

**Ofgem – approach to trialling
UKCN December workshop**

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ofgem

Summary

These slides were presented by Beth Moon of Ofgem at the second workshop of the UKCN consumer remedies project held at the Competition and Markets Authority on 9 December 2016. The theme of this workshop was ‘enhancing impact through customer testing’.

This presentation reviews Ofgem’s approach to the trialling of proposed demand-side remedies.

The presentation begins by describing Ofgem’s efforts to increase its capacity to conduct such trials. It then sets out the main consumer research techniques, as well as their uses, that are available to Ofgem.

The second half of the presentation considers the CMA’s recommendations to Ofgem following the CMA’s energy market investigation. In particular, the presentation explains the initial actions taken by Ofgem to implement those recommendations and the issues, challenges and lessons that have emerged as a result of those actions.

The timeline of trialling in Ofgem

Pre CMA situation

- Comprehensive programme of consumer research
- Toe in the water with trialling but on an adhoc basis
- No influence over suppliers conducting their own trials – no requirements on quality etc

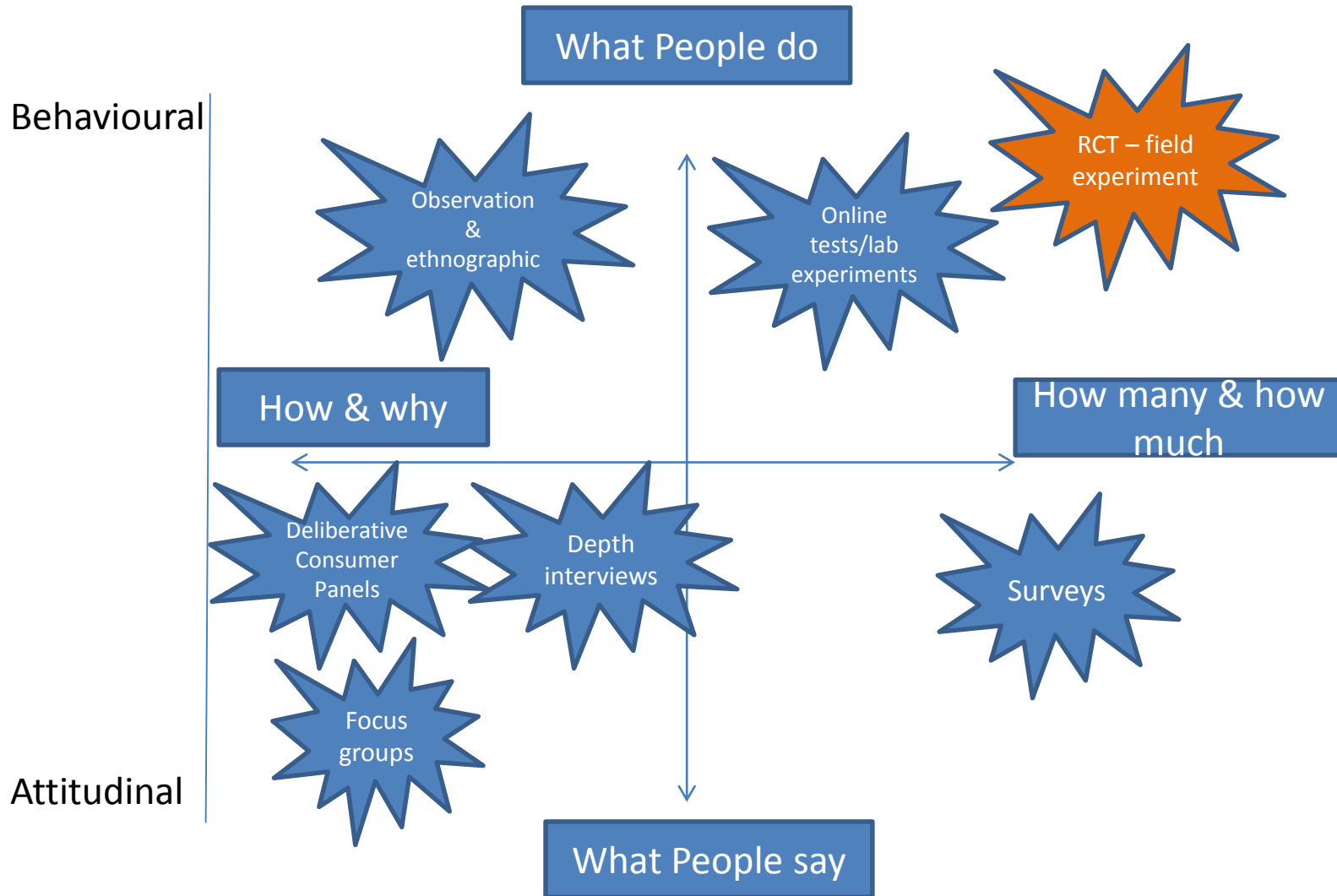
Where we are now

- Developing internal capability
- Working with suppliers on voluntary trials but limited involvement in design

Where we hope to be in a year

- Ofgem led trial underway
- Capability built and use of BI beginning to embed in Ofgem
- Multiple supplier led trials underway. Evidence base building

Behavioural Insight resource needs



Energy market investigation reported in June 2016

Remedies grouped into 'clusters'

- Regulation for effective competition
- **Prompting greater consumer engagement**
- Protecting and empowering those on non standard meters
- Building industry systems and governance for the future
- A robust and independent regulator

The main area of opportunity for RCTs is the engagement cluster

To address weak customer engagement in the retail energy market, the CMA recommended two information based remedies:

- **The Ofgem Database service**
- **The Ofgem led trialling programme** to provide domestic consumers with different or additional information with the aim of promoting engagement in the domestic retail energy market.

