

Sustainability First - Roundtable

‘The challenge of sticky customers in the smart energy world’

held on

Tuesday 19 September 2017

BEIS Conference Centre, 1 Victoria St, London SW1H 0ET

Summary Note

On 19 September 2017, Sustainability First held a Roundtable under Chatham House rules, to follow through on the recent Sustainability First discussion paper by Jon Bird: ‘Engaged, or just good friends? - An exploration of retail electricity and gas pricing and ‘sticky customers.’ – www.sustainabilityfirst.org.uk

The aim of the Roundtable was to explore the issue of future customer engagement in the context of the smart meter rollout. This followed from Jon’s paper which had raised some basic questions for the future on how to achieve competitive and therefore innovative energy retail markets which at the same time were largely ‘fair’ – especially should many customers continue to remain ‘sticky’. The Roundtable explored how to increase engagement once ‘smart’, including protection of vulnerable consumers - and the role of government, the regulator and suppliers in addressing these issues going forward.

Sustainability First is most grateful to Sarah Deasley (Frontier Economics and Sustainability First Trustee) for chairing the Roundtable, and for the contributions of Rachel Fletcher (Senior Partner, Ofgem), Beth Chaudhary (Head of Smart Energy, BEIS), Jon Bird (Associate, Sustainability First) and Chris Welby (Head of Regulation, Sustainability First). Sustainability First is also grateful to BEIS for kindly making a room available.

A list of those attending is attached. Below is a short summary of key points made – and main recurring themes and topics to emerge from discussion.

‘The Challenge of Sticky Customers’**Rachel Fletcher, Ofgem**

Rachel opened by challenging those present on how to end the unfairness of the present ‘two-tier’ market. Price differentials would always be a feature of competitive energy retail markets, but it was also necessary to avoid the most obviously unfair outcomes. This was so for more vulnerable customers - but not just. The CMA had found a significant problem with competition in the market. Better information had a strong role, but given poor engagement levels in the market, additional change was extremely important. The roll-out of smart meters opened up great potential for customer engagement, and for innovation in retail services, but progress on new customer offers so far was slow. Regulation alone was unlikely to resolve current market inertia. All parties, incumbent actors and new, would need to work to bring about future markets and services in which household customers might wish to actively engage. In the end, if customers were unable to make individual choices to obtain the overall benefit of a competitive market, questions would follow as to whether fundamentally different models of competition for energy might be necessary for the future to readily enable peer-to-peer, social enterprise, mass switches etc. Potentially a new market model might be needed to get a better outcome for customers that fail to engage - and also to enable new business models to emerge.

Beth Chaudhary, BEIS

Beth noted that BEIS was actively removing barriers to enable vigorous retail competition. BEIS had published its Smart Systems and Flexibility Plan in July 2017, with 29 actions representing ‘new ways of operating and doing’. By ensuring building blocks were in place (smart meter roll-out, half-hourly settlement, new innovation competitions) BEIS sought to unlock innovation, new markets and new business models – and in all of which, customer demand-side response had an important role.

Jon Bird, Sustainability First

Building on his paper, Jon explored how behavioural economics can explain why energy consumers tend to be ‘sticky’. The issue is that individuals don’t always act rationally or in their best interests in making financial decisions. In reality, people tend to stick with the default or ‘the devil they know’, regardless of whether this is the best option for them or not. The average consumer has other priorities and perhaps feels they don’t have the time to invest in engaging with these issues.

Jon said that broadly the customer base can be split into those who are engaged, those who are unable to engage, and those who are able but unwilling to engage. The issue is that this last group is around 45% of domestic customers. Efforts to increase engagement by providing more information don't seem to be making much progress — although the number of switches has gone up, it might just be that those already engaged are switching more often. Jon raised the question whether those who had the capacity to engage, but were unwilling to use it, deserved protection. The current politics seemed to suggest that this should be the case. For him, it was a question of balancing the aim of encouraging competition and innovation with the aim of fair outcomes for the most customers possible.

