

5 August 2015

## **Behavioural Insights Team response to Energy market investigation: Notice of possible remedies**

This is the response from the Behavioural Insights Team to the *Competition and Markets Authority Energy market investigation, Notice of possible remedies*. For ease of reading we have bolded the relevant remedies and written our responses below each relevant query. We would welcome the opportunity to discuss any of our comments further, please contact [felicity.algate@behaviouralinsights.co.uk](mailto:felicity.algate@behaviouralinsights.co.uk)

### **Remedy 3 – Remove from domestic retail energy suppliers’ licences the ‘simpler choices’ component of the RMR rules**

**(a) Would this remedy be effective in increasing competition between domestic retail energy suppliers and/or between PCWs? What additional tariffs would energy suppliers be likely to offer that they currently do not due to the RMR restrictions?**

The simpler choices component of the RMR rules was intended to make switching energy supplier easier. The behavioural literature provides support for the idea of having fewer choices; ‘choice overload’ can lead to people failing to engage with a market or reduce their satisfaction with the finally chosen option. However, the impact of choice overload is not always clear<sup>1</sup> and in the case of energy markets the introduction of ‘simpler choices’ does not appear to have led to higher consumer engagement. It is worth noting that while limiting suppliers to four tariffs does not seem to have increased switching, on its own, this does not mean that having too many tariffs would not be an obstacle to switching if individuals are not helped to navigate those tariffs. The lack of increase in switching might be indicative of there being other, bigger, barriers, rather than that the number of tariffs doesn’t matter.

On balance we support removing the four tariff requirement because we believe removing this RMR restriction (or at least allowing a few more tariff options) would help promote competition between domestic retail energy suppliers and between Price Comparison Websites (PCWs) as well as enabling suppliers to create innovative time-of-use tariff structures once smart meters are rolled out – but allowing more varied tariffs should be contingent on improvements in the market e.g. ensuring APIs are available that will enable the PCWs/customers to make rapid and meaningful comparisons across their products.

While BIT supports the suggestion to remove the restriction on the number of tariffs, competition will only increase if the demand side of the market is operating effectively. To this end we would urge the CMA (and other regulators) to continue to try and simplify the market for consumers so that demand can respond quickly and accurately to market conditions. Behavioural insights suggest

<sup>1</sup> Scheibehenne, B., Greifeneder, R., & Todd, P. M. (2010). Can there ever be too many options? A meta-analytic review of choice overload. *Journal of Consumer Research*, 37(3), 409–425.

that transaction or 'friction costs' have a much larger impact than has traditionally been assumed in standard economic models. The existence of friction costs mean careful attention needs to be paid to the consumer experience in any market.

Simplification can be achieved by providing consumers with tools to help them choose. Price comparison sites are a good example of 'choice engines' – tools which help people exercise choice in a more effective way. The CMA will be aware of the Government's *midata* programme as well as the recent introduction of QR codes on energy bills. While it is too early to say whether QR codes have led to increased consumer engagement, BIT's view is that this approach of reducing market failures (in this case, information asymmetry) in a way which makes market engagement easy for consumers is promising and should be explored further. We would urge CMA/Ofgem to monitor the impact of QR codes to help inform future regulation.

**(b) Removing the four-tariff rule is likely to increase the range of tariffs on offer and result in different tariffs being offered on different PCWs. Are there, therefore, any remedies that the CMA should consider alongside this remedy, to encourage domestic customers to use more than one PCW in order to facilitate effective competition between PCWs and domestic energy suppliers?**

Gas and electricity are homogenous, abstract goods which presents a real challenge to encouraging consumers to engage in the energy market. Given that almost half of consumers have never switched energy supplier (despite the large potential financial savings) BIT considers it is unrealistic to expect high levels of ongoing engagement. Rather than expecting people to visit multiple PCWs we think a key focus should be on making the PCWs operate well so that people can be confident using them. Ways to improve the current PCW offering include:

- Better filtering and ranking within PCWs – such as the ability to filter by direct debit only, or filter out certain suppliers, and ranking of suppliers based on other factors, not just price (e.g. customer service quality); and
- See our response to Remedy 6(d) on a metaPCW that would provide comparisons on savings and customer satisfaction between PCWs.

