

Final report

BIT review of the Benefit Change Notice for the
Australian Energy Regulator

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THE
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INSIGHTS TEAM ♦

Executive Summary

The Behavioural Insights Team (BIT) worked with the Australian Energy Regulator (AER) to conduct three online framed field experiments to test different versions of a proposed benefit change notification. Respondents saw one of three or four versions of the notification, and were asked about their intended behaviour (technical details provided in the attached appendix). The key findings included:

- Intention to visit EME did not appear to vary significantly by treatment across the three trials.
- Telling respondents that they would “lose [their] discount” led to higher comprehension across trials 1 and 2. This suggests a clear headline that focuses on loss aversion can increase comprehension.
- In trial 3, there were no significant differences across the outcome measures, suggesting that we reached peak effectiveness.
- Most respondents had not switched retailers or plans in over a year, with one third of all respondents having been with the same retailer for 4 years or more, and having never switched plans within their retailer.

As such BIT recommends that the notice **includes a headline that the consumer is about to lose their benefit, and where possible, includes a description of the benefit.**

Overview

- 1 What we did
- 2 What we found
- 3 Caveats and limitations
- 4 Key recommendations

1 What we did

2 What we found

3 Caveats and limitations

4 Key recommendations

Background to the project

The policy problem

The AER is currently developing Benefit Change Notice Guidelines in accordance with rules 48A and 48B of the National Energy Retail Rules. These rules require retailers to notify small electricity and gas customers when benefits provided to them for a minimum or fixed period in their retail contracts are ending or changing.

The guidelines will provide details about what the content of the notices will be, and will be the primary method by which consumers are alerted to changes to benefits under their retail contracts.

BIT is supporting the AER as there is significant evidence that shows consumers' behavioural biases can drive their behaviour.¹ By drawing on this understanding, we can shape the notices to take account of these behavioural biases and encourage consumers to take action when their benefit periods end. However, it is important to test and evaluate any applications of behavioural insights to ensure that they work in this specific context, and to understand what the most effective techniques are.

¹Costa, E., King, K., Dutta, R., & Algate, F. (2016). Applying behavioural insights to regulated markets.

Our approach

Ideally, we would conduct a trial in the field to test the impact of these letters on actual behaviour. However, due to time constraints, it was not possible to do this. Instead, we combined qualitative research with an online randomised controlled trial (RCT), and a review of the literature. Findings from the qualitative research, the online RCT and the literature review fed into the recommendations.

The qualitative research involved developing drafts of the notices, and providing them to a range of consumers for their feedback. These were done in individual interviews, and included some consumers from culturally and linguistically diverse backgrounds. We then refined the notices before choosing four versions to test in an online trial. To conduct the trial, we used Predictiv, BIT's new online rapid research platform. Predictiv quantitatively tests the effectiveness of communications, new products, policies and initiatives using real participants in an online environment. It is designed to provide an alternative method of conducting robust RCTs when a field trial is unfeasible or not possible.


The results of the first trial were published earlier in the year – following this, we conducted two further trials. Each trial carried forward a successful version of the letter from the preceding trial (i.e., one treatment in trial 2 was a successful treatment in trial 1, and trial 3 included one successful treatment from trial 2). This report covers all three trials that we conducted.

Trial 1

Overview of the trial

- A total of 1,805 respondents were asked some basic questions about their household, to estimate household energy consumption using the Energy Made Easy (EME) website methodology.
- Respondents were shown one of the four versions of the letter and asked to read it.
- Respondents were asked how they would respond to the letter – when they would act (i.e., immediately, after some time, or not at all), and if they would act, what they would do.
- After this, they were asked some comprehension questions about specific parts of the letter.
- They then had to enter the information from the back of the letter into a mock version of EME – they received additional incentives for doing so correctly. This was conducted as an exploratory exercise.
- Finally, they answered some basic financial literacy questions and filled out some questions about their demographics.
- Further details of our analysis strategy are provided in the attached technical appendix. The full question list is also provided in the attached appendix.

Right: screenshots from the test



Alex Sample
1 Sample Rd
SAMPLEVILLE 2144

Dear Alex,

You are about to lose your discount worth \$302 last year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discounts only apply for 1 year from 1 April 2017.

If you take no action, we estimate that you will pay \$2,072* for energy over the next year.

In the last year you paid

Saving money on energy is **easy**

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

* If I received a letter like this, I would...

☐ Do something about it straight away.

☐ Do something about it within the next week.


☐ Do something about it later, when I have time.

☐ Not do anything about it.

Next

Treatment 1 (acted as control)

"Increase, no chart"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

We estimate your electricity bill will increase to \$2,072* next year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the 1-year contract you signed on 1 April 2017 is about to expire.

If you stay with us and we roll over your plan, we estimate that you will pay \$2,072* for energy over the next year.


So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567

Treatment 2

"Increase, chart"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

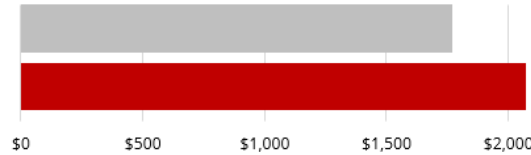
We estimate your electricity bill will increase to \$2,072* next year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the 1-year contract you signed on 1 April 2017 is about to expire.

