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THE CONVERSATION

Smart meters might be the only way to escape the Big Six and their overpriced energy

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These people are angry – but most are indifferent. Andy Rain / EPA

The UK is a rich, stable country with oil and gas reserves, lots of wind, and more than enough scientists and engineers to make the most of its resources. So why do so many people in the country continue to tolerate high energy bills and poor service?

The question of what can be done to encourage energy consumers to become more active and engaged has come to a head after the Competition and Markets Authority (CMA) published provisional findings from its investigation into the UK's energy market.

One of the things the report considers is the attitudes and behaviour of the energy consumer – ordinary bill-payers like you or I. And one of the findings is that inactive, disengaged consumers are partly responsible for tolerating weak competition. Energy suppliers exploit this inertia to increase their profits.

Only a minority of the UK's 27m electricity customers, or the 23m gas customers, are regularly shopping around for the best deal, or switching their energy supplier. In fact, 19m buy both their electricity and gas from the same supplier and most of them remain on open-ended, standard variable tariffs (SVTs), rather than fixed term, non-standard tariffs, which are generally (but not always) cheaper.

While this consumer apathy persists, the "Big Six" energy suppliers have little incentive to

compete aggressively on either price or service.

Why do people put up with it?

The first point to make here is that not all energy consumers are the same. However, it could be argued that a failure to acknowledge this has been one of the key problems with the energy market. Privatisation promised increased choice and competition, but the constraints of the supply chain and a shared infrastructure have worked against the development of a truly free market. How different do you really expect EDF and npower to be when they both carry the same electricity on the same grid?

Instead, the UK energy consumer has been bewildered by complicated pricing and paralysed by the belief that changing supplier involves too much hassle and carries the risk of ending up worse off in the long run. Previous sharp practice, using door-to-door sales techniques (which ended in 2012), has left a legacy of mistrust towards the whole industry. Some regulations designed to protect consumers, such as a ban on regional price discrimination and an enforced reduction in the number of tariffs, may have actually weakened competition.

There are consumers who are prepared to search for the best deal, either by using a price comparison website, or by joining a buying consortium such as a community energy scheme. They may also have invested in technology to monitor their energy consumption patterns. However, as the latest energy market report points out, these consumers tend to be relatively wealthy and highly educated. They may be motivated by a desire not just to save money, but also by environmental concerns to reduce their carbon footprint.

Many other consumers do not or cannot search for the best deal. This may be because they don't have the necessary numeracy skills, internet access or confidence to make an informed decision. They may be poor, old or living in rented accommodation and more pre-occupied with their immediate short-term finances, leaving them unable or unwilling to make long-term financial choices. Another cause of inaction and apathy is the fact that gas and electricity are perceived as rather boring, undifferentiated commodities; necessary evils that are difficult to get excited about.

An energy supplier - aimed at you?

For the energy market to work more efficiently and fairly, both the regulators and the energy providers must understand and serve the different types of energy consumer, by segmenting the market in an appropriate way.

One study of the Swiss energy market identified six clusters of energy customer, based on their knowledge, values, capabilities and habits. These segments were characterised as "idealistic energy-savers", "convenience-oriented indifferent energy consumers", and so on.

The researchers concluded that each group needs to be targeted with different messages and incentives, tailored to their particular characteristics and circumstances. This makes a lot of sense – a wealthy person obsessed with cutting their carbon footprint is hardly likely to be swayed by an advert promising cheap energy aimed at an entirely different demographic.

Another method of segmentation based on cost-of-service has been proposed as a possible basis for supplier strategy in the future. The authors of the study, two Stanford scientists, pointed out that two different consumers of energy may have the same overall power usage, but the cost of supplying them can vary greatly, because of their different consumption patterns, such as usage at peak and off-peak times. They argue detailed information on the presence of certain household appliances such as tumble dryers is a strong predictor of energy usage.

Combined with detailed data from smart meters (which are planned to be installed in all UK

households by 2020), energy suppliers could gain valuable insights into each customers' energy needs and behaviour. This knowledge could allow them to offer individualised tariffs, perhaps to incentivise off-peak usage of expensive appliances such as tumble dryers.

At the same time, data from smart meters, combined with greater trust in the information provided by comparison websites, will be key to consumers becoming more engaged in understanding their own energy usage and encouraging them to switch suppliers on a regular basis.



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