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Report

Cheaper Market Offer Communication Trial

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This report contains the results of the Cheaper Market Offers Communication trial conducted in summer 2018. It is part of a wider trialling programme, designed to explore ways of increasing consumer engagement in the domestic retail energy market.

Building on the results of a previous trial, conducted in 2017, this randomised controlled trial involved around 600,000 default energy tariff customers from five energy suppliers (three large and two medium). Primarily, it tested whether a communication (letter or email) sent from the customer's own supplier, signposting to personalised cheaper market tariffs can increase switching rates amongst the average default tariff customer. We call this a cheaper market offer communication (CMOC). This report describes the motivation, design, analysis and results of the trial.

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Communications signposting cheaper market offers prompt switching among default tariff customers

Background

Although there has been an increase in consumer engagement in energy tariff choices in recent years, around 50% of GB customers remain on a default tariff[1], which tend to be more expensive for the same energy consumption than other types of tariffs. Consumers face a range of barriers, both conscious and unconscious that prevent many of them engaging in their energy tariff choices.

Ofgem's consumer engagement trialling programme[2] began in 2016 following the Competition and Market's authority (CMA) investigation into the energy market.[3] Building on previous consumer engagement research, it was designed to find new ways of increasing consumer engagement in the domestic retail energy market, using new licence powers that allowed Ofgem to require energy suppliers to take part in trials.[4] In July 2018, the UK Parliament passed legislation introducing a price cap to ensure default tariff customers pay a fair price for their energy, which came into force in January 2019. While price protection is in place for those that need it most, customers can still make savings from switching tariff.

The Cheaper Market Offers Communications (CMOC) trial was completed in summer 2018, before the introduction of the default tariff price cap. It was designed to test, at scale, whether default tariff customers could be prompted to switch to a cheaper tariff by signposting them to three cheaper alternative tariffs.

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[1] As of April 2019, 53% of electricity customer accounts and 51% of gas accounts excluding customers on prepayment, were on default tariffs. See Ofgem's data portal
[2] See Ofgem website:Prompting engagement in energy tariff prompting-engagement-energy-tariff-choices
[3] https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf
[4] https://www.ofgem.gov.uk/publications-and-updates/implementation-standard-licence-condition-32a-power-direct-suppliers-test-consumer-engagement-measures-decision-make-licence-modifications

A previous Ofgem trial, the Cheaper Market Offers Letter (CMOL) trial[5] successfully demonstrated that a single stand-alone letter with three cheaper tariffs from across the market had a positive, if modest, impact on switching rates, and that letters sent by the customer's energy supplier were more effective than those branded by Ofgem. The Cheaper Market Offers Communications (CMOC) trial built on those findings by including a wider customer base from across more suppliers and testing a series of refinements to the intervention.

Trial design

The trial involved around 600,000 customers from five energy suppliers – three large and two medium. It was designed to understand the impact of the cheaper market offers intervention on the average default tariff customer.[6] Unlike previous trials which excluded certain customer groups such as those on restricted or prepayment meters, or those in debt, this trial made minimal customer exclusions. It included customers who had been on a default tariff for at least 3 months.

Building on the results of the CMOL trial and to fill some of the remaining evidence gaps, the following variants were tested:

- The inclusion of the supplier's own cheapest tariff (internal tariff) in addition to cheaper offers from competitor suppliers (external tariffs)
- Sending the CMOC via letter or customer's preferred channel (letter or email)
- The addition of a follow-up reminder

Two trial designs were developed, one for larger and one for medium sized suppliers. Large suppliers ran a 2x4 factorial design with a do-nothing control group, creating 9 trial arms in total. The factorial design means that each variation of the CMOC is tested along with every other variation so that the most effective combination can be identified. Customers were randomly allocated into the 9 trial arms.

Customers of the medium sized suppliers were randomly allocated to five groups, using a 2x2 factorial design with a do-nothing control group. Medium sized suppliers tested all the same interventions as the large suppliers with the exception of the reminder.

[5] https://www.ofgem.gov.uk/publications-and-updates/results-cheaper-market-offers-letter-trial
[6] The 'average default tariff customer' means all default tariff customers regardless of whether they are in debt, have an Economy 7 or prepayment meter or are in receipt of the Warm Home Discount.

The interventions were informed by behavioural science and tested qualitatively before and after the trial. User testing conducted prior to the trial helped to refine the content and format of the letters/emails. Qualitative research with a sample of customers following the trial provided rich information on customers' actions, reactions and experiences.[7]

Results

The results show that a CMOC is effective at boosting switching rates among the average default tariff customer. Compared to a switching rate of 2.9% in the control group, switching reached an average of 6.8% across all treatment groups and 7.5% in the most effective trial arm, which was a letter that included the supplier's own cheapest tariff alongside competitors' tariffs and was followed up with a reminder. This means that, for every customer who switches of their own accord, a CMOC is capable of driving an extra one and a half customers to switch who would not have done otherwise (equivalent to a relative increase in switching rates of 150%). The average annual saving among those who switched was £231.

The only variation in the design of CMOC to have any substantive impact on switching was to issue a follow up reminder. Sending a reminder increased switching rates by 27%. The impact of including the incumbent supplier's own cheapest tariff on the CMOC compared to only featuring the cheapest tariffs on the market was small, increasing switching rates by 7.6%. Sending the CMOC by letter, including to customers who have expressed a preference for receiving communications from their supplier by email, increased switching rates by just 6% on average relative to sending the CMOC in the channel for which the customer has expressed a preference. However, more detailed analysis of the results from the medium sized suppliers combined with findings from the qualitative research points firmly towards the conclusions that CMOC would be most effective if sent by letter, regardless of whether the customer has indicated that email is their preferred method of communication.

Although the CMOC was found to be more effective on some customer sub-groups than others, there was no sub-group for whom CMOC was ineffective. Interestingly, the CMOC was more effective at increasing switching rates amongst customers who had been on a

[7] https://www.ofgem.gov.uk/publications-and-updates/cheaper-market-offer-communication-qualitative-research-findings

default tariff for the longest (three years or more). The CMOC had less impact on customers of the larger suppliers as well as those on prepayment meters.

Qualitative research following the trial showed that the letters were well understood but the reasons why customers respond, or don't respond to the CMOC are complex. Both CMOL and CMOC were designed to overcome two main barriers to switching - hassle costs associated with finding cheaper deals and inattention to the fact that cheaper deals are available. CMOC was effective on a wide range of customer groups which suggests that these barriers affect a whole range of different customers. However, while this intervention was effective for some, there are a large proportion of customers who did not switch, and the research suggests that wider barriers to engagement remain. Engagement could be increased further by designing interventions that address more barriers or, potentially, a package of interventions which address numerous but different barriers.

1. Introduction

Context and related publications

1.1. In 2016, the Competition and Markets Authority (CMA) completed its investigation into the energy market[8] and concluded that the British energy market is a two-tier market, in which a large proportion of customers on Standard Variable Tariffs[9] pay substantially more for their energy than those customers who switch regularly between suppliers' competitive acquisition tariffs (usually, fixed tariffs).

1.2. The CMA recommended a package of remedies to tackle this consumer detriment and address weak customer response in the energy market, one of which included a recommendation that Ofgem establish an ongoing programme of research (using randomised controlled trials where appropriate) to identify new and more effective ways of prompting consumer engagement in the retail market. Ofgem established a Behavioural Insights Unit and set up an evolving programme of consumer engagement trials. A new licence condition[10][11] was introduced to give Ofgem the powers to require energy suppliers to test methods of increasing consumer engagement in the energy market. More information about the consumer engagement trialling programme, what we learned about consumer engagement and findings from the other trials can be found in the cross trials summary paper.[12]

1.3. In July 2018, the UK Parliament passed legislation introducing a price cap to ensure default tariff customers pay a fair price for their energy, which came into force in January 2019. While price protection is in place for those that need it most, customers can still make savings from switching tariff. This trial look place before the introduction of the default tariff price cap.

1.4. One of the CMA's shortlisted ideas was to provide consumers with details of cheaper tariffs on the market. This concept was initially explored in 2016 in Ofgem's first small

[8] https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf
[9] the default product that customers remain on unless like they make an active decision to switch tariff
[10] https://www.ofgem.gov.uk/system/files/docs/2017/01/slc_32a_decision_final_website.pdf
[11] https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions
[12] https://www.ofgem.gov.uk/publications-and-updates/what-works-increasing-engagement-energy-tariff-choices

scale trial[13] and then tested in the Cheaper Market Offers Letter (CMOL) trial[14] in summer 2017. The CMOL trial tested whether customers on Standard Variable Tariffs (SVTs) could be prompted to switch by sending them a single letter that promoted three cheaper market tariffs. Two variations of the letter were tested, one with the incumbent supplier's branding and the other with Ofgem's branding. To simplify the trial design, the trial was limited to SVT customers on a dual-fuel tariff and excluded a range of customer types including those on prepayment or restricted meters as well as those in debt or on the Warm Home Discount. The trial was run with around 140,000 SVT tariff customers from two large energy suppliers. The results, which were encouraging for a letter based trial, showed that the cheaper market offer letter was effective, raising overall switching rates from 1% in the control group to 2.4% in the Ofgem branded group and 3.4% in the supplier branded group.[15]

1.5. Following the CMOL trial, questions remained over whether the CMOL would have the same impact if it were rolled out across all default tariff customers, including customers of the medium sized suppliers. Customers who are in debt or arrears to their incumbent supplier, for example, may be unable to switch without clearing their debt which could reduce the impact of such an intervention. Allowing suppliers to include their own cheapest tariff on the letter could potentially help customers in debt to benefit from the intervention, however the CMOL did not provide us with any evidence as to whether this would be the case or not. In addition, suppliers told us that they would prefer to send the CMOL via email to customers who have opted in to receive their communications in this way, but there was no evidence as to whether this could reduce the impact of the message. Finally, we were also interested in testing whether the effectiveness of CMOL could be increased by issuing a follow up reminder after the first communication, as our qualitative results showed that some customers put the CMOL away to act on it later, but ultimately don't get around to doing so.

1.6. To answer some of the remaining questions from the CMOL trial, we designed a larger trial to be run with five energy suppliers, three large suppliers and two medium sized suppliers.

[13] https://www.ofgem.gov.uk/system/files/docs/2017/11/small_scale_database_trial_paper_pdf.pdf
[14] https://www.ofgem.gov.uk/publications-and-updates/results-cheaper-market-offers-letter-trial
[15] https://www.ofgem.gov.uk/system/files/docs/2017/11/cmol_report_0.pdf

1.7. The trial was designed to answer the following research questions:

1. *What is the impact on switching rates of signposting default tariff customers to cheaper market offers? (primary research question)*

2. *To what extent is there a difference between the realised savings from switching amongst those who switch in the control group compared to those who switch in the intervention groups?*

3. *What is the impact on switching rates of alerting default tariff customers to cheaper market offers, excluding* ***prepayment meter*** *customers?*

4. *To what extent does the impact of signposting default tariff customers to cheaper market offers vary across* ***medium and large suppliers****?*

5. *What is the impact on switching rates of signposting customers who have been on a default tariff for* ***3-6 months*** *to cheaper market offers?*

6. *What is the impact on switching rates of signposting customers who have been on a default tariff for* ***6 months–3 years*** *to cheaper market offers?*

7. *What is the impact on switching rates of signposting customers who have been on a default tariff for* ***3 years plus*** *to cheaper market offers?*

8. *What is the impact on switching rates of signposting customers to cheaper market offers with a communication that includes the two market cheapest tariffs and the supplier's own cheapest tariff relative to a communication that includes the three market cheapest tariffs on the* ***average default tariff customer?***

9. *What is the impact on switching rates of signposting customers to cheaper market offers with a communication that includes the two market cheapest tariffs and the supplier's own cheapest tariff relative to a communication that includes the three market cheapest tariffs for* ***customers in debt?***

10. *What is the impact on switching rates of sending a single follow up reminder to the initial communication relative to not following up with a reminder on the* ***average default tariff customer****?*

11. *What is the impact on switching rates of signposting customers to cheaper market offers via a letter or sending the same alert in the medium requested by the customer (letter or email) on the **average default tariff customer**?*

12. *To what extent does the impact of CMOC on switching rates vary depending on whether the customer is on a **price-capped tariff** relative to not being on a price-capped tariff?*[16]

[16] These customers consist of Warm Home Discount and prepayment meter customers who, at the time of the trial, were the only two groups of default tariff customers subject to a retail price cap.