PCWs lead to a clear focus on headline prices, however BIT thinks there is the potential to help drive competition on quality in energy markets. We know that how information is presented has a powerful effect on people's behaviour and giving information about quality as well as price can have a big effect on market outcomes.<sup>2</sup> Ofgem collects information from energy suppliers about their performance in relation to their social obligations. This includes information which consumers are likely to consider when they choose their supplier, including disconnection rates and help for vulnerable customers. Although this information is released it is not easy to use or understand and is updated very

<sup>2</sup> Luca, Michael. "Reviews, Reputation, and Revenue: The Case of Yelp.com." Harvard Business School Working Paper, No. 12-016, September 2011. (Revise and resubmit at the *American Economic Journal - Applied Economics*.)

infrequently. The CMA/Ofgem should consider making this information available in an easy to use and timely way. One way to do this is to supply the information to price comparison sites so that it can be displayed along with prices to help consumers choose a supplier. Providing information at the point of the consumer's decision has the potential to help the market function more effectively and promote competition on quality rather than just price.

**(c) We note that if this remedy were to be imposed, Ofgem's Confidence Code requirement for PCWs to provide coverage of the whole market appears likely to become impractical as the number of tariffs offered increases and PCWs agree different tariff levels and commissions with energy suppliers. Should this element of the Confidence Code be removed, therefore, as part of this remedy? If so, are alternative measures to increase confidence in PCWs required? For example, in order to maintain transparency and trust, should PCWs be required to provide information to customers on the suppliers with which they have agreements and those with which they do not? The four-tariff rule effectively ensures that all PCWs offer the same range of tariffs to customers as they cannot negotiate discounts with energy suppliers.**

BIT does not have a strong view on this proposal. However, we note that the fact that a number of popular switching sites have not sought to be ranked by the Ofgem Confidence Code suggests that the Code is not a key driver of consumer behaviour (this also raises a question about the efficacy of the Remedy 6).

As set out above, making a market easy to interact with is key to driving consumer engagement. CMA research suggests that only about half of people are confident that a PCW will help them find the best deal. CMA should work with PCWs to test different ways of giving consumers information about which suppliers/tariffs are available on a specific site – and which PWCs are performing best (including their own margins). We know that terms and conditions aren't read, so careful consideration needs to be given to helping consumers choose between PCWs.

PCWs vary in their impartiality, accuracy and transparency. Rather than extending or modifying the Confidence Code Ofgem could instead create a league table of the best sites which would draw attention to good and bad practice among PCWs and allow consumers to choose the best site to use. Sites themselves may also feel pressured into becoming more transparent and more accurate.

**(d) Rather than removing all limits on tariff numbers and structures, would it be more effective and/or proportionate to increase the number of permitted tariffs/structures? If so, how many should be permitted and which tariff structures should be allowed?**

**(i) For example, would requiring domestic energy suppliers to structure all tariffs as a single unit rate in pence per kWh, rather than as a combination of a standing charge and a unit rate, reduce complexity for customers, while avoiding restricting competition between PCWs? Alternatively, would**

**such a restriction on tariff structures have a detrimental impact on innovation in the domestic retail energy markets?**

Currently, the best option for some people is a £0 standing charge with high unit rates, because they use energy in those homes infrequently. Others benefit from higher standing rates but much lower variable rates because of how much energy they use. Having one single unit rate structure would certainly reduce complexity and make it easier to compare, but it might adversely affect consumers by raising average prices.

BIT thinks the CMA/Ofgem should instead focus on giving people tools to better navigate the market. These are likely to include giving people access to better information and tools to help use that information to compare prices easily.

The current tariff comparison rate (TCR) tries to allow easy comparison between different standing and unit charges but is not particularly useful because it is so heavily caveated due to the assumptions used in its calculation. Midata and QR codes can help overcome these problems by allowing individuals to compare tariffs based on their usage data – this could help consumers choose the best tariff based on their consumption habits while allowing suppliers to offer a wide range of tariffs.

**Remedy 4a – Measures to address barriers to switching by domestic customers**

**(c) Should PCWs be given access to the ECOES database (meter point reference numbers) in order to allow them to facilitate the switching process for customers?**

**(i) To what extent would this reduce the rate of failed switches and/or erroneous transfers?**

**(ii) Are there any data protection issues we should consider in this respect?**

**(iii) Will access to this database still be relevant once smart meters have been introduced?**

BIT agrees that PCWs should be given access to the ECOES database. BIT has found that the best way to encourage people to do something is to make it easy.<sup>3</sup> Since this database provides meter point reference numbers, providing access to the data will make it easier for PCWs to switch consumers. It will mean that there is one less piece of information people will have to provide since they won't have to go searching for their meter number. The removal of even just one extra step in a process can spur action – for example, BIT found that 20% more people will fill out a tax form when sent directly to the form, instead of being sent to a webpage that contains a link to the form. This database also provides

<sup>3</sup> [http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST\\_FA\\_WEB.pdf](http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf)

information on the last time a supplier was switched, which means that PCWs can also compete to try to switch people who have not switched in a while.

