be associated with an electricity supplier. Similarly, the combination of the strong association with ***monopoly*** (at 35%) and low association with ***value for money*** (at 7%) suggests a residential consumer that the market is not delivering the benefits that they expect. It should also be noted that 8% of respondents did not associate any of the presented terms with NIE.

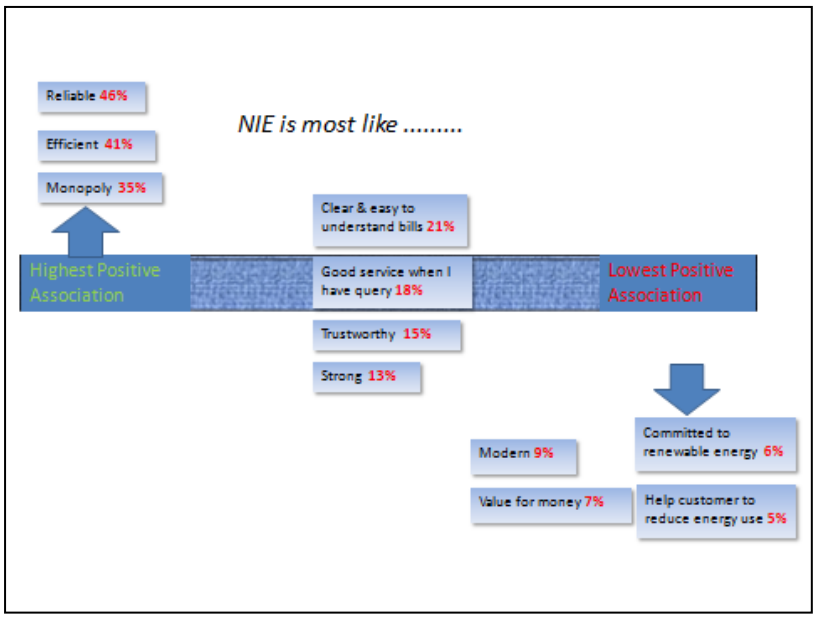

Figure 4: Percentage of NI consumers who selected each of the terms as one they most closely associated with NIE (max of 3 selected)

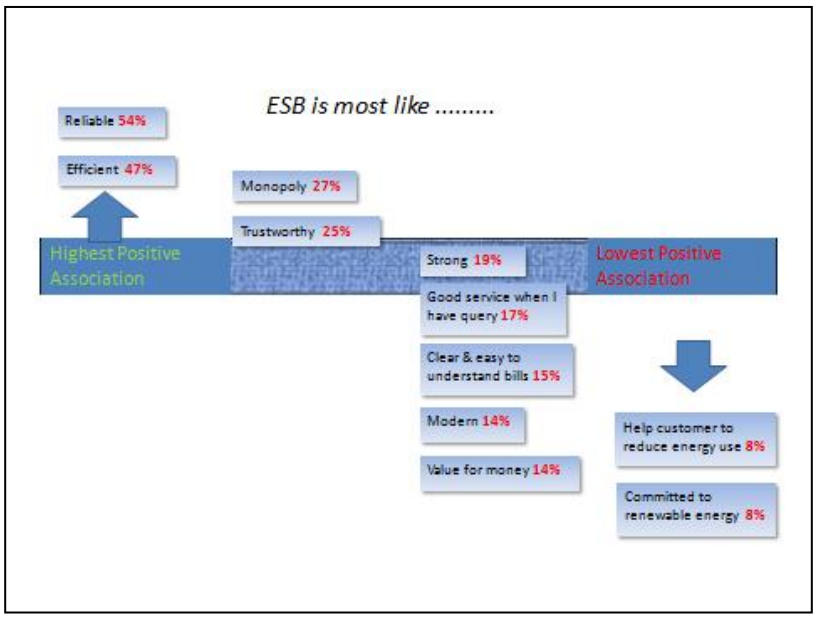

Figure 5: Percentage of RoI consumers who selected each of the terms as one they most closely associated with ESB (max of 3 selected)

Figure 5 shows the results of the same questions for the RoI residential survey and shows similar patterns. ***Reliable*** and ***efficient*** are also selected most often. ***Monopoly*** remains a commonly associated term (chosen by 27% of respondents) while progressive terms such as ***committed to***

renewable energy (8%), ***help customers reduce energy use*** (8%) are much less often chosen. ***Value for money*** has a low association at 14% - although higher than the equivalent figure for NI.

Awareness of business separation between PES and associated transmission/distribution business

The transition from sole provider to competitive environment involves the emergence of new distinct entities - Electricity Suppliers. In a pre-competitive market, the consumer does not distinguish between the entity which generates, transmits or supplies the electricity. In an early competitive market, the identity of the supplier as distinct from the entity responsible for transmission and distribution needs to emerge to encourage switching. As the market matures through competition or regulatory intervention, these identities should become distinct and well understood. Guidelines for this informational unbundling were set out in the ERREG *"Status Review on DSO unbundling with Reference to Guidelines of Good Practice on Functional and Informational Unbundling for Distribution System Operators"* (Ref: E09-URB-20-05).

This phenomenon can be measured in terms of awareness of the PES business name. Figure 6 on the next page clearly shows that in the competitive residential and business markets in Republic of Ireland, ESB Customer Supply is recognised by most consumers. In contrast, the level of knowledge of the PES is lower in the pre-competitive Northern Ireland residential market, as expected. However, it is also lower in the competitive SME and LEU markets in Northern Ireland and this is an indication of a lack of awareness among SME and LEU consumers of the market structures.

Role of Electricity Supply Company

While the establishment of the distinct PES brand name is one measure of maturity of competition in the market, of greater importance to the encouragement of competition is the correct assignment of roles. One of the inhibitors to switching is consumer perception that the switch will require physical disruption (changing of the physical distribution infrastructure) and risk of reduced reliability with the new service provider. This is of course not unique to electricity and is common across all utilities (such as water, natural gas or telecommunications). Specific to electricity supply, one potential area of concern for consumers considering switching is whether the electricity supply will remain reliable and whether outages will be repaired by their new supplier as effectively as the original supplier. This apprehension is based on a misunderstanding of the division of roles between electricity supply and networks businesses.

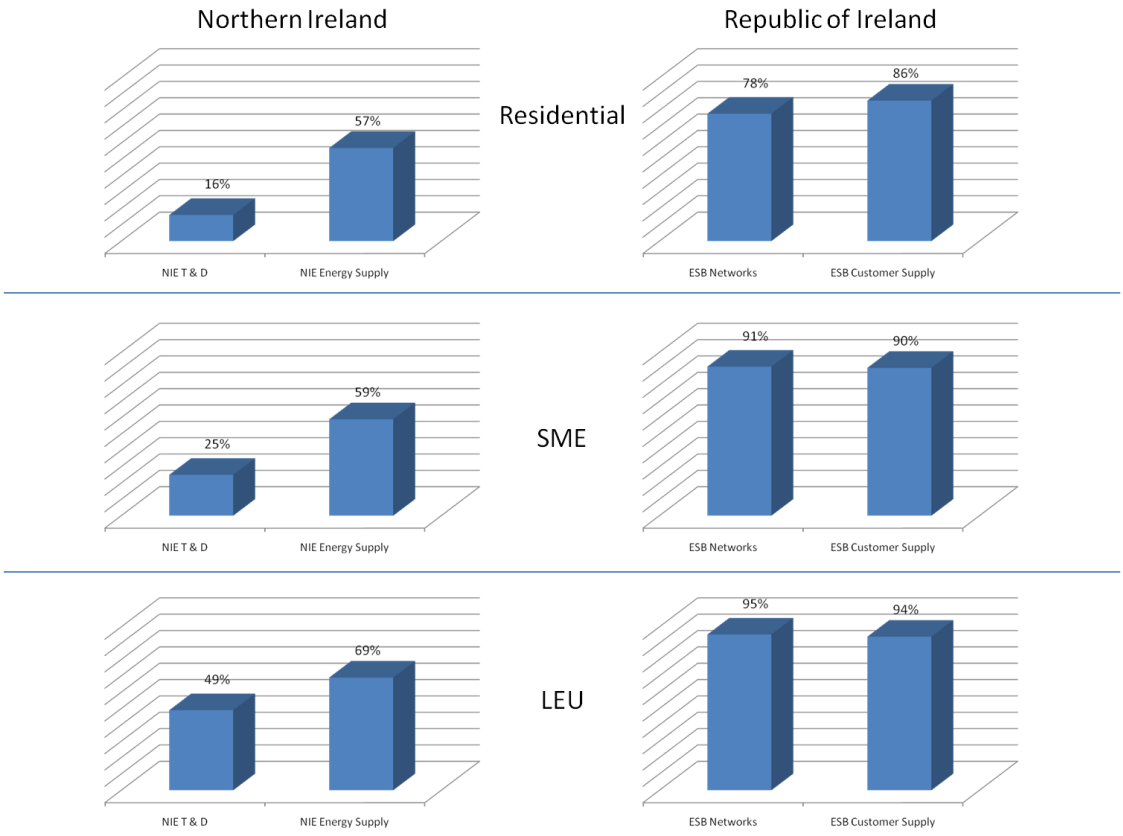

Figure 6: Awareness of the business names of the PES and distribution system operator by sector and market

To investigate the potential prevalence of this confusion among consumers, respondents were asked to assign responsibility for a range of roles to the transmission/distribution provider and their current supplier (always NIE Energy Supply in the context of Northern Ireland).

Figure 7 summarises the results for Residential customers.

Residential	Northern Ireland			Republic of Ireland		
Role	**NIE T & D**	**NIE ES**	**Don't know**	**ESB Networks**	**Current Supplier**	**Don't know**
Responsible for power failure repair	34%	42%	23%	56%	28%	15%
Maintenance of grid	37%	33%	28%	56%	25%	18%
Responsible for Meter Reading	11%	65%	23%	17%	64%	16%
Responsible for billing and payment	10%	66%	22%	10%	74%	14%

Figure 7: Residential knowledge of respective roles of supply and transmission/distribution businesses in RoI or NI

In the Northern Ireland market, there is a high level of *don't know,* which reflects the lack of differentiation between the different roles in a pre-competitive market. However, among respondents who did state a view there was a high-level of confusion in terms of the different roles. For the key roles of maintenance of the grid and responsibility for power failure repair, 42% and 33% respectively believed that NIE ES was responsible. As has been stated above, this is likely to act as an inhibitor of switching if competition appears.

In the Republic of Ireland, close to half of the respondents could not correctly associate the key roles of maintenance of the grid and responsibility for repair of failures with the networks company. While lower than the equivalent scores for NI, it is still reasonable to assume that this is acting as an inhibitor of switching among these respondents. This issue is explored in section 5 which deals with reasons residential consumers provided for not switching.

While confusion also exists for other areas such as meter reading (results included in the above figure), interaction with the regulator or power generation (also measured but not included in this report) is expected and unlikely to impact on switching behaviour as these are not of immediate relevance to residential consumers.

For the SME sector (in Figure 8) in Northern Ireland, the level of knowledge is superior to the residential sector but a significant minority of respondents misidentified the key attributes of power failure repair (31%) and grid maintenance (26%). In contrast, the SME sector in Republic of Ireland is more knowledgeable about the relative roles of the market participants with just 13% of SME's associating their current supplier with repair of power failures and 10% associating it with grid maintenance. This again reflects the greater level of market understanding among RoI SME's when compared with NI SME's.

SME	Northern Ireland			Republic of Ireland		
Role	**NIE T & D**	**Current Supplier**	**Don't know**	**ESB Networks**	**Current Supplier**	**Don't know**
Responsible for power failure repair	42%	31%	25%	77%	13%	9%
Maintenance of grid	48%	26%	25%	80%	10%	9%
Responsible for Meter Reading	16%	56%	26%	30%	57%	11%
Responsible for billing and payment	10%	63%	24%	14%	78%	7%

Figure 8: SME Business knowledge of respective roles of supply and transmission/distribution businesses in

Figure 9 shows the results for LEU's in NI and RoI which are similar to the SME results. The NI LEU results are of note as these figures show a surprisingly low level of understanding of key aspects of responsibility for the maintenance and repair of the grid among these businesses with higher levels of electricity use.

LEU	Northern Ireland			Republic of Ireland		
Role	**NIE T & D**	**Current Supplier**	**Don't know**	**ESB Networks**	**Current Supplier**	**Don't know**
Responsible for power failure repair	53%	29%	18%	81%	11%	7%
Maintenance of grid	60%	23%	16%	80%	9%	10%
Responsible for Meter Reading	16%	60%	19%	36%	49%	9%
Responsible for billing and payment	8%	72%	18%	8%	79%	9%

Figure 9: LEU Business knowledge of respective roles of supply and transmission/distribution businesses in

Understanding of electricity pricing

Residential and SME consumers typically have a lower level of understanding of the cost of products and services they consume and this would be expected to apply to electricity as well. For LEU's, as larger and more sophisticated businesses, the expectation in advance of the research was that there would be a greater understanding of how electricity prices relate to input costs.