2. Research design

Section summary

This section outlines the design of the research, including the methods used in the trial, how the interventions were designed and the trial partners selection process. It includes details of both the quantitative trial design and the accompanying qualitative research.

Sample selection

Population of interest

2.1 The population of interest is disengaged customers, ie those who are not engaged in their energy tariff choices and remain on default tariffs. There are over 60 domestic retail energy suppliers in the market with varying market sizes and numbers of customers on default tariffs. To maximise the potential impact of the evidence gathered in this trial, we narrowed down our population of interest to those default[17] tariff customers of suppliers with at least 250,000 customers and a default tariff customer base of 20%, who have been on a default tariff for at least 3 months.

2.2 Suppliers with a customer base lower than 250,000 are considered by Ofgem as small suppliers[18] and were excluded because they have fewer customers on default tariffs, meaning that the consumer detriment is much lower than for the larger suppliers. We only considered customers of suppliers whose default tariff customer population comprised at least 20% of their total customer base so that any medium sized suppliers with over 250,000 customers with a very low proportion of customers on default tariffs were not included in the trial (a low proportion of default tariff customers would mean a lower level of consumer detriment).

[17] A default tariff refers to any tariff to which customers are automatically enrolled if they do not make an active choice about which tariff they want to enroll on. The most common default tariff is the Standard Variable Tariff (SVT), which does not have a fixed contract end-date, but suppliers may also choose to default customers onto fixed contract tariffs at the end of their existing tariff contract. These default 'fixed' tariffs are also included in our definition of a default tariff.
https://www.ofgem.gov.uk/key-term-explained/default-tariff
[18] https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions

2.3 The population of interest was confined to customers who had been on a default tariff for at least 3 months to exclude more engaged customers who have recently ended a fixed term tariff but not yet got around to re-fixing. Evidence collected by Ofgem from suppliers suggested 3 months or more on a default tariff was an appropriate cut off point.

2.4 A total of 10 suppliers were identified as having a default tariff customer base of 20% with at least 250,000 customers at the time the trial was being designed in early 2018.

Supplier selection

2.5. An algorithm[19] was developed independently by our analytical consultants, the Behavioural Insights Team, to identify which suppliers to involve in the trial. It identified the combination of five suppliers that would be most representative of the customer base of all 10 suppliers as a whole, along a range of customer and supplier characteristics, after imposing a quota to have three large suppliers and two medium sized suppliers. Five suppliers was decided to be the minimum number of suppliers required to ensure coverage of the population while balancing the resource requirements of running multiple trials. A quota was imposed to obtain a mixture of large and medium suppliers because the CMOL trial was only run on large suppliers and we wanted to gain evidence on whether customers of medium sized suppliers would respond differently to a prompt to switch tariff.

2.6. The suppliers selected drew a random sample of customers from their default tariff customer base who met the inclusion and exclusion criteria[20] that we provided to them. The number of customers each supplier drew was based on power calculations conducted by Ofgem's Behavioural Insights Unit. The power calculations were undertaken for each supplier independently because of the variation across suppliers in baseline switching rates and differences in the size of the medium and large suppliers' total default tariff customer population.

2.7. For the large suppliers, power calculations identified the number of customers required to detect a 30% increase in switching rates between the different variations

[19] Details are in the technical appendix 2.
[20] For example, suppliers were asked to exclude customers who were not on a default tariff (as these customers were not part of our population of interest, which is disengaged customers).

of the CMOC interventions[21] with 95% statistical confidence and 80% statistical power (as is conventional in social science trials), after accounting for 5% attrition.[22] A 30% effect size was chosen because it allowed us to design a trial that was statistically robust without overburdening suppliers.

2.8. One of the medium suppliers' trials was powered to detect the same 30% increase in switching rates as for the large suppliers, by taking advantage of the factorial design through pooling the sample sizes across two similar CMOC treatment groups together. This was necessary to avoid using a disproportionate number of the medium suppliers' total default tariff customer base relative to the large suppliers. The other medium supplier's trial was powered to detect a 100% increase in switching rates between each variation of the CMOC and the control group. This was because the two medium suppliers had different baseline switching rates and this affects the total sample size required to detect an impact of a given size. To ensure that both medium suppliers were treated fairly – that the proportion of customers drawn from each supplier was similar – it was not possible to power both trials to detect a 30% difference in switching rates. This does not affect our overall statistical power to answer the research questions because our analysis is conducted by pooling data across all participating suppliers (known as a 'meta-analysis'), in line with our pre-analysis plan in our trial protocol.[23] Nevertheless, ensuring that each supplier's trial was sufficient on its own to detect the impact of the CMOC interventions was important to enable us to identify potentially important differences in the impact of CMOC across medium and large suppliers, especially in the event of a loss of power owing to any individual trial not being fully implemented.

2.9. The power calculations resulted in a combined target sample size across all suppliers of 612,304.

2.10. Prior to drawing the sample, suppliers applied a set of inclusion and exclusion criteria to ensure they were drawing from a sample that was reflective of the population of interest, that is, customers who have been on a default tariff for at least 3 months.

[21] For the small suppliers, the trials were powered to detect a 30% increase in switching rates between two variations of the CMOC pooled together against two other variations of the CMOC pooled together to ensure that the total proportion of a small supplier's customer base being used for the trial was not substantially larger than the proportion obtained from large suppliers.
[22] Attrition can occur when a customer leaves their supplier after the sample is drawn but before the CMOC is sent or if a customer moves house and therefore leaves their supplier.
[23] Our trial protocol is unpublished because it identifies individual suppliers.

The only deviations made from this was to exclude customers who had opted out of direct marketing (approximately 24% of the population[24]) and the small proportion of customers who are in receipt of special communications (braille, audio etc.) (0.6% of population[25]) or on restricted meters that are not of an Economy 7 type (this is expected to represent a very small proportion (less than 5%) of the population, judging from a report into Economy 7 meters by Citizens Advice[26]). Customers who have opted out of marketing were excluded because further work is required to establish whether the CMOC could be considered a piece of marketing. The other two customer sub groups were excluded to avoid the need for suppliers to create a set of bespoke templates for a very small proportion of the trial population.

2.11. After suppliers drew their samples, we checked that the sample was representative of their overall population of customers who had been on a default tariff for at least three months across a range of characteristics that are known to affect switching, including average gas use, average electricity use and whether the customer is on a prepayment meter. The checks showed that the samples were representative of the population of interest. Suppliers then randomised their customers into the trial arms according to the trial design we provided to them. To ensure that randomisation was effective, we ran a series of 'balance checks'.[27] These showed that there were no substantial differences across customers in each of the trial arms across a range of characteristics including tenure length and average energy use. This means that we can be very confident that any differences in switching rates observed across the groups is due to the CMOC, and the variations of the CMOC, and not chance differences across the types of customers in each trial arm.

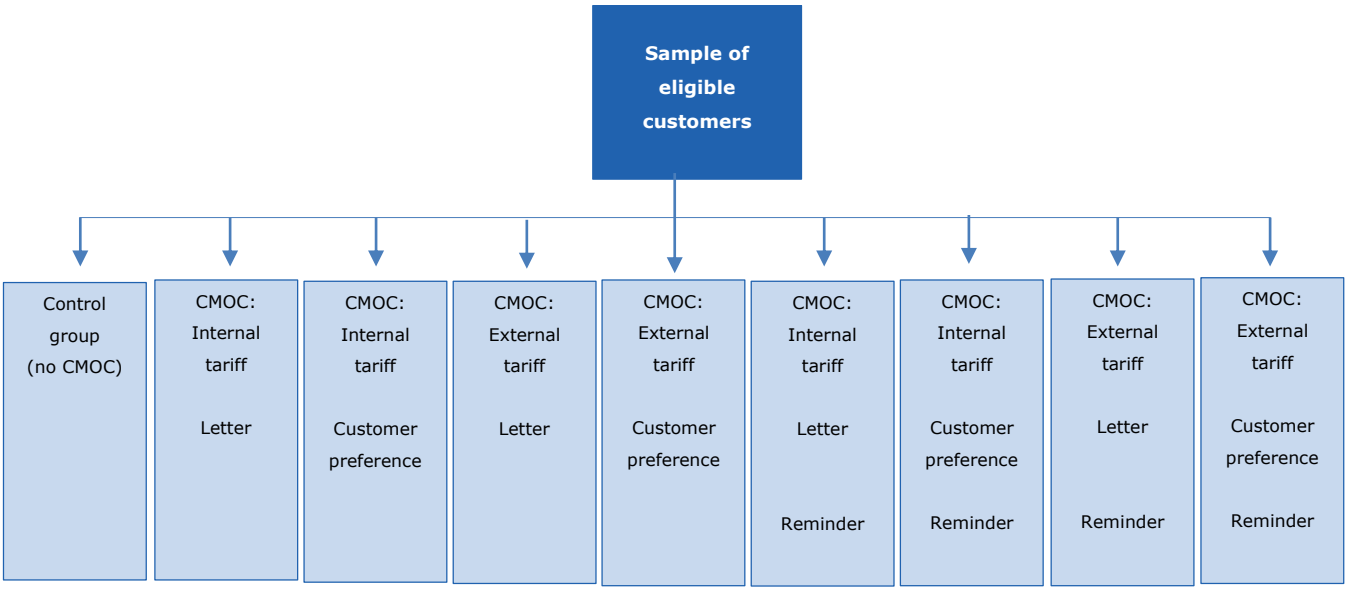
2.12. Following attrition of 4.8%[28], the combined sample size across all suppliers for analysis is 581,247.

[24] Based on data collected from suppliers by Ofgem through a Mandatory Request for Information process using Ofgem's Licence Powers.
[25] Based on data collected from suppliers by Ofgem through a Mandatory Request for Information process using Ofgem's Licence Powers.
[26] https://www.ipsos.com/sites/default/files/publication/1970-01/Ipsos-MORI-report-on-Consumer-Experiences-Of-Time-Of-Use-Tariffs.pdf
[27] Balance checks involve comparing the characteristics of customers in the control group to the characteristics of customers in the intervention groups and checking that there are no statistically significant differences between them.
[28] The loss of customers through people moving house or leaving their supplier after the sample was drawn.

Trial design

2.13. There are two main trial designs depending on whether the supplier is large or medium sized. Customers of the large suppliers were randomly allocated with equal allocation to 9 groups, using a 2x4 factorial design with a do-nothing control group. The interventions consist of a CMOC sent by the customer's supplier: with or without a follow up reminder; by letter or according to the customer's channel preference (either letter or email) and; with only the three market cheapest tariffs or with the top two cheapest tariffs and the incumbent supplier's own cheapest tariff. The factorial design means that each variation of the CMOC is tested along with every other variation so that the most effective combination can be identified.

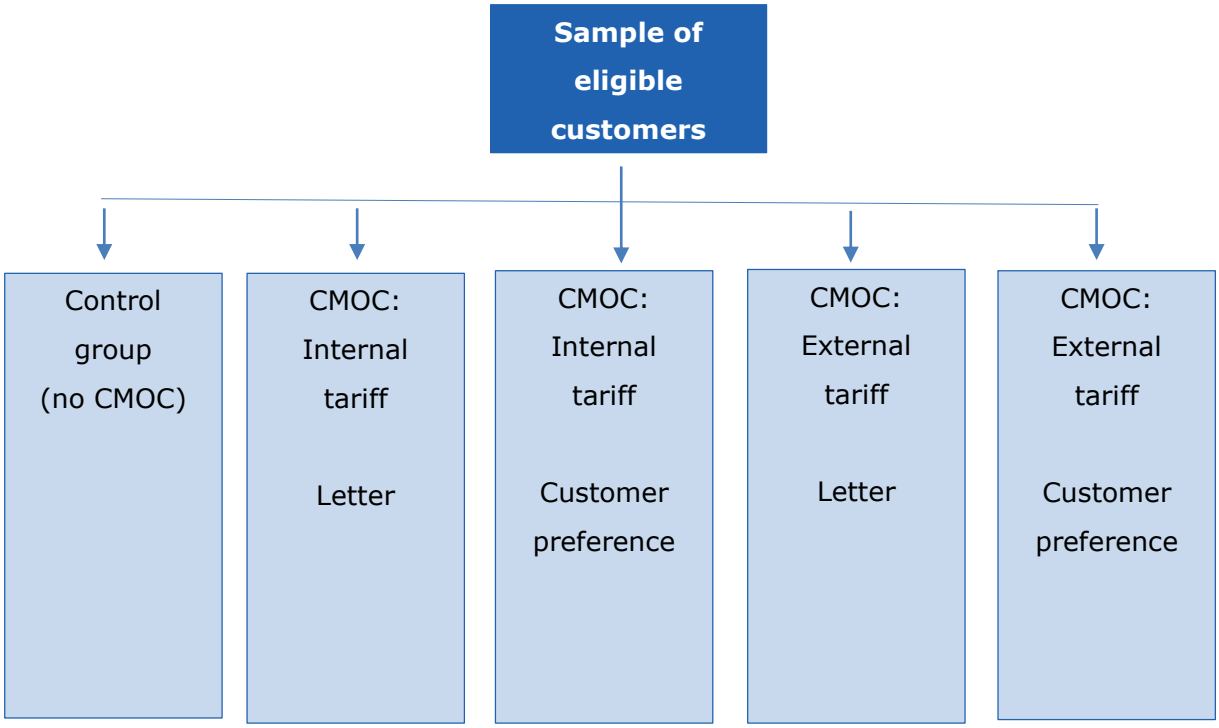
Figure 1 Flowchart describing trial design – large suppliers



2.14. Customers of the medium suppliers were randomly allocated to five groups, using a 2x2 factorial design with a do-nothing control group. For one medium supplier, the design required that they allocate customers into the five groups using a 2:1:1:1 allocation ratio. The unequal allocation ratio was done to maximise the number of interventions that could be tested whilst ensuring that the sample size required was not disproportionately large in relation to its total default tariff customer base. Despite having 4 fewer trial arms, the only intervention that is untested on the medium suppliers is the follow up reminder. This individual trial is still sufficiently powered because we can rely on pooling both external tariff arms to compare against

the two internal tariff arms and pooling both letter arms to compare against both customer preference arms.