**(d) Should there be penalties for firms that fail to switch customers within the mandated period (currently 17 days, next day from 2019)? How should these penalties be administered? At what level should the penalties be set? Should customers who suffer a delayed or erroneous switch receive the penalty as compensation?**

We know that how information is presented has a powerful effect on people's behaviour and giving information about quality as well as price can have a big effect on market outcomes.<sup>4</sup> Therefore firms could be motivated to switch customers within the mandated period if Ofgem were to publish switch times. By making suppliers' switching times transparent, and ranked against each other on a league table, performance may be increased without needing to use fines.

However, arguably much more critical than how long the switch takes, is how long it takes the consumer to organise. Reducing the switching process to 5 minutes instead of 30 minutes is likely to be much more consequential than whether the actual transfer takes a week or two weeks to come into effect.

**Remedy 4a continued: In light of the introduction of smart meters, we are considering whether any other remedies may be required to address barriers to switching for domestic customers. For example:**

**(a) Does the 'Midata' programme, as currently envisaged, provide sufficient access to customer data by PCWs to facilitate ongoing engagement in the market? Should PCWs – with customer permission – be able to access consumer data at a later date to provide an updated view on the potential savings available?**

PCWs, with customer permission, should be able to access consumer data at a later date to provide an updated view on potential savings available. PCWs can continue to prompt consumers to switch in the future (particularly because they know when a tariff they switched the consumer to is coming to an end). Their ability to make switching salient and continue to prompt in a timely manner is likely to facilitate switching.

**(b) Do customers need more or better information or guidance on how their new smart meters will work?**

Smart Energy GB was set up to provide information and guidance on the smart meter rollout. To fulfil their role they should make sure that consumers are well informed about what their smart meter is and how they work. As the rollout of smart meters is being done by suppliers, there is no incentive for them to flag to their customers that smart meters make switching easier. Smart Energy GB should make sure that this message is delivered. DECC is also doing work on

<sup>4</sup> Luca, Michael. "Reviews, Reputation, and Revenue: The Case of Yelp.com." Harvard Business School Working Paper, No. 12-016, September 2011. (Revise and resubmit at the *American Economic Journal - Applied Economics*.)



smart meter advice and materials, which should not only include how smart meters work, but how to engage with them to save energy and money.

## **Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers**

### **(a) Would this remedy be effective in increasing customers’ trust in PCWs and thereby encourage engagement in the markets and switching?**

An Ofgem PCW may well increase trust, but it seems likely that there are other behavioural barriers to switching than are more important than trust in PCWs, such as the hassle of switching, and the lack of prompting (there is never an obvious or pressing moment to get around to actually switching).

In general BIT does not support an Ofgem PCW because it has potential to stifle market innovation. We also question how effective it would be. As set out in our response to Remedy 3, the Ofgem Confidence Code does not appear to drive consumer behaviour and we would be sceptical that adding an extra ‘official’ comparison service to a vibrant market would help consumers.

As suggested above, we do think there is more work Ofgem/CMA could do to increase trust in, and effective competition between, existing PCWs. A further extension of this is by prompting consumers at key moments to consider switching their energy provider using a PCW. One way to do this could be to require energy providers to include a link to a PCW on consumers bills via the QR code which now has to be printed on all bills. In the same way as PCWs currently negotiate deals with energy providers to list their tariffs they could compete to have a link to their QR app on a provider’s bill.

### **(b) Should this service be online-only, or should it also operate over the telephone for those customers without access to the internet?**

See our response to remedy 6(a). If introduced, we would support the idea of having a telephone service to make the service as widely available as possible.

### **(c) Is there a risk that such an independent service could undermine the development of other PCWs in the energy sector? How could this risk be mitigated?**

Yes, which is why BIT thinks an Ofgem service is not the best remedy. We are also unconvinced that it would help address the problem of lack of trust and engagement with PCWs.

