Competition and Markets Authority: Draft Customer Survey Questionnaire (Energy Market Investigation)

Consultation response from the ESRC Centre for Competition Policy

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Date: 9 September 2014

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The response to this consultation has been prepared by Catherine Waddams. The document has been written following discussions held in the Centre and it has the broad agreement of the group of contributors.

The support of the Economic and Social Research Council is gratefully acknowledged.

An ESRC funded Investment. The views and statements expressed are those of the authors and do not necessarily reflect the views of the ESRC.

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[1] Miguel Flores moved to the University of Surrey and Minyan Zhu to the University of Nottingham in September 2014. Both were involved in consumer research as Research Associates at the Centre for Competition Policy (CCP) before this date.

academics and practitioners in touch with publications and events, and a lively programme of conferences, workshops and practitioner seminars takes place throughout the year. Further information about CCP is available at our website: www.competitionpolicy.ac.uk

Our Response

We welcome the proposal to undertake a customer survey to explore the theory of weak customer response. We have experience of conducting several such surveys which explicitly investigate switching behaviour amongst household energy consumers at different stages of market opening[2], and offer this response in the light of our experience of undertaking and analysing such data.

We have found three main challenges in such surveys, all of which result in some bias in the findings. The first is including a representative group, especially the 'hard to reach', whose energy switching behaviour is different from that of others. This problem is exacerbated by using the telephone survey method proposed by the CMA, though because it is cheaper than face to face interviews it will be able to reach more total consumers for the same budget. However the 'missing consumers' are likely to be less active than those included, and so the results need to be interpreted correspondingly. Here there may be a choice between representativeness of the sample as a whole and trying to over-sample hard to reach groups to ensure sufficient information from them. Is the sample intended to be representative or to explore particular problem areas?

Refusal rates for energy related surveys are particularly high, because of marketing activities by companies, and this will introduce additional bias. This may require further strategies in sampling to ensure that the inactive/hard to reach, about whose behaviour less is understood from other surveys, are adequately included.

The second challenge is that even within a representative sample, knowledge of the market is much greater amongst those who are most active. In attempting to relate searching and switching behaviour to expectations of potential gains and the anticipated time needed to switch, we have found considerable attrition, with those who have been less active being less able to provide the necessary estimates (e.g. of amount that would persuade respondent to switch). This bias makes it difficult to establish causality (have the active searched and switched because they have higher expectations of gains, or has their search provided the higher expectation?). The attrition also means that the final analysis and any conclusions drawn apply only to the relatively informed (and active) group. Quite different conclusions and policy implications might result from analysis of those who have less information about the market. We hope that the CMA will be able to explore the attitudes and behaviour of this less active group in particular detail.

[2] 2000: face to face interviews with unrepresentative sample of approximately 4500 low income energy consumers; 2003: telephone survey of 1000 energy consumers; 2005:face to face interviews with representative sample of consumers across 8 markets, including energy; 2010: face to face interviews with representative sample of electricity consumers. For the relevant reports (some still preliminary) see Cooke, D, Ferrari, A, Giulietti, M, Sharratt, D, and Waddams Price, C - Affording Gas and Electricity: Self disconnection and rationing by prepayment and low income credit consumers and Company attitudes to social action; Electricity Association 2001; Searching and Switching: Empirical estimates of consumer behaviour in regulated markets - Catherine Waddams Price, Catherine Webster and Minyan Zhu, CCP working paper 13-11; Consumer behaviour in the British retail electricity market - Miguel Flores and Catherine Waddams Price, CCP working paper 13-10.

Our third concern is the common problem of partial recall, self justification and good intention in any survey. This may be a particular problem for a rare event such as switching. Partial recall does not necessarily result in bias, but there is an inherent bias from a wish to justify (to oneself and the interviewer) any (in)action by exaggerating the time required and understating the potential gains.

Much more important for the purposes of analysing the market is the potential gap between intention and action. Thus respondents are likely to overstate by some way the likelihood of them switching in the next time period. While this does not invalidate the survey, it does introduce a bias which is difficult to measure. There is also a problem in asking people about why they do not switch. They may name a number of barriers, such as complex tariffs, which they perceive as preventing them from being active. But removing them does not necessarily result in action, since there may be other barriers, including inertia, inattention and lack of confidence, which is supported by some experimental evidence[3].

To overcome these drawbacks to surveys, the CMA is in a unique position to ask companies to provide direct evidence of consumer responses to price changes and marketing campaigns, as well as to more general events (the intense political interest in the energy markets in autumn 2013 temporarily reversed what had been a downward trend in switching which was not attributable to the usual ‘economic’ factors). Tracking actual behaviour for some consumers, and perhaps tying this up with the questionnaire information for some, would provide a much richer and more accurate picture of response and its likely effects in the market. The company details will include information on bill size, tariff, geographical location, any debt problems, and this could also provide valuable data for further analysis.