Therefore, it is not reasonable to expect that SME's and residential consumers would provide an accurate assessment of the actual breakdown. However, the responses clearly demonstrate the *perceptions* of how the price is established and understanding of the relative contribution of input costs (the price of fuel), infrastructure costs (grid), the efficiency of the supplier and the profit margin of the supplier. These perceptions are significant as they will inform perceptions of value and perceptions of the opportunity for and expectations of further price reductions.

Figure 10 shows the residential consumers' estimation of the breakdown of electricity costs for NI and RoI. There is a striking similarity in the estimates from both NI and RoI respondents with a high level of profit assumed by respondents (20% among RoI and 24% among NI).

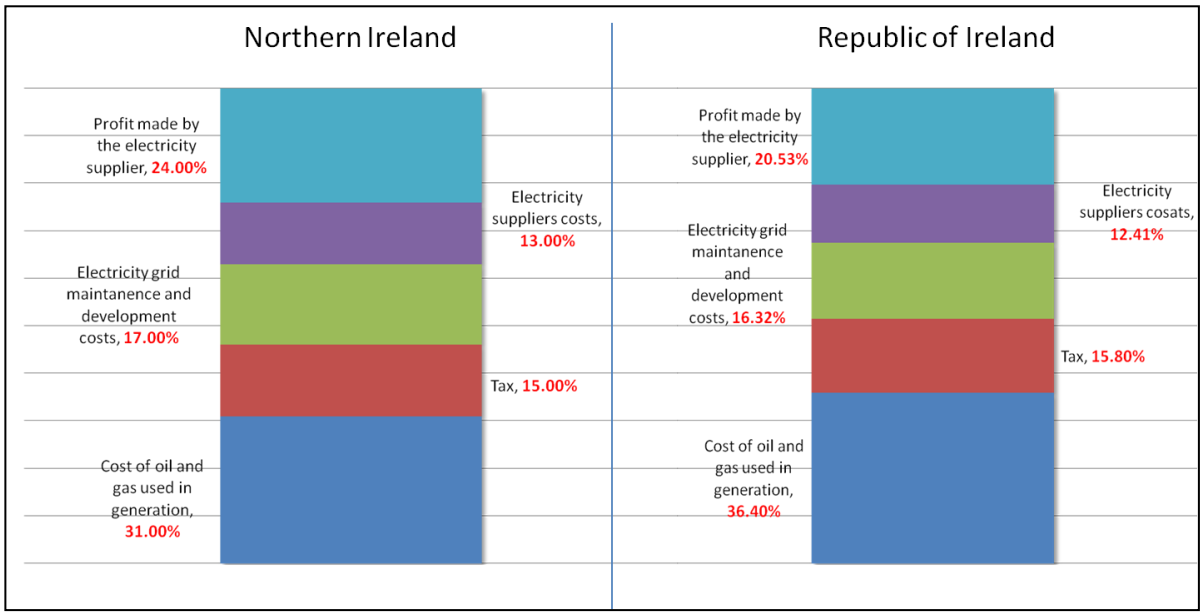

Figure 10: Residential understanding of relative contribution of electricity cost components

In the context of the RoI market, the implication of this estimation of the profit component is that consumers believe that there is additional opportunity for discounting and this may impact on satisfaction with the level of competition, if additional discounting is not made available.

Most residential consumers are not able to directly compare electricity prices in their own markets with those prevalent in other markets. Therefore, perceptions of the level of pricing in both markets compared to other EU markets (including the Great Britain market which is predominantly competitive in the residential sector) primarily reflect media coverage. As such it does provide another assessment of the perceptions of value and remains a useful indication of residential expectation of potential savings associated with greater competition. The results for this question, asked of residential customers, are shown in Figure 11. It shows very similar responses from both NI and RoI residential consumers with large majorities (NI: 76%; RoI: 77%) residential respondents believing that prices are higher in their market than elsewhere.

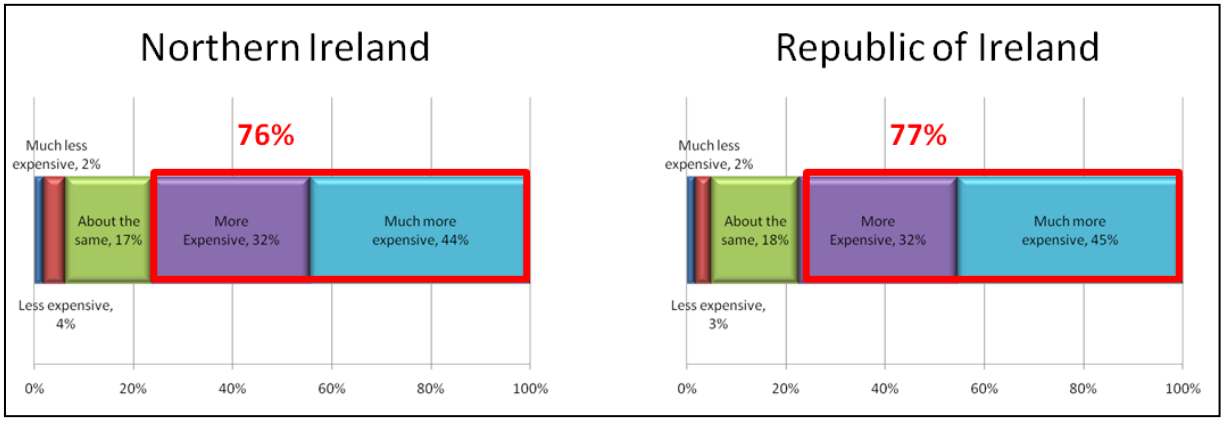

Figure 11: Residential consumer perception of the relative price of electricity compared with prices in other markets

Components of the price make-up for SME and LEU consumers in NI and RoI are shown in Figure 12:

	Northern Ireland		Republic of Ireland	
	SME	**LEU**	**SME**	**LEU**
Profit made by the electricity supplier	19%	18%	16%	15%
Cost of oil and gas used in generation	40%	39%	40%	43%
Prices much more expensive than EU comparison countries	39%	32%	41%	59%
Prices more expensive than EU comparison countries	27%	34%	32%	23%
Total (prices more or much more expensive)	**66%**	**66%**	**73%**	**82%**

Figure 12: Business understanding of relative contribution electricity cost components

While the estimate of the component associated with the cost of fuel used in generation are closer to the real figure than the equivalent residential figures, the SME and LEU figures in both markets also believe that the suppliers are the profitability of suppliers. This suggests that SME's and LEU's still believe that there is further opportunity for price reduction. The price comparisons of electricity in each market when compared to other markets are also shown in Figure 12: In Northern Ireland, fewer businesses believed that their prices were higher than businesses in RoI where 82% of RoI

LEU's and 73% of RoI SME's believe electricity prices to be higher, compared with 66% for both NI SME's and NI LEU's

Business respondents were also asked about the impact of the cost of electricity on their business. In both markets, a large majority of respondents believed that it is a significant challenge for their business (shown in Figure 13) with similar scores for SME's in both markets while LEU scores for NI are lower than for RoI. Figure 14 shows that smaller majorities believe that the cost of electricity puts their business at a competitive disadvantage.

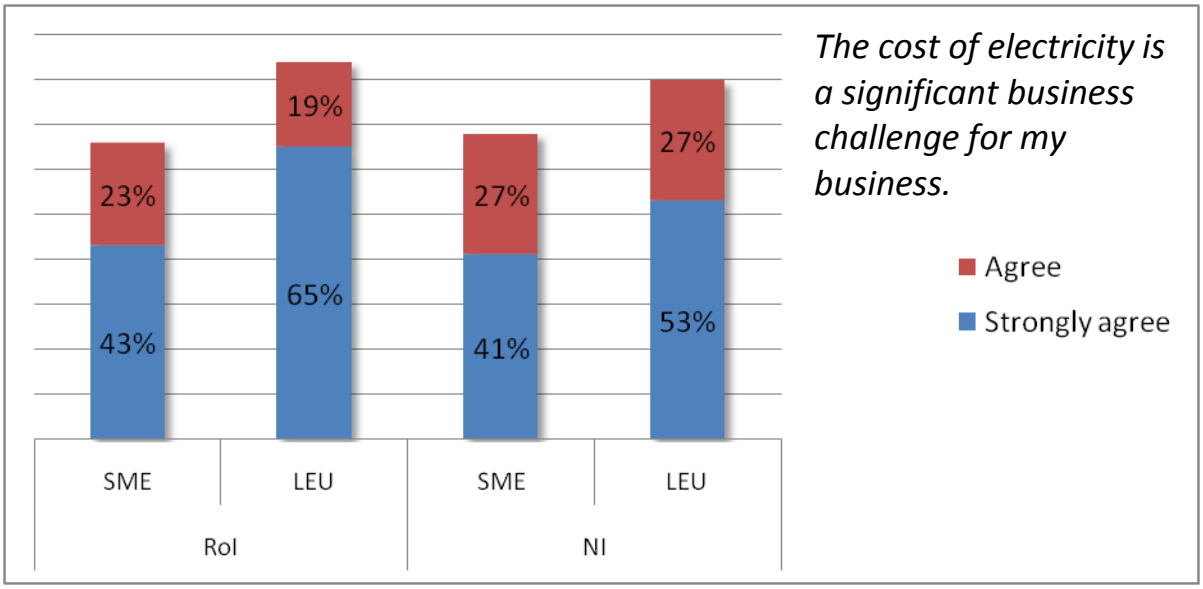

Figure 13: Challenge of electricity prices on business

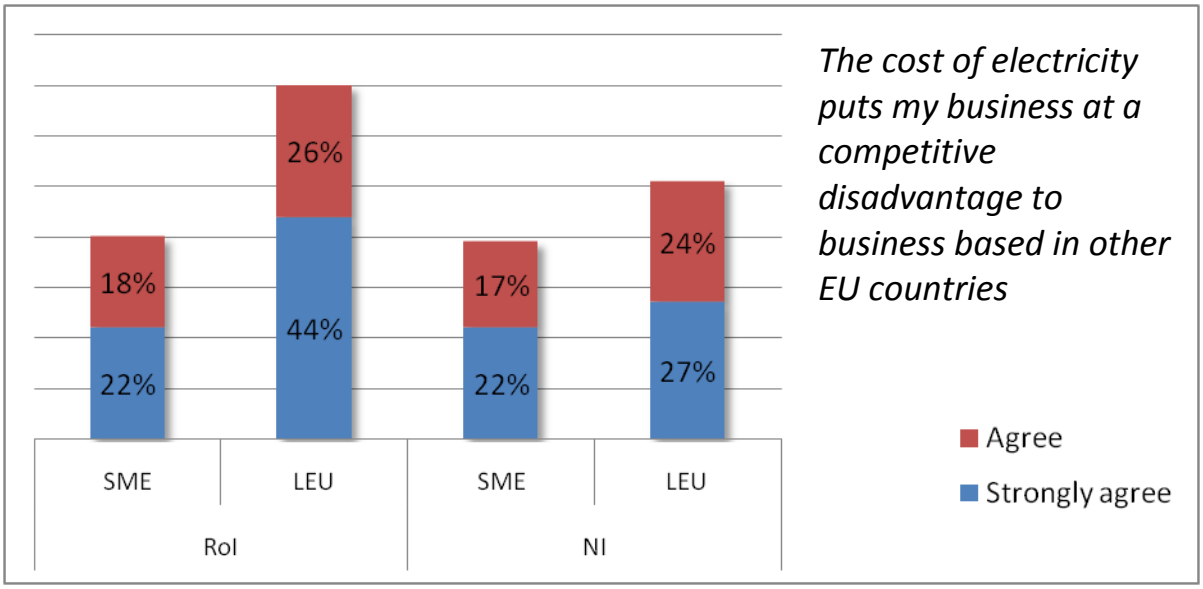

Figure 14: Impact of electricity prices on competitive with businesses in other markets

However, it should be noted that while a majority of business consumers perceive the price of electricity as a significant challenge, business respondents reported a low level of reviewing of usage and associated cost within the business. As shown in Figure 15, 19% of SME consumers never review usage and 12% never review the cost while 43% review usage annually and 49% review cost annually. As expected with the greater level of usage among LEUs, there are only 3% who never review usage and 2% never reviewing cost. However, 43% started that they reviewed usage annually with 51% stating that they reviewed cost annually. Figure 16 shows similar trends for Northern Ireland business consumers with higher levels of *don't know* reflecting the lack of reviews.