If you stay with us and we roll over your plan, we estimate that you will pay \$2,072* for energy over the next year.

In the last year you paid

Over the next year we estimate you will pay*



Category	Amount
In the last year you paid	~\$1,750
Over the next year we estimate you will pay*	\$2,072

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.


Nicky Tindall
Customer Service Representative

* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567

Note: Postcodes were customised based on participant responses (highlighted in red boxes)

Treatment 3

"Lose discount, no chart"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site
www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information
on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your discount worth \$302 last year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the 1-year contract you signed on 1 March 2017 is about to expire.

If you stay with us and we roll over your plan, we estimate that you will pay \$2,072* for energy over the next year. Because you have lost your discounts, this is \$302 more than you paid last year.


So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567

Treatment 4

"Lose discount, chart"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site
www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information
on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

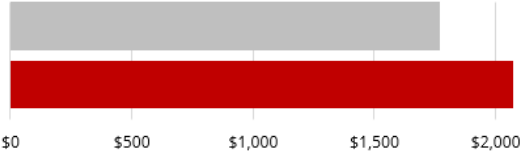
You are about to lose your discount worth \$302 last year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you as you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the 1-year contract you signed on 1 March 2017 is about to expire.

If you stay with us and we roll over your plan, we estimate that you will pay \$2,072* for energy over the next year. Because you have lost your discounts, this is \$302 more than you paid last year.

In the last year you paid

Over the next year we estimate you will pay*



Category	Amount (\$)
In the last year you paid	~1,770
Over the next year we estimate you will pay*	~2,072

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative


* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567


Note: Postcodes were customised based on participant responses (highlighted in red boxes)

Back page (same for all)

Summary of your most recent bills

Your National Meter Identifier is: 1234 123 123





Visit www.EnergyMadeEasy.gov.au/offer-search and enter the information below to see how much you can save by switching

Question on Energy Made Easy	What to enter
Compare energy offers	
What kind of offer are you looking for?	Home
Postcode	2154
What would you like to compare?	Electricity
Who is your electricity distributor?	Endeavour
Your electricity usage	
What is your electricity tariff type?	Time of use
Do you have a controlled load for your hot water or another appliance?	Yes
Do you have your kilowatt hour (kWh) usage from a recent bill?	Yes
Electricity bill 1	
Start date	18/1/2018
End date	17/2/2018
Standard (peak/anytime)	189
Off-Peak	112
Shoulder (if any)	57
Shoulder 2 (if any)	0
Controlled load	35

Don't add another bill. Accept the terms and conditions and click:

Compare energy offers

You should now see a list of offers that you can compare to your estimated bill next year of \$2,072*.

Note: Postcodes were customised based on participant responses (highlighted in red boxes)

Trial 2

Trial 2 summary

Following trial one, we took the “Lose discount” letter for trial 2, on the basis that it had the highest comprehension and may have reduced the proportion doing nothing.


In trial 2 we changed the outcome measure slightly. Respondents were now asked if they wanted to view some information about EME and given the option to do so – we measured the proportion that chose to view the information. If they did not, we asked why they chose not to view the information.

In addition to the original two comprehension questions, we also added three extra questions, to allow for further analysis of comprehension. We measured “narrow” comprehension (comprehension on the two questions that appeared in trial 1) as well as “broad” comprehension (comprehension across all five questions). Finally, we removed the section that asked participants to enter their information into EME – we did not expect to gain any new information, and this section saw significant attrition from respondents.

Trial 2 saw three new letters – a “no headline” letter, a letter that expressed the loss aversion as a percentage, and a letter that added a social norm to the “lose discount” letter.

We again found that the “lose discount” headlines lead to higher comprehension, but no significant differences on our main outcome measures (N=2,285). Further details of our analysis strategy are provided in the attached technical appendix. The full question list is also provided in the attached appendix.

Treatment 1 "No headline"



Alex Sample
1 Sample Rd
SAMPLEVILLE 9999

Saving money on energy is easy

- 1 Visit the comparison site
www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information
on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.


If you take no action, we estimate that you will pay \$2,072* for energy over the next year. Because you have lost your discounts, this is \$302 more than you paid last year.

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567

Treatment 2 "Lose discount \$"



Alex Sample
1 Sample Rd
SAMPLEVILLE 9999

Saving money on energy is easy

- 1 Visit the comparison site
www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information
on the back of this letter
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your discount worth \$302 last year
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.

If you stay with us and we roll over your plan, we estimate that you will pay \$2,072* for energy over the next year. Because you have lost your discounts, this is \$302 more than you paid last year.


So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

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Note: Postcodes were customised based on participant responses (highlighted in red boxes)

Treatment 3 "Lose discount %"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your 15% pay on time discount
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.


If you take no action, we estimate that you will pay \$2,072* for energy over the next year. You will not get any discounts for paying on time.

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

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Treatment 4 "Lose discount norms"



Alex Sample
1 Sample Rd
SAMPLEVILLE **9999**

Saving money on energy is easy

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your discount worth \$302 last year
Thousands of people found a better deal at www.EnergyMadeEasy.gov.au/offer-search - visit now to find out more

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the 1-year contract you signed on 1 May 2017 is about to expire.

