

Chapter 4

Engagement with Energy Purchases has Many Facets

Key Points

We extend analysis of ‘engagement’ with the energy market beyond consideration of search and switching rates

Policymakers need to be aware that engagement can take a variety of forms

Householders with affordability challenges may show considerable practical and emotional engagement with the management of energy consumption, even if they do not switch suppliers or tariffs

For those on very low incomes the control and predictability of expenditure is key: pre-payment meters may be preferred and switching may be viewed as too risky

Engagement with the policymaking process can be problematic. Resource restrictions may limit the ability of charities representing consumer and ‘vulnerable’ groups to engage

Identifying persistent non-switchers from basic survey questions may be problematic

Measures of engagement for micro and small businesses (MSBs) need to recognise multi-year contracts are prevalent; ‘optimal’ engagement by MSBs is likely to be different to that for households

The boundary between a household and some MSBs can be unclear. More evidence is needed on how this affects behaviour in both the domestic and non-domestic energy markets

MSBs dislike the quantity of communications received from intermediaries, suggesting direct regulation of intermediaries could have benefits

1 Introduction

Energy policy since privatisation has focused on reforming markets to provide the best deals for energy purchasers. The initial aim was to create a market where competing suppliers increased the available choice. Constraints were then imposed to enhance the fairness of offers (e.g. non-discrimination clauses in the period 2009-2012), followed by measures to make searching and switching easier, including boosting consumers' responses to offers (the Retail Market Review, 2012). In the initial period consumers were expected to engage with offers and to find switching straightforward. In the latter period the expectation of active consumer engagement has been questioned and surveys have been judged to show 'disappointing' levels of market engagement.¹ Simultaneously, the policy responses designed to boost engagement have also been criticised, especially by the Competition and Markets Authority (CMA).²

The policy direction has now shifted further with the government legislating for a wide price cap to 'protect' unengaged consumers on default tariffs from prices that appear high relative to fixed-term tariffs. This reflects an acknowledgment of the difficulties inherent in relying on market engagement to deliver 'good' outcomes, and the risk that unengaged consumers will be 'exploited' by firms in the absence of regulation protection. We expand the discussion of 'engagement' beyond search and switching rates, while also highlighting the methodological challenges of reliably assessing engagement in its traditional market framing.

First, domestic energy consumers' engagement is considered. Some practical and conceptual challenges of identifying persistent non-switchers are discussed; while qualitative evidence from social housing tenants highlights that households who appear to be disengaged from the energy market may nevertheless be emotionally engaged with energy consumption decisions.

Second, engagement can be assessed in terms of participation in the policymaking process. While only some citizens may want to engage directly with policymaking, policymakers still need to hear the views of those they claim to be assisting. Often those suffering energy affordability challenges will be represented by consumer groups and/or charities. While consultation procedures give these organisations an equal opportunity for engagement, not all organisations are equally able to take advantage of these opportunities because of resource constraints. Such limitations risk the views of crucial groups going unheard.

Third, micro and small businesses' (MSBs) engagement is considered. At a basic level the boundary between households and many MSBs appears complex and one where there is little evidence. We then explain that assessing MSB engagement needs to account for many MSBs having multi-year contracts. Further, MSBs' dislike of brokers' and suppliers' sales approaches suggests complexities around the CMA's proposals to increase MSB engagement and that direct regulation of brokers may be beneficial.

¹ For example, see 'Energy switching: Why the customer inertia?', Tom de Castella, BBC News, 21 September 2011, available at: <https://www.bbc.co.uk/news/magazine-14989860>

² Paragraphs 168-177, pg 40-42, CMA (2016a)

2 Engagement by Domestic Energy Consumers

2.1 Reliably identifying those who have never switched from survey data is challenging

The converse of engaged consumers are those who are unengaged. Over time concern has grown regarding the unengaged and whether they are missing out on the market’s benefits. A wide range of papers and surveys address consumers’ short-term switching behaviour, e.g. their 12-month switching rate, and the factors associated with switching at particular points in time.³ However, at the centre of political debate are consumers who persistently do not switch and who potentially suffer persistently ‘unfair’ outcomes. Our research suggests there are significant questions around using survey data to identify persistent non-switchers, and that robust analysis may rely on access to suppliers’ databases. These challenges may affect researchers’ ability to assess independently the household types who would, in theory, benefit from a wide price cap.