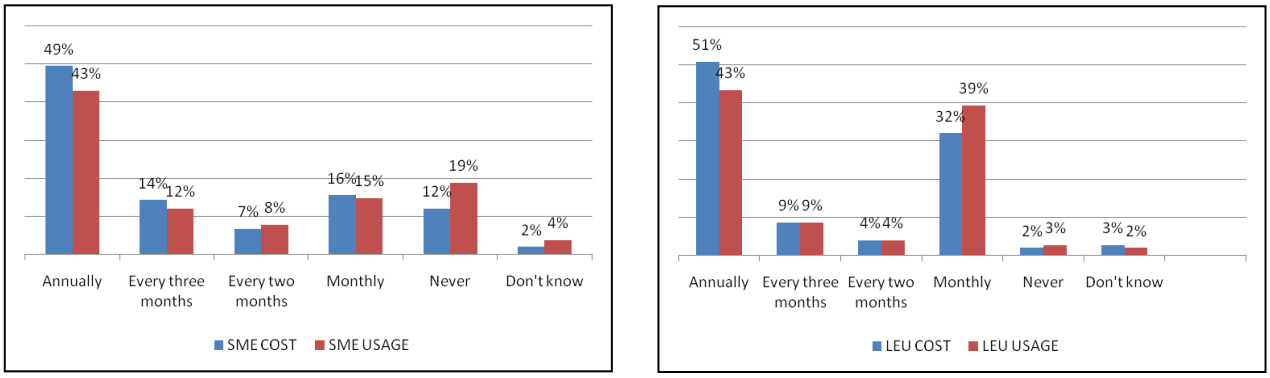

Figure 15: Regularity of review of electricity costs and usage among RoI SME and LEU sectors

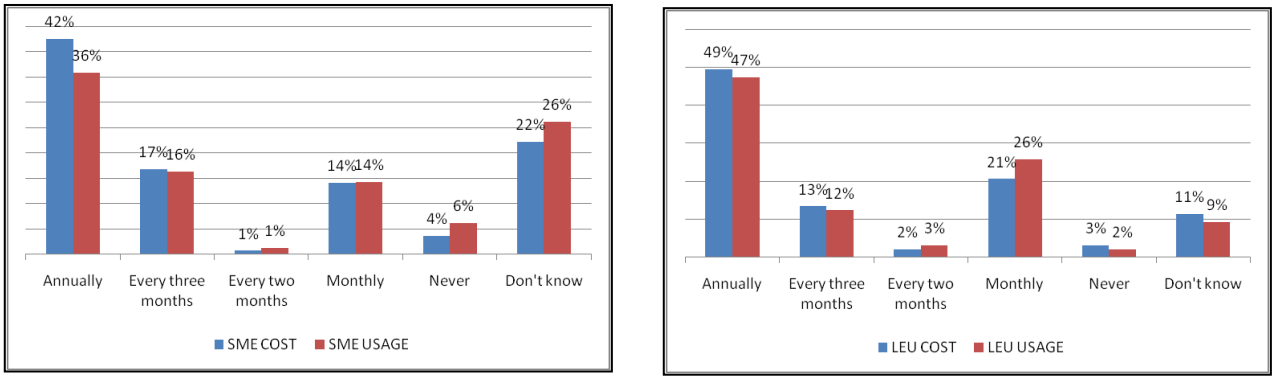

Figure 16: Regularity of review of electricity costs and usage among NI SME and LEU sectors

These scores suggest that a majority of businesses in both Northern Ireland and Republic of Ireland are not tracking electricity usage and cost at the level required to control their usage and associated costs effectively.

Perceptions of current levels of competition

NI Residential consumers perceptions of reasons for lack of competition

The four sectors covered in this research experience markets in different stages of competition. The Republic and Northern Ireland business markets are competitive (see the section titled "Switching and the experience of the switching process" for details on the relative levels of competition). The Republic of Ireland residential market has recently become competitive and the Northern Ireland residential market is pre- competitive with only PES providing supply services to residential consumers.

In the pre-competitive NI residential market, the reasons for the lack of competition were investigated. The results shown in Figure 17, clearly identify the perception that the lack of institutional backing for competition as the most commonly perceived barrier to competition (particularly a perception that the regulator has not encouraged competition by 63% of respondents). It is also notable that structural reasons are accepted by only a small proportion of respondents.

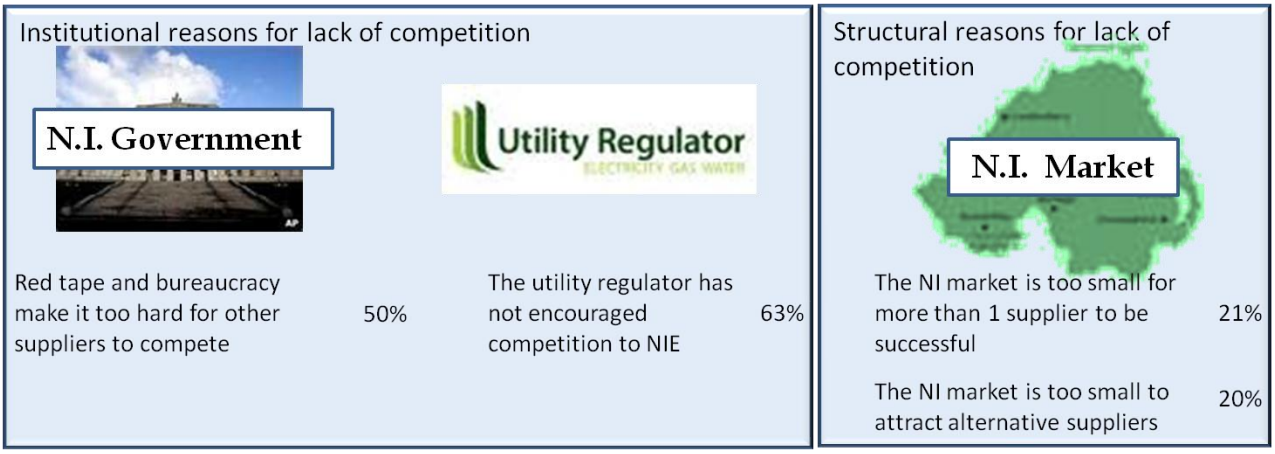

Figure 17: NI residential consumer perceptions of potential reasons for lack of competition

In order to assess the expectations associated with the potential emergence of competition in the NI residential market, the research also asked what level of competition was expected and the extent to which respondents would be interested in switching. A total of 49% expected 'no change' in competition over the next two years, with 18% expecting 'little competition' emerging over the next two years. Only 13% expected the market to become 'competitive' or 'very competitive' within the same time period.

RoI Residential consumers satisfaction with competition

For the Republic of Ireland residential market, respondents were asked to rate their level of satisfaction with the existence of competition and of the level of competition. As shown in Figure 18, a majority of respondents are satisfied with both (80% satisfied with the existence of competition and 69% with the level of competition).

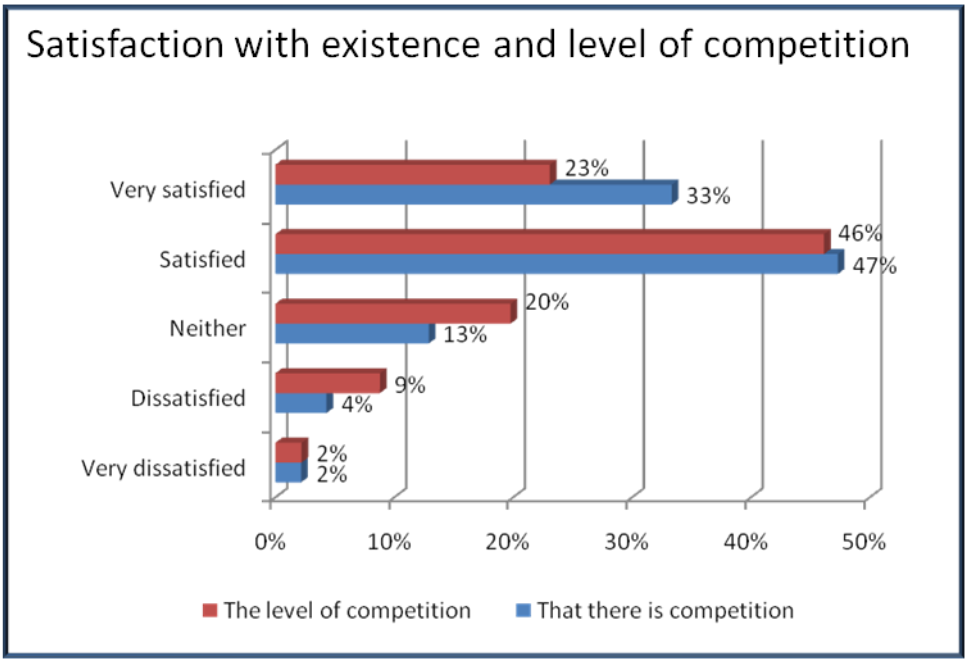

Figure 18: Satisfaction with existence and level of competition in RoI residential market

Satisfaction with current electricity supplier among residential consumers

Another indicator in the level of competition with the market is the level of satisfaction with the current electricity supplier. This was recorded for the residential consumer sectors only – satisfaction with the current supplier is included as a reason for not switching in the business sector surveys.

For the RoI residential market the level of satisfaction with each residential electricity supplier is summarised in Figure 19. Overall satisfaction with suppliers is 86% with a low level of variation between suppliers when the recency of switching to Bord Gais and Airtricity is taken into account. In contrast in the non-competitive NI residential electricity market, the level of satisfaction with the PES (NIE Energy Supply) is 77%.

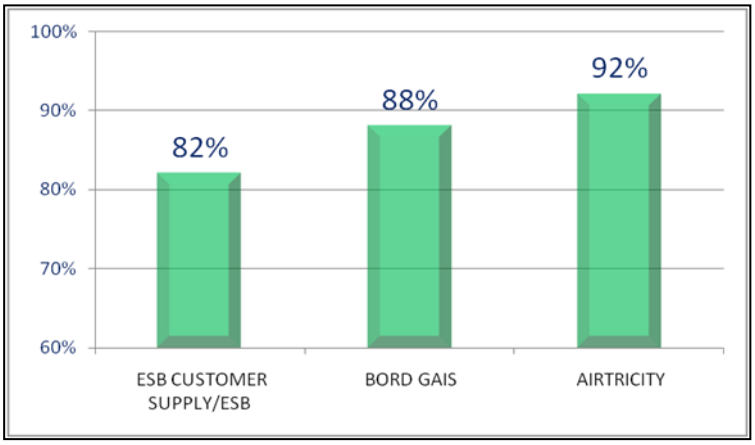

Figure 19: Level of satisfaction among RoI residential customers of each supplier

It has been established from analysis of customer switching behaviours that there is a lack of association between general satisfaction with the current supplier and the decision to switch[2]. Clearly, this does not apply to individuals who have experienced a very negative service experience which is uncommon in the context of the electricity market.

NI and RoI Business consumers satisfaction with competition

For the business market sectors in Northern Ireland and Republic of Ireland where competition can be regarded as mature, SME's and LEU's were asked about their level of satisfaction with both the level and quality of competition (shown in Figure 20). Two features emerge from these results:

- The level of satisfaction with both the level and quality of competition is comparatively low. This reflects the remaining perceptions about the cost premium in both markets and the general economic pressures on businesses in general. In the case of Northern Ireland, the scores are particularly low.

- While scores for LEU's are similar (although lower for NI when compared to RoI), the level of satisfaction among SME's in Northern Ireland is markedly lower than in the Republic of Ireland. This reflects a market where business knowledge and engagement in competition is lower and is analysed further in the sections covering the awareness of competitors and reported switching behaviours.