Discussion: how far should the interests be protected of those customers who are 'able but unwilling to engage' ?

In discussion, the following points were made :

- As SVTs unwind, greater tariff complexity could also risk poor outcomes for customers.
- Even when suppliers launched tariffs especially targeting vulnerable groups, purely with social good in mind, there have been significant issues persuading customers to switch. This was usually a result of the practical issues around customer inertia, and which are generally well understood.
- Information tends to give customers confidence, but often they still don't switch. Better tools, such as a star rating, and perhaps a backstop tariff, might help.
- For some households, energy bills signify a relatively small portion of total household budgets, and some households do not choose to invest a great deal of time and energy into their decision.
- However, some suppliers noted very positive results from contacting customers directly to encourage them to switch to a different tariff. It is perhaps a question of finding the right way to engage them.
- It was important not to lump all vulnerable groups together, and to expand research into vulnerable groups that are not often considered, such as those who rent properties and those who are in debt.
- Customers with separate retailers for gas and electricity had probably never switched – and so could be prioritised. Currently, such customers are also 'back of the queue' for a smart meter.
- More transparent price structures, coupled with the easier switching process, should help to increase trust in energy suppliers.
- The obvious short-term solution to the issue of vulnerability was price regulation, but there

were significant doubts whether this would address deeper market issues

- There needed to be a way to deliver the benefits of competition without putting all the responsibility on the consumer to find deals – eg mass switches, broker arrangements etc.
- Suppliers face a challenge balancing their costs in the current market while at the same time implementing a mass of regulatory change needed to enable future markets (smart, 24-hour switching, settlement etc).

‘Will customers remain sticky in the smart energy world’

Jon Bird, Sustainability First

Jon explored how smart meters will open up a world of big data and give us the potential to better understand customer motivations. However, with every change there are losers as well as winners. Often those who lose out are those who are slow to innovate or adapt to new reality. We would need to be sensitive to the risks of leaving some people behind.

‘Could new supply business models encourage greater engagement?’

Chris Welby, Bristol Energy

Chris discussed Bristol Energy’s experience as a supplier set up by the council specifically to promote social good. Bristol Energy’s strategy is perhaps different from other suppliers in that they’re looking to build long-term relationships with their customers, in line with the mission given to them by Bristol Council to reduce fuel poverty to minimise dependence on council services. Chris’ main observation was that customers often chose suppliers for reasons other than price. Bristol Energy have had some success by focusing on customer service; for example, setting up a face-to-face hub in the city centre. Chris proposed a two-stage strategy to encourage customers to switch; firstly, get their attention and encourage them to think, and secondly, give them something positive to switch for. Factors such as face-to-face, ease of switching, lack of exit fees, keeping promises and a serious commitment to social good were all of vital importance.

***‘Can we deliver smart energy and low carbon if many customers remain disengaged ?
Might different approaches improve smart engagement ?’***

Jon Bird, Sustainability First

Jon began by discussing some of the practical solutions that the introduction of smart meters could allow. These included half-hourly billing or even changing suppliers every half hour, separate prices/suppliers for peak and off-peak energy, third-party intermediaries and automation. He also suggested encouraging customers away from SVTs by rebranding them as something undesirable— for example, calling them ‘emergency tariffs’ or something similar. However, he again stressed that it was important that customers who are slow to adopt new innovations should not be left behind. Change would need to be introduced slowly, and the innovators, those with solar panels or EVs, who anyway cause additional system costs, might be open to smart tariff solutions.

