

***Staying In Hot Water:
Consumers Need Better Information***

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For:

The Consumers' Waterheater Income Fund

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Introduction and Conclusions

Introduction

Deregulation in energy markets has resulted in expanded choice for consumers, in terms of the number of energy suppliers as well as for related products and services.

This research report focuses on several current issues related to one of those products - water heaters. It has been completed by Will Dunning Inc. at the request of The Consumers' Waterheater Income Fund.

The research is based on a survey of 1,001 consumers living in Ontario. The sample included people who own a home (detached, semi-detached, or town homes) and did not include tenants or residents of apartment buildings.

The survey was conducted by Angus Reid during late May 2010.

Issues discussed in this report include:

- Consumers' awareness of contract terms (in general and as related to rental water heaters).
- Experiences with door to door sales.
- Opinions as to the energy efficiency gains associated with high efficiency (Energy Star) water heaters.
- Opinions as to the costs of cancelling a water heater contract.
- Preferences between two contract options for rental water heaters.
- Support for rules requiring more complete "plain language" explanation of contract terms in door to door sales.

Conclusions

Contracts for rental water heaters are being signed by consumers who have incomplete understanding of contract terms, based on marketing that makes unrealistic claims about cost savings.

Most consumers are uninformed about the costs of terminating a contract for a rental water heater. More than one-half have no opinion, and among those with opinions, the opinions may not be well-founded. Actual cancellation costs differ, with some contracts specifying cancellation fees as high as \$700-\$1,000, and even higher. Just 1% indicated that they thought costs are in the range of \$700 to \$1,000. For those who rented their water heater via a door to door salesperson, the contracted cancellation fees are typically in the highest range (\$700 or more). But, only 10% of these consumers could correctly identify the cost to cancel, and more than one-half indicated that they were unsure as to the cost.

Consumers expectations about the benefits of high efficiency water heaters are unrealistic, as just one out of five (19%) correctly indicated the savings range (up to 10%). Among those who rented from door to door salespersons (whose sales pitches often centre on claims that savings

may be as high as 30%), about one-third (32%) believe that the savings are 20% or higher, and just one-quarter (26%) correctly identified the low amount of savings.

The survey results point to:

- A need for “plain language” disclosure of contract terms for rental water heaters (especially concerning cancellation fees).
- Realistic statements about energy efficiency.
- More generally, a need for “plain language” disclosure of contracts used in door to door sales.
- A need to improve awareness of provisions of the Consumer Protection Act.

About Will Dunning and Will Dunning Inc

Will Dunning has been analysing housing markets and related economic sectors since 1982. Since 2000 he has operated Will Dunning Inc, an economics consulting firm. More information on services and a variety of recent reports can be found at www.wdunning.com.

About The Consumers’ Waterheater Income Fund

The Consumers’ Waterheater Income Fund owns a portfolio of 1.4 million installed water heaters and other assets, leased primarily to residential customers in Ontario. Direct Energy Marketing Limited provides service support to the portfolio. More information on The Consumers’ Waterheater Income Fund is available at www.consumerswaterheaters.com.

More information on water heaters is available at www.hotwaterfacts.ca.

About Angus Reid

Angus Reid Public Opinion is the Public Affairs practice of Vision Critical headed by Dr. Angus Reid: who conduct high quality research throughout the world on a daily basis for corporations, governments, academic researchers, and non-profit organizations.

From May 21 to May 24, 2010, Angus Reid Public Opinion conducted a survey among 1,001 randomly selected Ontario homeowners who are Angus Reid Forum panelists. The margin of error—which measures sampling variability—is +/- 3.1%, 19 times out of 20. The results have been statistically weighted according to the most current age, gender and region Census data to ensure a representative sample. Discrepancies in or between totals are due to rounding.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. The Consumers’ Waterheater Income Fund, Angus Reid, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein. The opinions and conclusions in this report are those of the author and do not necessarily reflect those of The Consumers’ Waterheater Income Fund or Angus Reid.