[2] Kon, Martin, "Stop Customer Churn before it starts" Harvard Management Update, Article reprint No. U0407D

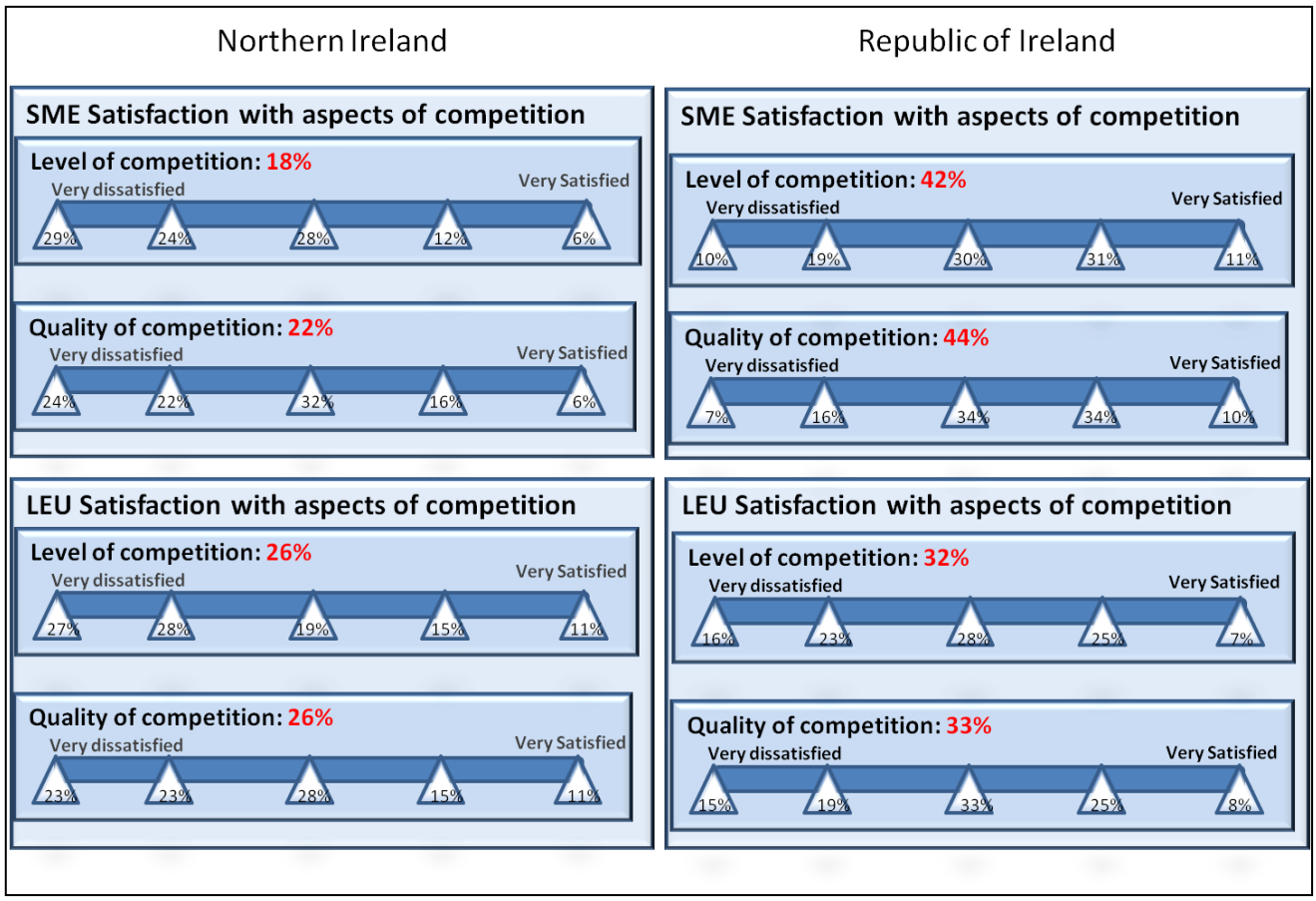

Figure 20: Satisfaction among SME and LEU consumers with the level and quality of competition

4. Switching and the experience of the switching process

The research focused on assessing the experience of switching, the level of interest in switching which has not yet translated into a switch decision and perceptions of the benefits that have been achieved through switching (either at a personal level or as perceived across the market as a whole). For the NI and RoI business sectors where the competitive market is more mature, further analysis was performed on the switching patterns between suppliers in order to assess the nature and level of competition.

Finally, reasons for switching and not switching were assessed to determine if there were underlying structural reasons inhibiting switching. In the case of the NI residential sector, potential reasons for switching or not switching when competition appears were assessed.

Awareness of competition

Awareness of electricity supplier names is a key measure of the level of competition in a market - in a competitive market, consumers will be aware of the potential choices. In this research, this awareness is assessed through unprompted recall, where respondents were asked to list any electricity suppliers they were aware of.

Figure 21 shows the level of unprompted awareness of each supplier currently active in the RoI residential market. As expected, ESB or ESB Customer Supply (as PES) is mentioned by almost all

respondents. However, both Bord Gais and Airtricity are also mentioned by over 50% of respondents suggesting that awareness of alternatives is not a major inhibitor of competition.

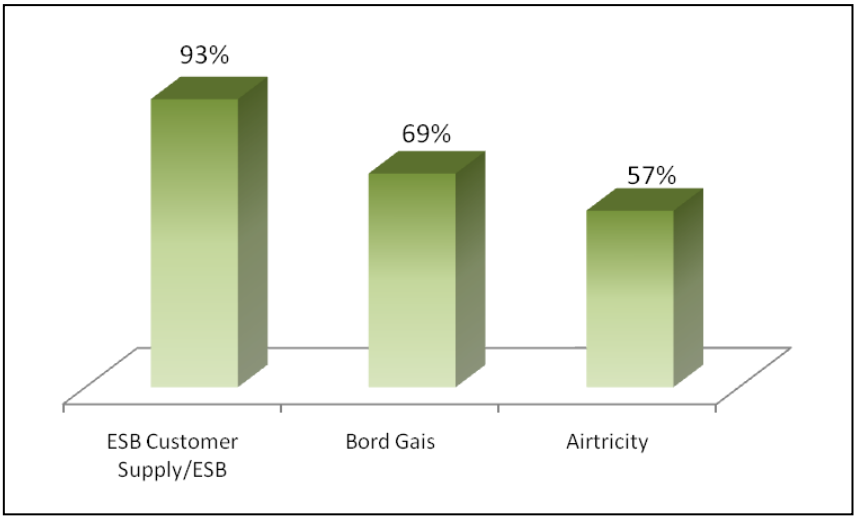

Figure 21: Unprompted recall of electricity suppliers in RoI residential market

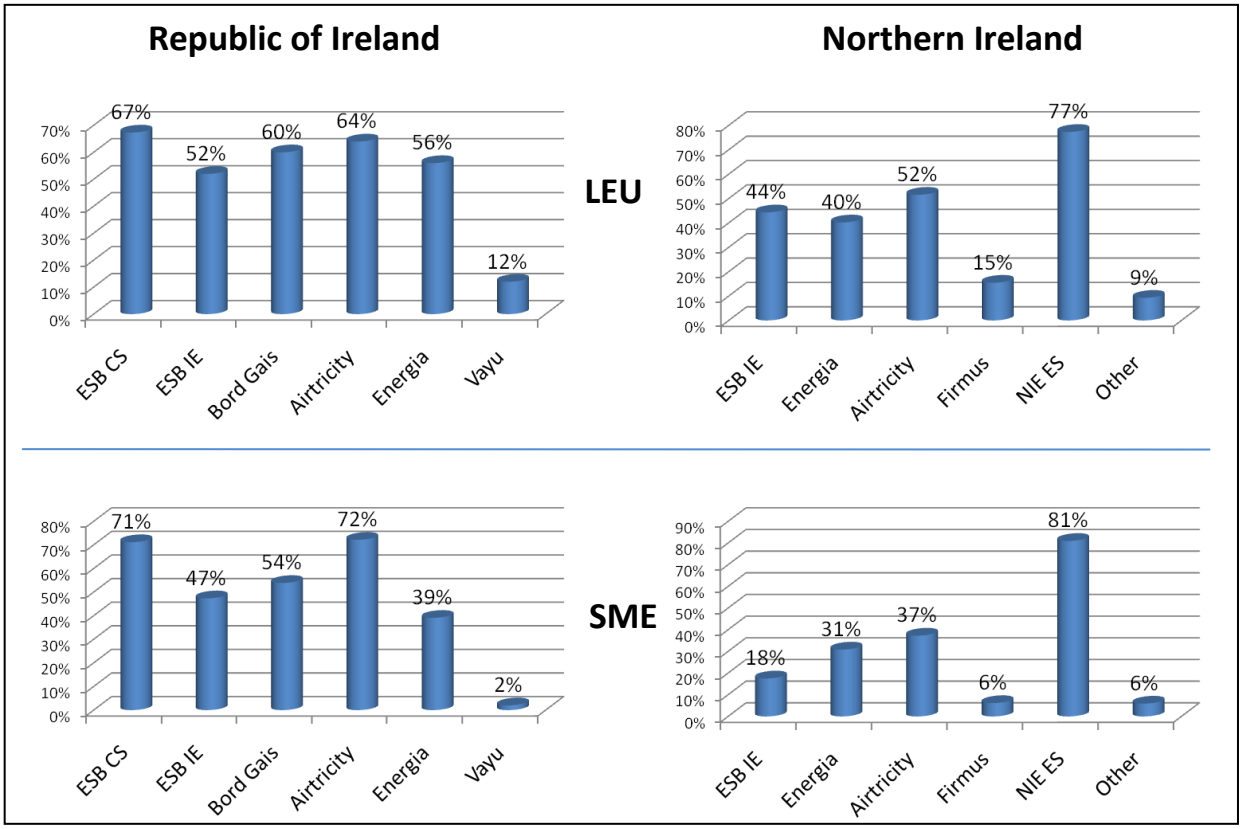

Figure 22: Unprompted recall of electricity suppliers in SME and LEU sectors of NI and RoI markets

The levels of name recognition within the business market sectors in RoI and NI are shown in Figure 22. The difference between the PES in the NI SME business market and the PES in RoI SME business market is notable. In RoI, ESB CS and Airtricity are mentioned equally often with Bord Gais and ESB IE being mentioned by 54% and 47% of respondents respectively. In contrast, the NI SME market awareness is dominated by NIE ES which is mentioned over twice as often as the next most

frequently mentioned supplier (at 81% compared to 37% with Airtricity). While less striking, a similar pattern exists with LEU markets. In RoI, ESB CS is more often mentioned than other suppliers but four other suppliers are each mentioned by a majority of respondents. In NI, only Airtricity is mentioned by more than half of respondents (52%) but is far behind NIE ES (at 77%). This difference can also be clearly seen in the number of suppliers recalled. In RoI, on average, respondents recalled multiple suppliers (SME: 2.8 suppliers, LEU: 3.2) suggesting that awareness of alternative suppliers is not a barrier to competition. In contrast in NI, SME's recalled less than 2 suppliers and customers of the PES mentioned 1.5 on average. Even among LEU's, the average was 2.4.

In RoI, the level of awareness suggests markets where competitors have achieved reasonable levels of consumer awareness and is well positioned to compete. In the NI business markets, there is a lack of awareness of alternatives in the SME sector in general and among the customers of the PES in particular. This lack of awareness will act to inhibit the potential level of competition unless addressed.

Sources of information about switching

A topic closely related to the awareness of electricity suppliers is where consumers find information about potential electricity suppliers. The research asked each respondent in RoI residential and all business sectors to identify the top three sources of information they use, from a list shown during the interview. For the NI residential market where there is no competition, respondents were asked where they would expect the top three sources to be, in terms of impact on any potential switching decision.

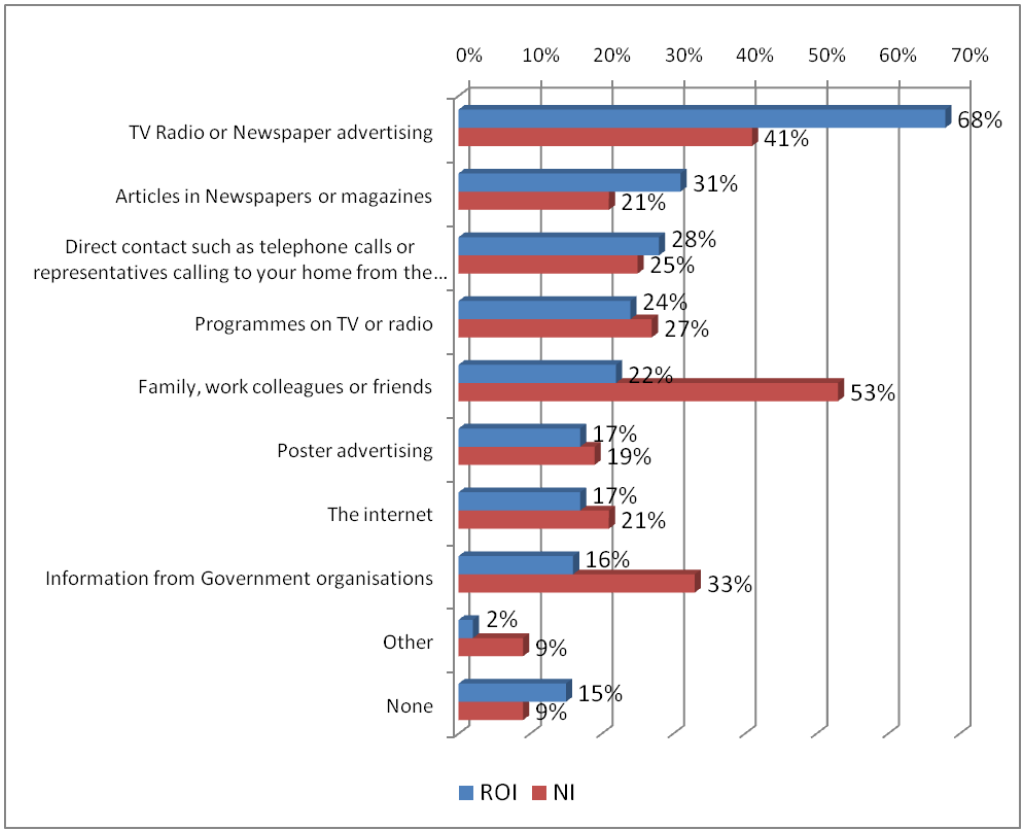

Figure 23: Sources of information about switching - top three selected by residential consumers in RoI (blue) and NI (red)

The top four sources of information for SME and LEU sectors in NI and RoI are summarised in Figure 24 below. Note that for LEU in RoI, Business associations or organisations was cited at 22% and is therefore the fourth highest source. The overall patterns are similar in each of NI and RoI, with a greater proportion of RoI businesses selecting multiple sources than NI (note that each respondent was limited to three sources but did not have to select three). This again reflects the lower level of competitive activity in the NI business markets when compared to the same markets in RoI.

