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The challenge of sticky customers in the smart energy world

Roundtable - 19 September 2017

BEIS Business Centre. London

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Sticky customers

- Getting energy customers to become more engaged is an important part of the solution both to today's energy pricing issues and to the delivery of a smart, flexible energy system
- But what if customers do not become more engaged?
- Do we have solutions available?
- Today's workshop is focused primarily on the future smart energy world, not the current pricing issues

Agenda

14.00 – 14.05h	**Welcome & introductions**	**Sarah Deasley** **Trustee, Sustainability First**
14.05 – 14.40h	**The challenge of sticky customers**	**Rachel Fletcher** **Senior Partner, Ofgem** **Jon Bird** **Associate, Sustainability First**
14.40h – 15.10h	**Discussion: how far should customers be protected to ensure a 'fair' outcome?**	
15.10 – 15.25h	**Break**	
15.25 – 15.30h	**Will customers remain sticky in the smart energy world?**	**Jon Bird** **Associate, Sustainability First**
15.30 – 15.45h	**Could new supply business models encourage greater engagement?**	**Chris Welby.** **Head of Regulation, Bristol Energy**
15.45 – 16.05h	**Might different market approaches improve smart engagement?** **Can we deliver smart energy and low carbon if many customers remain disengaged?**	**Jon Bird** **Associate, Sustainability First**
16.05 – 16.45h	**Discussion**	
16.45 – 17.00h	**Sum up and next steps**	**Judith Ward,** **Director, Sustainability First**

The challenge of sticky customers

Rachel Fletcher

Senior Partner, Ofgem

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The challenge of sticky customers

Jon Bird

Associate, Sustainability First

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Despite significant media and political attention, customers are not becoming significantly more engaged

BEIS Public attitudes tracker – wave 21 (May 2017):

- Only 17% switched supplier last year
- 48% have never switched
- Only 7% plan to switch in next year
- Those likely to switch are those who have least concern about meeting their energy bills
- These numbers have remained stable from year to year

Although:

- Between October 2016 and April 2017, average proportion of customer accounts on SVT fell from 61% to 59% (Ofgem data portal)
- 3.5 million switches so far this year

Customer types

- **Engaged** – meeting the needs of these customers encourages competition and innovation
- **Unable to engage** – current policy aims to provide help and protection to these customers
- **Able but unwilling to engage:**
    - Around half of all domestic customers

Competition orthodoxy

- Domestic [utility] customers are rational and, provided they have access to good quality information, they act in their own best interests, both in the short and long term.
- This ensures an actively competitive market, which puts pressure on costs and prices and encourages innovation.

Real customers

- Some have difficulty in engaging
    - Current policy aims to address this
    - Sustainability First's Project Inspire
- Behavioural bias
- Lack of trust
- Other priorities
- SMEs
- "I've got better things to do with my time"

Protect customers or ‘caveat emptor’?

- For a key commodity, an expectation of ‘fairness’
- Energy UK (July 2017): “We are committed to … <u>fair outcomes for all consumers</u>, including better targeted support for the most vulnerable.”
- What do we mean by ‘fair’?
- Economic concept of ‘satisficing’:
  - A ‘good enough’ solution
  - Avoiding any particularly unfair outcomes

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Sustainability First discussion paper (April 2017) – dual goals for pricing approaches

- Encourage competition and innovation
- A ‘fair’ pricing structure, that does not seriously disadvantage any particular customer segment

Both are needed for a fair and cost-effective system

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Some regulators recognise behavioural bias

FCA

- “Public policy makers have traditionally assumed that people will make the ‘right’ choice for their needs if **they are given as much information as possible**. More recently however, **behavioural economics** has shown that inherent bias can play a greater role in influencing consumers’ decisions than rational choice. Our own research has also shown that that **too much information can confuse consumers**. “ (Our future mission, Oct 2016)
- Long-term financial security / pensions
- Unauthorised overdrafts

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Discussion

- What do we mean by ‘fair’?

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Break

Will customers remain sticky in the smart energy world?

Opportunities:

- New supply business models
- Potential for greater green and / or ‘values-led’ engagement
- Smart meters and appliances
- Big data and customer differentiation

- Issues:
  - Market changes create losers, particularly for those who do not respond, as well as winners

New supply models

Chris Welby

Head of Regulation, Bristol Energy

Engaging the Good Folk of Bristol

Chris Welby
Head of Regulation

Who are Bristol Energy?

- 100% owned by Bristol City Council (but independently run)
- Nationwide energy supplier, but with a Bristol and South West focus
- Twin aims
  - Be a force for social good within Bristol and beyond
  - Provide an income stream to BCC to help deliver better services
- Customer centric in all we do.

Who are we trying to reach?

- Not the serial switchers

- The wider Bristol community
- The customer with a social conscience
- The public service ethos
- People who support the work of Sustainability First!
- The fuel poor

BRISTOL energy

Not easy to reach?

- Some need help.
  - Opened a F2F hub in the city Centre
  - Reaching out using trusted charities
  - Work with the council (but need to avoid state aid issues)

Most however are….

Who are the stickies?

- With the same bank they joined at University
- Get their Broadband from BT
- Use the same Mobile company since they got a mobile
- Auto-renew their car insurance
- Shop at the same supermarket chain for years
- If asked say they know what they like.
- Have worked at their current employer 10y+

Also, they can be called Chris!!

How do we reach them?

Two Stages:

1. Get their attention and encourage to them to think about switching
2. Give them a positive thing to switch for

Too often focus is on the second without contemplating the first.