Consumers' Awareness of Contract Terms

A general question asked the consumers "When you purchase or rent any household product or service, how comfortable do you feel that you understand the contract terms, and your rights and obligations under the contract?"

The consumers indicated that they were comfortable that they understood the terms, as 80% indicated they were "very comfortable" (19%) or "moderately comfortable" (61%). This left just 20% who are "not very comfortable" (18%) or "not at all comfortable" (2%).

As is shown in the table below, levels of comfort vary by age group, with the oldest age bracket being most comfortable.

<i>Level of Comfort</i>	<i>18-34</i>	<i>35-54</i>	<i>55+</i>	<i>Total</i>
Very Comfortable	15%	18%	23%	19%
Moderately comfortable	61%	60%	62%	61%
Not very comfortable	22%	19%	13%	18%
Not at all comfortable	2%	2%	1%	2%
Total	100%	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

A further question asked "At the time you purchased or rented your hot water tank, how well did you understand the contractual agreement?" The responses indicated that while most consumers (59%) feel they understand their contracts, a significant minority do not (41%). Those who own their water heaters are most confident that they understand the terms of the contracts. Among those who rent their water heaters, there is a lower level of comfort. Those who do not know whether they own or rent their water heater have quite low levels of understanding of the contracts.

<i>Understand Agreement</i>	<i>Own Heater</i>	<i>Rent Heater</i>	<i>Not Sure if Own or Rent</i>	<i>Total</i>
Well	70%	57%	24%	59%
Not Well	30%	43%	76%	41%
Total	100%	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

Experiences with Door to Door Sales

In the sample of 1,001 Ontario residents, 40% say that at least once during the past five years they have “felt pressured to make a household purchase by a door to door salesperson”. This is most frequent for older age groups, among whom almost one-half indicated they had felt pressured.

Table 3				
Per Cent of Residents Who Have Felt Pressured by Door to Door Salespeople (During Past 5 Years)				
	Age Group			Total
	18-34	35-54	55+	
% Yes	33%	38%	49%	40%
% No	67%	62%	51%	60%
Total	100%	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

A related question asked if they had, during the past five years, “ever signed a contract from a door to door salesperson”. One-tenth of those surveyed indicated that they had.

Table 4				
Per Cent of Residents Who Have Signed a Contract From Door to Door Salespeople (During Past 5 Years)				
	Age Group			Total
	18-34	35-54	55+	
% Yes	11%	9%	11%	10%
% No	89%	91%	89%	90%
Total	100%	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

A follow-up question, asked only of those who had signed a contract, was “Looking back, do you think you fully understood the terms of the contract at the time?” It was found that well over one-half (60%) did not understand the terms. Among those aged 55 and older more than three-quarters (77%) did not understand the terms. In the younger age groups, one-half (51%) did not understand the terms.

Table 5				
Per Cent of Those Signing Contracts Who Did Not Understand the Contract Terms				
	Age Group			Total
	18-34	35-54	55+	
% Yes	49%	49%	23%	40%
% No	51%	51%	77%	60%
Total	100%	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

Opinions on Energy Efficiency

Government publications indicate that high efficiency (Energy Star) water heaters result in moderate cost savings:

- A Government of Canada on-line publication¹ states that “ENERGY STAR qualified water heaters use at least 5 percent less energy than conventional models”.
- A US government publication² indicates that the energy savings versus “minimum standards” are 10-20%; the cost saving over an 8 to 10 year lifetime is “up to \$500”.

A publication from the American Council for an Energy Efficient Economy³ calculated “life-cycle costs” (including not just the cost of energy but also the cost for the equipment) over an expected life-time of 13 years. It estimated that the cost for a high efficiency gas water heater is \$5,220, which is \$174 (3.2%) less than the cost for a conventional gas water heater (\$5,394). It also estimated the annual gas costs at \$323 for the high efficiency option, which is \$27 per year less than the cost for a conventional gas water heater (\$350). By this measure, the energy cost saving for a high efficiency gas water heater is 7.7%.^{4,5}

The table below summarizes data from the Angus Reid consumer survey. It found that about one-fifth (19%) of consumers have realistic expectations of energy savings, as they indicate that the energy efficiency difference for an Energy Star water heater is 10% or less. A further 23% expect that the savings are in the range of 11% to 20%. However, about one-third (32%) have unrealistic expectations, that the savings would exceed 20%.