We analysed data from a 2011 Centre for Competition Policy survey⁴ to identify the characteristics associated with consumers who had remained with their region’s incumbent electricity supplier since market opening. The survey provided two ways to identify such consumers:

- 1 A question directly asking whether a consumer had ever switched
- 2 Comparing the current supplier reported by a household with the incumbent supplier in their region.

However, Table 1 shows substantial inconsistencies between the two approaches.⁵ Around a third of respondents (numbers in bold) provided apparently inconsistent answers.

Table 1 Respondents reporting they have never switched and those reporting a current supplier matching the regional incumbent

(Data: 2011 Centre for Competition Policy consumer survey)⁶

		APPROACH 2		Total
		Current supplier does not match Incumbent	Current supplier matches Incumbent	
APPROACH 1	Reports Have Switched	700	111	811
	Reports Never Switched	321	184	505
	Total	1021	295	1316

3 Deller et al (2017) provide a review.
 4 Deller, Turner and Waddams Price (2018). Details of our research papers’ methodologies are provided in Appendix 1.
 5 The reported data controls for basic issues e.g. changes in incumbents’ brand names.
 6 Deller, Turner and Waddams Price (2018)

Without matched data from suppliers it is difficult to say which approach is more accurate. However, there are intuitive explanations for the discrepancies, including:

Imperfect recall: this seems a noticeably more severe problem for Approach 1 as the required recall covers more than a decade.

Multiple switches: a household may have switched away from the incumbent but then switched back.

House moves: for individuals moving to a home where the previous occupier had switched, the default supplier will not be the incumbent.

The latter two explanations are primarily a problem for Approach 2.

There is a further conceptual point about the extent of non-engagement indicated by remaining with the incumbent, beyond the obvious point that households may prefer the incumbent. As we move further away from the first opportunity to switch in 1998, the signal that a household (in the market since 1998) is unengaged grows stronger. However, there is a second issue: as time moves forward a greater percentage of households with the incumbent were not energy purchasers in 1998 because they were too young. The longer the time since market opening the greater the variation in disengagement that remaining with incumbent or reporting never switching could represent.

To identify 'persistent' non-switching from surveys, questions need to: (a) identify a specific period over which to assess non-switching, e.g. 3-5 years; (b) ask whether a respondent has been responsible for energy bills throughout the period assessed; and (c) identify any complicating factors around house moves.

2.2 Low income households can be highly engaged with energy, if not the energy market

Engagement is often framed in terms of participation in the retail energy market. Some evidence suggests those on low incomes and with low educational attainment are less engaged with the energy market.⁷ Policy discussions often focus on how to increase engagement, so these consumers, in particular, can benefit from switching. Our in-depth research with social housing tenants⁸ suggests that, while those on low incomes may not switch, they exhibit high engagement with the management of energy consumption/expenditure (also see Chapter 5). Our research confirms earlier findings⁹ that households often prefer Pre-Payment Meters (PPMs) for the expenditure control they offer. Exercising this control involves considerably more attention, time and emotion than infrequently switching supplier would, as illustrated by Barbara in Box 1.

⁷ Figure 2, page A9.1-24, CMA (2016b)

⁸ Hargreaves and Longhurst (2018)

⁹ Waddams et al (2001)

Box 1 Barbara – Emotional engagement with energy

Barbara lives in a 1990s semi-detached house. She works full time and is a single parent living with one child. Her main heating system involves storage heaters and she uses a PPM. She is very conscious of her energy usage and worries about it:

“Because it costs me so much... I’m constantly worrying if I can afford to put electric on. It’s like I’ve got in today and I had no electric so I then had to put my emergency in and then I know that that emergency is going to get me through probably tomorrow and then Friday I’ll return home from work and I won’t have any electric again.”