Example

PRICE

Not a Stage 1 issue, but a stage 2

Same applies to good customer service.
But Bad customer service is stage 1

What is our stage 1?

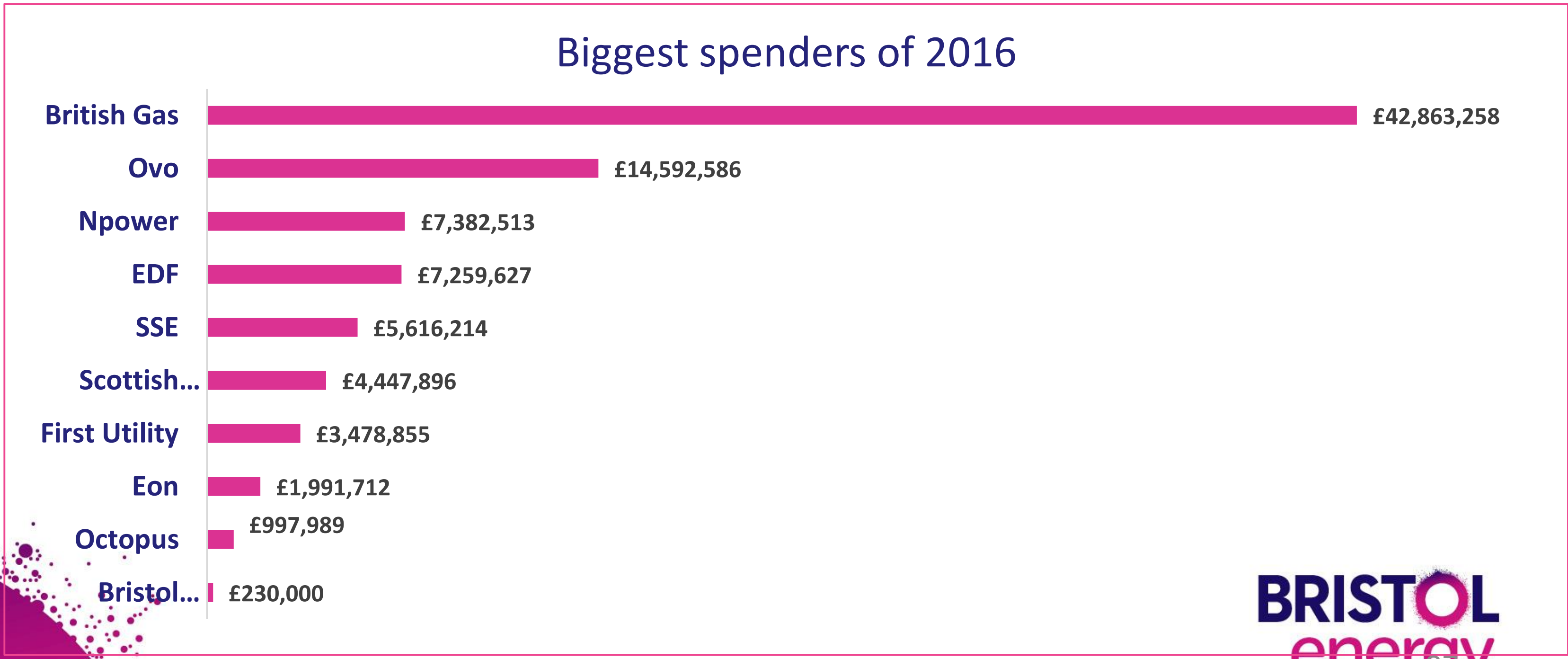
- Being Local
- Face to Face contact ability
- Social Good, attacking fuel poverty
- Working with people who will advocate for us

Stage 2

- Price
- Ease of Switching (and friendly)
- No Exit Fees
- Keeping promises
- Demonstrate we are walking the walk.

To conclude

- Customers want more than power and gas from a different brand. Even if cheaper
- All Independents have a raison d'etre and its embedded like words in a stick of rock.
- However. Need to get the message across. Will take time



Thank you

And

SWITCH TO

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energy

Might different market approaches improve smart engagement ?

Can we deliver smart energy and low carbon if many customers remain disengaged?

Jon Bird

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Could a change to smart market design reduce stickiness?

Once smart meters are in place, many changes are possible:

- New business models – e.g. 'values-led' mass switches - could be disruptive
- Remove the supplier monopoly
- Separate suppliers for peak and off-peak
- Encourage third party intermediaries and automation
- Charges linked to capacity as well as energy / units

But - would still need increase in engagement to work

Take account of behavioural factors (1)

Make the default tariff less attractive:

- Time-limited contracts only (ie no SVT)
    - As proposed by Scottish Power
    - But what happens at the end of the contract if not renewed?
- Ofgem proposal to permit rollover to another fixed term contract
- Change name of SVT to “emergency” tariff
- Give suppliers a target to reduce numbers on SVT

Take account of behavioural factors (2)

Possible actions:

- Continue to provide particular support to those unable to engage
- Prioritise engaged customers, who are more likely to be both:
  - Disruptive – early adopters of solar, heat pumps and EVs
  - Responsive to innovation
- A ‘Smart Plan B’? – e.g. move the default option for those unwilling to engage
  - Continue to raise legal standards on appliance efficiency
  - In principle, SVTs could be time of use (cf train and bus fares):
    - But transition would need to be slow and careful

Discussion

- How can we deliver smart energy outcomes if many customers remain disengaged?

Sum up and any next steps

Judith Ward