

# Competition and Market Authority: Energy Market Investigation - Invitation to comment on the proposed methodology and draft questionnaire for CMA's research with tenants

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Consultation response from the  
**Centre for Competition Policy**

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This consultation response has been drafted by the named academic members of the Centre, who retain responsibility for its content.

## **The Centre for Competition Policy (CCP)**

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# CCP Response to Proposed CMA Tenant Survey

## Introduction

We are pleased that the CMA has chosen to undertake a survey to understand the specific issues facing tenants when engaging with the energy market. We believe that the survey is valuable as it may identify barriers which limit engagement by householders in the energy market, including those which lie outside of the energy market and appear not to be the direct responsibility of either energy firms or householders themselves. CCP research has previously identified renters as having a lower rate of switching than owner-occupiers even after controlling for a range of other characteristics<sup>1</sup>. Finding barriers to engagement specific to tenants may require the CMA to recommend remedies that lie outside the energy market; if barriers external to the energy market exist and cannot be addressed effectively they may place structural limits on the percentage of householders able to switch in the energy market. These issues are not trivial as the percentage of households in rented accommodation was 36% in 2011 according to the Office of National Statistics<sup>2</sup>. Moreover, the energy market behaviour of those in rented accommodation will become more important if the percentage of households which rent continues to rise, as occurred between 2001 and 2011, and could affect outcomes for all energy consumers.

However surveying tenants provides only one half of the story; to understand fully how rental properties interact with the energy market it would be necessary to collect data from landlords. This is particularly the case where energy bills are included in rental payments; in this case the landlord is effectively acting as the tenant's agent in the energy market. Obvious questions relate to the potential for misaligned incentives between landlords and their tenants regarding the choice of energy supplier and the extent of pass through of energy costs (and savings) into rental payments. Understanding the differences in the behaviour of private landlords and social landlords is likely to be valuable as a 'naïve' starting assumption would be that social landlords may be more likely to obtain energy deals in the best interests of their tenants and will pass on a greater proportion of energy cost reductions. We encourage the CMA to consider how it may obtain information from landlords about their engagement with energy suppliers, although it is likely that the landlords willing to speak to the CMA are a biased sample and so provide only give a partial picture of the experience in the market.

In thinking about the barriers which may explain why those in rented accommodation report lower engagement/switching rates we suggest that the following factors may act as barriers:

1. Energy is paid for by the landlord: the householder makes no direct decision
2. Lack of awareness of ability to switch by tenants
3. Lack of awareness of energy supply/metering arrangements by tenants make switching difficult
4. Tenant is required to consult landlord re: changing energy supply
5. Tenants face a double switching cost if at the end of their tenancy they are required to switch back from their chosen supplier to the one preferred by their landlord
6. Short tenancy agreements limit gains from switching
7. In multiple occupancy properties free-riding (between tenants in taking responsibility for the 'hassle' of switching) blocks switching

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<sup>1</sup> See: Waddams Price, C. and M. Zhu (2015), 'Empirical Evidence of Consumer Response in Regulated Markets', *Journal of Competition Law and Economics* (forthcoming), and Flores, M. and C. Waddams Price (2013), 'Consumer Behaviour in the British Retail Electricity Market', CCP Working Paper 13-10

<sup>2</sup> Office for National Statistics, 'Home ownership and renting in England and Wales – Detailed Characteristics', <http://www.ons.gov.uk/ons/rel/census/2011-census/detailed-characteristics-on-housing-for-local-authorities-in-england-and-wales/short-story-on-detailed-characteristics.html>

8. Unobservable characteristics of tenants present a barrier e.g. poor levels of literacy or command of English

Within the proposed CMA tenant survey it appears that points 1, 2, 4 and 5 are covered comprehensively in the current formulation, points 3, 6 and 7 are covered briefly, while point 8 is not addressed. Our comments below are aimed at realising greater potential from the survey although we appreciate that the CMA is likely to face constraints regarding the number of questions it can include. Our response now proceeds as follows: we provide some general points about the survey methodology, then discuss points related to specific questions in the draft questionnaire, before finally suggesting some additional/alternative topics which may be valuable.

### **Survey Methodology**

We agree with the CMA that an in-home face-to-face methodology should be used as we expect that within the population of rented households there are a disproportionate number of tenants from 'hard to reach' groups which may not be effectively sampled by telephone or online surveys.

Our one major comment is whether, where relevant, equivalent questions should be asked for households with mortgages and owner-occupiers as well as for tenants to act as a comparator group. As an omnibus survey is being used it seems unlikely that asking questions of these two groups would significantly increase the costs of data collection. We know that the CMA has already obtained considerable data on the general population of households from its previous consumer survey, but collecting data for both groups would provide more robust comparisons between renters and owners.

Lastly, when analysing the data obtained from the survey it is important that partial responses and 'Don't know' are not disregarded, but are recognised as evidence that limited knowledge of energy supply arrangements may be a barrier for tenants to effectively engage with the energy market.

### **Comments on Questions Currently in Survey**

**JW04** 'And do you receive mains electricity and mains gas from the same supplier?'

This question seems out of place: if energy bills are paid by the landlord how will the tenant know whether gas and electricity are provided by a single supplier or separate suppliers? The tenant will be probably detached from the details of the bill paying arrangements.

Before any questions are asked about the details of energy supply arrangements it seems sensible to first establish whether the tenant/respondent has any direct involvement in the energy supply/billing process.

**JW06** 'Do you have sole responsibility for paying gas or electricity bills in your household?'

As with **JW04** asking this question is likely to be uninformative/confusing if energy bills are included in the rent. As with **JW04**, it makes sense for **JW06** to be asked after **JW09**.

