

Comments on

Push, pull, nudge

How can we help customers save water, energy and money?

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This paper is a welcome focus on different aspects of water saving. It refers rather generally to customers, but seems to focus on final consumers in the residential sector. It would be good to make this distinction clear, and perhaps address separately, or at least refer to as a distinct area, relevant aspects for commercial customers, particularly small and medium sized enterprises.

The paper distinguishes between push, pull and nudge, where push is defined as regulation, pull as incentives to reduce water consumption and nudge as 'framing' and encouragement to save water. Clearly being charged for water usage is a major economic incentive towards saving it, as the paper notes. However some of the factors in the nudge section seem to be about providing better information to consumers, which might more appropriately be categorised as factors which assist consumers to make decisions in their own best interests, i.e. more appropriately part of the 'pull' section to generate appropriate incentives, than of the 'nudge' section to direct consumers in particular directions. Because of remaining questions over 'nudging' (some referred to below) it would be helpful to ensure that issues which refer only to information (rather than its presentation or emotive associations) are included in the pull sections.

The extended opt-out system regarding water meters is equivalent to a cooling-off period, so we may expect consumers to feel reasonably confident about, and

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accepting of, the scheme; then, as a result of inertia, few will actually opt out. Ofwat does not explain why it is not planning to pursue this, rather than the current opt-in system.

Information on bills (p. 23). . Ofwat have correctly identified the importance of both the content of the information as well as the way in which it is presented in influencing consumer decisions. In particular, narrative information tends to resonate more strongly with boundedly rational consumers because of its enhanced 'availability' compared to statistical information. However, there may be a balance to be struck here, since overly personalised information, while being highly salient, might appear intrusive and conjure up images of Big Brother.

Given loss aversion amongst consumers, information (on bills and also for labelling systems on appliances) should focus on the negative consequences associated with extravagant water use. Ofwat is correct to consider framing information in this way.

Ofwat identify rewards for companies to supply correct information, but should there be some discouragement/regulation to prevent them presenting information in an inappropriate way? (see for example the case which Ofgem cites on page 54 of their current consultation on retail market review proposals

http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR_FINAL.pdf.)

What are the incentives for companies to 'fudge' rather than nudge?

Does Ofwat anticipate being able to monitor the impact of proposed 'nudging' mechanisms? Part of the attraction of nudging mechanisms is that they appear cheap and easy. However, there is the potential for unintended consequences, so a firm grip is needed on both ex ante and ex post behaviour. Consider smart meters. What do surveys say about customers' estimates of water use? Do they tend to over- or under-estimate actual water use? If people over-estimate, will the correct information have the effect of making them more extravagant? And what are the distributional consequences of nudging? How do different types of households respond to different nudge tools?