	Northern Ireland		Republic of Ireland	
	SME	LEU	SME	LEU
TV Radio or Newspaper advertising	34%	26%	45%	35%
Articles in Newspapers or magazines	17%	15%	18%	18%
Direct contact from the alternative Electricity Suppliers	44%	51%	51%	47%
The Internet	42%	41%	46%	49%

Figure 24: Information about switching - top 3 sources selected by SME and LEU in RoI and NI

Switching levels: Actual and potential

The level of switching in the Republic of Ireland is shown in Figure 25 with the percentage of respondents who stated that they considered switching over the previous 12 months also shown. The percentage of respondents who considered switching and made contact with the supplier is shown above each column. For example, 26% of residential respondents considered switching and 3% both considered switching and made contact.

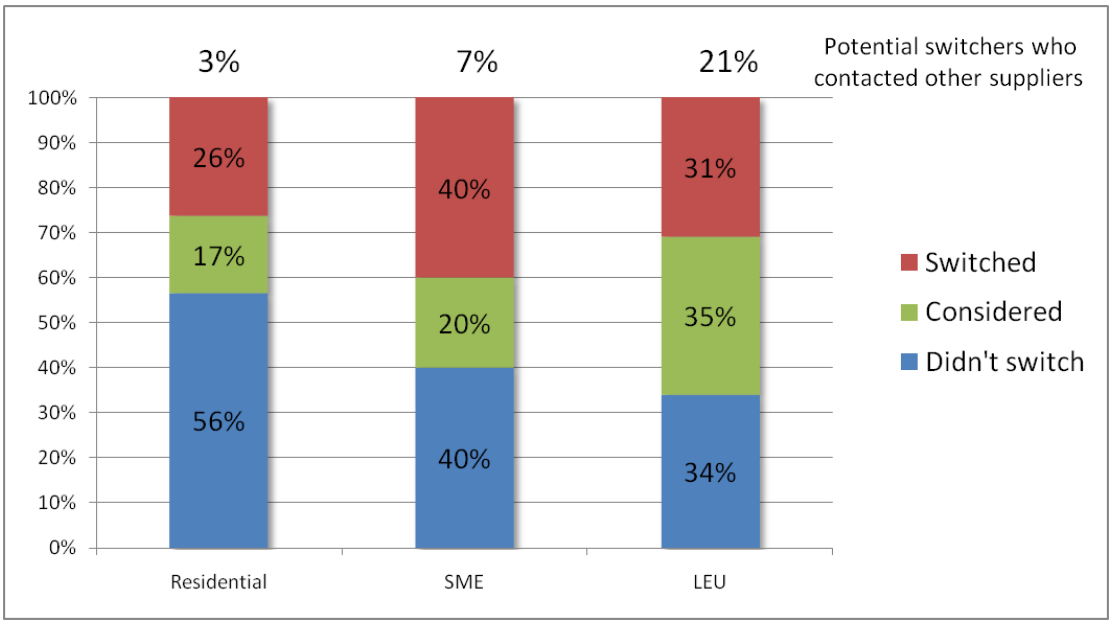

Figure 25: Level of switching and consideration of switching in RoI market among residential, SME and LEU sectors

For the Northern Ireland market sectors with competition, the same statistics are shown in Figure 26. A comparison of these figures shows that there is a significantly lower level of switching across both SME and LEU's. In addition, for the SME sector, 42% of NI businesses considered or completed a switch compared to 60% for the RoI market. In the LEU sector, the contrast is more striking with a rate of switching in NI (16%) at less than half of the level reported in RoI (35%). However, the rate of consideration or switching combined, while lower (at 51% in NI compared to 66% in RoI), is much closer. This suggests a perceived lack of competition in both SME and LEU sectors in NI and is consistent with the lower level of awareness of competitors in these sectors.

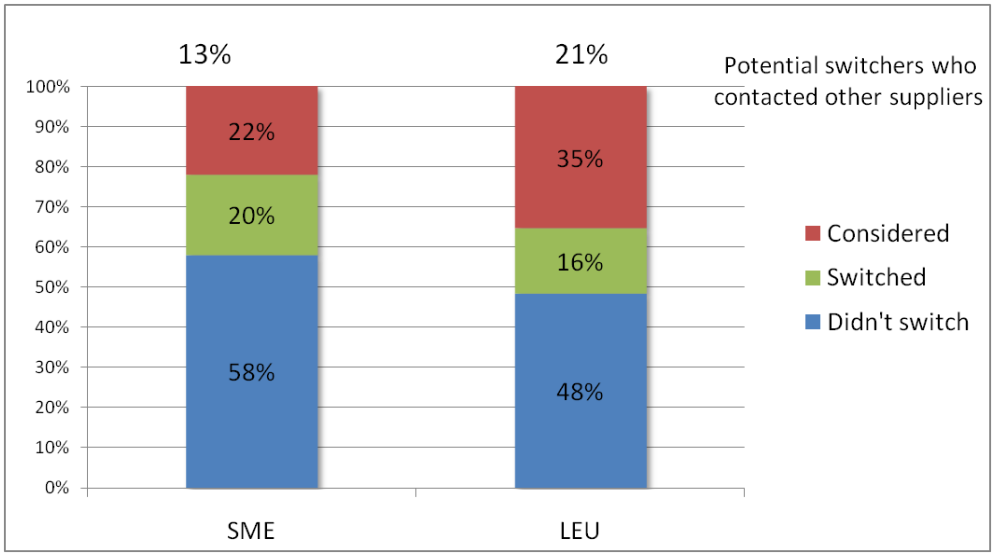

Figure 26: Level of switching and consideration of switching in NI SME and LEU sectors

Overall experience of the switching process

Overall experience of the switching process has been very positive in terms of the ease with which the process itself was completed, as is summarised in Figure 27.

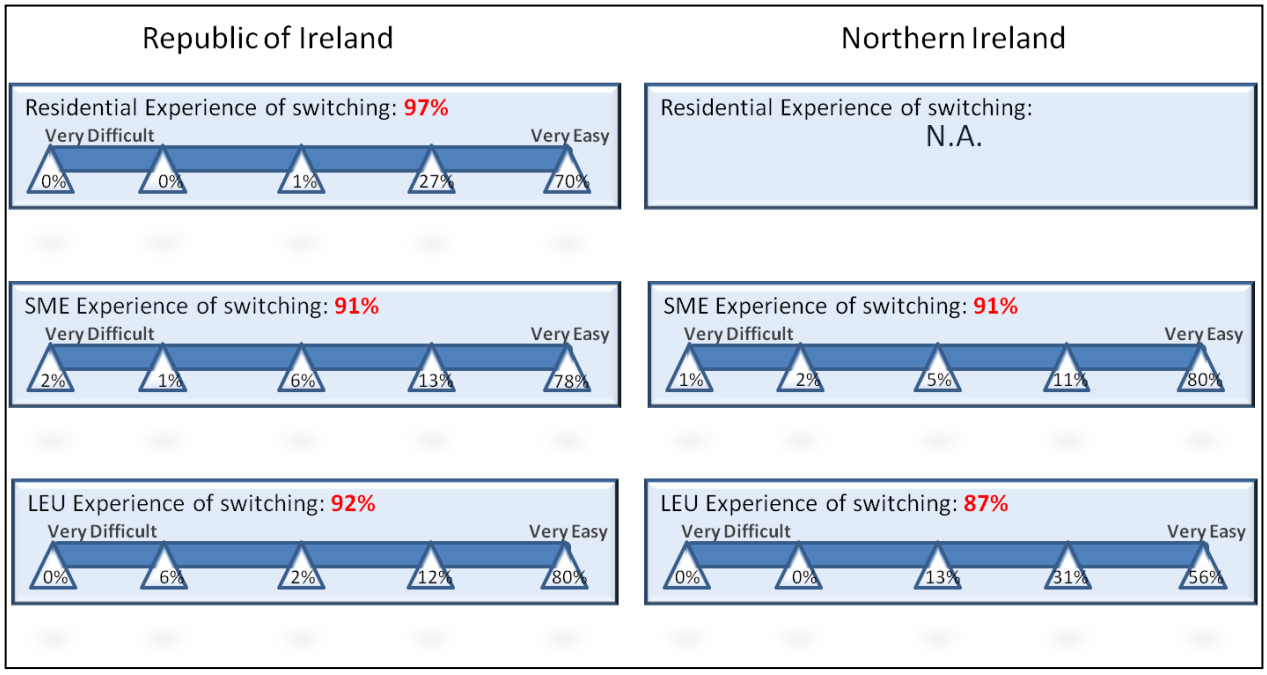

Figure 27: Satisfaction with switching experience among residential and business consumers in RoI and NI

The benefits of switching were also perceived to have been delivered in the majority of cases (Figure 28): Most consumers who have switched experienced both the expected reduction in bill size and found the new supplier's service satisfactory. The sectors with the lowest experience of expected bill reduction were SME in NI and LEU in RoI. These scores are out of line with the other sectors. In RoI, the LEU sector assessment may reflect the complexity of their energy usage. The NI SME sector assessment may reflect unrealistic expectations of the potential reduction.

Republic of Ireland	Residential		SME		LEU	
Outcome	👍	👎	👍	👎	👍	👎
Bill reduced by expected amount	78%	1%	86%	6%	71%	10%
New supplier service satisfactory	82%	1%	80%	4%	79%	8%

Northern Ireland			SME		LEU	
Outcome			👍	👎	👍	👎
Bill reduced by expected amount			69%	7%	81%	0%
New supplier service satisfactory			81%	2%	94%	6%

Figure 28: Delivery of expected switching outcome among residential and business consumers in RoI and NI

Analysis of switching behaviours, drivers and patterns among Republic of Ireland residential consumers[3i]

Demographic profile of residential switchers

Demographic analysis of switchers and non-switchers shows a low level of variation in switching levels across age cohorts. However, the 35-54 age cohort is most likely to switch (20%). While urban and social class AB customers are more likely to switch, this is probably related to the prevalence of natural gas customers in these areas and the relationship between bill size and switching propensity, which is unsurprising given the price based competitive offers.

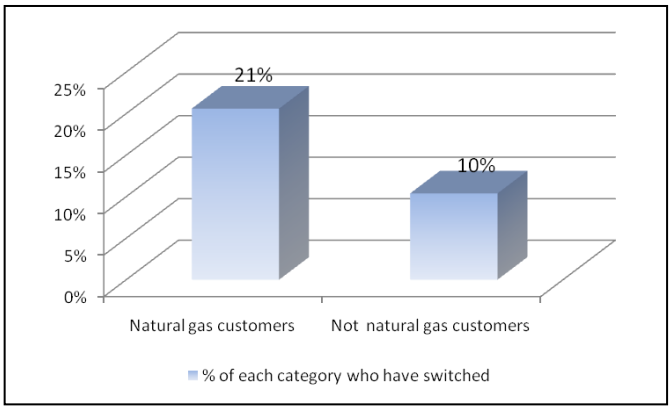

Figure 29: Prevalence of switching among RoI residential consumers who are also natural gas customers compared to respondents who do not use natural gas

[3] As NI residential market is not competitive, only residential consumers in RoI are included.

The relationship between being an existing natural gas customer and switching is shown in Figure 29 - natural gas customers are twice as likely to switch as those who are not. While there are a number of factors which contribute to this effect, it is reasonable to conclude that the awareness of and trust in Bord Gais as a gas supplier neutralised perceived barriers associated with switching.

RoI Residential: Perceived drivers and inhibitors to switching

To assess the decision process among consumers who have made a switching decision, residential consumers rated the relative impact/contribution of six potential factors: to save money, to access better service, due to unhappiness with service experience, to use a more environmentally friendly supplier and to support competition in the market place. Figure 28 summarises the scores for the top three factors identified and shows that the primary factor is to save money.

Residential: Reasons for switching electricity supplier		
Save money	A factor	87%
	Not a factor	3%
Better service	A factor	42%
	Not a factor	29%
Support competition	A factor	47%
	Not a factor	53%

Figure 30: Importance of drivers among RoI Residential consumers who have recently switched

To determine the reasons why switching has not occurred, respondents who have not switched, were asked to rate 9 potential reasons for not switching (Figure 31). There was not clear pattern to the reasons cited for not switching. However, *'lack of compelling reason to switch'* and *'liking for the current service'* were rated as a factor by 46% and 54% respectively.

Concerns about the reliability of supply or responsiveness in the event of a power outage are each highlighted by approximately a third of residential consumers. This is in line with the confusion among consumers as to the responsibilities of electricity supply businesses.

Among other potential reasons for not switching, experience of switching for other utilities (such as fixed line or mobile telephone operators) was rated as not a factor in decision to remain with 70% of respondents. Apathy was identified as a reason for not switching by 17% and not a reason by 60%.