Some suppliers of rental water heaters have made claims about energy efficiency that figure prominently in their marketing materials. Those claims, such as “save up to 30%” and “up to \$1,000 total savings for the life of your hot water tank”, appear to be unrealistic based on the estimates discussed above. These claims appear to be most common for companies that are marketing door to door.

Among those who rented from door to door salespeople, about one-third (32%) believe that the savings are 20% or higher, and just one-quarter (25%) correctly identified the low amount of savings.

¹ Available at: <http://oee.nrcan.gc.ca/residential/personal/energy-star-home-heating.cfm#waterheaters>

² Available at: http://www.energystar.gov/ia/new_homes/features/WaterHtrs_062906.pdf

³ Available at: <http://www.aceee.org/consumerguide/waterheating.htm>

⁴ A simple calculation by this author yields a similar result. This was based on a list obtained from the Natural Resources Canada website, of 728 available gas water heaters and their energy factors. Energy factors were compared for Energy Star versus non-Energy Star gas water heaters. Overall, the difference is 8.7%; controlling for different tank sizes yields the same estimate.

⁵ In this analysis from the American Council for an Energy Efficient Economy, the cost of buying and installing a high efficiency model is higher than for a conventional model, which partially negates the savings from lower fuel consumption. Therefore, the life-cycle cost saving (just 3.2%) is less than the energy cost saving of 7.7%. In Ontario, where most water heaters are rented, the economics will be influenced by differences in monthly rental costs as well as costs of installation, service plans, and/or repairs.

Table 6			
Expectations About Energy Efficiency for Energy Star versus Non-Energy Star Water Heaters			
<i>% Energy Efficiency</i>	<i>Leased via Door to Door</i>	<i>Not Door To Door</i>	<i>Total</i>
No difference	0%	1%	1%
1%-5% difference	4%	4%	4%
6%-10% difference	21%	14%	14%
11%-20% difference	26%	23%	23%
21%-30% percent difference	16%	20%	20%
Greater than 30% difference	17%	12%	12%
Unsure	17%	26%	26%
Total	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.			

Costs of Cancelling a Water Heater Contract

Rental agreements for water heaters include a variety of termination options. Some of these involve substantial fees for the consumer to exit the agreement. The rental agreements may specify fees such as account closure fees, equipment removal charges, or mandatory equipment buy-outs. The total cost to exit an agreement may exceed \$1,000.

The survey investigated the extent to which consumers are aware of the potential costs⁶.

It found that among consumers who rent their water heaters, more than one-half are unsure as to the cost to cancel lease agreements.

For those who have an opinion, some responses will be from consumers who are aware of what the actual costs would be for them (given the contractual arrangements they have) and others will be less fully-informed and might be guessing at what typical costs are.

Given the range of contractual conditions that exist, there is no single “right answer” to this question.

However, available information indicates that for water heaters rented from door to door salespeople, the cancellation costs are often high (in the highest category shown below – \$700 to \$1,000 – or even higher). Therefore, we should expect that among the consumers who did lease from a door to door salesperson, a substantial share should respond accordingly. But, the survey data finds that only 10% in this group showed awareness that their agreement specifies a high cancellation fee. A large majority (59%) within this group are unaware of the cost, and the remainder (30%) indicated amounts lower than \$700 per month.

<i>Amount of Cancellation Fee</i>	<i>Leased via Door to Door</i>	<i>Not Door To Door</i>	<i>Total</i>
Less than \$50	0%	16%	16%
\$51 - \$99	6%	9%	9%
\$100-\$299	13%	14%	14%
\$300-\$499	7%	4%	5%
\$500-\$699	4%	2%	2%
\$700-\$1000	10%	0%	1%
Unsure	59%	53%	53%
Total	100%	100%	100%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.			