If you take no action, we estimate that you will pay \$2,072* for energy over the next year. Because you have lost your discounts, this is \$302 more than you paid last year.

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

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Note: Postcodes were customised based on participant responses (highlighted in red boxes)

Trial 3 summary


Following trial 2, we learned that the draft Benefit Change Notice Guidelines did not require retailers to provide an additional comparison figure in the letter. Therefore, we elected to take forward the “lose discount %” arm from trial 2. It did not appear to have statistically significant differences from the “lose discount \$” letter, as it preserved the high levels of comprehension and did not appear to vary on the other key outcome measures.

Given that we had found limited differences on our outcome measures in preceding trials, we decided to include both the outcome measures for trial 3. The outcome measure from trial 1 (asking whether a person when they would take action, and what they would do) was asked immediately after the letter, while the outcome measure from trial 2 (offering the opportunity to view EME) was asked after the comprehension questions.

We also chose to try only three arms, instead of four, in order to increase the power of our test. The three arms were the “lose discount %” from trial 2, a letter with a “large callout” box just below the headline, and one with a “warning callout” that included the estimated bill for the coming year.

In trial 3, we did not find statistically significant differences between the treatments on either intentions or comprehension (N=2,099). This suggests that we may be observing “ceiling effects”, whereby we have reached the limits of how far we can shift the outcomes we were measuring. Further details of our analysis strategy are provided in the attached technical appendix. The full question list is also provided in the attached appendix.

Treatment 1 "Lose discount %"



Alex Sample
1 Sample Rd
SAMPLEVILLE 9999

Saving money on energy is easy

- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your 15% pay on time discount
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.


If you take no action, we estimate that you will pay \$2,072* for energy over the next year. You will not get any discounts for paying on time.

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

* This is an estimate based on your recent usage. For your historical billing and consumption data, contact us on 9123 4567

Treatment 2 "Large callout"




Alex Sample
1 Sample Rd
SAMPLEVILLE 9999

Dear Alex,

You are about to lose your 15% pay on time discount

What you need to do:



- 1 Visit the comparison site www.EnergyMadeEasy.gov.au/offer-search
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.

If you take no action, we estimate that you will pay \$2,072* for energy over the next year. You will not get any discounts for paying on time.


So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

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Treatment 1

"Warning callout"



Alex Sample
1 Sample Rd
SAMPLEVILLE 9999

Saving money on energy is easy

- 1 Visit the comparison site **www.EnergyMadeEasy.gov.au/offer-search**
- 2 Enter the usage information **on the back of this letter**
- 3 Compare retailers and find the best offer for you

Dear Alex,

You are about to lose your 15% pay on time discount
Visit www.EnergyMadeEasy.gov.au/offer-search to find the best offer for you

We are required to tell you that you are going to lose the discounts you have been receiving on your energy bill very soon. The reason is, the discount you've been receiving since 1 May 2017 is about to expire.

If you take no action, we estimate that you will pay \$2,072* for energy over the next year. You will not get any discounts for paying on time.

So you can see if you can find a cheaper offer, a summary of your last bill is on the back of this letter. Simply enter the information at the Australian Government's price comparison site, www.EnergyMadeEasy.gov.au/offer-search to see a list of offers that are tailored to you.

Nicky Tindall
Customer Service Representative

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Note: Postcodes were customised based on participant responses (highlighted in red boxes)

1 What we did

2 What we found

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(Intended) Behaviour

There were no significant effects on intentions to visit EME in trial 1

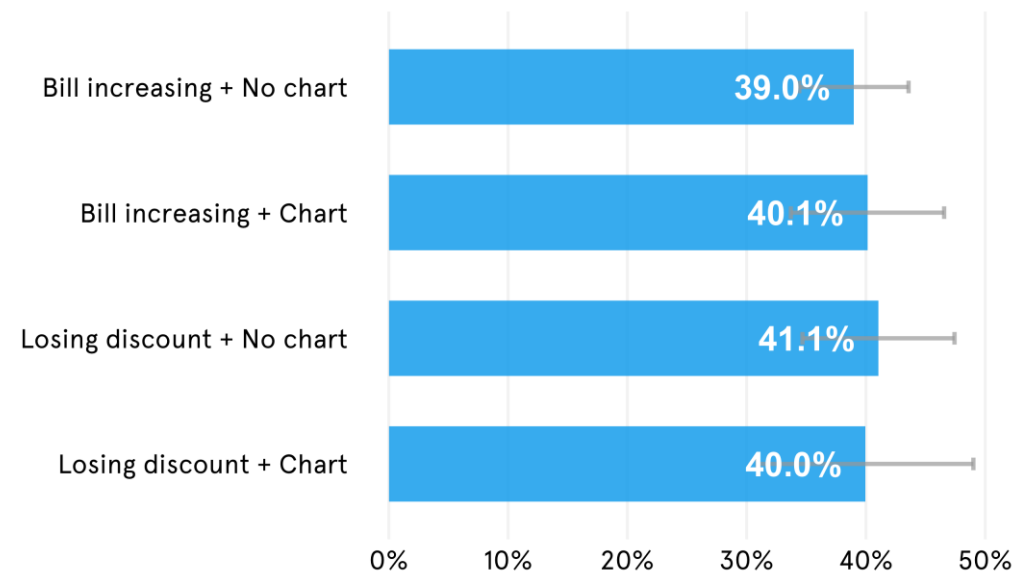
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Based on trial 1, the proportion of respondents that said they would take some action and visit EME did not vary between the treatments, and was consistently around 40%. Note that this appears to be quite high, and actual behaviour is likely to be lower in the field.

