How regulation can address changes in behaviour

Andy Burgess
Associate Partner, Transmission and Distribution Policy, Ofgem – energy regulator for Great Britain
Two situations

• Energy retail markets
  – Opened up to competition in 2000-2002
  – Low proportion of consumers switching

• Energy network companies –
  – Traditionally reactive and risk averse
  – Significant technological and other change happening
Retail Markets

- Two dimensions –
  - Competition and market structure
  - Consumer behaviour

- Ofgem conducted extensive consumer research to examine how consumers behaved

- Ofgem trialled different options designed to reduce complexity

- Reforms introduced to try to get market working
Why do we gather consumer insight and research?

Monitoring
- Key regulatory function
  E.g. Markets, consumer protection

Policy
- Problem definition
- Policy development
- Implementation
- Policy evaluation

Organisational culture
- Putting consumers at the heart of all we do
- Stakeholder engagement

Increasing need to
- Understand consumer behaviours and their drivers
- Diversity and differential impact, e.g. vulnerable consumers
- Ensure evidence based policy making
- Disseminate and embed insight
Understanding consumers & the market
- Annual customer engagement tracking survey, CAPI omnibus, c.1500 GB-wide (IM)
- Consumer First Panel, delib forum c.100 across 6 GB locations, annual refresh (IM, DL)
- Qual research w vulnerable consumers c. 80 (SPA)
- Big Sofa (IE) video based tool

Simplifying tariffs
- Quant/qual testing tariff & price comparison options, c. 2300 (IM, CR)
- Further testing of revised proposals, c. 2300 (IM)
- CF Panel on TCR pricing metric, c. 100 (IM)

Improving understanding
- Expert language review (LC)
- Qual comms testing: improved language & messaging on bills, etc, c. 200 (SPA)
- Desk review: reading & retention behaviours (IM)
- RCT on impact of Annual Statement (EE, TRP, IM)

Building trust
- Collaborative engagement workshops: Standards of Conduct, c. 105 + supplier reps, (IE)

Research inputs

Example policy impacts

2010
- Ongoing consultation
- Value of single metric to prompt comparison among fewer & simpler tariffs
- Need for personalised signposting to cheaper tariffs
- Improved customer service needed to build trust

2011

2012

2013

2014

Statutory consultation

Implementation Evaluation
Why don’t consumers engage?

Willingness to engage
- Sense of powerlessness as prices rise
- Dissatisfaction with suppliers
- Lack of trust
- Don’t have time and inclination
- ‘Status quo bias’
- ‘Loss aversion’

Ability to engage
- Complexity
- Inaccessible language
- Low literacy and numeracy skills
- No access to internet
- In debt
- ‘Limited consumer capacity’

Increasingly sticky consumers
- Permanently Disengaged: 20 - 30%
- Disengaged: 20 - 30%
- Passive: 20 - 30%
- Reactive: 5 - 10%
- Proactive: 5 - 10%
Energy network companies

• Facing unprecedented change
• New technology
• New stakeholders
• New ways of doing things
• Blurring of roles
RIIO: A new approach to regulation

**Revenue**

Constraint set up front to ensure:
- Timely and efficient delivery
- Network companies are financeable
- Transparency and predictability
- Balance between costs faced by current and future consumers

**Incentives**

Deliver outputs efficiently over time with:
- 8 yr control
- Rewards/penalties for delivery
- Upfront efficiency rate

**Innovation**

Technical and commercial innovation encouraged through:
- Core price control incentives
- Option to give third parties a greater role in delivery
- Innovation stimulus package

**Outputs**

Outputs set out in clear ‘compact’, reflecting expectations of current and future consumers
Network regulation - Consumer Challenge Group

• Issue
  – New RIIO approach
  – Need to ensure this is appropriate for consumers

• Insight approach
  – ‘Consumer Challenge Group’ of independent consumer experts/representatives
  – Give insight into the more complex issues we are unable to address through market research to ensure decisions fully reflect consumers’ views
  – Challenge Group meet with network companies, the Ofgem Board and views are included in published documents

• Consumer Challenge Group insights include
  – Whether network companies have properly engaged stakeholders to inform their business plans
  – The role of innovation and the scope of any ‘innovation package’ in the price controls
  – Customer satisfaction measures and social obligations (eg incentivising the expansion of the gas network to areas of fuel poverty)
Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

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.

www.ofgem.gov.uk