While the main storage heater in her living room has been replaced (reducing her bill from £70 to £40 per week), she still finds it hard to use. She continues to ration her heating, using none upstairs. She feels embarrassed to ask for financial help from friends and family, compounding the worry and contributing to a sense of isolation. Her rent arrears led to tenancy support staff becoming involved. She now has a payment plan for her debts and is very grateful of the support from the housing association.

For those on the very lowest incomes who significantly restrict their energy consumption, engagement with energy was highly emotional. The emotional aspects of Fuel Poverty (FP) have been neglected in policy debates and, where they have been identified in research, have typically been understood as merely an outcome of FP. In contrast, our interviews revealed how emotions can deepen affordability challenges and may inhibit market participation. First, interviewees expressed constant worry and anxiety about energy expenditure, in particular the fear of large, unexpected bills and debt. While many interviewees prefer PPMs for control, this has often come at the price of higher unit energy costs. Second, ‘care relationships’ were significant: many interviewees reported they would use less energy if they did not have to care for children or pets. Equally, some interviewees drew on relations with family and friends to borrow money to pay for energy. Third, stigma and embarrassment prevented several interviewees from asking for help prior to their situations deteriorating. Housing association staff saw building trust and overcoming stigma as a significant difficulty.

3 Engagement with the Policymaking Process

Beyond direct engagement with the energy market, there is the question of whether consumers, or at least their representatives, are heard when policymakers design regulations and policies which influence energy affordability.

3.1 Utilising access to the FP policymaking process can be challenging

Documentary analysis and interviews with various actors¹⁰ suggests the technical nature of policy design presents a barrier to participation for some groups when FP policy moves towards implementation. Debates in parliament¹¹ and devolved assemblies refer to citizens' rights to warm, light homes, while highlighting constituents' experiences. These issues motivate action and reflect the political salience of FP, but an abrupt shift often occurs between these public discussions and the option evaluation and policy design processes. Rather than focusing on rights, the discussion centres on dwellings' building materials and/or consumers' market behaviours. The focus turns to delivering a specific set of energy bill reductions and targeting this support to specific groups, instead of discussing a universal right to affordable energy. Interviewees from the FP policy arena felt engineering and economics expertise became dominant in designing FP policy delivery.

Moreover, not all organisations can contribute equally to traditional (and statutory) processes, especially when there are multiple rounds of evidence gathering. The actors within the FP policy system are well-networked and policymakers do respect many traditional aspects of procedural justice including: open and transparent processes, regular reporting against clear targets and holding consultative exercises which are, in principle, open to all.

However, there is little acknowledgement of the costs of engaging with procedural exercises, particularly for charities who provide crucial insight into the lives of 'vulnerable' individuals and FP. While procedures often provide an equal opportunity to contribute or equal access to decision makers, unequal resources or a preference for particular types of evidence can present barriers to certain groups.

As austerity measures reduced funding for the third and public sectors over the period 2012-2017, these organisations found it increasingly difficult to participate in debates and represent their constituents' views. For example, one interviewee explained:

"...we've had to cut right back... when we are better resourced then we'll do what we can to influence any policies that are going to have either a positive or negative effect on fuel poverty."

Figure 1 illustrates how injustice regarding access to the policymaking process, by limiting the voice of particular groups, can lead to inequalities in recognition and distributional injustices regarding the outcomes achieved by households.

Policymakers need to understand the potentially limited engagement with existing procedures by groups who are close to those experiencing energy affordability challenges. A limited response may indicate limited resources, rather than limited interest or concern about a particular proposal. Ideally, policymakers should consider ways to make responding to consultations easier for third sector bodies.