### **(d) Should the Ofgem website quote the energy suppliers’ list prices only? Or should it seek to provide full details of all quotes available on the market (including on other PCWs), ie function as a metaPCW?**

A metaPCW would be useful as it would reduce the hassle factor of customers having to compare multiple PCWs. Customers would have more confidence that they’re finding the best price as a result. However, BIT would have concerns

about whether an Ofgem metaPCW would undermine competition and innovation. In other sectors, such as travel, metaPCWs have developed as the market has matured without the need for public sector intervention.

An Ofgem metaPCW should provide guidance or ranking of the relative performance of different PCWs, such as average price savings achieved and ease of use as ranked by customers, not to create a separate PCW. PCWs that fail to provide data feeds into the Ofgem metaPCW will be disadvantaged, as consumers won't see any information about the site or the PCW will end up at the bottom of the comparison.

**(e) How could we ensure that an Ofgem price comparison service was robust in terms of offering all tariffs available on the market? Should there be an obligation on retail energy suppliers and/or PCWs to provide information to Ofgem on their tariffs?**

It is important that consumers trust the new website, it seems likely that trust will be higher if consumers are confident that the website shows them all prices. But note that a well-functioning metaPCW will punish sites that fail to provide information 'naturally'.

**(f) Should any price comparison service operated by Ofgem be transactional, i.e. be able to carry out switches for consumers, or should it provide information only?**

A transactional service would greatly reduce the hassle factor of switching. Across BIT's work we have repeatedly seen evidence that any additional steps in a process significantly reduce completion rates.

**(h) How should customers be made aware of the existence of this service? Should information be provided by energy suppliers on bills/during telephone calls? Should PCWs be required to provide links to the Ofgem website during the search process to allow customers to cross-check prices?**

If an Ofgem PCW was created, ideally information about it would be on energy bills. This is because reading an energy bill is a salient and timely moment prompt people to switch.

**(i) Is there any additional information that Ofgem should provide on its website relating to energy suppliers and/or tariffs to facilitate the customer search and switching process?**

See our answers above. The focus should be on minimising the hassle for consumers. Getting consumers to take the first step of starting to search for different tariffs is not an insignificant challenge so the CMA/Ofgem should focus on making sure that once people have taken the first step the rest of the journey is as simple and easy to complete as possible.

*We strongly recommend that Ofgem run and publish a mystery shopping exercise process across PCWs on a quarterly or biannual basis. This would greatly help to*

keep the PCWs focused on customer satisfaction; catalyse early market development and increase traffic to the Ofgem site/metaPCW. It would subsequently serve to validate and calibrate Ofgem's use of live data feeds from the PCWs to ensure that they are indeed giving consumers a reliable market steer towards the best performers.

## Remedy 7 & 8 Response to microbusinesses

BIT has largely focused on interventions aiming to change consumer behaviour, rather than the behaviour of businesses. However, we have done some work involving prompting businesses to apply for Government schemes and the approaches we tested seemed to operate in the same way we would expect for individuals. While we can't assume that the behavioural biases that individuals often exhibit would be the same as for groups of individuals, there is likely to be considerable overlap. Interventions aiming to change the behaviour of microbusinesses would have to be appropriately tailored.

## Remedy 9 – Measures to provide either domestic and/or microbusiness customers with different or additional information to reduce actual or perceived barriers to accessing and assessing information

**(a) Does the current format and content of energy bills facilitate engagement by customers? Is there additional information that should be included on bills? Should the quantity of information on bills be reduced to enhance clarity?**

The current format provides excessive, and sometimes confusing, information. BIT has a number of proposals to ways to improve energy bills:

- **Personalise annual statement letters:** Personalisation and loss aversion are both powerful tools to raise the impact of information and make it more relevant to consumers. As such, information within the annual statement letter should be made much more personal and specific to the consumer. An example message could be, "This year you spent £1,267 on energy. If you had switched to the best available tariff, you could have just spent £984. Don't waste money next year too, visit [goenergyshopping.co.uk](http://goenergyshopping.co.uk) to easily find the best tariff and make the switch today."
- **Mandate PCWs on Bill:** The introduction of QR codes is a great opportunity to try and improve consumer engagement. However, the details matter. At the moment it is not clear that if an individual scans their QR code they will receive useful information. One idea is to require suppliers to use the QR code to link to a PCW on their bills which could then show consumers the best deal for them. PCWs would compete to get on bills (in the way they currently negotiate deals with suppliers to list their tariffs) and pass the savings on to consumers. Or the QR code could take them to a first screen that showed the top three PCW as indicated by the Ofgem metaPCW, or possibly a rotating top link. For example, in 2009 EU regulators and



Microsoft reached a legally binding agreement in which Microsoft had to offer a 'ballot screen' which displayed a list of internet browsers consumers could set as their default (instead of just Microsoft's own Internet Explorer). This 'ballot screen' prominently listed the top five browser and displayed the remaining in a random order.