In terms of detail, the total number of interviewees sounds appropriate, though this depends partly on its stratification and which groups are of particular interest, as discussed above. 20 minutes is probably a reasonable compromise between the time needed to obtain helpful information and the tolerance of potential respondents, though we think the questionnaire may take longer than 20 minutes to administer.

General Issues

We wonder whether the interaction between searching and switching could be further explored. Our research suggests that there may be two approaches to searching and switching activity. Some consumers may be minded to switch, and then shop around to find the best deal; while others may shop around as a general enquiry, and then switch as a result of the potential savings they discover. Distinguishing between the groups would inform the appropriate policies. If this can be better identified, the questions in the survey regarding why consumers did/did not shop around /switch will then help to identify how to ease the searching/switching process.

We also thought it important to include discovery of whether consumers search and then ask their current suppliers for a better deal - we understand this is a common use of websites for car insurance, and may be also for energy, with clear implications for assessing potential theories of harm.

If a probit analysis of searching and/or switching is anticipated, it is important to check that relevant observations/potential variables are available from all consumers, including the inactive.

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[3] Complexity and Smart Nudges with Inattentive Consumers by Stefania Sitzia, Jiwei Zheng and Daniel Zizzo, Centre for Competition Policy discussion paper, 2012

The Questionnaire: some detailed comments

We welcome the opportunity to comment on the questionnaire, and appreciate from our own experience the difficulty of developing questions and balancing the information requirements. These comments are offered for consideration in this spirit, and the realisation that there are many issues and discussions of which we may be unaware.

Qs A1 and A3 are not referring to quite the same thing - some households may split the ‘usage/payment’ from the ‘choice of provider’ role.

Is it important to know whether responsibility is sole or joint? Several of our surveys show that those living alone are less likely to switch than those living with a partner, controlling for other factors; while amongst collective switching participants being solely responsible appeared to make switching more likely..

You ask later about choice of supplier, but many of the intermediate questions imply an ability to choose. Might this question be less ‘tainted’ if posed at the beginning of the questionnaire? We have used “Do you have a choice of supplier in your area?” and found about 93% awareness of choice in 2010.

B4: Some consumers may think that they have changed supplier because the supplier has changed corporate name/ownership. Will this be dealt with through company records or other means?
You may also want to distinguish between switching through house moves and otherwise we have omitted the former from our classifications of ‘switchers’

C6: Would it be better to ask ‘anything else’? this might be less leading

D2 may be unnecessarily complicated, since if a tariff reaches an end date, the respondent has likely chosen to be on it in first place. Will respondents understand that active includes responding to a supplier contact?

D10 (and D29): Might the word 'looked' imply to the respondent that the deal was only good at a superficial level, but in fact it wasn't better? This might affect interpretation and response

D13: How will the randomisation between gas and electricity work? Might a random sample lead to an 'excessive' number of responses related to Centrica?

D12 and D15 - do these questions allow enough for ‘didn't get around to it’, i.e. inattention; and unsure it was/would stay the best deal, i.e. lack of confidence in how long savings would last?

D20: given the upturn in switching in Q4 2013 (presumably as a result of political interest and publicity about energy markets) should there be a more general alternative to reflect such responses?

D22: would you also want to ask a corresponding question about those who only looked at the small suppliers? this might have implications for how well the market is working.

D25 and 26: these interviewer notes are very important - we had difficulty with respondents misinterpreting

D33: This is a double question, and doesn't really allow for consumers who have switched but haven't looked around, e.g. after being approached by another supplier and accepting their offer. Perhaps the question needs to be split into two?

D42: Do you want to specify whether this was before or after searching? It will be very difficult for the respondent to recall, but it might matter. The answers are likely to be particularly prone to biases through hindsight and the 'anchoring' effect of current bill size

D43/D44: Savings are likely to be interpreted differently by respondents, and have several dimensions. Is it the change in the consumers actual expenditure, i.e. previous consumption and tariff compared with current consumption and tariff? Or the same comparison with consumption held at previous levels? or a comparison between expenditure at current consumption, valued at the current tariffs of the previous and current supplier? To understand the responses, an additional question may be needed.

D48: It might be better to use the phrase 'current supplier' rather than 'new supplier'.

E5: This question is likely to be interpreted in a variety of ways, so it will not be clear what the answer represents on several counts:

(i) does the saving required refer to gas or electricity or both?
(ii) how are non-price factors going to be controlled for? Our own piloting of such questions shows that the response depends on whether consumers are told the comparison is between identical suppliers or some variation in other characteristics are allowed for.
(iii) Does the phrase 'Just approximately' encourage imprecision/excessive rounding? Though we recognise that it is unclear how precise any answer can be

H6 and H7: Asking H6 and H7 before H4 and H5 would remove potential positive bias in the response to these question.

J1: Given the similarity of some attitude questions to CCP’s 2010 survey (and whose significance was confirmed in the analysis[4]), we hope that some historical analysis may be possible.

[4]Consumer behaviour in the British retail electricity market - Miguel Flores and Catherine Waddams Price, CCP working paper 13-10.