Figure 2 Flowchart describing trial design – medium suppliers



2.15. The other medium supplier followed the same design as described by the flowchart above but allocated customers into the five groups with an equal allocation ratio. As mentioned in section 2.8, this was done because this medium supplier had a higher overall switching rate than the other medium supplier, meaning that a larger sample size was required to detect the same overall effect with the same level of statistical confidence and power. Although reducing the size of the control group does not have any impact on the resources a supplier needs to deliver the intervention, it does reduce the total number of customers that they have to provide detailed outcome data for. The same number of CMOC variations are tested in this trial as in the other medium supplier's trial and sufficient power for this individual trial is retained by relying on comparing each CMOC intervention arm with the control group.

Intervention design

2.16. The CMOC presented three cheaper tariffs in price order stating how much can be saved by switching to each. The letter headline promoted the maximum saving to be

made. The CMOCs were designed by suppliers according to a specification laid out by Ofgem. An example of the CMOC in letter and email format can be found in appendix 1.

2.17. As in the earlier Cheaper Market Offer Letter (CMOL) trial, these tariffs were personalised for each customer based on their electricity and gas usage, and existing preferences around payment type, account management and billing. This ensured that tariffs were suitable based on the customer's existing circumstances (eg a non-smart meter customer could not switch to a smart meter only tariff without also switching their meter).

2.18. The trial tested several variations of the CMOC which were pretested by Ofgem's in-house team for clarity in one-to-one interviews with a sample of default tariff energy customers.[29] We conducted three rounds of testing in which we observed reactions to various versions of the letter, adapting it for each round based on feedback.

2.19. The variations are described and justified in *Table 1*. During our user testing sessions, we observed participants' reactions to a range of differences across the letters including: (1) reactions to only being presented with a set of tariffs from rival suppliers; (2) reactions to being presented with a set of tariffs that also included a tariff from their incumbent supplier and; (3) whether extra details provided for particular sub-groups, eg customers in debt, were clear and understandable.

Table 1 Variations in the intervention design

Intervention type	Short description	Rationale
External tariff	In these trial arms, suppliers are required to present three market cheaper tariffs in price order.	Our research shows that some of the most disengaged customers do not visit price comparison websites, partly because there are hassle costs associated with making time for this. Providing customers

[29] Participants were recruited by an external research agency.

		with the three cheapest market options directly in a communication reduces the hassle associated with switching.
Internal tariff	In these trial arms, suppliers are permitted to present their own cheapest tariff, alongside two of the market cheaper tariffs. The tariffs must still be listed in price order.	The hassle costs of switching internally are lower than switching externally and many debt customers may be unable to switch externally. In addition, participants in our CMOL trial told us in interviews that they felt confused on receiving a letter from their own supplier suggesting that they switch away to another supplier.
Reminder	A reminder to be sent 2 weeks after the first communication that will briefly refer back to the original communication and remind participants to switch tariff. It will not contain any tariff information because it may be out of date.	The qualitative research in CMOL showed that some people stored the letter with the intention on acting on it later, but never did. The reminder is to help overcome this tendency to procrastinate which the behavioural science literature shows is a major barrier to action.
Letter	In these trial arms the communication will be sent in letter format.	The CMOL trial used a letter and was effective.
Customer communication preference	In these trial arms, the communication will be sent in the format that the customer has requested to receive their bills or other	Email is substantially cheaper than letters so suppliers favour this approach. However, we do not have any evidence on

	regulated communication, of which two options are available - letter or email.	how this would impact the effectiveness of the communication.

2.20. As in the CMOL trial, a Price Comparison Website (PCW) was selected by suppliers to generate up-to-date and personalised tariffs. Ofgem did not specify which PCW suppliers used for this purpose and we did not require them to use the same one.

2.21. Customers for whom the CMOC were generated with a saving of £5 or less as their best offer were excluded. Although these customers were excluded after randomisation, checks revealed that this introduced no additional imbalance in key customer characteristics across trial arms.

2.22. Suppliers were not permitted to send any marketing communications to trial customers during the trial but still issued regular communications (bills, annual statements, price increase notifications etc.) to all participants as normal.

Quantitative data collection

2.23. The participating suppliers provided Ofgem with data on whether every customer in the trial had switched tariff or supplier 30 days after the CMOC had been sent and then again 60 days after the CMOC had been sent. These time periods were chosen to enable comparison with the CMOL trial. The primary outcome measure that we used to assess the impact of CMOC was switching tariff or supplier 30 days from receipt of the CMOC. If a customer switches tariff but stays with their existing supplier we call this 'internal switching', and if the customer switches to a different supplier altogether we call this 'external switching'.

2.24. This customer-level dataset also contained data on customer characteristics such as tenure (length of time on a default tariff), gas/electricity use, payment method (eg direct debit or standard credit), method of account management, whether the customer was in debt, had a smart meter, was on a price-capped tariff etc. This was requested from suppliers to allow us to conduct sub group analysis to determine whether the CMOC was more or less effective on some customer types than others.

2.25. For customers who switched to a different tariff with their existing supplier (internal switches), data was collected on the savings they made from switching by subtracting

the customer's new estimated annual energy costs from their old estimated annual energy costs.

2.26. For customers who switched supplier (external switches), data was also obtained on which supplier that customer switched to, so that we could follow up with the 'gaining suppliers' to find out how much customers actually saved from switching. The data from four out of the five suppliers who participated in the trials was matched with the data from gaining suppliers using the customers' meter point reference number (MPAN/MPRN[30]). This enables us to measure savings on average and savings for particular sub-groups of customers by subtracting the customer's new estimated annual energy costs from their old estimated annual energy costs. Due to data availability issues we obtained data on 72.6% of all switches that occurred during the trial period.

Quantitative data analysis

2.27. The primary research questions were answered by running a series of Ordinary Least Squares regression analyses with Logit robustness checks on a dataset that combined the data obtained across all five trials following a pre-analysis plan drafted prior to data collection. Deviations from the pre-analysis plan were recorded and justified.

2.28. To analyse the impact of CMOC compared to no CMOC, the following equation was used:

$$y_i = \beta_1 Treatment_i + \varepsilon_i$$

Where:

- i denotes the participant identifier
- y_i equals 1 if participant i has requested to switch, either internally or externally, and is 0 otherwise (no switch)
- $Treatment_i$ equals 1 if participant i is allocated to a treatment trial arm, and equals 0 otherwise

[30] Meter Point Reference Numbers (MPRNs) are used to uniquely identify gas meters and Meter Point Administration Numbers (MPANs) are used to uniquely identify electricity meters.

- β_1 is the average CMOC treatment effect
- ε_i is the variation in switching that cannot be explained by the CMOC treatment.

2.29. Variations of this equation which included interaction terms were used to analyse the impact of CMOC on specific sub-groups (tenure length, prepayment meter customers, customers on price-capped tariffs, customers in debt).

2.30. A variation was also run in which the treatment dummy captured which of the variations in the treatment groups the participant was assigned to (reminder vs no reminder, external tariff vs internal tariff, letter vs customer preference). Medium suppliers were automatically dropped from the reminder analysis because they did not have a reminder trial arm.

Qualitative research strategy

2.31. A few weeks after the 30 day switching window had elapsed, semi-structured qualitative interviews were conducted over the phone with 67 customers who had been involved in the trial across four out of the five suppliers.[31] A qualitative research agency, DJS, was commissioned for this task.

2.32. A semi-structured interview approach was adopted to understand consumer actions and reactions to the communications, information which cannot be gleaned from the quantitative research. A topic guide was developed by DJS Research in partnership with Ofgem. A quota sample was used to ensure coverage of customers across suppliers, trial arms and according to whether a customer did or did not switch. The quotas were also used to get a good mix across gender and age.

[31] For data availability reasons, we were only able to interview customers from 4 out of the 5 suppliers.

3. Results

Section summary

This section describes descriptive statistics on the final sample and results of the quantitative analysis. It also includes a summary of findings from the qualitative research.

Descriptive statistics about the final sample

3.1. After attrition, the final sample was 581,247 customers, of which 76,746 are in the control and 504,501 are in the intervention groups.

3.2. Table 2 presents the demographic composition of the CMOC sample compared to the population. There is a higher proportion of customers in our sample who have been on a default tariff for three years or more than exist in the population as a whole. There is also a higher proportion of medium supplier customers than in the population – this is to be expected because our sampling method involved ensuring that at least two medium sized suppliers were selected for a trial, to avoid relying on the results based on the customers of just one medium supplier. The proportion of customers in the sample who are in debt or on prepayment meters is very similar to the incidence in the wider default tariff customer population.

Table 2 Demographic breakdown of the trial sample compared to the GB population

Customer sub-group	Sample	Population
Length of time on a default tariff (tenure):		
3-6 months	5%	9%
6months- 3years	35%	44%
3 years plus	59%	48%
Large suppliers	87%	95%
Medium suppliers	13%	5%

Price-capped[32]	34%	-
Prepayment	28%	21%
Customers in debt	7%	6.5%

Notes: The population is the population of interest for this trial, defined as customers of the ten largest suppliers on the market who have been on a default tariff for at least 3 months. Tenure groups do not sum to 100 due to rounding. A population level estimate of price-capped customers was not available at the time of the trial.

3.3. Table 2 also presents the proportion of customers in the population and in the trial who were subject to a price cap. This is because customers with a prepayment meter were subject to the PrePayment Price Cap (PPM price cap) and, at the time of the trial, Warm Home Discount (WHD) customers who were also on default tariffs were on a price protected tariff called the 'WHD Safeguard' tariff. Although the PPM price cap still applies to PPM customers, the 'WHD Safeguard' tariff that applied to Warm Home Discount customers at the time of the trial has since been superseded by the Default tariff cap. Throughout this report we refer to these price caps generically using the term 'price cap'.

3.4. Table 3 presents the mean potential savings to be made from switching by the different customer sub groups in the trial, pooled across all five suppliers. The potential savings vary substantially, with prepayment customers being able to save the least and non-price-capped customers being able to save the most. This is to be expected because prepayment meter customers were subject to a price cap which reduced the difference between the cheapest market tariffs and the default tariff. There is also less choice of tariffs for prepayment meter customers which could also serve to reduce the potential savings.

Table 3 Mean potential and actual savings by customer sub-group

Customer sub-group	Mean potential saving (£)
Large suppliers	216
Medium suppliers	249
Non-price-capped	293

[32] These customers consist of Warm Home Discount and prepayment meter customers who, at the time of the trial, were the only two groups of default tariff customers subject to a retail price cap.