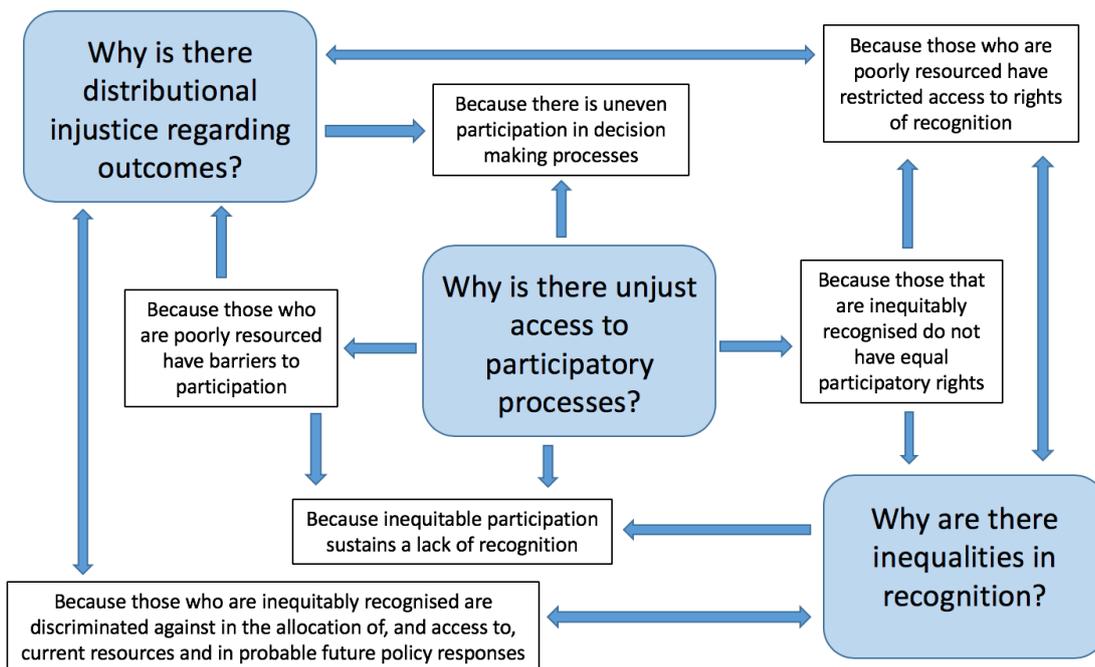
The structure of policies may also restrict charities' ability to support intended recipients. Assistance delivered by energy suppliers generally leads to a diversity of provision and a substantially more complex space for organisations to navigate when supporting vulnerable clients (see Chapter 3).

¹⁰ Errington (2019)

¹¹ For example, see the Debate on Fuel Poverty, House of Commons Hansard, vol 623 column 368, available at: <https://hansard.parliament.uk/Commons/2017-03-14/debates/11A3AF4E-5277-4E2A-A567-98656DB78F5F/FuelPoverty> (last accessed 14.08.18)

Figure 1 Diagram illustrating how unequal access to policy processes can lead to unequal recognition and injustice regarding the distribution of outcomes

(Source: Errington, 2019; adapted from ideas in Schlosberg, 2007)



4 Engagement by Micro and Small Businesses

The energy market engagement of MSBs has received less attention than that of domestic consumers, and relevant evidence is limited. The core concern is whether MSBs have the same ability as larger firms to achieve good deals in a market which is noticeably more complex than that for domestic consumers. Concepts around searching and switching need adaptation to fit MSBs' specific experiences.