- **Mandate testing:** Energy companies should be required as part of their licensing conditions to work with Ofgem to test different approaches to communications, with a focus on subsequent consumer behaviour such as switching. Rigorous testing is the best way to be sure that these changes are effective and having the intended effect. It can be straightforward to run randomised controlled trials in a policy setting.<sup>5</sup> BIT has seen dramatic results trialling variations of tax letters to encourage people to pay their taxes, forms at jobcentres to help jobseekers get back into work, and emails to small and medium enterprises to take up government schemes to help their businesses grow.<sup>6</sup> Energy bills, annual statements, and product end notifications, as well as the ways terms and conditions are communicated, present a great opportunity to use randomised controlled trials to test the messages which promote switching as well as test different components of the RMR rules such as the messaging and Tariff Comparison Rate (TCR). The findings from these trials can be used to inform future regulatory approaches.

**(b) When customers seek to switch tariffs, are they given enough/too much information on the terms and conditions of their new contract?**

The terms and conditions, both on new tariffs, but also when tariffs end (such as the one included in the product end notification), could be simplified into a shorter format. This would avoid overwhelming people and deterring them from taking action. Different ways of presenting terms and conditions should be trialled to find the best way to create consumer understanding.

**(c) Should customers be prompted to read their meters (quarterly or annually), either by information on their bill or by a phone call from their energy supplier? Would this increase engagement by improving the accuracy of billing?**

BIT supports the idea of prompting consumers to read their meters. A possible extension to the proposal to giving PCWs access to the ECOES database (Remedy 4a(c)) could be to also provide information about when a consumer last provided a meter reading and switched. This information could then be used by PCWs to prompt consumers to read their meters and to use that as a touch point for switching. We would note that this remedy will not be relevant once smart meters are rolled out.

Ofgem should also consider a more differentiated approach as a sanction against the worst market performers (instead of, or alongside, fines). For example, if

<sup>5</sup> <http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/TLA-1906126.pdf>

<sup>6</sup> [http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT\\_Update-Report-Final-2013-2015.pdf](http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT_Update-Report-Final-2013-2015.pdf)

Ofgem's work identifies that a given market player has been making excessive profits, poor customer service, or obstructing switching, the company should be required to fund an Ofgem designed series of prompts to all, or a proportion of, its customer base to prompt switching. This prompt could of course highlight the higher performance of rival companies too.

**(d) Once customers reach the end of a contract period, should subsequent bills highlight that they have now been moved onto the standard variable tariff and/or other default tariff and encourage them to check whether they are on the most appropriate tariff for them?**

BIT supports this proposal. Currently the messaging on the product end notification and bills promotes internal switching, but it can do more to encourage switching between suppliers. We advocate testing different versions of the product end notification (that are not necessarily in keeping with the strict RMR requirements) to see which effectively prompts consumers to choose a new tariff. In addition, it is worth testing the effectiveness of phone calls and the format of the first few bills after consumers have been defaulted onto a standard tariff. For example, using the message "Since your contract ended in August you have spent £XX more pounds than you would have had you switched to the best available tariff for you".

## **Remedy 10 – Measures to prompt customers on default tariffs to engage in the market**

**(a) What information should be included in the prompts to customers on default tariffs in order to maximise the chances that they are acted upon?**

**(i) Should customers who have failed to engage be informed that they are 'no longer under contract for energy', that they have been 'rolled onto a safeguard tariff', or an alternative message, for example, emphasising how many customers in their area have switched in the last year?**

BIT strongly supports using a range of approaches to increase consumer engagement. Behavioural science suggests approaches that might be expected to work (such as social norms). However context and framing matter. This is why we advocate systematically testing different approaches. For example, "3 million people have switched in the last year in the UK" may be more effective than "4% of people in your area have switched in the past year". The best way to determine which message is most effective at encouraging switching is to run a randomised controlled trial, testing different messages against each other and then tracking actual switching rates for each message.