The next most popular options were calling the retailer (22%) and doing research online but not through comparison websites (21%).

How we measured this

Respondents were first asked what they would do upon receipt of the letter – take action immediately, within a week, when they had time, or not take action at all. For those that chose any of the options that indicated they would take action, we then asked what action they would take. The options included visiting EME, visiting a non-EME comparison site, calling the retailer, doing research online (not via comparison sites), or something else. The chart on the right shows the proportion that stated they would take some action, and that they would go to the EME website.



Of those who stated they would take some action, proportion of respondents who responded that they would go to the EME website in response to the letter, by treatment

*(+= $p < 0.1$, *= $p < 0.05$, **= $p < 0.01$, ***= $p < 0.001$)*

Telling customers they would “lose [their] discount” may have reduced the proportion doing nothing in Trial 1

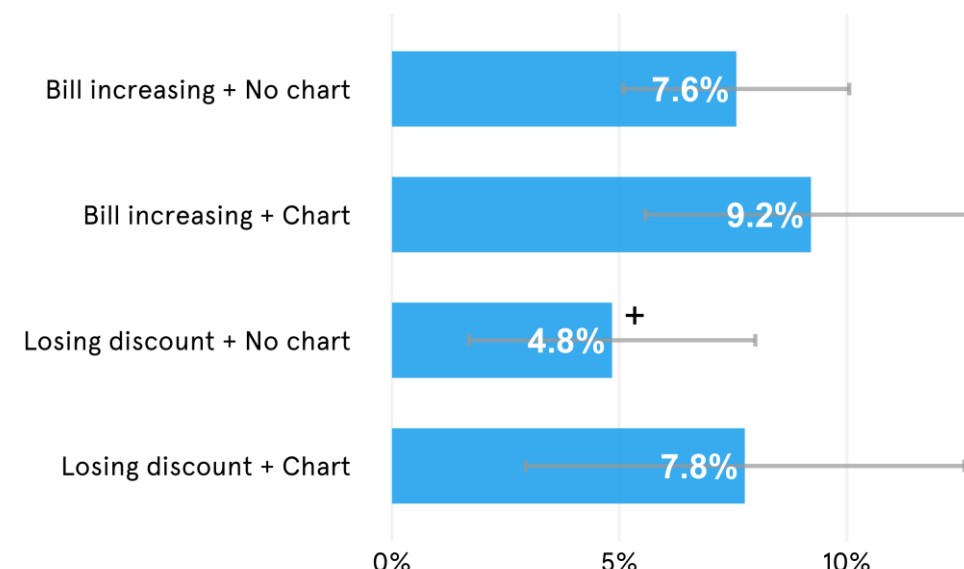
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INSIGHTS TEAM.

There is some weak evidence to suggest that treatment 3 (which included a headline stating that respondents would “lose [their] discount”) led to a smaller proportion of respondents stating that they would take no action in response to the letter. However, this was only suggestive evidence and not statistically significant at conventional levels.

This is nonetheless somewhat promising, however, as it is consistent with the broader literature and with insights from the qualitative user testing conducted prior to the trial, which suggest that loss aversion is a powerful motivator. It is also in line with previous energy trials run by BIT, which have found that loss aversion tends to lead to the biggest response from consumers.¹

How we measured this

Respondents were first asked what they would do upon receipt of the letter – take action immediately, within a week, when they had time, or not take action at all. For those that chose any of the options indicating that they would take action, we then asked what action they would take. The options included visiting EME, visiting a non-EME comparison site, calling the retailer, doing research online (not via comparison sites), or something else. The chart on the right shows the proportion that stated they would do nothing



Proportion of respondents who responded that they would do nothing in response to the letter, by treatment
(+= $p < 0.1$, *= $p < 0.05$, **= $p < 0.01$, ***= $p < 0.001$)

¹ <http://www.behaviouralinsights.co.uk/wp-content/uploads/2016/09/BIT-Update-Report-2015-16.pdf>, p41

There were no significant differences in people accessing EME information in trials 2 and 3