4.1 The boundary between households and many MSBs is unclear

Existing surveys exclude many microbusinesses because of their design. Ofgem's MSB surveys¹² restrict sampling to businesses which are both directly responsible for purchasing energy and use a non-domestic contract. This means the samples are unrepresentative of the full population of MSBs, omitting the many small businesses run from homes using domestic contracts, and MSBs where a landlord holds the contract with an energy supplier. Such exclusions appear non-trivial: BMG (2015) estimates that of the 2.1m firms with 49 or fewer employees in 2014, fewer than a million used a non-domestic contract. Sampling only MSBs on non-domestic contracts means evidence around two questions regarding MSBs' engagement is largely missing:

¹² Deller and Fletcher (2018) provide further detail.

- (a) What influences an MSB's choice between a domestic and non-domestic contract?
- (b) How does operating an MSB from a home influence a household's engagement with the domestic energy market?

These points could be addressed within Ofgem's household consumer survey by three additional questions asking:

- (i) Whether a household runs an MSB from their home;
- (ii) For confirmation that the household uses a domestic contract;
- (iii) If the answer to (i) and (ii) is yes, has the respondent ever considered using a non-domestic contract?

Asking (ii) is valuable as Ofgem's household survey does not restrict sampling to households with domestic contracts.¹³ Ofgem's MSB survey could address (a) by including additional questions on whether a firm had deliberately chosen a non-domestic contract over a domestic contract and, if so, why.

4.2 Measures of MSB¹⁴ engagement must recognise multi-year contracts

In the domestic market attention is often focused on the 12-month switching rate (the percentage of households reporting a switch of supplier in the previous 12 months). Yet such a focus is inappropriate for understanding MSBs' engagement, since 54% report having a fixed-term contract lasting at least 2 years.¹⁵ Only a limited proportion of MSBs are therefore in a position to switch in any 12 month period without substantial costs,¹⁶ and so the 'raw' 12-month switching rate will likely underestimate MSBs' true engagement.

The estimated raw 12-month MSB switching rate was 23.4% in 2014, itself noticeably higher than the 13% for residential electricity and gas consumers.¹⁷ A 'back of the envelope' correction for multi-year contracts is to alter the base for calculating the 12-month switching rate to reflect the likely proportion of firms that were free to switch in the relevant 12 months; such a correction yields a 12-month MSB switching rate of 34.2%. Since only 2.5% of MSBs in 2014 had a fixed-term contract lasting 5 years or more, an alternative engagement measure is the 5-year switching rate, which was 59.8% in 2014.

While this evidence suggests the MSB switching rate is higher than for households, there are two potential caveats. First, aggregate switching rates for all non-domestic consumers (not just MSBs) are noticeably lower, at 13% for non-half-hourly metered electricity, 15% for half-hourly metered electricity and 19% for gas.¹⁸ Second, there is a large jump in the 5-year MSB switching rate for the survey data between 2013 (when it was no more than 40%)¹⁹ and 2014, which coincides with a significant sampling method change.

¹³ See section 1.2, Consumer Engagement in the Energy Market 2017 – Technical Report, GfK UK Social Research, 21 September 2017, available at: https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_engagement_survey_2017_technical_report_0.pdf (last accessed 10.08.18)

¹⁴ All reported MSB survey results relate to those MSBs responsible for purchasing energy and on a non-domestic contract.

¹⁵ Deller and Fletcher (2018)

¹⁶ To exit a non-domestic contract requires an MSB to pay the contract's full value, a far greater amount than the 'penalties' for early exit facing domestic consumers.

¹⁷ The residential switching rates are from pg 10, Ipsos MORI (2014).

¹⁸ Based on switching data from suppliers, paragraph 3.55, pg 34, Ofgem (2015).

¹⁹ Table 16, pg 46, The Research Perspective/Element Energy (2013).

4.3 Many MSBs dislike brokers' sales behaviour

In 2016 the CMA concluded that increasing MSB engagement was important for competition and proposed changes to facilitate this, in particular that a database of 'disengaged' MSBs' contact details²⁰ be made available to suppliers, so they could send marketing materials to prompt MSB switching. Also, the CMA shied away from formally recommending the regulation of energy brokers and other intermediaries. We present evidence²¹ potentially questioning both of these decisions.

