

To all interested stakeholders

Date: 14 August 2017

Dear Stakeholders

Finding ways to unlock consumer engagement through supplier trials

This open letter has information for stakeholders who have ideas about more effective ways to engage consumers and are keen to be involved in trials to influence the policy debate.

Below we explain:

- We are most interested in trials to identify effective prompts to (i) help get people off poor value default tariffs (often standard variable tariffs or SVTs) and (ii) help consumers avoid defaulting onto an SVT at the end of their fixed deal
- The value of supplier-led trials in policy making
- How to produce robust data and insight that we can use
- What a supplier should do if they are interested in running a trial.

We are still concerned that the energy retail market is not working for all consumers

Around 65% of households have not recently, or ever, made an active choice about their energy tariff, and as a result are paying more than they should. The market offers many great deals and more choice than ever for people who engage, and more and more people are saving money by switching. However, there is too little competitive constraint on the price suppliers' charge for standard variable and other default tariffs.

Introducing new and more effective measures that prompt and support consumer engagement is a key way to make the market work better

We are using behavioural insights and research (including randomised controlled trials), to identify, test and ultimately develop and implement a range of effective prompts. These prompts will seek to address the varying needs of, and barriers faced by, different groups of consumers, and will make the most of different opportunities, such as house moves or a fixed tariff ending. Some of these will be new prompts, while others may be improvements on existing prompts.

Work is already underway. Ofgem's first randomised controlled trial is looking at whether sending people a letter about cheaper offers from rival suppliers prompts them to shop around and switch tariff. The results are due in the autumn. We will use results from this and other trials as the evidence base to introduce a package of effective prompts.

There are clear synergies between this research and our work to change the rules for suppliers in relation to their customer communications. This is an ambitious piece of work to transform these rules. We want to make sure consumers remain protected, while enabling innovation – driving suppliers to find better ways of engaging customers, so these customers can effectively engage in the market, make informed decisions and manage their

consumption and costs. This includes making sure customers have the right information, at the right time and in the right format to prompt engagement.

As part of this, we will be reviewing existing prompts and the communications they are provided in. Research and trials, in particular, on the existing regulated communications and prompts could provide useful evidence that would allow us to increase the scope and pace of our rulebook reforms.

Suppliers can do more and supplier-led trials can add real insight, helping us to identify opportunities for change

We are keen to see suppliers do their own trials.¹ Suppliers, and others, have ideas about what can improve engagement – these may be new prompts or changes to existing prompts such as the Cheapest Tariff Message or the End of Fixed Term Notice. We want to tap into this and build a strong evidence base, so that we can act quickly to improve the way the market works. A number of suppliers have already run their own trials and this has provided useful insight.

To influence our policy decisions, supplier trials need to be of sufficiently high quality. Ultimately, the lead organisation running the trial is responsible for the quality of the research. As running trials will be new to many, we have published updated Trials Guidance² that shows what details we expect suppliers to consider when designing and analysing a trial. We believe that randomised controlled trials are the best way of collecting robust evidence on what works, but recognise that they aren't suitable or possible in all instances. In these cases, we will consider evidence generated by other methods as long as it is well-designed, addresses an issue of interest, and is of sufficiently high quality.

Our primary focus is reducing the number of domestic consumers on default tariffs

Domestic consumers remain our priority for trials, with a focus on reducing the number of customers on poor value default tariffs (often an SVT). This may include, but is not limited to, prompts that would prompt those on an SVT to switch to a better deal, reduce the flow of consumers onto the default tariff once their fixed tariff ends or other measures that could promote longer-term engagement by customers currently on an SVT.

New prompts

Different types of prompts we are interested in include:

- Nudging consumers with personalised savings messages
- Variations on the name of the default tariff or the way it is described
- Social norm messaging, whereby consumers are made aware of how they compare to other consumers
- Using different vehicles (such as post cards or envelopes) to deliver prompts and the position of different prompts and messages

We also want to understand the impact of:

- Different communication channels, eg letter, email, text
- Customers receiving a prompt once or multiple times (using the same or different channels)
- One-off prompts and combinations of prompts

Improving existing prompts and communications

There are a number of existing regulated communications and prompts – for example, the Cheapest Tariff Message and the End of Fixed Term Notice. We want to know whether these

¹ For clarification, suppliers must adhere to the relevant standard licence conditions unless they have applied for and been granted a derogation from certain rules.

² Ofgem's updated Trials Guidance can be found at <https://www.ofgem.gov.uk/publications-and-updates/guidance-running-trials>

can be more effective. We will use this evidence to inform our development of new prompts and the scope and pace of changes we can make to the rules around customer communications.

End of Fixed Term Notice (EFTN)

The EFTN informs customers that their tariff is expiring and prompts them to consider their options. As a result, consumers should be aware of the upcoming changes and take action. However, many consumers do not take action when their tariff expires and so roll onto a default tariff. We want to understand the impact of changes to the EFTN on consumers' awareness that their tariff is coming to an end and likelihood to take action. Specifically, we are interested in trials that will explore:

- Different structures, formats and content of the EFTN
- When the EFTN is sent to consumers ie the length of notice consumers are given that their tariff is expiring
- Different descriptions of tariff the consumer will be rolled onto should they take no action, for example framing the default tariff as the 'out of contract' tariff.

Cheapest Tariff Message (CTM)

We would welcome trials on the format and wording used, and how, when and how often the CTM is provided. This could also include looking at the effect of moving the CTM within an existing communication and the impact of providing it separately.

Non-domestic customers

Non-domestic consumers are not currently a priority area for trials. This reflects the significant reforms that are already taking effect to improve the microbusiness market, and our plans to consult on further changes. However, we would be interested in engaging with stakeholders who have ideas about how to better target and engage microbusiness consumers.

The updated Trials Guidance provides an overview of the different elements of a trial and we are prepared to provide derogations to support trials

Using the checklist to develop and structure the proposal

Section 5 of the Trials Guidance includes a checklist of the elements that need to be considered when designing a trial. Our Behavioural Insight Unit will also be able to support suppliers scoping out potential trials.

We are prepared to grant derogations from certain rules to facilitate trials

When scoping trial ideas, it is important for the supplier to consider whether a derogation from existing rules may be needed. Where this is the case, we will work with the supplier and the derogations team to move through the process as quickly and efficiently as possible. For reference, a copy of the Derogations Guidance is here:

https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/guidance_for_derogation_requests_from_domestic_retail_market_review_licence_conditions_version_2_0.pdf

Suppliers interested in running a trial should use our template to structure their proposal and get in touch with an expression of interest by 29th of September

Using the template set out in Annex B of the updated Trials Guidance to structure the proposal will make it easier for us to understand the idea and what support we may need to provide. However, this does not mean that we expect all elements to be fully developed.

We'd encourage suppliers who are interested in running a trial to get in touch before the 29th of September. If our resources are stretched, we will focus on proposals that align most closely with our objective and that have the potential to add new evidence or insight.

While support will be available outside of this period, we may not be able to respond as quickly or provide as much support.

If you want to get in touch, send us an email

If you have a proposal that you want to discuss, or if you have any questions relating to this letter or the trials guidance, get in touch via promptsenquiry@ofgem.gov.uk.

Yours faithfully,

Neil Barnes
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Consumers and Competition