

## ENERGY BILLS

## CHANGING BEHAVIOURS

*Which incentives work best for household energy use?*

**GIVING HOUSEHOLDS** information about how their use of gas and electricity compares with their neighbours is an effective way of reducing consumption, according to research by the ESRC Centre for Economic Performance. And receiving an old-fashioned letter grabs people's attention about average energy use in their respective neighbourhoods far more than an email. The study by Professor Paul Dolan and Dr Robert Metcalfe also finds that short-term financial incentives have a powerful impact on behaviour. Asking people to reduce their energy use by 30 per cent over two months with a £100 reward if they do so is the most effective way of getting people to cut their consumption – and the reductions are large and lasting.

## FINANCIAL REWARDS

The researchers conducted two natural field experiments. The first was in Camden, with three groups of social housing residents who had gas meters installed. One group received a standard gas usage letter. Another received a usage letter with a simple chart demonstrating their usage

in comparison with their neighbours – a 'social norm'. And the third group received a usage letter with the chart, plus additional information on how to change their energy use.

The second experiment was with the private customers of First Utility who have electricity smart meters. Different groups of customers received social norm information in different ways: some online, some offline. And some were given a cash incentive to reduce their energy use.

In both experiments, simple information on the social norm had an immediate impact on behaviour – though online did not work nearly as well as offline. But offering a small financial reward was the most effective way to reduce energy use. The researchers urge governments to take both financial incentives and social norms seriously if they want to promote energy conservation to tackle climate change. ■

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Comparing use of gas and electricity with your neighbours can reduce consumption

## REGULATORS

## Wake-up call

*How to ensure politicians build independent regulators and keep them that way*

**TO REGULATE KEY** industries, such as energy and communications, politicians set up independent agencies, so that important decisions about prices and investment are taken out of their hands and aren't made on the basis of short-term electoral concerns. But what's to stop politicians going back on their word and interfering in the work of regulators like Ofgem and Ofcom when it suits them?

Dr Chris Hanretty of the ESRC Centre for Competition Policy has been exploring this question. "I have a problem. Each night, I mean to get up early next morning and clear my to-do list. Each morning, I prefer an extra hour in bed. I suffer from 'temporal inconsistency'."

## MAKING A COMMITMENT

Politicians also suffer from temporally inconsistent preferences in many regulated industries. Incoming governments seek out fresh market entrants and encourage bold new

infrastructure investments. But as an election approaches, governments squeeze consumer prices, holding them to levels that won't cover capital maintenance let alone new investment. To deal with these inconsistent preferences, credible commitments must be made. Hanretty continues the analogy: "I make a credible commitment to waking up early by setting my alarm clock far away from my bed – too far to let me hit snooze and give in to my new preference for an extra hour in bed."

His research considers how politicians structure regulatory agencies. He examines whether 'de jure' independence translates into actual or 'de facto' independence across a variety of sectors and

European countries. "Is it possible for politicians to suborn the mechanisms they create to bind themselves, in the same way that many of us repeatedly hit the snooze button on our morning alarms?"

## OBEYING THE LAW

Fortunately, it turns out that higher de jure independence does lead to higher de facto independence. But the outcome depends on the strength of the rule of law. In many sectors, Greek, Italian and Spanish regulators score badly on Hanretty's measures of de facto independence, which look at how often government changes are followed by changes in regulators' leadership. This is because generally the law is obeyed less in these countries than in Britain or Sweden.

Within these countries, regulators with higher de jure independence generally have higher de facto independence – but they start from a much lower baseline. An Italian regulator would have to be designed in an exceptionally watertight fashion to compensate for the built-in advantage that any British regulator starts with in terms of the rule of law. ■

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