⁶ The question asked: “What do you think the fees are to cancel a rental water heater contract?” and offered the response ranges shown in the table.

Preferences Between Two Contract Options

In a deregulated and competitive market for rental water heaters, consumers face a wide range of options. While contract terms differ, it is possible to broadly characterize two choices⁷:

- Contracts that are relatively open, in that the consumer can exit at any time for a small cancellation fee.
- Long-term contracts that are marketed on the premise that the water heaters will provide significant savings in energy costs, and would entail a large cancellation fee if the consumer chose to exit early.

If the options are expressed this clearly, a substantial majority of consumers (83%) prefer the open option and just 17% would opt for the long-term contract that promised lower energy costs. The table below summarizes the responses, and looks further by showing differences in opinion by age group. This data indicates that older individuals are even more likely to prefer the flexible option.

<i>Contract Type</i>	<i>18-34</i>	<i>35-54</i>	<i>55+</i>	<i>Total</i>
Open, with small cancellation fee	78%	81%	87%	83%
Long term, with energy efficiency promise and significant cancellation fee	22%	19%	13%	17%
Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.				

The consumers answered this question based on their understanding of the issues and options. In reality, the survey data shows that consumers are not fully informed. As was shown above:

- A vast majority of consumers are not aware of how large the cancellation fees can be.
- Secondly, a large minority (one-third) of consumers significantly over-estimate the potential energy cost savings, and only about one-fifth have accurate expectations.

It seems very likely that full information would tilt preferences further in favour of the open contract option.

Options with long-term contracts and marketing based on exaggerated efficiency claims are most often offered by the firms that market door to door. The survey estimated that only a very small share (about 3% to 4%) of consumers with rental water heaters leased them from a door to door salesperson. For consumers with relatively new water heaters (five or less years old) the share is slightly higher, but still a small minority (about 6% to 7%).

⁷ To be more precise the question asked consumers to choose between two options “An open water heater rental contract that you could exit at any time for a small cancellation fee” and “A long-term water heater contract that promised efficiency, but required you to pay a significant cancellation fee”.

Support for “Plain Language” Explanations in Door to Door Sales

The survey data has indicated that consumers do not fully understand the terms of contracts in general and, in particular, for water heater rentals.

When asked ‘Would you support government rules or law for door to door sales that require “plain language” and disclosure of contract conditions?’ a very large majority (97%) would support this, including a very high share (82%) who would “strongly support” such a requirement and 15% who would moderately support it.

For this question, an interesting subset of the population is those who have made purchases from door to door salespersons. It is entirely possible that these people might be more comfortable with door to door sales and would not see a strong need for plain language disclosure; on the other hand, it is possible that based on their experiences they would be even more inclined to want such disclosure. The data shows that within this group, the level of agreement was the same or higher than for the broader population.

<i>Degree of Support</i>	<i>All Consumers</i>	<i>Have Signed a Contract With a Door to Door Salesperson in the Past 5 Years</i>
Strongly support	82%	84%
Moderately support	15%	15%
Moderately oppose	2%	1%
Strongly oppose	1%	1%
Total	100%	100%

Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.

The final question in the survey asked “Are you aware under the Consumer Protection Act that you may cancel an agreement up to ten days after receiving a written copy of the agreement?” The responses indicate that less than one-half (43%) are aware of this protection. As is shown in the table below, the level of awareness is especially low for those aged 55 and older (just 27%). It is obvious to state that if consumers are unaware of a protection, it will provide them very little protection.

	<i>Age Group</i>			<i>Total</i>
	<i>18-34</i>	<i>35-54</i>	<i>55+</i>	
% Aware	61%	43%	27%	43%
% Not Aware	39%	57%	73%	57%
Total	100%	100%	100%	100%

Source: Angus Reid survey for The Consumers Waterheater Income Fund, analysis by Will Dunning Inc.