Residential: Reasons for not switching electricity supplier		
Like current service	A factor	54%
	Not a factor	19%
No reason to	A factor	46%
	Not a factor	28%
Concern about an alternative supplier's provision of a reliable supply of electricity	A factor	36%
	Not a factor	34%
Concerned about alternative supplier to be as responsive if there is a power outage	A factor	35%
	Not a factor	35%
Do not believe that prices will remain as low as the alternative supplier claims	A factor	35%
	Not a factor	32%

Figure 31: Importance of drivers among RoI Residential consumers who have not recently switched

RoI Residential: Analysis of the impact of confusion in electricity supply roles on switching

The objective of this analysis was to determine the impact on residential switching levels of the confusion associated with the respective roles of RoI PES (ESB CS) and the networks company. Respondents rated each of the factors suggested for not switching on a five point scale which ranged from a 'primary reason' to 'not at all a reason'. Of the population of **non-switchers** (73% of total population), 45% are impacted by the confusion of roles around reliability and repairs.

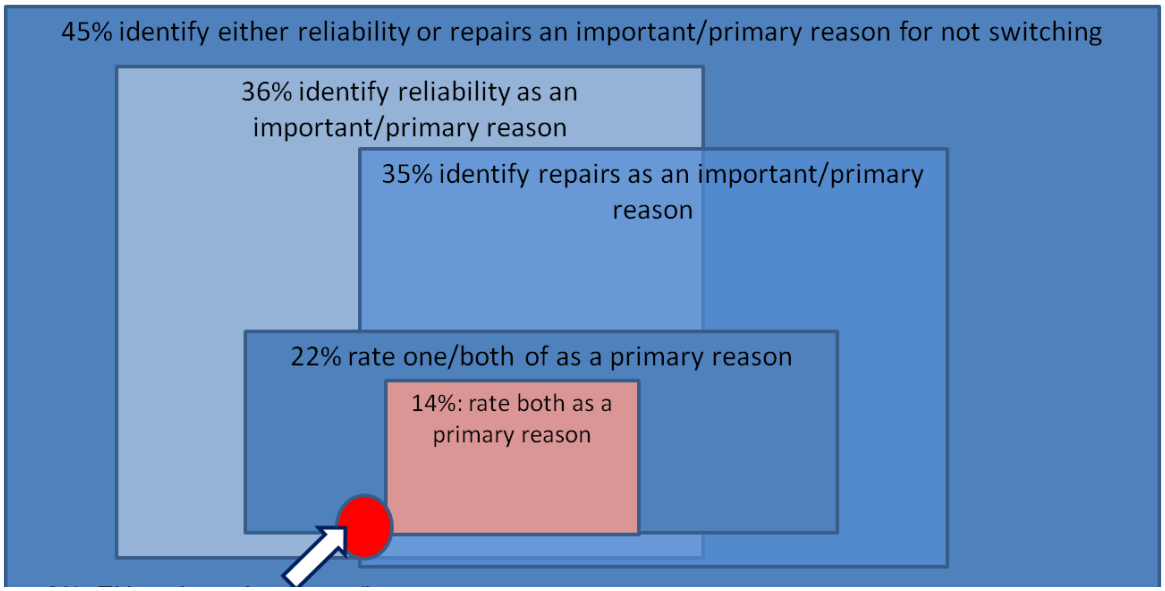

Figure 32: Schematic showing the percentages of residential respondents who identified concerns about reliability of supply and repair power outages among reasons for not switching

An analysis of the responses determined that 22% of respondents identified one of **Concern about alternative supplier provision of a reliable supply of electricity** or **Concerned about alternative supplier to be as responsive if there is a power outage** as the primary reasons for not switching (summarised in Figure 32). 14% of respondents stated both as primary reasons – with 3% identifying that these are the only factors in their decision not to switch.

Therefore if the confusion about electricity supplier roles was resolved, among the 73% non-switchers it is estimated that:

- 3% would be very likely to switch
- 14% would be positively influenced towards switching.
- 22% would be influenced towards switching
- 45% would be impacted in their switching decision process

RoI Residential: Switching among FEA recipients

For residential consumers in the Republic of Ireland who are in receipt of the free electricity allowance (which is typically paid to older consumers or recipients of other social welfare payments) switching currently involves a change in the way this benefit is paid. At present, for ESB CS customers the FEA is applied to their electricity bill; with other suppliers, the allowance is paid directly into a bank, post office or credit union account.

The research found that the level of switching (at 4%) or consideration of switching (at 12%) was much lower among recipients of FEA than among the general residential consumer population. The research sought to see if this difference has led to concerns about switching.

On the basis of two findings, this hypothesis was rejected and the lower rates determined not to be associated with FEA related barriers:

- The lower level of switching is consistent with the lower level of switching among older age groups.
- The primary reasons for not switching among FEA recipients are the same as for the entire population with even higher scores (shown in Figure 33).

However, it should be stressed that while FEA payment methods are not inhibiting competition overall, for these consumers, it is important that continued reassurance about the continuance and payment of FEA is provided to allow them to access the potential benefits of competition.

Residential: Reasons for not switching electricity supplier among FEA recipients		
Like current service	A factor	72%
No reason to	A factor	69%
Concern that would not continue to receive FEA payment if switched	A factor	34%
Concerned that receiving FEA would be too inconvenient if switched	A factor	32%

Figure 33: Reasons for not switching among RoI residential consumers who receive FEA payments

NI and RoI business: Analysis of switching behaviours, drivers and patterns

SME and LEU: Perceived drivers and inhibitors to switching

The research into drivers and inhibitors of switching followed the same approach as that followed for the RoI residential market. As with residential, the results in Figure 37 show that the opportunity to save money was the most commonly identified factor in the switching decision for RoI based SME's and LEU's. For each of the other proposed factors, no score was greater than 40% and a greater percentage of respondents deemed each not a factor than considered it a factor (with the exception of LEU's where 40% considered the availability of flexible tariffs as a factor compared to 37% who did not consider it a factor).

Republic of Ireland: Reasons for switching electricity supplier		SME	LEU
Cost	A factor	89%	90%
	Not a factor	7%	4%
Flexible tariffs	A factor	33%	40%
	Not a factor	42%	37%
Assistance in energy saving initiatives	A factor	24%	31%
	Not a factor	47%	41%
More energy saving usage information	A factor	26%	32%
	Not a factor	47%	45%
Poor service	A factor	18%	22%
	Not a factor	58%	59%

Figure 34: Importance of drivers among RoI business consumers who have recently switched

Republic of Ireland: Reasons for not switching electricity supplier		SME	LEU
Service okay	A factor	51%	55%
Concern about alternative supplier provision of a reliable supply of electricity	A factor	29%	30%
Concerned about alternative supplier to be as responsive if there is a power outage	A factor	32%	32%
Do not believe that prices will remain as low as the alternative supplier claims	A factor	37%	32%
Do not believe that prices will be as low as the alternative supplier claims	A factor	35%	38%
Other business priorities	A factor	37%	27%

Figure 35: Importance of drivers among RoI business consumers who have not recently switched

Among the reasons for not switching rated by those SME's and LEU's who did not switch, the acceptability of the current service was most commonly acknowledged as a reason. No other factor was considered a factor by a majority of respondents.

Northern Ireland based SME and LEU's responses showed very similar patterns of drivers identified for those who have recently switched (Figure 36) and reasons for not switching among those who have not (Figure 37).

Northern Ireland: Reasons for switching electricity supplier		SME	LEU
Cost	A factor	89%	88%
	Not a factor	6%	6%
Flexible tariffs	A factor	43%	44%
	Not a factor	31%	19%
Assistance in energy saving initiatives	A factor	26%	25%
	Not a factor	43%	44%
More energy saving usage information	A factor	26%	31%
	Not a factor	51%	50%
Poor service	A factor	22%	13%
	Not a factor	58%	50%

Figure 36: Importance of drivers among NI business consumers who have recently switched

Northern : Reasons for not switching electricity supplier		SME	LEU
Service okay	A factor	45%	50%
Concern about alternative supplier provision of a reliable supply of electricity	A factor	32%	25%
Concerned about alternative supplier to be as responsive if there is a power outage	A factor	30%	23%
Do not believe that prices will remain as low as the alternative supplier claims	A factor	31%	26%
Do not believe that prices will be as low as the alternative supplier claims	A factor	32%	21%
Other business priorities	A factor	36%	36%

Figure 37: Importance of drivers among NI business consumers who have not recently switched

NI and RoI Business: Perceived benefits of competition

The business markets have been open to competition for a number of years in both NI and RoI. Therefore, the benefits associated with market opening will have been experienced by the consumers in these business markets. To assess the perception of these benefits, respondents were asked to state whether the competition had improved, made no difference or disimproved the market across six dimensions (each response was on a five point scale). The findings are summarised in Figure 38. For example with regard to the impact of competition on the cost of electricity, 58% of SME's in RoI believe that competition has improved the cost, while 7% believe that competition has negatively impacted cost.

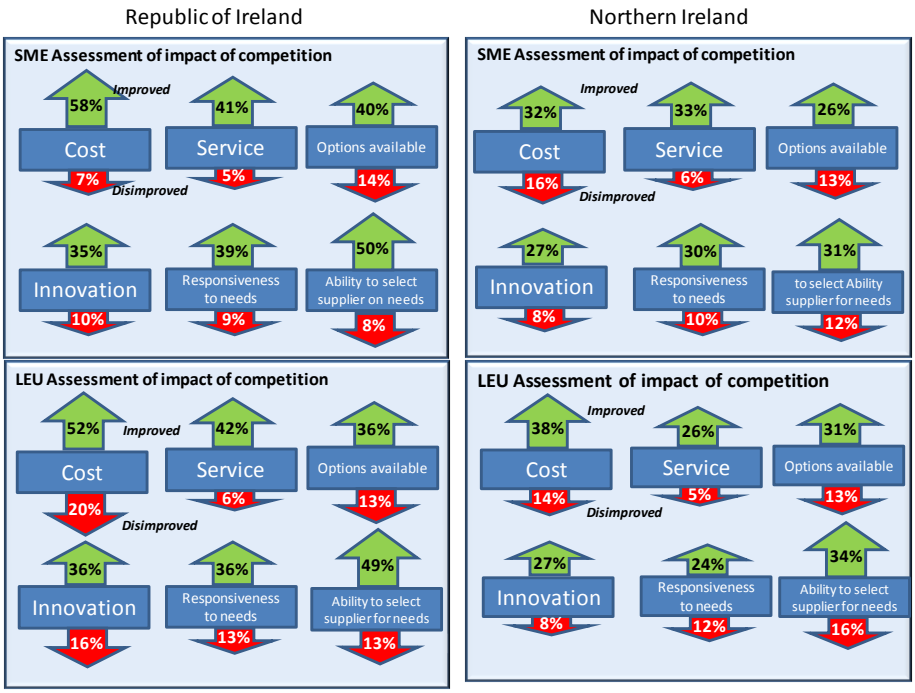

Figure 38: Perceived impact of competition among SME and LEU business respondents in RoI and NI

Overall, it is clear that a majority of respondents across both NI and RoI see benefits in each identified area. However, it is also notable that in the case of cost which represents one of the main areas where benefits should be expected, only a minority of NI respondents and a small majority of RoI SME's and LEU's believed that this had been improved upon by competition. Furthermore, 20% of LEU's in RoI believe competition has disimproved cost with 14% of NI LEU's and 16% of NI SME's making the same statement.

It is also notable that across all measured dimensions, scores are 8% or greater for RoI based businesses than for NI. These lower scores are consistent with the low level of satisfaction with competition in NI and may reflect a combination of actual market conditions and perceptions of these market conditions, reflecting perceptions of low levels of competition within the NI business markets.

In most cases, the percentage of respondents who perceive negative consequences of competition is small. Considered in combination with the positive scores it is clear that, for most dimensions measured, a majority of respondents believe that competition has made no difference. This

reinforces the relatively low levels of satisfaction with the level and quality of competition recorded for SME and LEU in both NI and RoI markets.

Switching patterns and potential future switching patterns

A third dimension in quantifying the quality of the competition in the business sectors is switching patterns (this is not relevant to NI residential respondents due to absence of competition at present and not relevant to RoI residential as competition is recent and switching is primarily from PES to a new supplier). This will allow the assessment of the level of competition for each individual switcher as measured by the number of other suppliers considered during the switching decision.

NI SME

Overall level of switching: 20%

Other suppliers considered by switchers (by supplier switch to)

% of total switchers	To:	% considered no other supplier	% considered each supplier: ESB IE	Energia	Airtricity	Firmus	NIE ES
6%	ESB IE	25%		25%	50%	50%	0%
49%	Energia	80%	3%		11%	0%	8%
39%	Airtricity	66%	10%	24%		0%	7%
6%	Firmus	NA	NA	NA	NA		NA
6%	NIE ES	50%	8%	33%	17%	0%	

Figure 39: Switching patterns among NI SME consumers

Figure 39 summarises the findings for the NI SME market: The first column shows the percentage of the total number of reported switches (20% of all NI SMEs have switched in the previous 12 months) who have switched to each supplier (shown in the second column). The third column shows the percentage of the switchers to that supplier who did not consider any other supplier and the table then shows the percentage of switchers to that supplier who considered each of the other suppliers (in the case when multiple suppliers where considered this will add to more than 100%). For instance Figure 39 shows that 6% of switchers moved to ESB IE; of these switchers 25% considered only ESB IE, 25% also considered Energia, 50% considered Airtricity and 50% considered Firmus.