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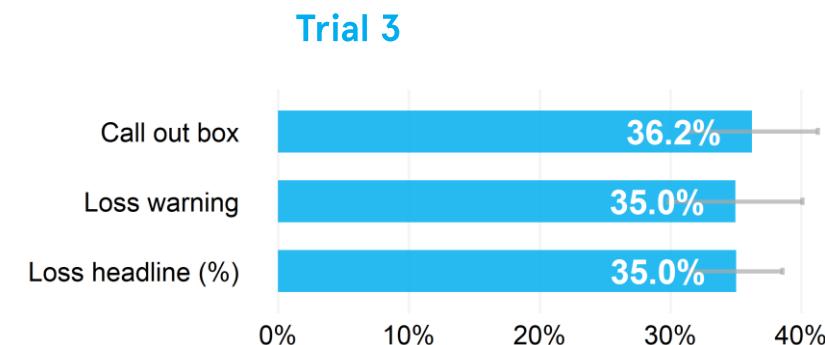
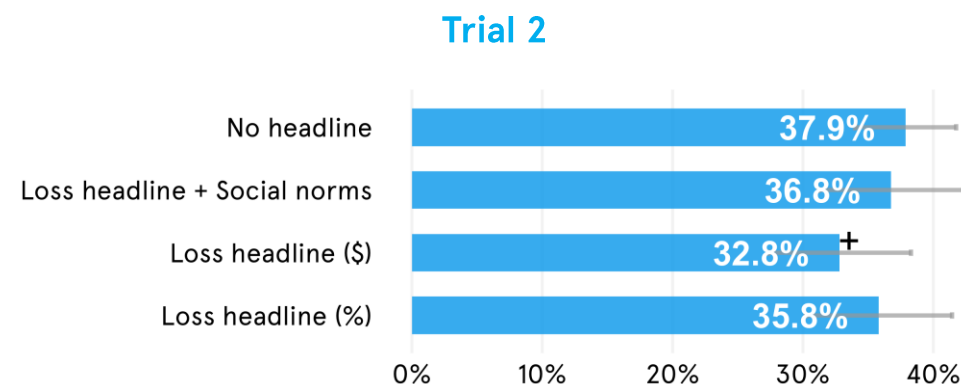
We adopted a slightly different method for measuring intentions to use EME in trial 2 as compared to trial 1. This resulted in no statistically significant differences between the four trial arms. There was potentially weak – but not statistically significant – evidence that the “lose discount” headline with a dollar amount led to fewer people clicking to view information about EME.

In trial 3, we used both outcome measures – again, there were no significant differences between the three trial arms, across either outcome measure. The two outcome measures differed slightly, but were broadly consistent.

How we measured this

In trial 2, respondents were offered the opportunity to view additional information on EME, and could click to open the information in a new window. If they chose not to, we asked whether this was because they would normally view the information later, take some other action in response to the letter, or take no action at all.

In trial 3, we asked participants about their intentions using the method used in trial 2 (see above), as well as the method used in trial 1. That is, respondents were first asked what they would do on receipt of the letter. For those that chose any of the options that indicated they would take action, we then asked what action they would take.



% choosing to view additional information on EME, by treatment
(+= $p < 0.1$, *= $p < 0.05$, **= $p < 0.01$, ***= $p < 0.001$)

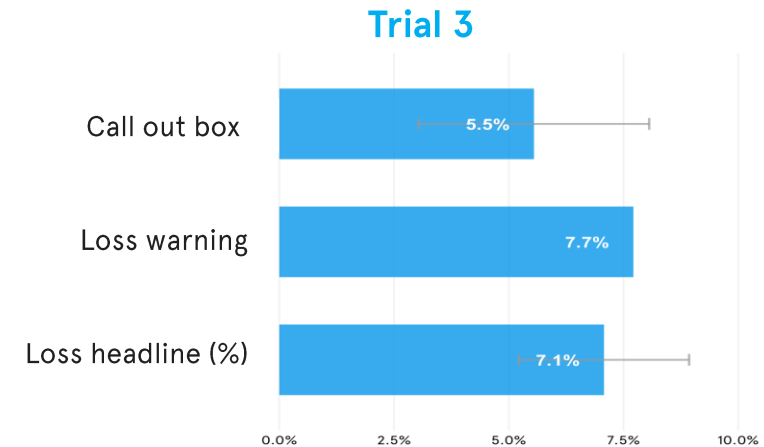
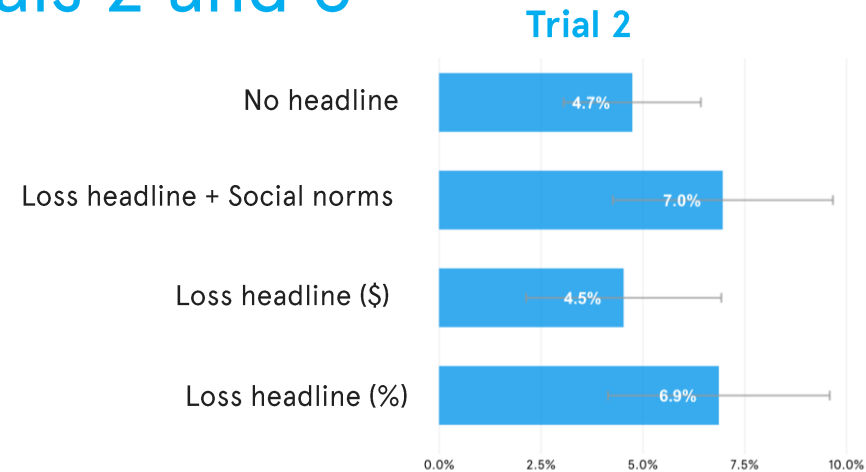
There were no significant differences in the proportions stating they would do nothing in trials 2 and 3

As with the main outcome measure, there were no statistically significant differences between the treatments in the proportion who stated they would do nothing. Notably, the proportions appeared to be broadly consistent with trial 1, with between 4–8% of respondents stating that they would do nothing.