**(b) How should prompts be communicated to customers? For example, there is some evidence from the financial sector that text prompts are particularly effective at raising awareness in terms of overdrafts etc.**

BIT has run numerous trials testing different channels for communicating messages, including letter, email and text message. We recommend trialling

different forms of communication and evaluating which method leads to the highest levels of action. A randomised controlled trial testing different prompts could also identify if particular prompts are more effective amongst particular segments.

We would also suggest considering other, more unusual, ways of communicating. For example, Irish Revenue found that putting a short handwritten Post-It note on surveys increased response rates by more than 80%.<sup>7</sup> For customers who have been rolled into a default tariff, providing the information necessary for switching (phone number, account number, meter number) on a post-it note may be an effective prompt.

**(c) What should be the timing and frequency of prompts in order to balance effectiveness in terms of encouraging engagement with the cost and potential irritation that might arise from repeated prompts?**

As discussed above, by trialling different approaches it is possible to discover which types of prompts and which frequency of prompts are the most effective at driving action. However, to measure irritation levels, we recommend running qualitative research alongside the trial to capture consumer reactions.

Placing prompts across multiple touch points is likely to be more effective than one single touch point. Existing touch points such as bills, annual statements, and product-end notifications are ideal moments to prompt consumers, as they are likely to be thinking about energy costs at this time.

**(d) Who should provide the prompts: customers' energy suppliers, Ofgem or another party?**

The weight people give to information depends largely on the reactions they have to the source of that information. People are affected by the perceived authority of the messenger (whether formal or informal). For example, there is evidence that people are more likely to act on information if experts deliver it. One study showed that health interventions delivered by research assistants and health educators were more effective in changing behaviour compared with interventions delivered by either trained facilitators or teachers – and health educators were usually more persuasive than research assistants.<sup>8</sup> People are also affected by the feelings we have towards the messenger: for example, people may discard advice given by people they dislike.<sup>9</sup>

Therefore, trusted or likable messengers are very important when encouraging behaviour change. Ofgem are likely to be more trusted than the supplier, but only if the customer is aware of Ofgem. Other parties may be even more trusted than Ofgem for particular groups of people, for example Age UK. With this in mind, energy suppliers may not be the best messenger for a switching message. As

<sup>7</sup> Irish Revenue (2013) *Survey of Small and Medium Sized Business Customers 2013*.

<sup>8</sup> Webb and Sheeran (2006) Does changing behavioral intentions engender behavior change? A meta-analysis of the experimental evidence. *Psychological Bulletin* 13: 249–268.

<sup>9</sup> Cialdini (2007) *Influence: The psychology of persuasion*. New York: HarperBusiness, Revised Edition.

discussed above, different messengers could be trialled to test which is the most effective at driving consumer action.

**(e) Are there particular groups of customers who should receive prompts at specific points? For example, should house-buyers be prompted to engage with the market on completion of their purchase?**

Consumers are often more likely to change their behaviour whilst transitioning to a new life stage (e.g. moving house, retirement, or even when starting to collect other benefits, such as jobseeker's allowance). This would suggest that prompting house-buyers on completion of a purchase may be a good time to encourage switching. Retiring, starting to collect benefits, and before having children are particularly sensitive moments for behaviour change.

**(f) Is there benefit in others in the markets, such as rival energy providers or TPIs, being made aware of which customers remain on default tariffs (or have been rolled on to the safeguard tariff)? In this respect, data protection issues would need to be carefully considered. The ability of other market participants to identify inactive customers, however, has the benefit of potentially encouraging the customer to switch tariffs once out of contract.**

Making rival energy providers or TPIs aware of which customers remain on default tariffs requires careful consideration, as those more likely to stick to defaults are, in this context, 'vulnerable customers'. These customers may be enticed to switch by suppliers who know they can then rely on those customers staying with them after the tariff comes to an end. In other words, suppliers might set up tariffs which are very attractive in the short term, but which increase dramatically in price at some point in the future, and then target these 'non-switchers' specifically with these offers. Giving suppliers' information on which customers don't tend to switch, could be risky in this regard. Third party intermediaries might be a better option, for example consumer groups such as Which?. Another option is for Ofgem to contact these households, guiding them through the tariff switching process or directing them to a transactional PCW.