Brokers, rather than price-comparison websites, form a key part of the switching process for many MSBs. The question is whether brokers' potentially problematic marketing behaviours can be addressed without inhibiting their ability to facilitate search and switching.

Figure 2 shows MSBs' survey responses are skewed towards dissatisfaction with energy suppliers' and brokers' sales approaches and their overall view of brokers is skewed towards the negative. This contrasts with a clear positive skew in MSBs' satisfaction with their current energy supplier,²² and a broadly neutral stance towards the energy market's performance as a whole.

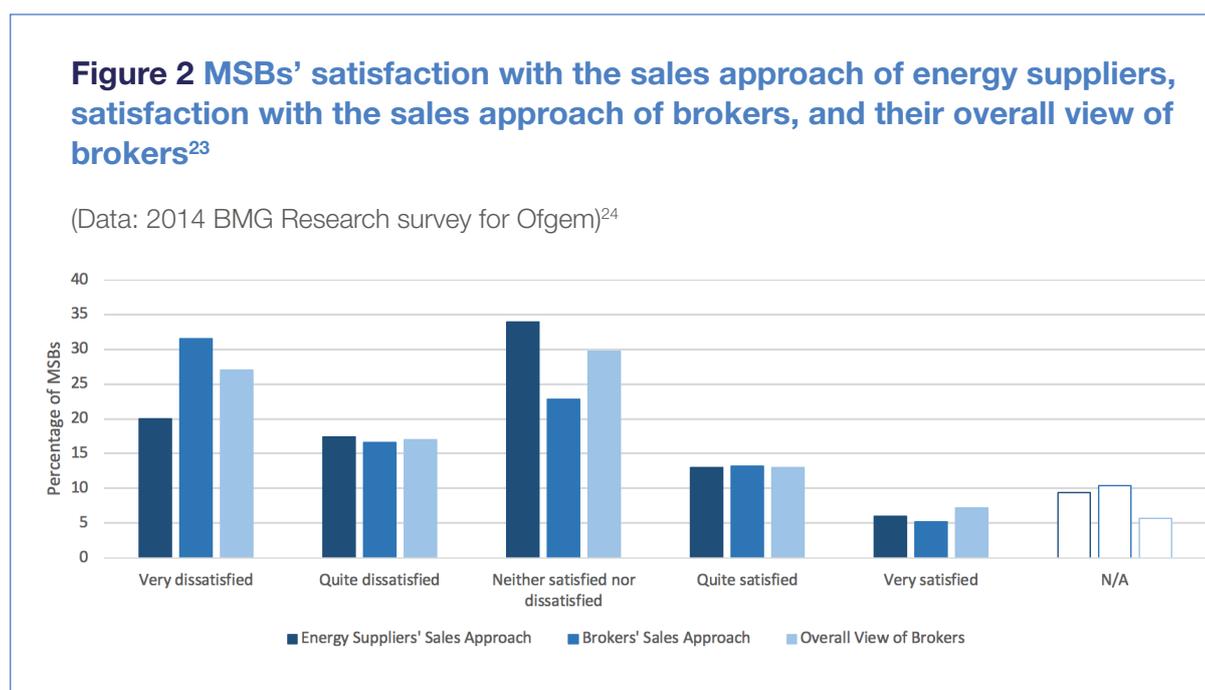


Figure 3 highlights that MSBs who used a broker as the primary method to select their current energy deal had a broadly positive view of energy brokers, while MSBs who either had no contact or had contact with a broker but used an alternative primary choice method, held a mainly negative view of brokers. In other words, MSBs who used brokers to select their current deal appear to value brokers' services.

²⁰ MSBs can opt-out of the database.