How we measured this

In trial 2, respondents were offered the opportunity to view additional information on EME, and could click to open the information in a new window. If they chose not to, we asked whether this was because they would normally view the information later, take some other action in response to the letter, or take no action at all.

In trial 3, we asked participants about their intentions using the method used in trial 2 (see above), as well as the method used in trial 1. That is, respondents were first asked what they would do on receipt of the letter. For those that chose any of the options that indicated they would take action, we then asked what action they would take



% choosing to do nothing, by treatment
(+= $p<0.1$, *= $p<0.05$, **= $p<0.01$, ***= $p<0.001$)

Comprehension

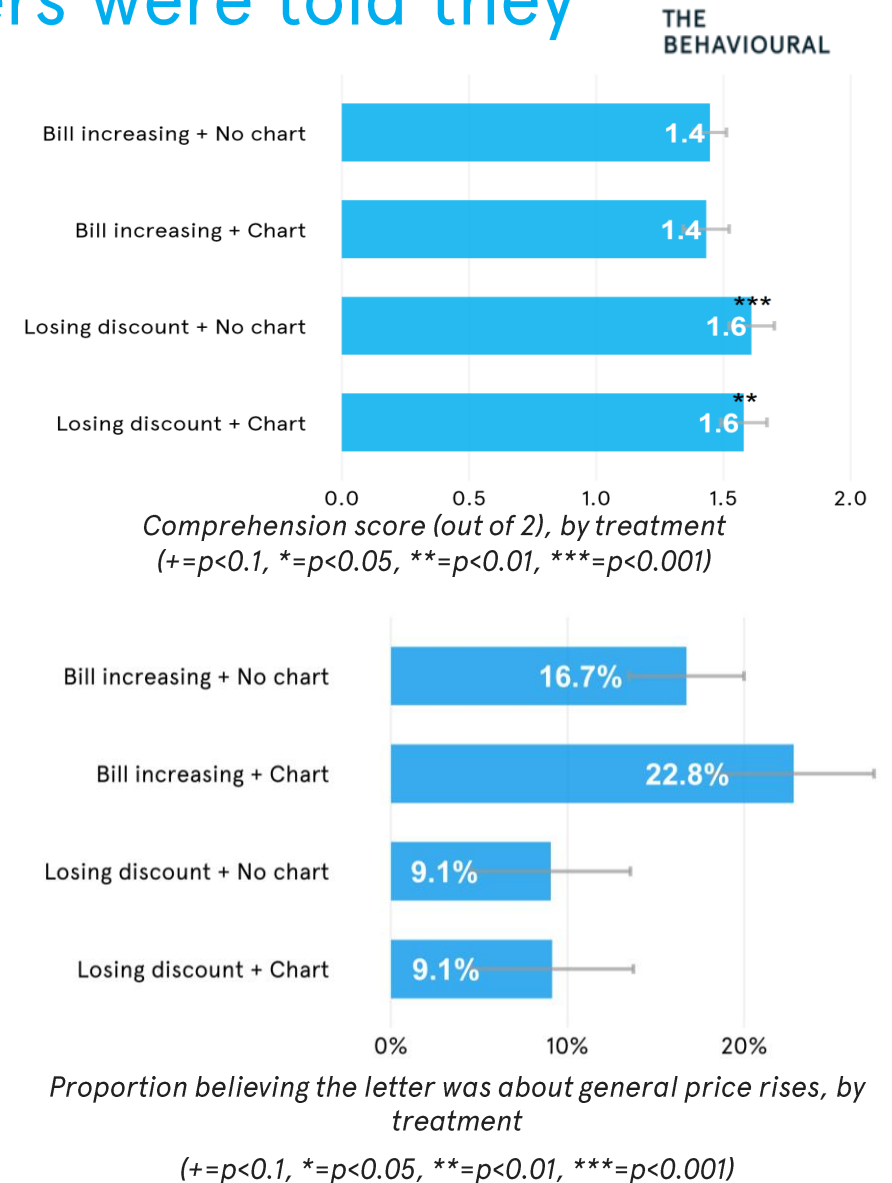
Comprehension was higher when consumers were told they would “lose [their] discount” in trial 1

Perhaps unsurprisingly, when the headline included a clear statement that respondents would lose their discounts, there was a higher average comprehension score. Exploratory analysis suggests this was predominantly driven through more respondents correctly answering the question regarding what would happen to their energy bill next year. However, there also appear to be increases in the proportion of correct answers to the question about what the letter was asking them to do (i.e., use EME to find a better deal).

Notably, the proportion answering that they would pay more because prices were rising generally under the “lose discount” treatments was less than half that of the proportion under the “bill increasing” treatments.