The question refers to 'paying', but in the responses listed the emphasis is on 'making' a payment. These are potentially different activities. In shared accommodation all occupants may have a financial responsibility relating to energy bills, but it is probable that only one individual has responsibility for making a payment to an energy supplier.

This distinction is important as the person who handles the 'paperwork' with the energy supplier may have a far greater knowledge/awareness of the energy supply situation than someone who simply has

a financial responsibility for contributing to energy bills. A common practice among shared properties is for different individual tenants to take responsibility for the effort/hassle of handling different household bills. In general, the survey questions seem to assume that the person interviewed will be the 'active' rather than 'passive' household member with regard to energy bills; more thought needs to be given to whether 'passive' and 'active' household members should receive the same questions. While a 'passive' household member may know very little about the energy supply arrangements this does not mean the 'active' household member is ignorant when making important energy supply decisions.

It would seem sensible to have a question distinguishing between 'active' and 'passive' bill payers before question **JW04** which is the first question to assume detailed knowledge of the household's energy supply arrangements.

**JW09** 'How do you pay for your...'

We wonder if this wording may cause some confusion for those tenants where energy charges are included in their rent; they may respond with the comment 'I don't pay the energy bills'.

### **Possible Additional Questions**

Having extensive experience of designing surveys ourselves we appreciate the difficulties of designing a survey which is both effective in capturing all the relevant information, while not being excessively long. The list of possible additional questions below represents the complete set of topics we think might be relevant in the rental scenario, but we appreciate that it is unlikely that all of them can be incorporated into the current survey. We have ordered the suggestions so that those we think are most important are at the top of the list.

1. There is the possibility that previous findings showing low engagement/switching by renters may have nothing to do with the situation of being in rented accommodation but simply reflect 'unobservable' characteristics of the population of tenants that are barriers to market engagement. To understand this it may be worth asking the following questions, although we appreciate that b to d might be considered 'sensitive' and suffer from poor response:
  - a. The length of time individuals have been living independently with responsibility for paying bills (young people, e.g. students, will have less/no experience of handling household bills)
  - b. Whether tenants are foreign born
  - c. Whether English is a second language (this is more specific than education attainment which we assume will be part of the demographic data collected by the omnibus survey?)
  - d. Whether tenants have a poor credit history that limits their choice of suppliers.
2. For those tenants who have direct responsibility for choosing their energy supplier it may be worth asking questions regarding satisfaction with their energy company and/or the energy market. This should allow an understanding of how the barriers to engagement which tenants encounter influence their perceptions of the energy market. For comparability these perception questions should follow those in the earlier CMA consumer survey as closely as possible
3. Question **JW01B** asks how long a tenant has lived at their current address, but an equally/possibly more important question is to understand how frequently a tenant tends to move house. Frequent moves will reduce the incentives to engage with the energy market at any one address. A question asking how many properties an individual has lived in the previous 3-5 years could be valuable.

4. When tenants have joint responsibility for paying energy bills it may be useful to understand the arrangements within the household for dealing with/paying energy bills. For example, are the cost of bills split equally? Does everyone know the energy supply arrangements or does an individual act as a 'specialist'? Do the tenants have a special bank account set aside for making bill payments?
5. As an accompaniment to question **JW02** regarding whether tenants were shown an Energy Performance Certificate it seems sensible to ask:
  - a. Did they understand its significance/what it meant?
  - b. Did seeing an Energy Performance Certificate have any impact on their choice of rental accommodation?

Also, while an Energy Performance Certificate indicates the theoretical energy performance of a property, due to a lack of knowledge tenants may have difficulty effectively controlling their heating system. As this lack of knowledge could lead to increased energy consumption/serious under-heating it may be worth understanding if this contributes to tenants being unable to control their energy expenditure

6. If a tenant is reliant on a landlord/letting agency to deal with the energy supply it would seem sensible to ask follow-up questions regarding:
  - a. The quality of the general relationship between the tenant and the landlord/letting agency.
  - b. It may be valuable to have a proxy for 'dodgy' landlords. An obvious proxy for tenants who have paid deposits is whether the deposit has been placed in the official deposit protection scheme. Alternatively, the response (or lack of it) to faults by the landlord/letting agent may be informative of their quality.
  - c. Expectations regarding whether a landlord would (a) pass on energy bill savings in reduced rent and (b) pass on energy bill increases as rent increases.
  - d. Where a tenant is in social housing it may be useful to know the identity of the housing association to establish the 'actual' situation re: energy supply arrangements, although we recognise having 'matched' tenant-landlord information represents an ideal situation which is likely to be difficult to achieve in practice. For example, suitable protocols would have to be put in place to reassure respondents that the landlord would not discover their identity/responses.
7. It may be worth having a question(s) to establish if other household bills: water, fixed line telephone/broadband and/or council tax have the same payment arrangements as energy. This would establish if energy is 'special' compared to the other bills paid by tenants. By payment arrangements we refer primarily to what is and is not included in rent, and the assignment of responsibility for handling bills when tenants share a property.
8. Even when a tenant knows that they must select an energy supplier themselves, there may be a time lag between moving into a property and making contact with an energy supplier. It may be worth identifying the proportion of tenants without formal supply arrangements, and how long this situation lasts on average.
9. Do tenants realise the potential for taking fixed term energy deals with them when they move address? The ability to do this may be important if tenants worry about the penalties in fixed term deals having to be paid if they move house at short notice.
10. When moving into a new property a tenant may find that previous tenants left unpaid bills/be in arrears. It may be worth understanding how many tenants have experienced this, and how easy they have found the process of notifying an energy supplier that as new tenants they have no responsibility for these prior issues.