²¹ Deller and Fletcher (2018)

²² Deller and Fletcher (2018)

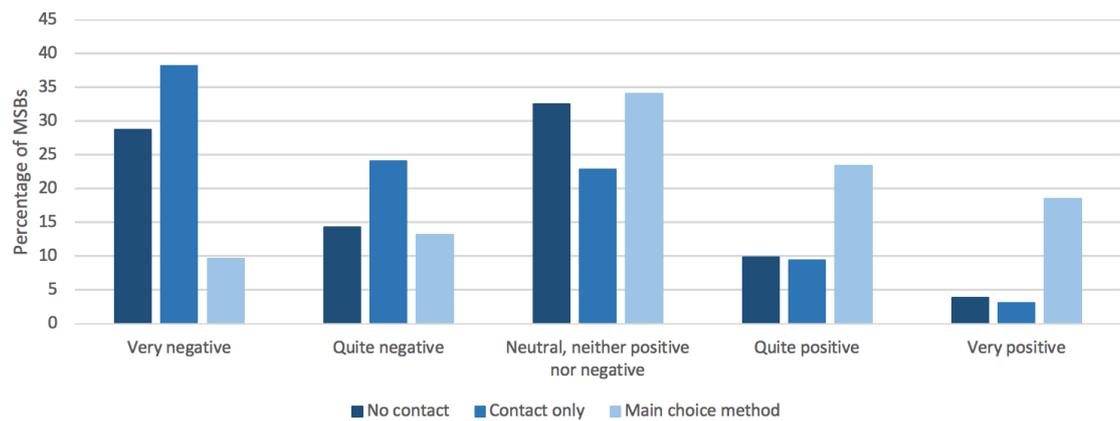
²³ The question for MSBs' view of brokers had response options running from "Very negative" to "Very positive". N/A covers responses of "Don't Know", "Not Applicable" and missing data.

²⁴ Deller and Fletcher (2018)

However, a major issue for MSBs concerning brokers is the quantity of unsolicited sales calls received. 14.4% of MSBs reported either receiving at least 50 phone calls or too many calls to remember in the 12 months prior to the survey. As the methodological appendix explains, further analysis was performed on a subset of respondents whose responses related to their electricity supplier. Among this subset of respondents, even after controlling for a broker being an MSB's main choice method, receiving more broker approaches is associated²⁵ with a reduced probability of an MSB reporting a positive view of brokers.

Figure 3 MSBs' overall view of energy brokers by extent of broker contact/use when selecting their current deal

(Data: 2014 BMG Research survey for Ofgem)²⁶



Such aversion to broker contact does not bode well for a positive MSB response to an increase in marketing communications generated from a disengaged customer database. Our results suggest that the final database plan should limit the quantity of communication, for example, by using a letter sent by a 'trusted voice' to identify the cheapest deals available to an MSB.

Our evidence also suggests that direct regulation of brokers may be beneficial in discouraging behaviours which MSBs dislike. However, any decision to limit broker contact would need to weigh the benefit of reduced nuisance against the risk of reduced switching. Restricting contact would present fewer concerns if it could be shown that those MSBs using a broker as their main choice method had proactively contacted the broker, rather than that their market engagement had been stimulated by unsolicited contact. Unfortunately, the survey data analysed does not allow us to make this distinction.

²⁵ Result from ordered logit regressions.

²⁶ Deller and Fletcher (2018)

5 Conclusion

Understanding the full breadth of engagement is important in designing policy. Householders who have not engaged with the energy market are not necessarily unengaged, since they may be highly involved with the management of energy consumption. In the MSB market, apparent disengagement may result from many businesses choosing multi-year contracts which limit the frequency of searching and switching. These cases highlight the importance of policymakers appreciating the detail of different consumers' interactions with the energy purchasing process before attempting to interpret aggregate figures. Developing statistics and policy around an 'ideal' form of consumer engagement may fail to address the real-world issues facing particular groups. Similarly, when assessing consultation evidence, policymakers should note the differing levels of resource different groups have to provide evidence in the form which policymakers desire.

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