The results for NI LEU, RoI SME and RoI LEU are shown in **Error! Reference source not found.**, Figure 42 and **Error! Reference source not found.**. Note that the precision of the switching data is dependent on the sample size composition and therefore the patterns of switching for suppliers with lower switching rates will be impacted by this. The percentage of switching which is uncontested (i.e. the switcher did not consider any other supplier) is shown in Figure 40. This clearly shows the much higher levels of uncontested switching in NI when compared to RoI. This again demonstrates the perceived low level of competition in the SME and LEU NI market.

	Northern Ireland		Republic of Ireland	
	SME	LEU	SME	LEU
Percentage of uncontested switchers	69%	75%	36%	22%

Figure 40: Percentage of switchers who did not consider any other supplier apart from the one switched to

NI LEU

Overall level of switching: 16%

Other suppliers considered by switchers (by supplier switch to)

% of total switchers	To:	% considered each supplier	ESB IE	Energia	Airtricity	NIE ES	Firmus
0%	ESB IE	NA		NA	NA	NA	NA
23%	Energia	100%	0%		0%	0%	0%
53%	Airtricity	86%	0%	0%		14%	0%
16%	NIE ES	50%	25%	50%	25%		25%
7%	Firmus	100%	0%	0%	0%	0%	
		Considered no other supplier					

Figure 41: Switching patterns among NI LEU consumers

RoI SME

Overall level of switching: 40%

Other suppliers considered by switchers (by supplier switch to)

% of total switchers	To:	% considered each supplier	ESB CS	ESBIE	BGE	Airtricity	Energia	Vayu
1%	ESB CS	0%		50%	100%	50%	50%	50%
1%	ESBIE	100%	0%		0%	0%	0%	0%
31%	BGE	35%	9%	2%		28%	14%	2%
36%	Airtricity	44%	12%	10%	25%		26%	7%
32%	Energia	26%	21%	14%	30%	49%		4%
0%	Vayu	NA	NA	NA	NA	NA	NA	
		Considered no other supplier						

Figure 42: Switching patterns among RoI SME consumers test

RoI LEU
Overall level of switching: 34%

Other suppliers considered by switchers (by supplier switch to)

% of total switchers	To:	% considered each supplier	ESB CS	ESBIE	BGE	Airtricity	Energia	Vayu
6%	ESB CS	20%		0%	40%	40%	40%	0%
11%	ESBIE	40%	60%		60%	60%	0%	60%
19%	BGE	11%	11%	11%		56%	56%	22%
35%	Airtricity	22%	11%	28%	44%		33%	11%
27%	Energia	23%	23%	23%	31%	54%		23%
0%	Vayu	NA	NA	NA	NA	NA	NA	

Considered no other supplier

Figure 43: Switching patterns among RoI LEU consumers

5. Consumer interest in variable tariffs

The third dimension of the research was focused on determining the level of interest in a variety of alternative tariff designs. These ranged from frequent price reviews which will better the reflect the cost of generation to time of use based tariffs and tariffs incorporating the additional cost associated with generation of electricity in a more environmentally friendly manner. Options related to frequency of price reviews that were tested ranged from a tarriff set annually with an explicit price premium reflecting the additional cost of such a price guarantee to tariffs which track fuels costs.

While variable tariffs are already available to some business consumers, they are not available to residential consumers in either NI or RoI. Furthermore, it is unlikely that most residential consumers will be familiar with the concept of a tariff which varies regularly. Therefore in considering the results, it is important to recognise that they are only indicative of the residential consumers interest and can not be taken as an accurate estimate of the eventual level of actual take-up.

As has been highlighted in the introduction to this section of the report, the price regime for residential and business sectors differs in both NI and RoI markets with residential sectors typically exposed to annual price revisions. Therefore, the approach taken in this component of the research was different for residential and business sectors.

Residential attitudes to novel tariff designs

Tariffs incorporating more frequent price reviews

For all sectors, the objective of this component of the research was to determine the attitudes to the frequency of price changes and the openness to more frequent price revisions than currently apply. To reflect the price premium implicit in an annual price setting regime for residential consumers, the openness of residential consumers to accepting this premium in exchange for price stability was also explored (i.e. the willingness for these consumers to accept annual prices where there is an explicit price premium).

Figure 44 summarises the percentage of residential respondents who stated that the different price setting regimes tested were acceptable. The annual price setting regime was judged acceptable by a majority of respondents (59%). Although it is clear that even this regime is not universally popular, this may reflect an association with price increases, for the residential consumer. However, all more frequent price setting regimes are much less acceptable for both NI and RoI respondents with the level of acceptability dropping as revisions become more frequent.

It is striking that the concept of price tracking fuel cost is approved by similar or higher levels compared with the quarterly revisions (the difference of 1% in the RoI scores should not be regarded as significant). However, these results should be treated as indicative of potential interest only as residential consumers will not be in a position to evaluate the implications of these tariff structures on their bill sizes.

	1 price for year	Differing prices	Twice a year	Four times a year	Price tracking fuel costs
Northern Ireland	59%	26%	34%	24%	29%
Republic of Ireland	54%	37%	42%	28%	29%

Figure 44: Percentage of residential consumers in RoI and NI who find frequency of price reviews acceptable

It should also be assumed that residential consumers are unaware of the potential incremental cost implicit in the annual pricing regime. When residential consumers were asked if they were willing to pay a premium for annual pricing, the percentage who stated annual pricing acceptable quickly declined with the increasing premium (Figure 45). At a premium of 1%, the level of acceptability had decreased by approximately 50%. When the premium increased to 2.5%, the level of acceptability dropped to close to zero.

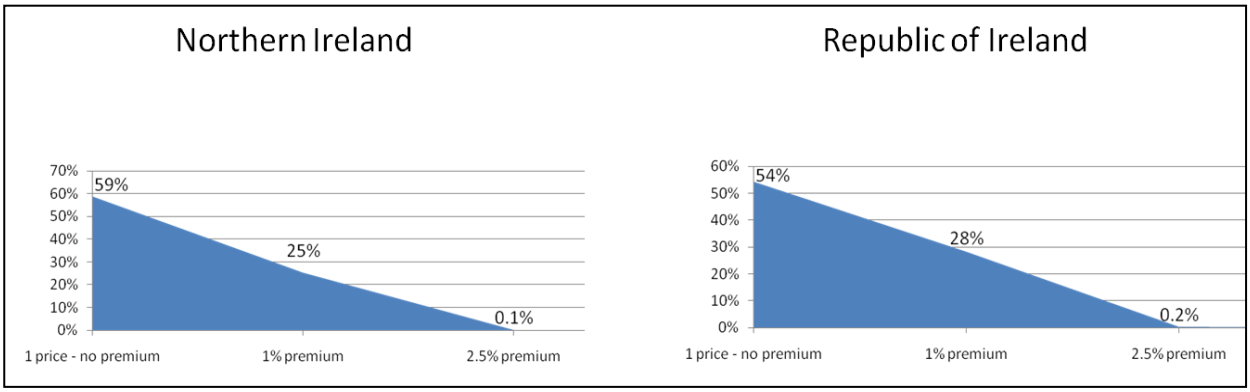

Figure 45: Residential consumer acceptability of annual price setting when associated with a price premium

Therefore, it should be concluded that the residential consumer is open to the concept of variable pricing in exchange for overall cost reduction. However, this conclusion must be caveated with the statement that the true level of acceptability will be heavily dependent on careful communication to the residential consumer so that they understand that although they will pay less over the longer

term, variable pricing will increase variability in bill size and in particular may increase the larger winter bills.

Tariffs based on seasonal variation, time of use and method of generation

Residential consumers were also asked whether they were interested in tariffs which varied by summer/winter, Time of Use (ToU) or by method used to generate the electricity. The options offered were:

- A price which varied by season (with higher prices being charged during the winter and lower during the summer).
- A price which varied by time of day (with lower prices being charged at night and higher prices being charged during peak hours – say between 5pm and 7pm)
- A price which varied by method of generation (with higher prices charged for green electricity and lower prices charged for electricity generated in non-environmentally friendly ways)

Residential consumers in NI were also asked whether they were interested in a tariff which included an element which varied by payment methods with lower prices charged to customers who pay by direct debit and higher prices charged to customers who pay in cash or by cheque. Figure 46 summarises the results from the question about specific tariff options. The results clearly show a strong level of interest among RoI respondents in Time of Use tariffs (46% very interested or interested in such a tariff) with lower levels of interest in the seasonal (31% very interested or interested in such a tariff) and generation method based tariff (29% very interested or interested in such a tariff).

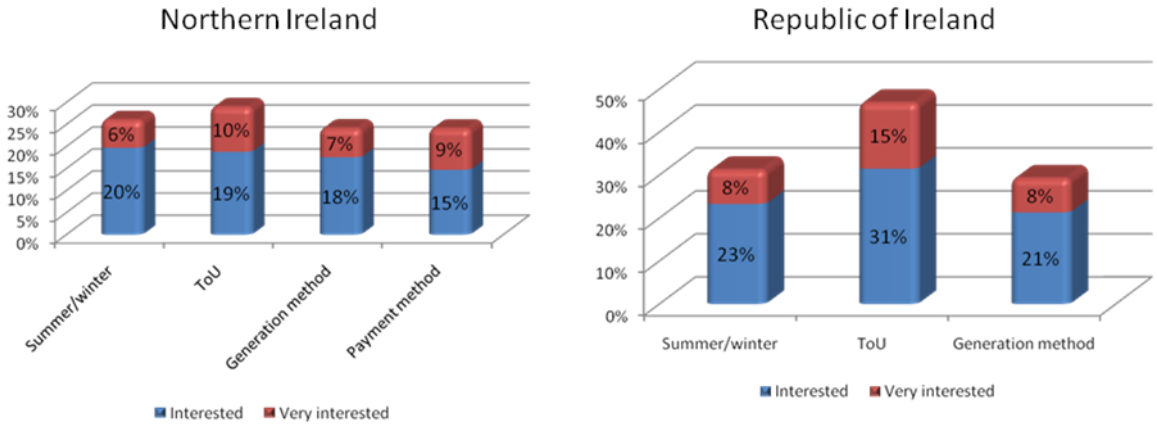

Figure 46: Percentage of residential consumers interested in novel tariff structures

Residential consumers were also asked were also asked if they were willing to pay more for electricity generated in more environmentally friendly ways. Similar levels were interested in paying more for electricity generated in a more environmentally friendly way (NI: 26%; RoI: 33%).

It should be stressed that these results represent a 'high-water mark' of interest as the likely take-up of these services would tend to be much lower due to inertia and concerns about the impact of potentially increased price.

Business attitudes to freqency of price reviews

SME and LEU business respondents in both NI and RoI were also surveyed about their attitudes towards more frequent price changes. It should be noted that some of these businesses have already experienced more frequent price changes as part of their service agreement with their supplier. LEU's may also have opted for tariffs which vary with input fuel prices.

To understand the level of interest in the different options tested, respondents stated which option best matched their business needs (shown in Figure 47). In both NI and RoI and across both SME and LEU sectors, the most popular preference is for a price set annually. However, there are significant percentages which prefer more frequent price revisions. This supports the current situation where business consumers can select the supplier who can provide the option they require.

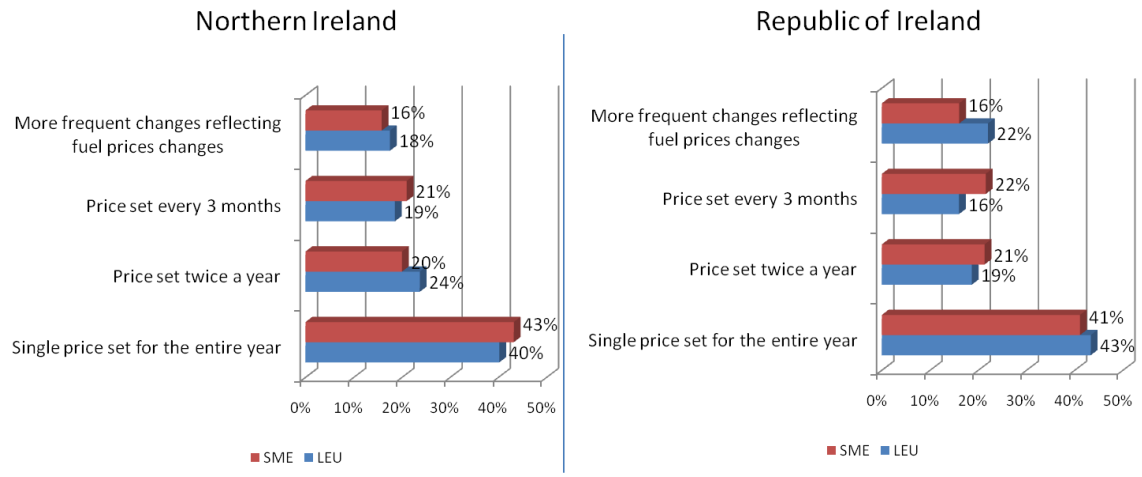

Figure 47: Preferred frequency of price revision among SME's and LEU's in RoI and NI

If more frequent price revisions were introduced, the potential impact as assessed by SME and LEU businesses in NI and RoI is summarised in Figure 48: For example 36% of SME's in NI stated that more frequent price revisions would make it harder for them to pay bills.