The CMA further recommended that we introduce a licence condition to require suppliers to participate in the trialling programme, to ensure the programme's effective implementation

Consumer engagement - the problem

85% of customers are with a B6 supplier

70% of B6 consumers are on a SVT (most expensive tariff)

Consumers paying more than they need to

Why?

Larger suppliers able to charge more for SVTs than acquisition tariffs [£650m/year 2012-14]

How?

By exploiting the lack of customer engagement in the market to charge more

Why?

B6 have “unilateral market power over inactive customer base”

- General apathy/inertia
- Sense of control/comfort/satisfaction/loyalty with existing supplier
- Customers are strongly minded towards the default
- Perceived complexity - customers are overwhelmed by choice and information
- Customers are concerned about the hassle of switching
- Perceived difficulties around the switching process – time consuming, fear of thing going wrong
- Perception that the reward does not outweigh the effort
- Customers are more focused on today and not the future

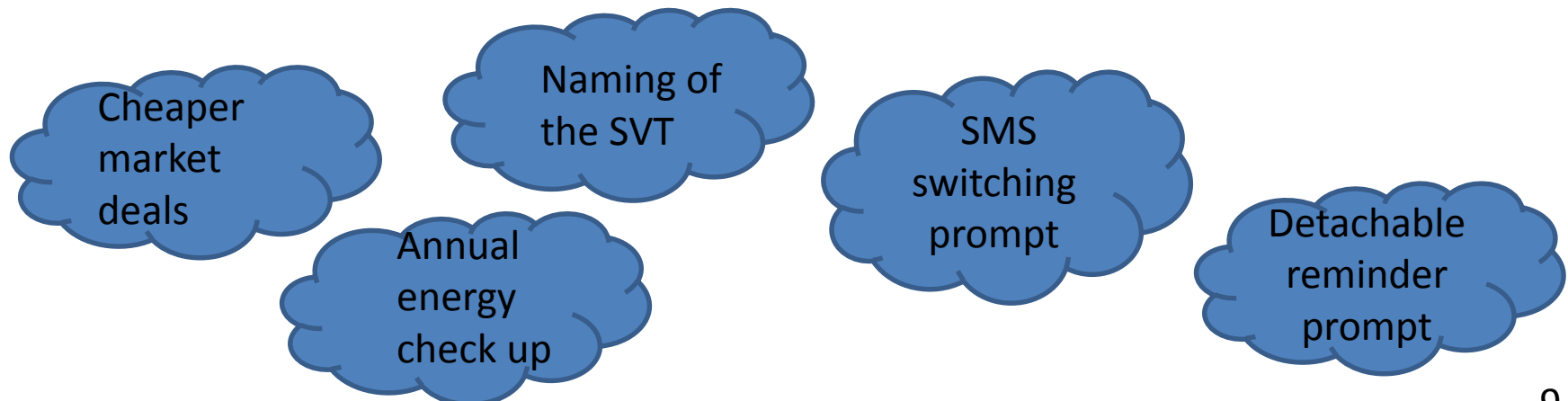
- Creation of new internal Behavioural Insights Unit
- Programme of research to include ‘Ofgem led’ and ‘supplier led’ trials to find out what works in changing customer engagement behaviour
- Development of trialling framework and guidance for suppliers
- Consulting on a licence condition to require suppliers to conduct trials

Target audience

- Consumers who have been on a default tariff for less than three years
- Consumers who are likely to roll-over onto a default tariff

Prompts

- Focusing on prompts that increase switching or the threat of switching (content, format, timing channel, etc)
- Review of existing information tools e.g. cheaper tariff messaging
- Considering optimisation of existing communications to ensure they more effectively frame prompts



Building capacity internally to create a BI unit

Discovery research – synthesising existing evidence and developing long list of potential interventions

Engaging suppliers re: voluntary trials

Publication of trials framework, trials guidance, decision on licence condition, methodology for supplier participation

Supplier led trials underway

Initial planning for Ofgem led trial

Nov16

Dec 16

Jan 16

Feb 16

Mar 17

April 17

May 17

Trials with suppliers are challenging

- Difficulties working in a voluntary cooperation environment
- Mixed level of capability among suppliers
- Long lead times for systems changes
- Misaligned incentives

Considerations/challenges ahead

- Striking a balance between operational complexity, burden and gathering statistically robust data
- Deciding which trials to support
- Ensuring external validity – approach to multiple supplier trials etc
- Upskilling suppliers
- External engagement e.g. academic expertise

We are keen to build a network of individuals/organisations who can provide support and advice to this programme of work.

Please get in touch with me (beth.moon@ofgem.gov.uk) or Annabelle Bonus (annabelle.bonus@ofgem.gov.uk) if:

- You are interested in being involved in any way
- You have any evidence that is relevant to any of our initial ideas or that could help to shape our approach
- You have ideas for topics for trialling

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.