How we measured this

Respondents were asked two questions – firstly, what the letter was saying would happen to their energy bills next year (they would pay more because they were losing their discount, they would pay more because prices were rising generally, or they would pay less). Secondly, they were asked what the letter was asking them to do (go to EME, contact their retailer for information to use EME, contact their provider to get a better deal, use a comparison website, or something else).



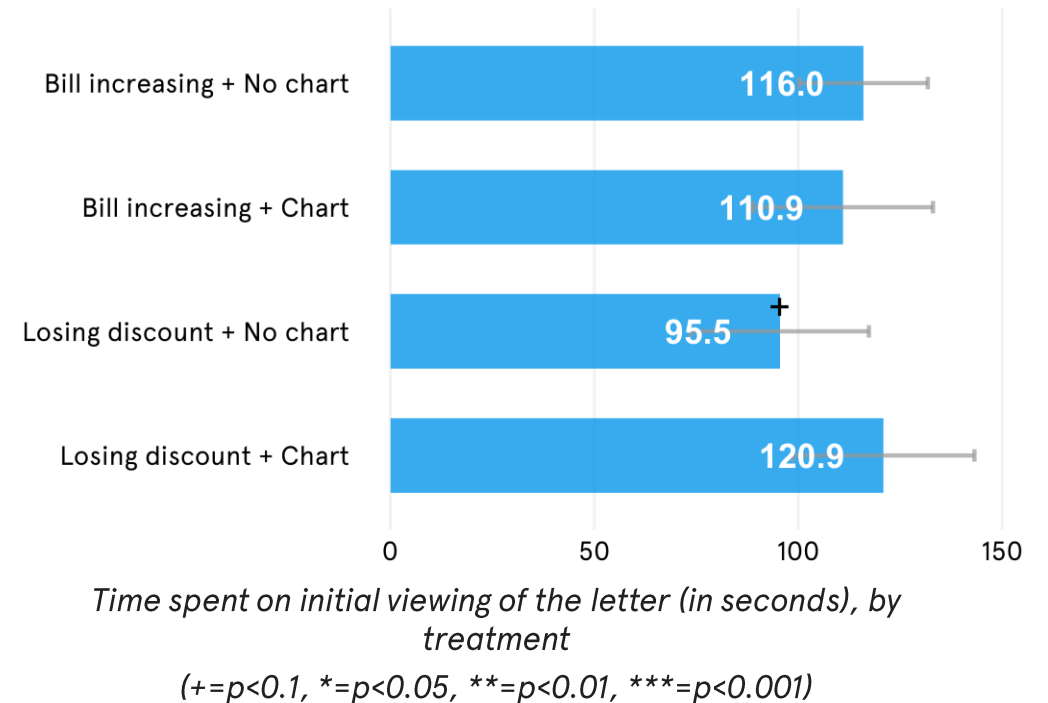
There was weak evidence of faster comprehension in trial 1

We found weak evidence suggesting that treatment 3 led individuals to spend less time reading the letter, despite improving their comprehension scores on average. However, this is not statistically significant at conventional levels.

It is difficult to draw too many conclusions from this information. On the one hand, a longer viewing time may represent better engagement with the letter. On the other hand, more time spent on the letter may in fact represent confusion – that is, it was harder to understand and take in all the information. Indeed, in our data we observed no correlation between time taken to read the letter and comprehension, which suggests the latter hypothesis might be accurate.

How we measured this

Respondents were asked to look at the letter, before we asked some follow-up questions. We were able to measure the amount of time that respondents spent viewing each letter.



Comprehension was also higher in trials 2 and 3 with a headline...

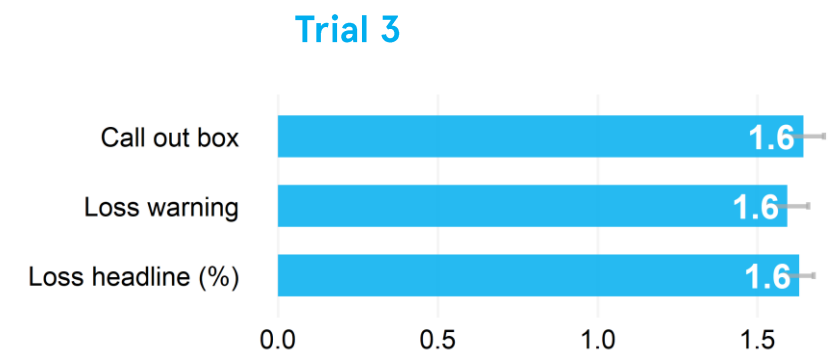
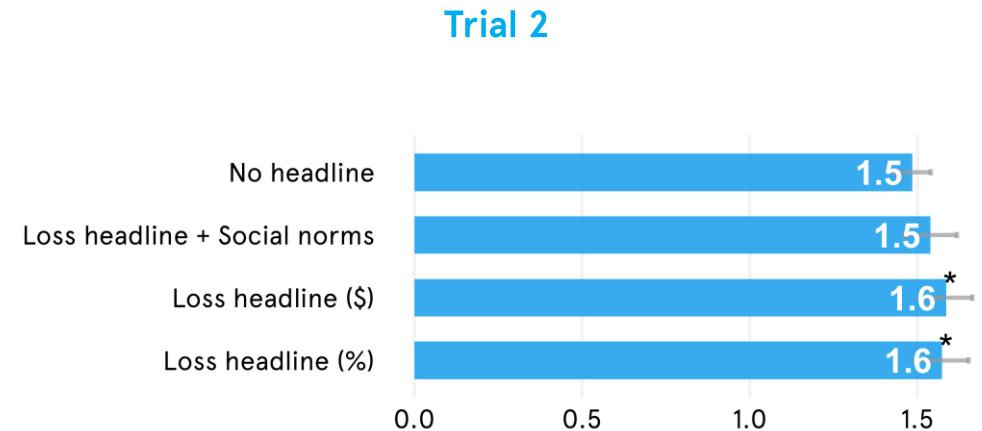
We asked additional comprehension questions in trials 2 and 3 – but to allow consistent comparisons with trial 1, we have reported the results as “narrow” comprehension (i.e., results for the two questions that also appeared on trial 1) separately to “broad” comprehension (i.e., results for all questions).