In discussion, the following points were made :

- Data sharing was a major theme for enabling bespoke solutions and innovation. A question arose as to how comfortable customers would be about allowing access to their energy-usage data. Some pointed out that other industries, such as retail banking are enabling API platforms (application programming interface) to allow customer data to be leveraged for individual customer benefit. Building trust was important.
- It was important to focus on customer engagement beyond simply encouraging switching, especially when it came to delivering a low-carbon future. Encouraging faster switching periods might actually reduce contract length likely to be needed to develop some smart solutions.
- It was also suggested that issues need to be rethought in more radical ways, going to customers and asking what they would like to see happen rather than asking suppliers what they felt was possible.
- Where smart meters have been installed, customers have generally reacted positively. They like the ability to keep track of their spending that way. So there may be potential to encourage more people to switch through personal testimonials.
- An energy retailer was concerned that customers refusing a smart meter could result in greater market stratification, not less. Customers might not realise they were disadvantaging themselves – and so a smart meter ‘opt-out’ rather than the current ‘opt-in’ might be one answer.
- Suppliers may not have the ‘bandwidth’ to drive the half hourly data issue forward. Half-

hourly data is just one data set, which will most likely combine with other customer data. Tech-giants will have an edge.

- It was questioned how far current supplier and future customer interests truly align on transforming the energy market to smarter and bespoke services. An eventual solution might be to think more radically about certain of the current restrictions embedded in supply licences and the statutory codes.

Close

Judith Ward, Sustainability First

Judith thanked all for their contributions with a brief sum-up of key points : still significant structural issues in today's market in engaging customers who 'can engage but are unwilling' – and how far the smart roll-out would harness greater engagement in practice without considerably more targeted effort. Jury 'still out' on degree of alignment between the interests of today's retail actors and customers - and how to make progress for the future in achieving a competitive and low-carbon retail environment. Suppliers under a considerable weight of regulatory change in readying for rapid switching and future smart markets. A major question remained on how far and how fast the sector was prepared to modernise - without greater and more fundamental reform. New entrants and third parties will play a key role in driving future new services and opportunities for customers. The transition to smart meters may be a slow process, but attractive customer offers and persuasion seemed key. Due to ever-greater cost-reflection in supplier charges, there remained the prospect that customers in the smart world who failed to engage would lose out, and potentially more than SVT customers do now. Ironically, safeguarding *specific* vulnerable customer groups may prove the 'easy' part. The Roundtable had heard a strong message that that every actor should play their part in working to drive forward modernisation of the future energy system. Overall customer benefit from smart – plus low-carbon delivery - would depend on this. Otherwise, future market reform could rise up the agenda.

Sustainability First

24 October 2017

www.sustainabilityfirst.org.uk

This note has been compiled by Sustainability First, based on discussion at our roundtable on 19 September 2017. We hope to have captured some main points and the essence of the discussion. Any omissions or errors are ours.

'The challenge of sticky customers in a smart energy world'
Summary of Roundtable Discussion (final at 241017)

| Sustainability First – 19 September 2017 - Roundtable 'The Challenge of Sticky Customers in the Smart Energy World' | | |
|---|------------------|--|
| First Name | Last Name | Organisation |
| Beth | Chaudhary | BEIS |
| Ed | Nelson | BEIS |
| Gemma | Huett | BEIS |
| Michael | Harrison | BEIS |
| Rachel | Fletcher | Ofgem |
| Jenny | Banks | Ofgem |
| Neil | Barnes | Ofgem |
| Gillian | Cooper | Citizen's Advice |
| Rocio | Concha | Which? |
| Chris | Harris | RWE-npower |
| Tabish | Khan | British Gas |
| Sara | Vaughan | E.ON |
| Chris | Welby | Bristol Energy |
| Greg | Jackson | Octopus Energy |
| Sotiris | Georgiopoulos | UKPN |
| Teneille | Humphris | Smart Energy GB |
| Toby | Bridgeman | Centre for Sustainable Energy |
| Chaitanya | Kumar | Green Alliance |
| Timothy | Hendry | CDP |
| Charmaine | Coutinho | Delta EE |
| Sarah | Deasley | Frontier Economics / Sustainability First Trustee |
| Derek | Lickorish | Sustainability First Trustee |
| Jon | Bird | Sustainability First |
| Sharon | Darcy | Sustainability First |
| Francesca | Moll | Sustainability First |
| Judith | Ward | Sustainability First |