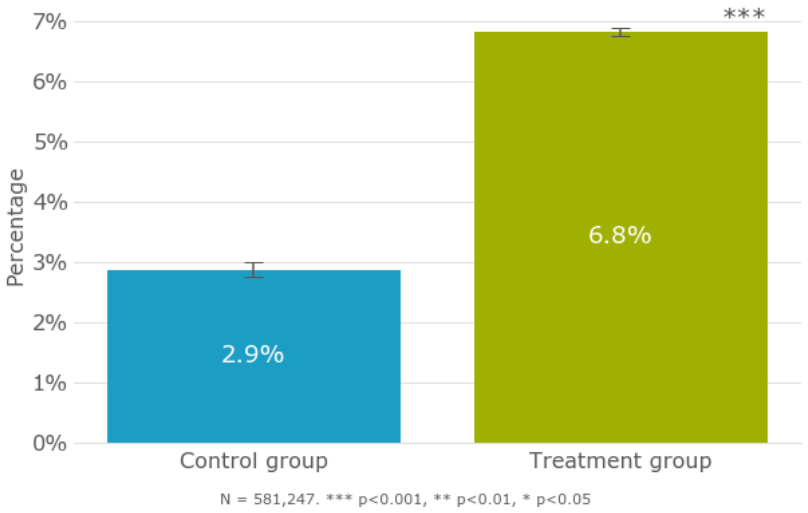
Price-capped	91
Non-prepayment	278
Prepayment	78
Customers not in debt	225
Customers in debt	224
Length of time on a default tariff:	
3-6 months	210
6months-3 years	221
3 years +	225

Note: the customer groups are not mutually exclusive. The potential savings indicate the savings that were presented to the customer on their CMOC.

Overall switching results

3.5. In response to our primary research question 'what is the impact of signposting default tariff customers to cheaper market offers', we found that the COC is effective. Switching rates went from 2.9% in the control group to an average of 6.8% across each of the intervention groups (Figure 3). This represents a relative increase of 134% and is equivalent to saying that, for every customer who switched in the control group, an additional 1.34 customers switched in the intervention groups as a result of receiving the CMOC. This difference is statistically significant at the 99.9% level.

Figure 3 Switching rates over 30 days across the control and combined intervention groups



3.6. The CMOC trial extended the cheaper market offer letter concept to a broader range of customer groups than the CMOL trial and this does seem to have decreased the overall relative effectiveness of the cheaper market offers intervention. CMOL increased switching rates by 340%, from a baseline of 1%, in the most effective treatment arm. As further sub-group analysis will show, this is likely to be a product of the fact that the CMOC has a lower impact on prepayment customers and those customers on a price-capped energy tariff, who make up about a third of the total sample (Table 2).

3.7. Nevertheless, amongst the sub-groups analysed, there is no sub-group of customers for whom the CMOC is ineffective (more details on this appear later in this section). Factors that appear to have contributed to the success of CMOC is the clarity of its message and the fact that it was sent by the customer's supplier, and therefore could have contained important information about their supply.

"It couldn't have been plainer actually…It was just the fact they were dead honest about it…They said you're on one of the highest tariffs and we think you'd be better off if you went to a cheaper one" (large supplier customer, external only/email/no reminder, switched externally).

Part of this may be due to the fact that participants had picked up on Ofgem's role in requiring suppliers to issue the communication, with another participant remarking:

*"I didn't think they would be able to state something that wasn't true or they would get into trouble with Ofgem" (*large supplier customer, external only/letter/no reminder, switched externally).

A number of switchers also appear to have been primed by the amount of press coverage on energy prices:

*"Generally it is on the Radio and TV…nagging us about switching, which has been the main influence on considering switching and looking around" (*medium supplier customer, internal/letter/ no reminder, switched externally).

3.8. Evidently, not all customers felt this way as the majority of participants did not switch in response to receiving the CMOC. Interviews with participants in combination with analysis of which deals customers switched to provide important clues as to why the CMOC worked on some customers but not others.

3.9. Ultimately the CMOC was designed to address two main barriers to switching.[33] The CMOC prompts people to switch by reminding them that switching is possible and can save them money. It also reduces the hassle costs of switching by giving people three tariffs to which they can switch, saving them the hassle of having to use a price comparison website to identify the three cheapest tariffs of their own accord. If they do want to switch through another route, the CMOC provides them with all the information needed to switch via a PCW such as their energy usage and meter type, which also reduces the hassle associated with having to find this information yourself. Interviews with people who had switched tariff in response to the CMOC provide support that CMOC addressed both these barriers to switching.

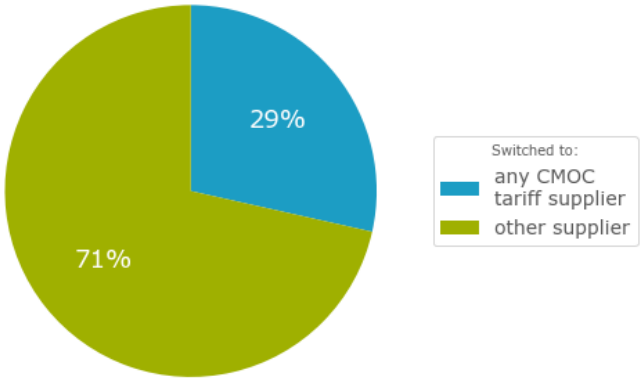
*"I thought there was no need to go anywhere else because everything was on this letter. It made life easier" (m*edium supplier customer, external only/letter/no reminder, switched externally).

However, analysis of data relating to which suppliers customers switched to, suggests that CMOC acted more as a prompt than as a source of information.

3.10. Of all participants who switched supplier in response to the CMOC, only 29% switched to a deal that was shown on their CMOC (Figure 4). This is reflected in the data that shows which suppliers gained the most customers from the CMOC trial. Some suppliers appeared a lot more frequently than others on CMOCs because they had the cheapest tariffs available at the time. However, there is limited overlap between the top 10 most frequently promoted suppliers and the top 10 suppliers who inherited the most CMOC customers. To illustrate, one supplier occupied 9% of all CMOCs sent out and inherited 8% of all customers who switched supplier in the trial; however, 14% of all switches in the CMOC trial were inherited by an entirely different supplier that featured on just a handful of CMOCs sent to only one supplier's customers.

[33] The CMOC also contained information that addressed a potential barrier to switching around concerns that switching supplier could lead them to being cut-off.

Figure 4 Proportion of participants who switched supplier to a supplier on the CMOC compared to a supplier not on the CMOC



3.11. These findings have important implications for the underlying causes of inertia in the market as well as for customer preferences regarding their energy supplier. For those customers who switched, it would seem that inattention, rather than hassle, may have been the major driver of their lack of engagement in the energy market considering that 70% switched to a supplier that was not promoted on the CMOC, suggesting they must have undertaken their own independent research. This is borne out in our interviews which revealed that some participants had spent time doing their own research on price comparison websites, and, once doing so, felt confident they had found the 'perfect' deal for them. Often in these cases, this was a supplier they had found by themselves. Some interviewees reported undertaking a significant amount of research before switching to a deal on the CMOC.

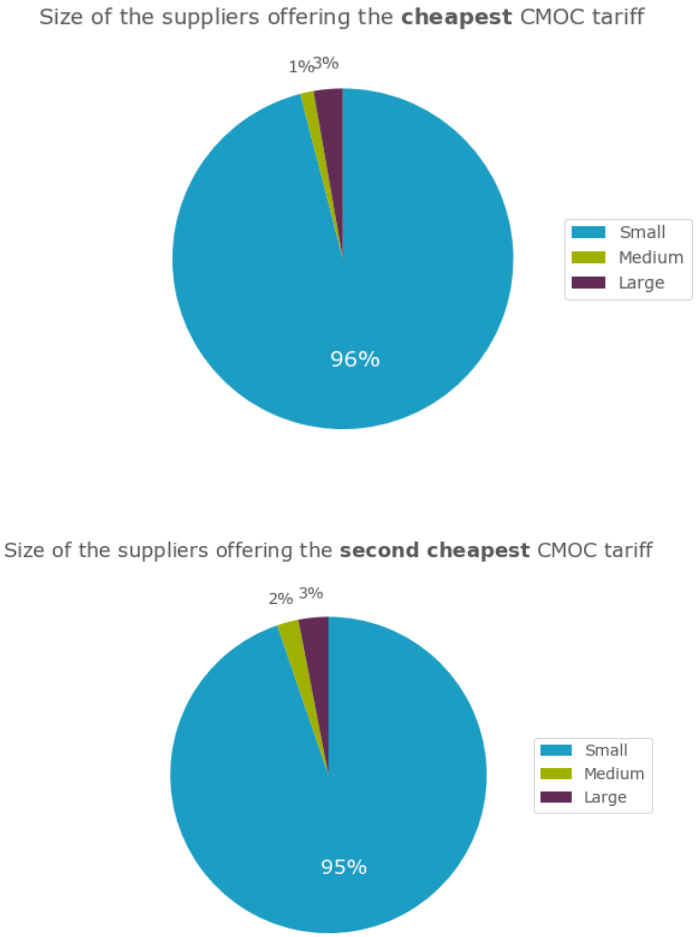
*"I…looked at their website and reviews…contacted the companies in the letter and to check out the tariffs, and they were all available. I suppose just to make sure the information on there was accurate. To be honest I had never heard of any of them, I have switched to one of them, I have no opinion of any of them". (*large supplier customer, external only/email/no reminder, switched externally).

3.12. For the much larger group of people who did not switch in response to the CMOC, the implication is that neither hassle nor inattention are the major drivers of their disengagement and that some other underlying barrier needs to be overcome for them to switch. Interviews with participants who did not act on the CMOC suggest a range of alternative factors which are likely to pose barriers to switching. Inertia and procrastination is highly likely to have played a role, with interview participants reporting skimming the email or letter and then putting it aside, intending to refer to

it later, but failing to do so. One reason that these customers may have felt a need to think further about whether or not to act on the CMOC is that, according to our interviews, participants were unfamiliar with the suppliers mentioned on the letters, the majority of whom were small and therefore little known suppliers (Figure 5).

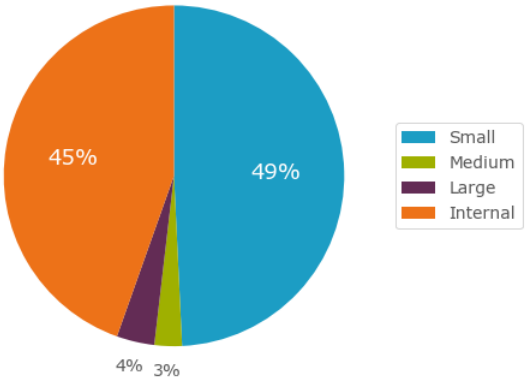
*"…that's what put me off them, because I hadn't heard of them" (*large supplier customer, internal/letter/reminder, switched externally).

Figure 5 Size of supplier presented on the CMOC[34]

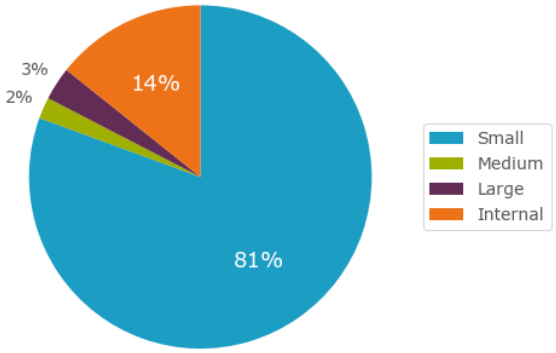


[34] Some customers were presented with the supplier's own cheapest tariff (internal tariff) and the diagram shows that, although this tariff was never the cheapest, it sometimes appeared in second or third place.

Size of the suppliers offering the **third** CMOC tariff



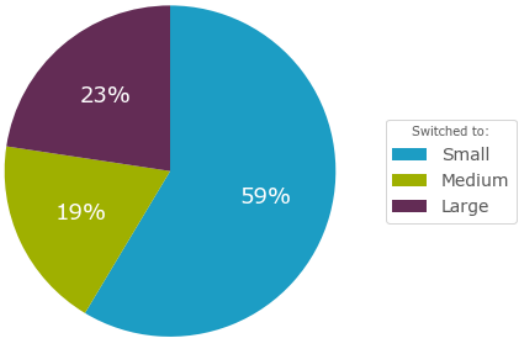
Size of the suppliers offering **all** CMOC tariffs



3.13. Even among those consumers who switched, many displayed a preference for more prominent brands. The suppliers who inherited customers without having been featured on a CMOC were, for the most part, large suppliers or smaller suppliers with a larger marketing presence than the suppliers who appeared most frequently on the CMOCs. This suggests that although customers are happy to switch to small or little known suppliers (as the majority of switchers did, see Figure 6 Proportion of switchers who switched to large, medium and small suppliers) who offered the cheapest rates at the time of the trial, a large marketing presence has an important influence on consumer decisions over to whom they will switch. Indeed, behavioural science shows that consumer choices are boundedly rational, a product of both factors that are judged to affect their welfare (in this case, expenditure on energy) and contextual factors that have no concrete influence on welfare, such as branding and marketing. This is consistent with Ofgem's Customer Survey which found that brand is the

second most important factor to them after price when considering whether to switch tariff.[35]

Figure 6 Proportion of switchers who switched to large, medium and small suppliers



3.14. Others who did not act on the CMOC reported putting the CMOC in the bin because they either felt it was not urgent or because they did not believe they had time to act on the information. This behaviour is consistent with a number of other distinct types of interviewees. One group believed they were already getting a good service and deal, and were sceptical that they could get a better deal elsewhere, with one such participant remarking:

*"It seemed they had exaggerated what I would have saved." (*large supplier customer, internal/letter/ no reminder, switched Internally).