	Northern Ireland		Republic of Ireland	
Expected impact of more frequent price revisions	**SME**	**LEU**	**SME**	**LEU**
Would make it harder to pay bills at costly times of year	36%	39%	38%	39%
Would increase overall cost of electricity	38%	37%	41%	45%
Able to change usage to minimise impact	36%	41%	40%	44%

Figure 48: Percentage of SME and LEU respondents stating that more frequent price revisions would impact their business in the stated manner

6. Interest in dual fuel or Smart Meter enabled offerings

The final component of the research explored:

- The opportunity for a Smart Meter roll-out (currently being investigated in the National Smart Meter trial in the Republic of Ireland) to enable electricity suppliers to create novel offers which will in turn encourage both residential and business consumers to switch suppliers. In the context of this component, only businesses which do not already have meters which capture time of use information were included in the research.

- The level of interest in and expectations of a dual fuel offering (i.e. a single supplier for both electricity and gas) among current natural gas consumers.

Smart Meters

The respondents were asked if they would switch to a supplier who could provide additional functionality which is derived from smart meters. Respondents were first asked if they would switch without additional discount and then if they would switch if there was a time of use tariff. In order to provide a basis for the evaluation of the offer a hypothetical specimen tariff proposed which was 25% more expensive at peak and 15% cheaper at night.

The three types of additional functionality explored were:

- An in-home/in-office display (IHD/IOD)

- Online bills with usage information shown as a table or graph on the bill

- Printed bills with usage information shown as a table or graph on the bill

Reflecting the different methodologies adopted for business and residential sectors, the survey approach was different for each of these sectors: Residential consumers were shown printed samples showing each of the potential options. Business customers (who were interviewed by telephone) were given a verbal description only.

It should also be stressed that the smart meter related offers are only applicable to business sector customers who do not already have similar metering capabilities and in some cases suppliers already provide additional information.

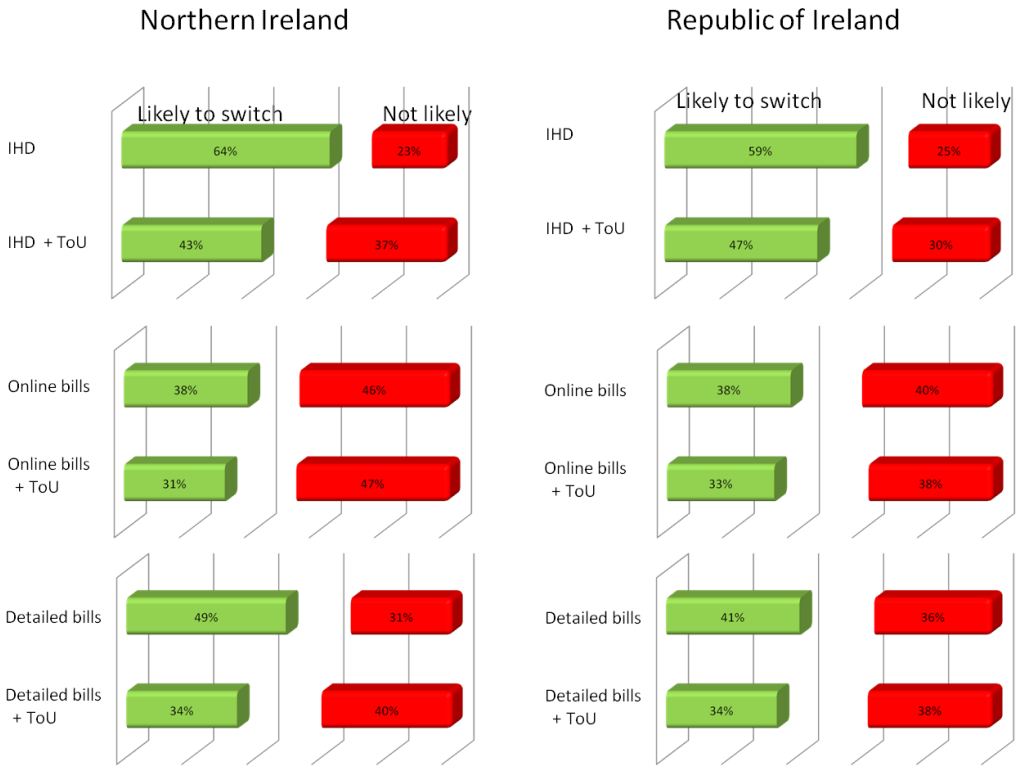

Figure 49: Percentage of residential respondents who stated that they would switch to if each offer was available from an alternative electricity supplier

The results are shown in Figure 49 (residential) and Figure 50 (business). Among residential consumers, the stated level of interest in switching to gain access to these additional capabilities in both NI and RoI is high for all offers (IHD, Online bills and detailed bills).

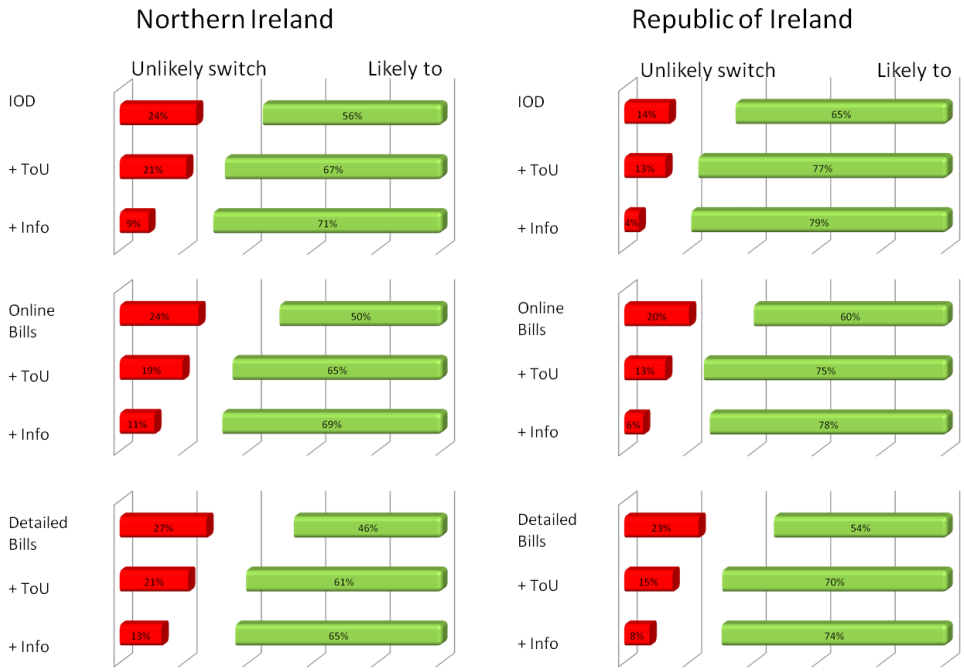

Figure 50: Percentage of business respondents who stated that they would switch to if each offer was available from an alternative electricity supplier

As with variable tariffs, it is reasonable to interpret these figures as the high water mark of interest and the actual switching level will be much lower. However, even with this interpretation the level of interest is high.

Among the residential respondents who stated they were not likely to switch to access a smart meter related offer, the reasons for not finding the offers attractive vary greatly between NI and RoI.

Reason for not switching to gain benefit	NI	RoI
I don't believe that I would be able to reduce my bill	57%	26%
It would be too inconvenient to change when I use electricity	21%	24%
I do not want to be told when I can use electricity or not	14%	21%
I have little control over how much electricity I use during peak hours	12%	17%
I am not interested in changing when I use electricity in order to reduce my bill	11%	17%
I don't know enough about when I use electricity to how to change when I use it	11%	16%
Other	28%	6%

Figure 51: Reasons selected by residential consumers for not switching to a supplier with a smart meter derived offers (only those respondents who stated they would not switch for a smart meter offer)

The level of interest among business sectors in smart meter related offers was much lower. As the respondents who already used real-time meters were excluded (those on Maximum Demand type tariffs), the businesses that were given the option were those who were on general purpose tariffs and have proportionately lower usage levels of electricity and hence less opportunity to benefit from potential efficiencies associated with the additional Smart Meter related information.

Dual fuel offers

The final component of the research dealt with the interest among both residential and business sectors in NI and RoI in dual fuel offerings. In the context of this research, dual fuel option was described as ***a single bill from a single supplier for both your gas and electricity usage***. It is recognised that dual fuel could be offered within the provision of a single bill, however the researchers in consultation with the RAs concluded that such a dual fuel option would be difficult for respondents to rate. However, it should be stressed that this decision does not indicate any sector preference for specific dual fuel offers.

The research tested the interest in the dual fuel concept defined above and the relationship between the stated level of interest and potential discount provided by the dual fuel supplier. These options were provided to all sectors (residential, SME and LEU). Figure 53 graphs the interest among residential consumers (who are both electricity and natural gas consumers) in the concept without additional discount and then at increasing level of discount. The dip in stated interest at 2.5% discount represents the crystallisation of 'disappointed expectations' where the statement of what is perceived a small discount impacts negatively on the overall perceptions of the concept.

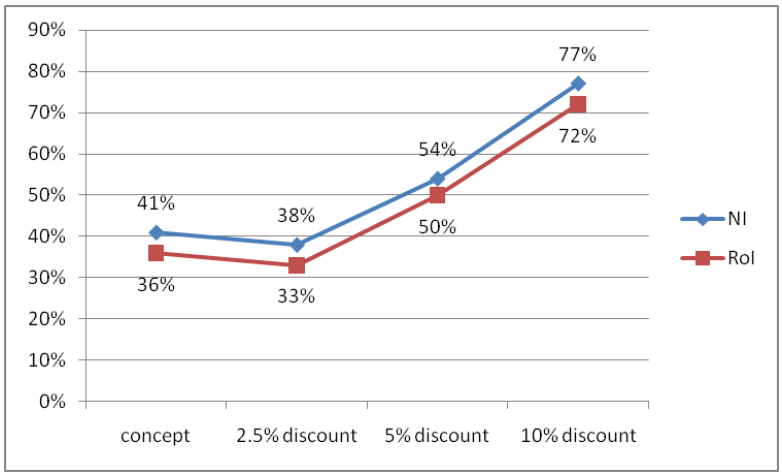

Figure 53: Percentage of residential consumers in NI and RoI who stated interest in a dual fuel offering

The level of interest among the business sector (including only businesses which are both natural gas and electricity consumers) is summarised in Figure 52. In NI, there is a significantly higher level of interest in a dual fuel offering. In contrast, scores are similar for both SME and LEU. Interest in the business sector is similarly linked to level of potential discount offered. In NI, there is a significant increase in interest when a 10% discount is associated with the offer (64% of SME and 72% would be interested at that level, at 5% the scores are 24% and 22% respectively). RoI business sectors follow a similar pattern with interest in this option reaching a tipping point when a 10% discount was also offered (63% of SME and 57% LEU would be very interested at that level, at 5% the scores are 24% and 27% respectively).

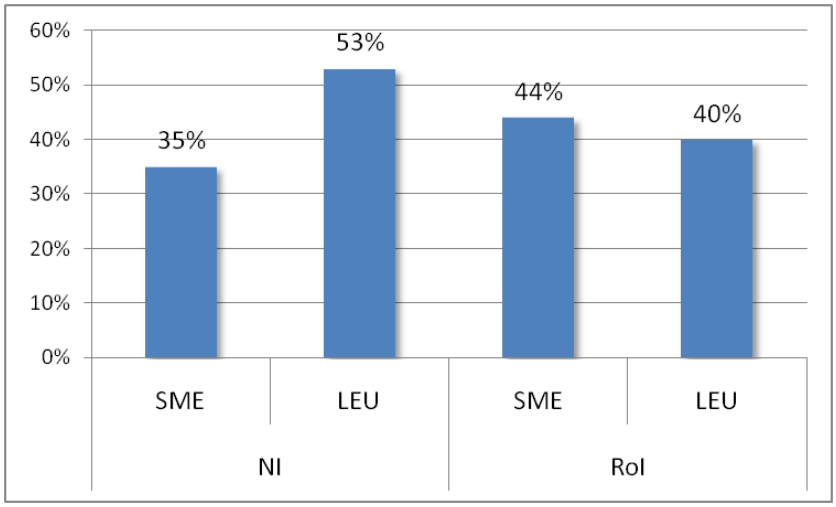

Figure 52: Percentage of SME and LEU consumers in NI and RoI who state an interest in a dual fuel offering

7. Appendix: List of figures