### Other ideas

BIT has a number of other ideas about how to increase consumer engagement:

- **Automated switching:** Automated tariff switching would be a powerful way to overcome many frictions in the system. Using midata and the proposed energy API, it would be possible for consumers to delegate their switching choices to a third party provider, who would then ensure that the consumer is always on the best tariff. This seems like a radical idea, but has already been partly implemented by the Cheap Energy Club,<sup>10</sup> although it is not automatic and still requires consumers to opt-in instead of opt-out.

<sup>10</sup> <http://www.moneysavingexpert.com/cheapenergyclub>

- **Up front financial incentive for switching:** One barrier to switching is the perceived uncertainty of moving to a new supplier or tariff, as well as uncertainty about future consumption and whether the new tariff will lead to a saving. We think it is worth considering the idea of upfront financial incentives to help overcome some of this uncertainty. For example, “last month you could have saved £10 on our tariff, switch now and receive that £10 saving today.”

## **Remedy 11 – A transitional ‘safeguard regulated tariff’ for disengaged domestic and microbusiness customers**

**(d) Should all domestic and microbusiness customers on default tariffs be rolled onto the safeguard tariff, or should this remedy only apply to a subset of these customers? If this remedy should not apply to all customers, why? And how should energy suppliers identify those customers who should be covered?**

BIT agrees that all customers on defaulted tariffs should be rolled onto the safeguard tariff, which would replace all other evergreen tariffs.

**(k) Would energy suppliers have the ability to circumvent the remedy, for example, by encouraging disengaged customers to switch on to less favourable, unregulated tariffs, and how such risks could be mitigated?**

It is possible that energy suppliers may respond to the safeguard tariff by creating additional unregulated tariffs that are not optimal for customers. However, it is not clear that if disengaged customers did engage with the market to switch from the safeguard tariff, they would choose to switch to one of these less favourable tariffs. This remedy would require careful monitoring, BIT suggests introducing a sunset clause at which point the impact of the remedy would be assessed and unless it could have been shown to have benefitted consumers it would be removed.

**(m) Are there any potential unintended consequences of setting safeguard price caps, for example, in terms of their potential impact on the level of other, unregulated tariffs?**

BIT considers that there are likely to be unintended consequences of setting a safeguard price. One key concern is that it will create a strong ‘anchor’ price, which might cut out some very high tariffs but that may also risk pulling other lower tariffs close to this margin up.

Another is that it may reduce incentives for consumers to switching. They may think that they don’t need to switch because they are “safeguarded”. We suggest two approaches could address this unintended consequence:

1. The tariff should be named the “emergency” or “transitional” tariff, rather than the “safeguard” tariff to encourage higher levels of action by consumers to move off this tariff by highlighting the exceptional nature of



the tariff. The phrase “safeguard tariff” may imply to the consumer that they are “safe” and do not need to take action.

2. If customers are on the safeguard tariff for longer than a set time (for example, 2 years), the supplier should be compelled to engage with the customer in a more intensive way. If this intensive engagement doesn’t prompt the customer to switch from the safeguard tariff, the energy supplier could be penalised. Such measures would incentivise suppliers to better engage consumers in the market, and promote competition.

### **Remedy 13—Requirement that domestic and SME electricity suppliers and relevant network firms agree a binding plan for the introduction of a cost-effective option to use half-hourly consumption data in the settlement of domestic electricity meters**

**(e) Are there any distributional considerations that we should take into account in relation to time-of-use tariffs? For example, might vulnerable customers end up paying more if they fail to change their consumption patterns? Or will the decline in the required generation capacity outweigh any increase in peak prices?**

While time of use tariffs are designed to decrease the required generation capacity, and in turn decrease peak prices, there will be some delay before this benefit flows through to customers in lower energy bills. During the transition period, it is important that there are measures to protect vulnerable customers who may not change their consumption patterns.

Behavioural sciences literature suggests that because vulnerable customers are making many decisions every day about how to allocate scarce financial resources, they may not have the required decision-making bandwidth to change their energy consumption patterns.<sup>11</sup> One option to address this is to bundle the decision to change consumption patterns with other decisions. For example, the decision to default the washing machine to turn on after a 9 hour delay (so it can be turned on in the afternoon but operate at night) could be made and executed during the customer’s smart meter installation.

<sup>11</sup> Mullainathan, S., & Shafir, E. (2013). *Scarcity: Why having too little means so much*. New York, NY: Times Books