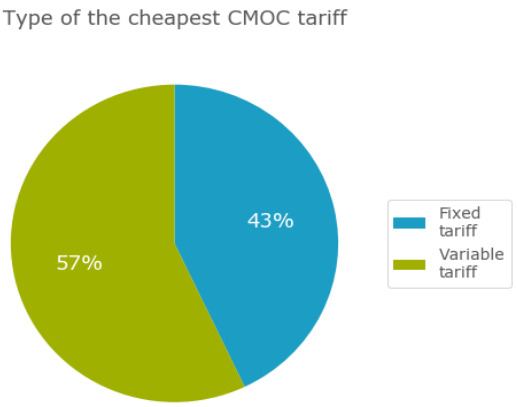
Another distinct group were those customers of the large suppliers who expressed a dislike for making changes. There was also a group who were reluctant to switch because they perceived that all suppliers are equally poor, the switching process would be problematic and that prices would eventually increase anyway. The CMOC did not contain anything to address people's potential mistrust of energy suppliers or general energy literacy, eg that although prices could increase in future, a fixed tariff insures people against such rises or that rises to a unit rate on a cheaper deal could

35 https://www.ofgem.gov.uk/system/files/docs/2018/10/consumer_engagement_survey_2018_report_0.pdf

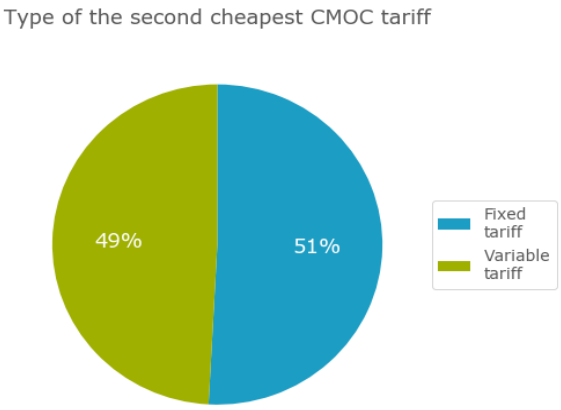
still translate into savings compared to staying on a higher unit rate standard variable tariff (for which the prices could rise anyway).

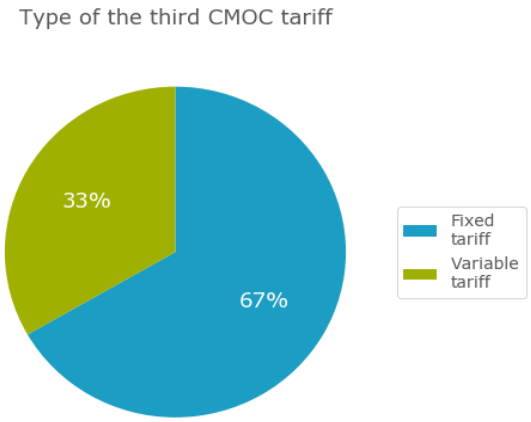
3.15. Another factor that is sometimes put forward[36] for why customers do not switch away from their default tariff is that people have an inherent preference for tariffs that do not have fixed end dates and/or exit fees if a customer leaves before contract end. The majority of default tariffs are SVTs which have no fixed contract length and no exit fees. However, the majority of tariffs on the CMOC (ie the market cheapest tariffs) were variable tariffs. This would suggest that, if customers do have a preference for avoiding fixed contracts and exit fees, their enrolment on their supplier's more expensive default variable tariff is more likely to be due to a lack of awareness of the availability of cheaper variable tariffs than it is due to a lack of alternative cheaper variable tariff options.

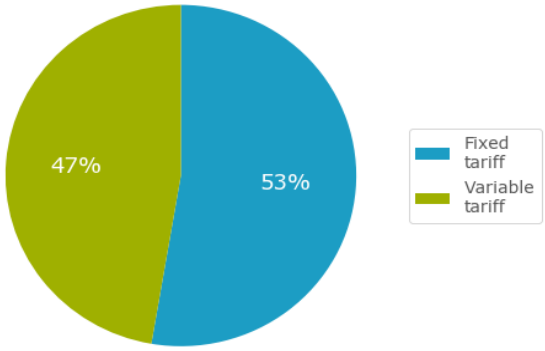
Figure 7 Tariffs presented on CMOC by tariff type – fixed versus variable



[36] The CMA attribute these views to suppliers and energy market commentators. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/531204/overview-modernising-the-energy-market.pdf







Switching results by customer types

3.16. We started out the research project with a range of questions over whether the impact of CMOC might vary across different measurable customer characteristics. Specifically, whether the impact of CMOC varies according to whether the customer is in debt, has a prepayment meter, is on a price-capped tariff, and/or by the length of time a customer has been on their default tariff (tenure length).

3.17. The results showed that the CMOC had less impact on prepayment meter customers than non-prepayment meter customers. When excluding prepayment customers, the difference in switching rates between the control group and intervention group increases in size, from 3.2% in the control group to 8.4% in the intervention group, a relative increase of 163%. By comparison, when only looking at prepayment customers, switching rates go from 1.4% in the control to 1.8% in the treatment groups, a relative increase of 29%.

3.18. There are two main potential explanations for the finding that CMOC had a lower impact on prepayment meter customers. One explanation is that customers are motivated to switch depending on how much they stand to save and prepayment meter customers stood to save an average of £220 less per annum from switching than did non-prepayment meter customers (see Table 3). Our interviews with a selection of trial participants show that the level of saving in bold at the top of the letter instantly caught the attention of readers, encouraging them to read on. It therefore stands to reason that a lower saving may have been less eye catching. As noted previously, our Consumer Survey evidence finds price is the biggest stated driver of tariff choice.[37] That prepayment meter customers stand to save less is likely to be both a product of there being fewer prepayment tariff options on the market and the fact that all prepayment meter customers in the trial were subject to PPM price cap, which was designed to limit the price differential between their tariff and the competitive acquisition tariffs on the market.

3.19. Another explanation for the finding that CMOC did not increase prepayment customer switching rates as much as it increased switching amongst non-prepayment meter customers is that prepayment customers face different or further motivational barriers to switching to the ones that CMOC was designed to reduce – hassle costs associated with searching the market for cheaper deals, lack of awareness over how much money can be saved from switching and general inertia.

3.20. The results showed that the CMOC had a lower impact on customers who were on a default tariff that was subject to retail price protection through the PPM price cap and Safeguard tariff than customers on default tariffs that were not subject to any retail

37 https://www.ofgem.gov.uk/system/files/docs/2018/10/consumer_engagement_survey_2018_report_0.pdf

price protection. The switching rate amongst price-capped customers in the control group was 1.8% and this rose to 2.6% among price-capped customers in the intervention groups, a relative increase of 44%. Conversely, the switching rate amongst non-price-capped customers in the control group was 3.2% and 8.7% across non-price-capped customers in the intervention groups, a relative increase of 171%.

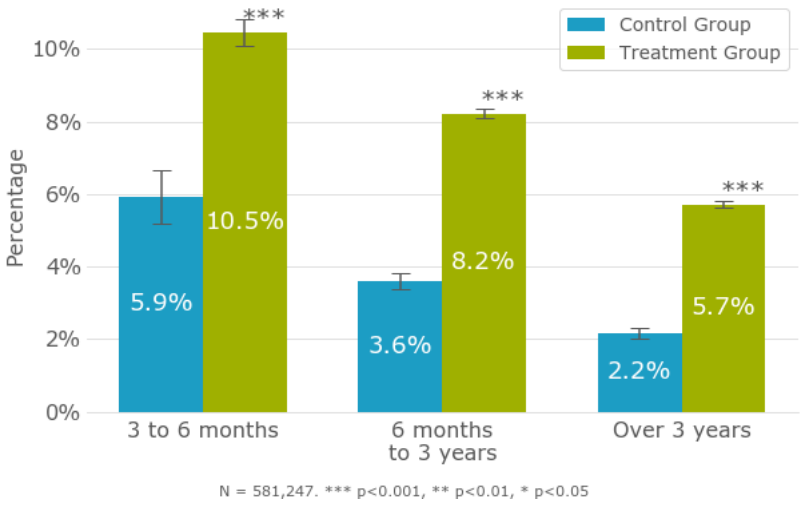
3.21. The results showed that CMOC had a greater impact on the groups of customers who had been on their default tariff for longest. Following our pre-analysis plan, we divided the sample up into three groups based on the length of time for which they had been on a default tariff with their incumbent supplier: between 3 months to 6 months, between 6 months to 3 years and over three years. The group of customers who fall into the category of having been on a default tariff with their existing supplier for 3 years or more had been on their tariff for an average of nine years.

3.22. As expected, customers who had been on a default tariff for the least amount of time (between 3 and 6 months) were more likely to switch tariff anyway without receiving a CMOC, compared to customers who had been on a default tariff for 6 months to 3 years, and even more so than customers who had been on a default tariff in excess of three years. This is shown by the switching rates among the control group of customers for each of these three groups (see Figure 6). Although the CMOC still had an added benefit for customers who had been on a default tariff for between 3 to 6 months, raising their switching rates from 5.9% to 10.5% (representing a relative increase of 78%), the CMOC had a much larger added benefit on the two least engaged groups. For customers who had been on a default tariff for 6 months to 3 years, CMOC increased switching rates from 3.6% to 8.2%, a relative increase of 128%. For customers who had been on a default tariff for at least three years, the CMOC had an even greater effect, raising switching rates from 2.2% to 5.7%, a relative increase of 160%.

3.23. There is no obvious explanation for the finding that CMOC had a greater relative impact on customers who had been with their supplier for longest and who may be considered as being the 'stickiest' customers. The potential savings to be made by switching these customers were not much greater than for those who had been on a default tariff for between 3 to 6 months, or for customers who had been on a default tariff for 6 months to 3 years (Table 3). In our interviews, some of those who switched did express feeling resentful of their supplier when they found out they were not already on the best deal for them. However, it is not possible to say for sure whether this may be driving the finding that CMOC was more effective at encouraging

switching among the default tariff customers who have spent the longest time on their suppliers' default tariff.

Figure 6 Switching rates in the control and treatment group by the length of time the customer has spent on a default tariff with their incumbent supplier



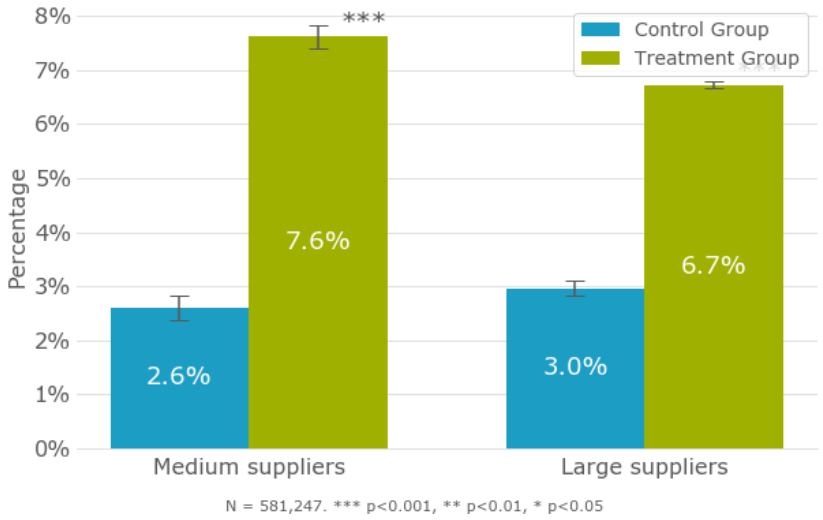
3.24. The CMOC had a greater impact on customers of the medium suppliers than customers of the large suppliers (Figure 7). While control group switching rates were slightly lower for medium suppliers (2.6%) than for the larger suppliers (3%), the CMOC boosted switching rates among medium suppliers to a greater extent. Switching rates reached 7.6% among customers of the medium suppliers (a relative increase of 192%) compared to 6.7% amongst customers of larger suppliers (a relative increase of 123%).

3.25. One potential explanation for the finding that customers of medium customers were more greatly affected by the CMOC than customers of the large suppliers is that medium suppliers' customers are more open to switching because they have already made an active choice to switch away from their former incumbent supplier in the past.[38] However, this explanation does not fit with the finding that CMOC had the greatest impact on customers who had spent the most time with their existing supplier. Another explanation for the relatively large impact of CMOC on medium suppliers' customers compared to large customers is that their customers are less mistrustful of switching to smaller suppliers, who dominated the CMOCs, because they

[38] Before the privatisation of the GB energy market, customers were served by regional monopoly providers.

have switched suppliers at least once in the past and so are not afraid to make the switch again. Among the trial participants we interviewed, customers of the large suppliers were much warier of the lesser known suppliers. In contrast, interviewees who were customers of the medium suppliers were generally happy with the options given from smaller and lesser known suppliers.

Figure 7 Switching rates in the control and treatment groups across medium and large suppliers' customers



Impact of reminders

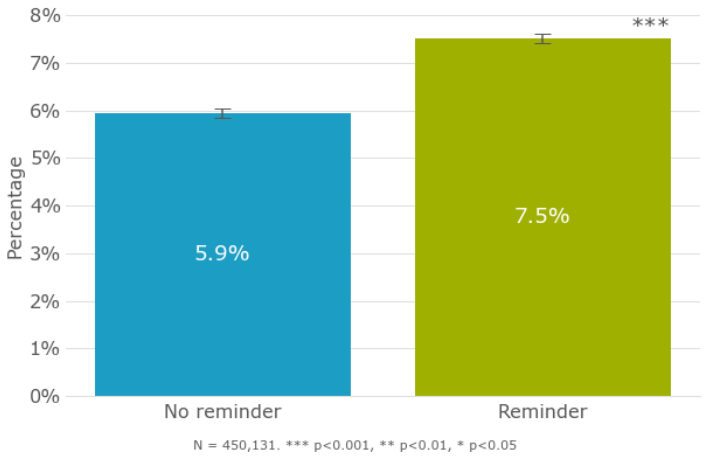
3.26. One of the questions this trial aimed to address was whether the effectiveness of CMOC could be increased by sending a follow up reminder after sending the initial communication.

3.27. The results showed that the reminder was the only variation in the design of CMOC to have any substantive impact on switching. Sending a reminder increased switching rates by 27%, from a baseline of 5.9% among the CMOC intervention groups that did not receive reminders to 7.5% among the intervention groups that received a reminder (Figure 8). Our interviews showed that this effect is likely to be due to the fact that people have a tendency to procrastinate after receiving the first letter. The reminder helps to close the gap between intentions and action. In addition, it seemed to relieve some customers' scepticism about receiving a letter from their supplier that was urging them to shop around. In the words of one participant:

"I thought the first one was a spoof, but then when it come a second time I read it more carefully and checked the companies out on the internet…That actually convinced me it was true." (medium supplier customer, external only/email/no reminder, switched externally).

Medium suppliers were not required to test a variant with a reminder so this result is based solely on the large supplier trials. However, there are no theoretical reasons to believe that the reminder would have a differential impact on customers of the medium suppliers.

Figure 8 Switching rates in the intervention groups with and without a follow up reminder



Impact of including the incumbent suppliers' cheapest tariff

3.28. Another variation that we tested was whether the effectiveness of CMOC would be impacted by allowing the incumbent supplier to include their own cheapest tariff on the letter (in place of one of the cheaper market offers). In particular, we were interested in testing whether a CMOC which included the supplier's own cheapest tariff on it would be more effective for customers in debt than a CMOC that only included the three cheapest tariffs on the market, considering that not all suppliers will allow customers to switch tariff before clearing their debt.

3.29. Including the incumbent supplier's own cheapest tariff on the CMOC (internal tariff) increased switching rates compared to only including the three cheapest tariffs (external tariffs) on the market, however the effect was small. Intervention groups that received a CMOC with all external tariffs switched at a rate of 6.6% compared to a rate of 7.1% among intervention groups that received a CMOC with two external

tariffs and one internal tariff, a relative increase of 7.6% (Figure 9). The extra switching seen in the internal tariff trial arm is composed entirely of more internal switches relative to the external tariff only trial arm (Figure 10). Including the supplier's own cheapest tariff makes no statistically significant difference to the switching rate of customers in debt (Figure 11), despite the fact that some suppliers may prevent customers who are in debt to them from switching to another supplier until the debt is paid (which could pose a barrier to them switching externally if they are unable to clear the debt).[39]

3.30. The fact that the internal tariff arm did not significantly outperform the external tariff arm suggests that consumers do not perceive a significant a difference in the level of hassle involved in switching internally compared to switching externally as they suggest when interviewed. One interview participant commented that they:

*"…would probably have acted if [incumbent supplier's name] had include their own tariff…I wouldn't have had to really do anything…" (*large supplier customer, external only/letter/reminder, no switch – don't plan to).

However, when asked by the interviewer, this participant also said that they had no plans to switch in the future, suggesting that other factors are likely to be posing a more important barrier to switching than would be overcome by simply having presented them with their own supplier's cheapest tariff. If the majority of consumers felt that switching internally was much less hassle than switching supplier, this would have shown up in a much larger difference in switching rates across the internal and external trial arms than observed in Figure 9. It is also worth noting that suppliers are already obliged to tell their customers about their own cheapest tariff when communicating with them.

3.31. Another potential explanation for the relatively marginal difference in switching between CMOCs with and without the incumbent supplier's own cheapest tariff is that in our participant interviews, customers were generally welcoming of receiving information about alternative suppliers. Therefore, while including their supplier's own cheapest tariff on the letter would have helped to minimise scepticism over receiving a communication that conflicts with their own supplier's interests (as the interviews

[39] This is not the case for PPM customers in debt whose debt can be transferred to the new supplier via the Debt Assignment Protocol.

also suggested), unless these sceptical views were prevalent, including an internal tariff on the letter would be unlikely to generate more switching than would including only the cheapest tariffs on the market.

3.32. Nevertheless, an additional potential benefit of including the incumbent supplier's own cheapest tariff was that it could have helped customers to make an easy and informed choice on whether to switch internally or externally.

Figure 9 Switching rates in the intervention groups with and without the incumbent supplier's cheapest tariff (internal tariff)

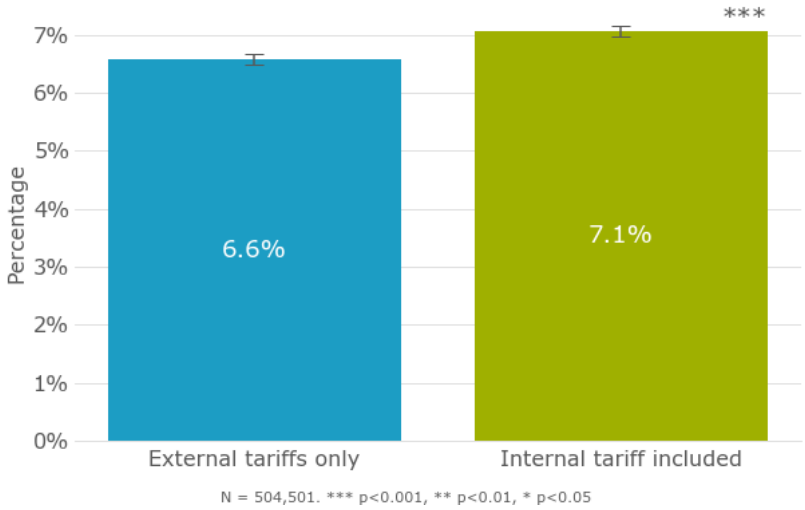


Figure 10 Switching rates in the intervention groups with and without the incumbent supplier's cheapest tariff (internal tariff) by internal and external switches

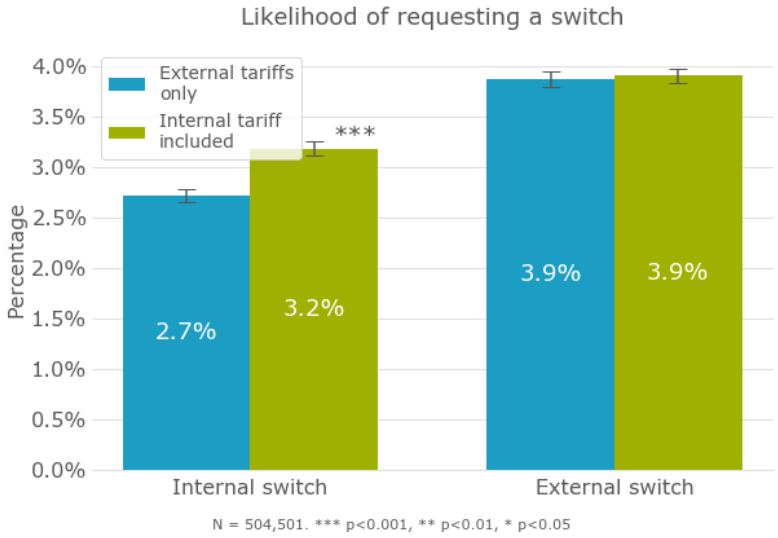
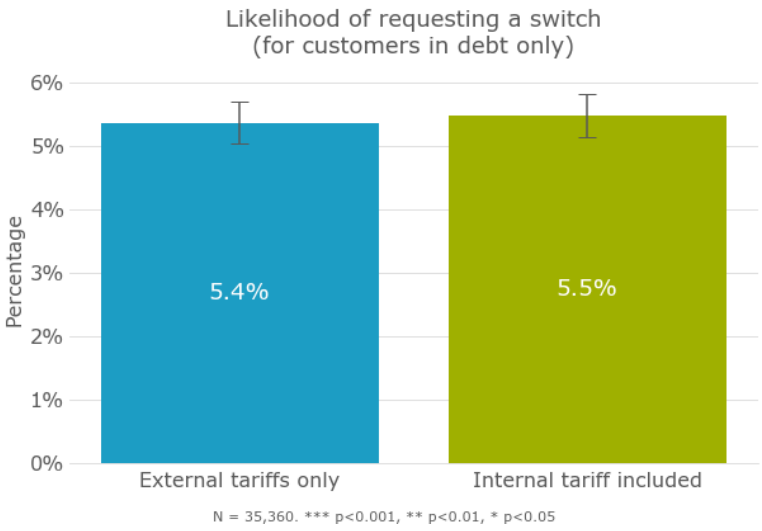


Figure 11 Switching rates amongst customers in debt in the intervention groups with and without the incumbent supplier's cheapest tariff (internal tariff)



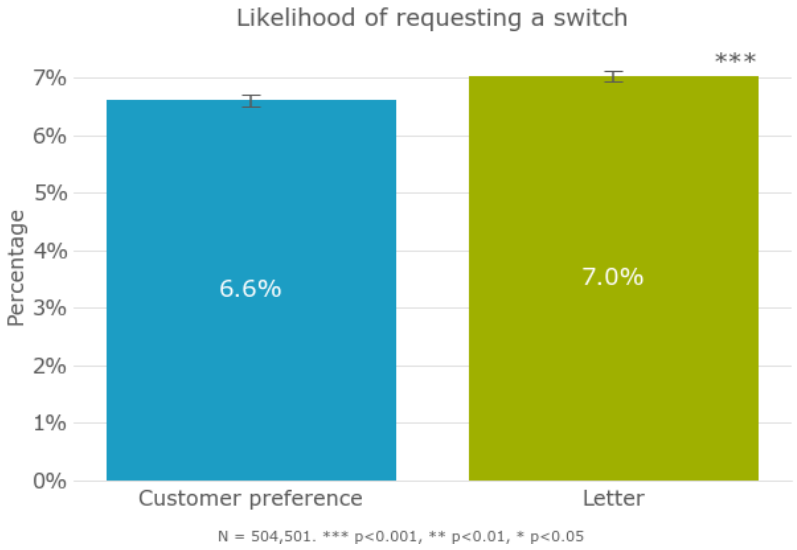
The impact of sending the CMOC via letter compared to the customers' preferred channel of communication

3.33. The final variation tested was whether the impact of CMOC would be affected depending on whether it was sent to customers via email, rather than letter, if the customer has opted in to receive their communications via email. Sending the CMOC

by letter, including to customers who have expressed a preference for receiving communications from their supplier by email, is marginally more effective than sending the CMOC in the channel for which the customer has expressed a preference. However, it is not known whether this result is an artefact of the relatively small proportion of larger supplier customers who had expressed a preference for email communication or whether the impact of letters would be greater in reality than observed in this trial.

3.34. Intervention groups that received a CMOC via their preferred channel of communication (whether letter or email) switched at a rate of 6.4% compared to a rate of 7% among intervention groups that received a CMOC by letter, regardless of their own expressed communication preference, a relative increase of 6% which is statistically significant at the 99.9% level (Figure 12).

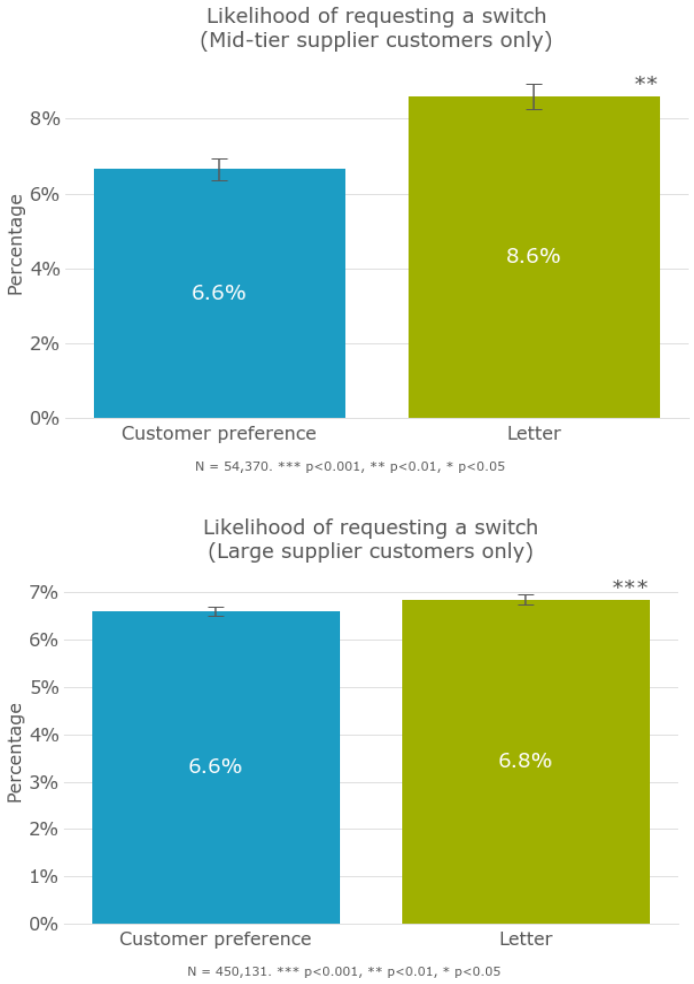
Figure 12 Switching rates in the intervention groups which received a letter-based CMOC and intervention groups which received a CMOC via email or letter, depending on their preferences



3.35. However, an exploratory analysis showed that, among the medium suppliers' customers assigned to the letter arms, switching rates were 8.6% compared to 6.6% among the medium suppliers' customers assigned to the customer preference arms, a relative difference of 130% (Figure 13). This exploratory analysis was run because, on average, just 31% of customers in the customer preference arms received their CMOC via email. This is because the customers of the large suppliers, who dominate our sample, display an overwhelming preference for letter based communication; only 26% percent of large suppliers' customers in the customer preference arms received their CMOC via email. In contrast, 68% of medium suppliers' customers in the

customer preference arm received a CMOC via email, since twice as many of them have a preference for email communication.

Figure 13 Switching rates in the intervention groups which received a letter-based CMOC and interventions groups which received a CMOC via email or letter, depending on their preferences for medium sized (left) and large supplier (right) customers independently



3.36. One explanation for the differences in the impact of communication channel preference by supplier size is that medium supplier customers are simply more heavily impacted by letter based communications than are customers of the larger suppliers. However, an alternative, and potentially more plausible explanation is that letters are a much more effective medium than indicated by our trial results, regardless of customer type, but our trial was unable to detect the size of the effect because too few larger suppliers' customers had expressed a preference for email to detect any relative differences in the impact of communication channel. In the

interviews, people who received the CMOC via email said they would have been more likely to act on the prompt if they had received it by letter and vice versa for those who received the communication via email. In the words of one participant:

*"I get lots of emails every day, and some get missed…it goes into the junk" (*large supplier customer, external only/letter/no reminder).

In short, interview participants felt that letters had more gravitas. If this is the case, then the results for medium sized supplier customers could be a better indicator of the likely impact of sending the CMOC by letter rather than via the customer's own channel of preference than the overall results.

Impacts on internal versus external switching

3.37. CMOC drove a higher proportion of people to switch supplier (external switches) than it did to switch to a cheaper tariff with their own supplier (internal switches) (

3.38. Figure 14), regardless of whether customers were sent a CMOC with or without their own supplier's cheapest tariff on it (Figure 15).

3.39. One explanation for this result is that customers are driven to switch tariff because of the monetary savings they can make from doing so, and the annual potential savings from switching externally were £260 higher than the potential annual savings from switching internally (from £97, if switching internally, to £360 from switching externally, on average across all customers).

Figure 14 Switching rates over 30 days across the control and combined intervention groups disaggregated by internal and external switches

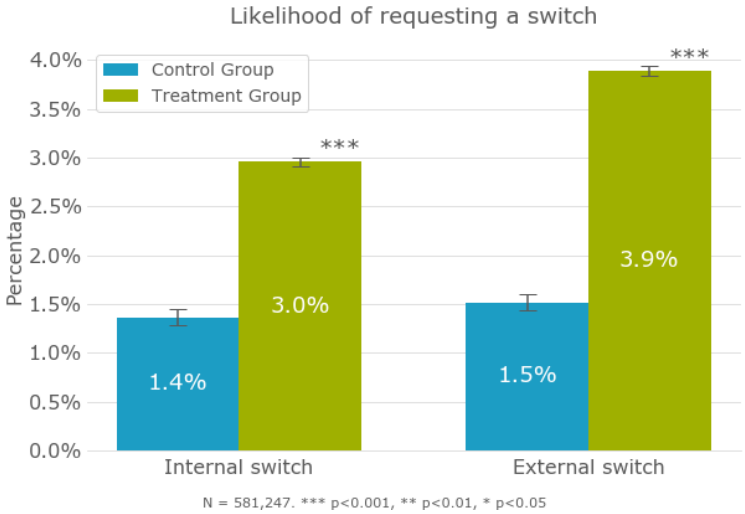
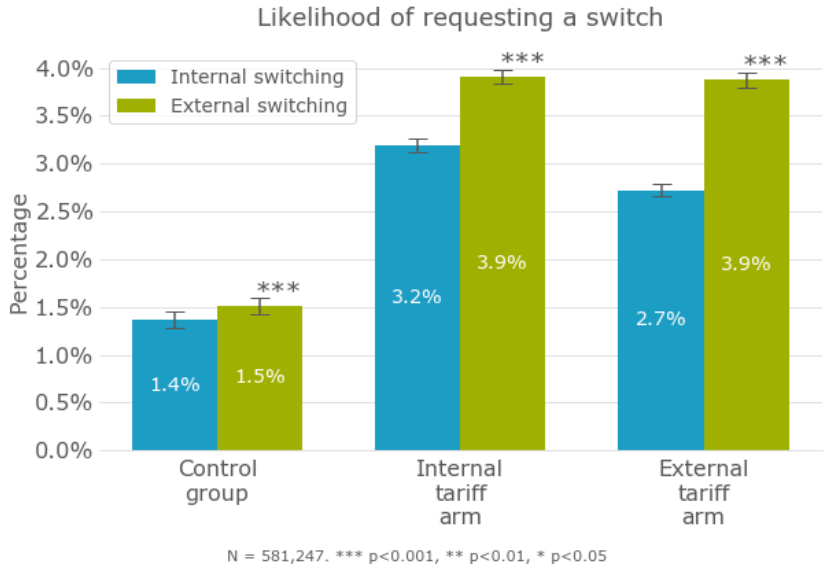


Figure 15 Switching rates over 30 days disaggregated by internal and external switches for the control group, internal tariff intervention arms and external tariff intervention arms



Impacts on customer savings

3.40. Unlike in CMOL trial, customers who switched after having received a CMOC saved only very slightly more than those who switched without receiving a CMOC (Table 4).[40] The difference in mean savings between the control and all intervention arms

[40] This analysis is based on savings realised by customers of four out the five suppliers because one

combined is £8, which is a lot less than the difference observed in the CMOL trial of £52.[41] However, for internal switching, this difference is £24 whereas for external switching is it £69. This suggests that the information provided on the CMOC helps to guide customers who are inclined to switch externally (leave their existing supplier) to make greater savings.

Table 4 Savings from switching by control and intervention groups[42]

Trial arm	N (all switches)	Mean savings
Control	1,584	£224
Intervention (combined)	30,936	£232

Table 5 Savings from switching by control and intervention groups disaggregated by internal and external switching

	Internal switches		External switching	
Trial arm	N (all switches)	Mean savings (£)	N (all switches)	Mean savings (£)
Control	512	74	1,072	295
Interventions	15,383	98	15,553	364

3.41. Around 11% of customers who switched over the 30-day trial window switched to a tariff that was more expensive than their original tariff. However, this was less common among the intervention group switchers than among control group switchers. In the control group, 15% of switchers increased their estimated annual cost as a result of switching whereas, across all intervention groups combined, 10.7%

supplier did not provide this data.

[41] In the CMOL trial this analysis controlled for observed differences in potential savings across control and treatment arms, however in this case, it was not possible to do this because suppliers did not generate potential savings data for customers in the control group.

[42] The number of switches in the intervention group is much larger than in the control group because the intervention group was substantially larger.

of switchers increased their estimated annual cost as a result of switching. The estimated annual cost is a prediction of a customer's future energy bill based on their actual consumption from meter readings and/or estimated readings, and the unit rate and standing charge on the tariff.

3.42. Overall, the correlation between potential savings and probability of switching is relatively modest. For every additional £100 of potential savings, the probability of switching increases by 1.3%[43] What this means is that if we compared two customers who were alike in terms of a number of factors such as their tariff type and payment method etc., except for the fact that one could save £200 and the other could save £300 by switching, the customer who could save £300 would only be 1.3% more likely to switch than the customer who could save £200. While this may seem to jar with findings from our survey that price is the major driver of switching, it may simply mean that price is the most easy to articulate driver of switching and that there are many other barriers to switching, possibly psychological and contextual barriers, that are unknown to the people who respond to our surveys and therefore unknown to us and the wider literature.

[43] For people who are able to save somewhere around the average potential saving, the probability of switching increases by 1.2% for every additional £100 potential saving. The magnitude of this correlation varies for people who can save lower or higher than the average potential saving.

4. Conclusions

4.1. The results show that the CMOC – a communication sent by a customers' incumbent supplier presenting cheaper energy market offers – is successful at boosting switching rates amongst default tariff customers, especially when a follow up reminder is issued two weeks from the first communication to help overcome peoples' tendency to procrastinate when confronted with boring or difficult tasks. When a CMOC is sent with a follow up reminder, switching rates increased by 27%, from a baseline of 5.9% among the CMOC intervention groups that did not receive reminders to 7.5% among the intervention groups that received a reminder.

4.2. The results showed that including the incumbent suppliers' own cheapest tariff on the CMOC made very little difference to switching rates relative to sending the CMOC with the three market cheapest tariffs (the relative increase in switching rates was just 7.6% when an internal tariff was included). The qualitative interviews suggest that this small advantage gained from including the internal tariff was most likely due to the perception that switching internally is less hassle and/or that people were happy with their existing supplier.

4.3. The results showed that sending the CMOC by letter was marginally more effective than sending it through the customers own preferred channel of communication, whether that be letter or email, however it is possible that the comparative advantage of a letter over email would have been stronger if more of the participants in our trial had been registered as having a preference for email. When we confined the analysis to the customers of the medium tier suppliers, many more of whom were registered as having a preference for email, the results showed that switching rates were 130% higher than when the CMOC was according to the customer's communication channel of preference. More research is therefore needed to verify whether letter would be a cost-effective alternative to email.

4.4. Although the majority of customers did not switch tariff, our qualitative interviews found that customers understood the communications and were generally positive about being informed of tariffs from other suppliers and welcomed being offered a choice without having to shop around themselves. Combined with the fact that the adjustments to the CMOC we tested had relatively small impacts on switching rates, suggests that, for these customers, something stronger than a CMOC intervention will be required to help them switch, as opposed to making tweaks or amendments to the CMOC itself.

4.5. The main barriers that CMOC addresses are hassle costs associated with finding cheaper deals and inattention. Those customers who don't switch may benefit from interventions which focus on overcoming alternative barriers to switching. One option could be to test whether it is possible to prompt customers to switch shortly after they have moved house, when the behavioural science literature suggests people are more receptive to changing old habits.[44]

4.6. The results also suggest that more radical reform to the design of the existing market is likely to be required to protect consumers who rarely switch but do not respond to prompts. We will continue to work with Ofgem's Future Retail Market Design team to support them in ensuring this new market design works with, rather than against, the grain of human behaviour.

[44] https://researchportal.bath.ac.uk/en/publications/empowering-interventions-to-promote-sustainable-lifestyles-testin

Appendices

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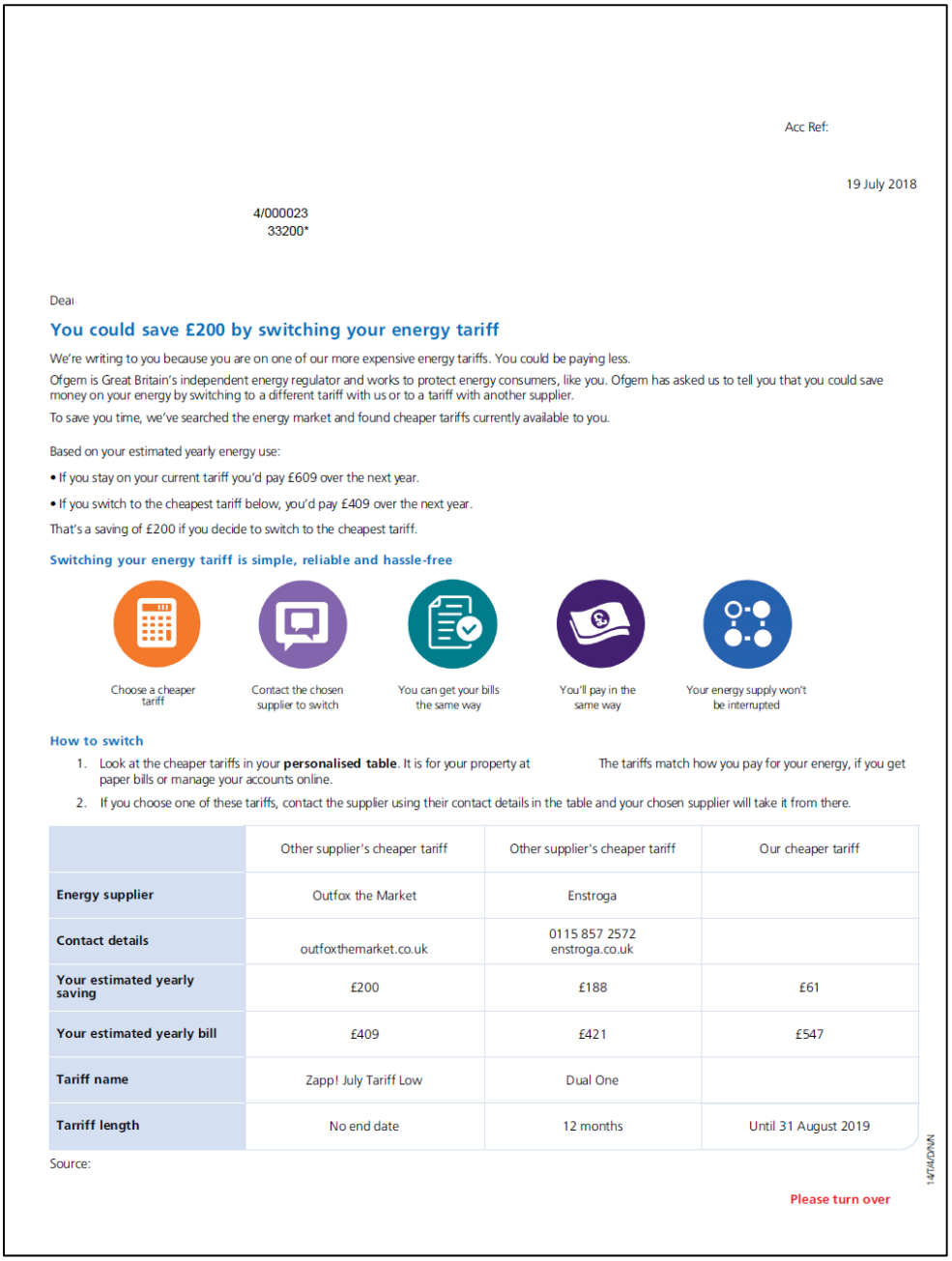
Appendix 1: examples of communication sent in trial[45]

Example of letter



Acc Ref:

19 July 2018

4/000023
33200*

Dear

You could save £200 by switching your energy tariff

We're writing to you because you are on one of our more expensive energy tariffs. You could be paying less.

Ofgem is Great Britain's independent energy regulator and works to protect energy consumers, like you. Ofgem has asked us to tell you that you could save money on your energy by switching to a different tariff with us or to a tariff with another supplier.

To save you time, we've searched the energy market and found cheaper tariffs currently available to you.

Based on your estimated yearly energy use:

- If you stay on your current tariff you'd pay £609 over the next year.
- If you switch to the cheapest tariff below, you'd pay £409 over the next year.

That's a saving of £200 if you decide to switch to the cheapest tariff.

Switching your energy tariff is simple, reliable and hassle-free

Choose a cheaper tariff

Contact the chosen supplier to switch

You can get your bills the same way

You'll pay in the same way

Your energy supply won't be interrupted

How to switch

1. Look at the cheaper tariffs in your **personalised table**. It is for your property at The tariffs match how you pay for your energy, if you get paper bills or manage your accounts online.
2. If you choose one of these tariffs, contact the supplier using their contact details in the table and your chosen supplier will take it from there.

	Other supplier's cheaper tariff	Other supplier's cheaper tariff	Our cheaper tariff
Energy supplier	Outfox the Market	Enstroga	
Contact details	outfoxthemarket.co.uk	0115 857 2572 enstroga.co.uk	
Your estimated yearly saving	£200	£188	£61
Your estimated yearly bill	£409	£421	£547
Tariff name	Zapp! July Tariff Low	Dual One	
Tarriff length	No end date	12 months	Until 31 August 2019

Source:

1-4TIAJDNN

Please turn over

[45] Blank spaces in the templates are due to material being redacted to ensure the anonymity of the recipient and the supplier.

Example of email

You could save £37 by switching your electricity tariff

We're writing to you because you are on one of our more expensive electricity tariffs. You could be paying less.

Ofgem is Great Britain's independent energy regulator and works to protect energy consumers, like you. Ofgem has asked us to tell you that you could save money on your electricity by switching to a tariff with another supplier.

To save you time, we've searched the energy market and found cheaper tariffs currently available to you.

Based on your estimated yearly electricity use:

- If you stay on your current tariff you'd pay £938 over the next year.

Switching your electricity tariff is simple, reliable and hassle-free


Choose a cheaper tariff


Contact the chosen supplier to switch


You can get your bills the same way


You'll pay in the same way


Your energy supply won't be interrupted

- If you switch to the cheapest tariff below, you'd pay £900 over the next year.

That's a saving of £37 if you decide to switch to the cheapest tariff.

How to switch

1. Look at the tariffs in your **personalised table**. It is for your property at [POSTCODE]. The tariffs match how you pay for your energy, if you get paper bills or manage your accounts online.

2. If you choose one of these tariffs, contact the supplier using their contact details in the table and your chosen supplier will take it from there.

Utilita 0330 333 7442 utilita.co.uk	npower 0800 073 3000 npower.com
£37 est. yearly saving	£35 est. yearly saving
£900 est. yearly bill	£902 est. yearly bill
Smart E7	Standard
No end date	No end date

Source: [TPI]

Alternatively, you can use a price comparison website to search for other available tariffs. You might wish to consider other factors, such as customer service, green tariffs or rewards.

Once you switch, you have 14 days to change your mind if you're not happy with your decision.

Your energy information

When contacting the supplier or using a price comparison website, you can use the information in this box below to get an accurate quote:

Your current energy supplier	[SUPPLIER]
Your electricity tariff name	Standard (Variable)
Your yearly electricity use	8,770 kWh
Your electricity meter type	Economy 7

Important things to know about these tariffs:

- These tariffs were available on 06 July 2018. You should check with the supplier for eligibility and current availability.
- If you receive any extra services (eg vouchers, incentives or rewards) from us, you may want to consider if a new supplier will also offer these.
- Actual savings may be higher or lower if you change the amount of energy you use.
- Different tariffs may be available if you choose to change your payment method or way you access your bills, eg you could save even more if you move to online account management or paperless billing.
- If you have an outstanding balance with us, you might not be able to switch supplier. Contact us to check your options.
- Ofgem is Great Britain's independent energy regulator. It does not act on behalf of, or represent, any gas or electricity supplier.
- The listed tariffs do not constitute recommendations by [SUPPLIER] or constitute offers made by the suppliers listed.
- As a recipient of this email, you may be contacted by Ofgem or an appointed third party for research purposes. For further information on how we use and share your data, please see our privacy statement at [LINK]

If you would like to speak to us about this communication or to find out more about our tariffs, you can call us on [NUMBER] or email us at [EMAIL]

Account number: [NUMBER]
For supply at: [ADDRESS]

Appendix 2 – algorithm used to select suppliers

The following method was used to select the combination of a combination of 5 suppliers (out of a total of 10) whose combined customer population most closely reflects the customer characteristics of the full population of 10 suppliers, whilst constraining the selection to ensure that two of the suppliers chosen were medium sized suppliers:

- The following data was collected from all ten suppliers:
    - Information on customer type
        - Tenure
            - 6 months-3 years on default tariff
            - 3+ years on default tariff
        - Customers not permitted to switch due to debt/arrears
        - Pre-payment gas or electricity meter
        - WHD recipient
        - Bundled services
        - Special communications
        - Restricted meters
        - Section 11
    - Customer electricity distribution network area
    - Preferred method of communication (email, letter, not stated)
    - Energy consumption (mean, standard deviation, median)
- For each of these variables we computed the mean for all 10 suppliers combined and, using an algorithm, the mean for every possible combination of 5 out of the 10 suppliers (there are 252 possible combinations)
- The algorithm computed the Euclidian distance between each possible combination and the characteristics of all ten suppliers combined
- The algorithm identified the combination of 5 suppliers that yields the smallest distance along all variables relative to the full 10, whilst providing a combination of two medium suppliers and three large suppliers.

Appendix 3 – balance checks

Variable	Control	All interventions	Reminder	No reminder	Internal tariff	External tariff
Annual gas consumption in kWh (mean)	12662.58	12234.01	12070.41	12020.72	12330.82	12309.65
Annual electricity consumption in kWh (mean)	3803.67	3601.51	3507.74	3564.07	3643.52	3651.91
Customers whose preferred communication method is email (%)	48.9%	30.2%	22.1%	21.1%	34.5%	34.2%
Tenure:						
Customers who have been on a default tariff for 3-6 months (%)	4.9%	5.0%	5.1%	5.0%	5.1%	5.0%
Customers who have been on a default tariff for 6 months-3 years (%)	36.4%	34.7%	36.7%	32.3%	34.7%	34.7%
Customers who have been on a default tariff for 3 years and over (%)	4.9%	5.0%	58.2%	62.7%	60.2%	60.3%
Customers who are on a pre-payment gas/electricity meter (%)	35.6%	30.5%	27.8%	28.0%	31.5%	31.3%
Customers who are considered to be in debt/arrears (%)	6.9%	7.0%	6.8%	7.3%	7.0%	7.0%
Customers who are on restricted meters (%)	8.0%	7.0%	6.0%	6.0%	7.0%	7.0%
Customers on a smart gas/electricity meter (%)	30.6%	20.8%	15.4%	16.0%	22.5%	22.5%