Consistent with the results of trial 1, “narrow” comprehension was highest when a headline was included. Notably, the loss aversion headline (both the dollar amount and the percentage) on its own had the highest level of comprehension in trial 2. These effects were statistically significant for the narrow measure, per trial 1. In trial 3, there were no significant differences in comprehension.

It suggests we may be observing a “ceiling effect”, whereby we have optimised the current format and headline as far as possible, and further gains would require more substantial changes.

How we measured this

Respondents were asked five comprehension questions. The first two were consistent with trial 1 (asking what the letter was saying would happen to their energy bills and what the letter was asking them to do). This constituted the “narrow” measure. The next three were additional questions, added to further explore comprehension.



Comprehension score (out of 2), by treatment
(+=p<0.1, *=p<0.05, **=p<0.01, ***=p<0.001)

... but only for some questions

However, there were no statistically significant effects for the “broad” comprehension measure (i.e., all five questions, including new questions added for trials 2 and 3). This suggests that most of the comprehension impact was on the two key questions of what the letter was saying would happen to energy bills, and what the letter was asking the reader to.

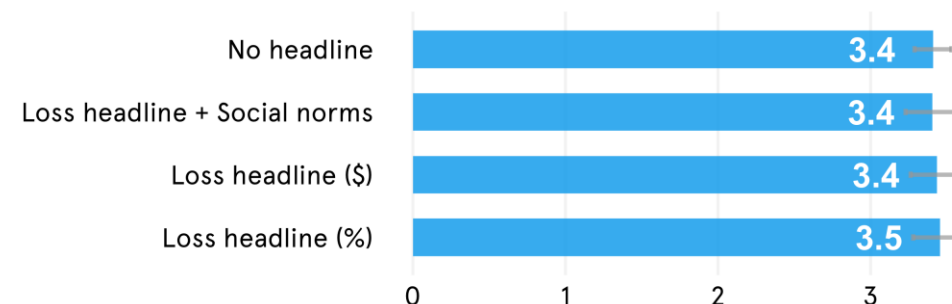
This is consistent with the idea that the headline plays an important role in comprehension – the headline covered information that was relevant to the “narrow” comprehension questions, but did not necessarily convey information about the questions the additional questions that made up the “broad” measure.

How we measured this

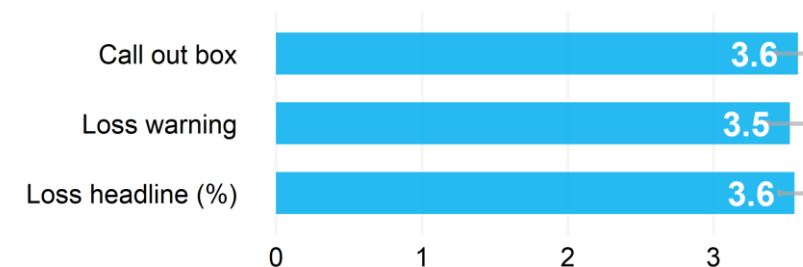
Respondents were asked five comprehension questions. The first two made up the “narrow measure” and were the same as the trial 1. The next three were additional questions, added to further explore comprehension. They covered who ran the EME website (government vs commercial company vs a retailer), what the consumer got from the EME website, and whether they thought the letter included everything they needed to use the EME website.

The score across all five questions constituted the “broad measure”.

Trial 2



Trial 3



Comprehension score (out of 5), by treatment

(+ = $p < 0.1$, * = $p < 0.05$, ** = $p < 0.01$, *** = $p < 0.001$)

Additional measures

Some EME questions appear more difficult (trial 1)

On average, respondents scored 10 (out of a possible 14) when asked in trial 1 to enter the information from the back of the letter into a mock version of EME. In addition, we were able to measure which questions caused the greatest difficulty, and which were the easiest – we have presented the results of the percentage of respondents getting each question correct in the image on the right.

The key takeaways appear to be that respondents had more difficulty when they had to enter figures, vs. when they had to select options. The one exception appears to be the question about the type of electricity tariff.

Note that the default value for the second last question was zero – hence, leaving this field empty would have resulted in a correct answer, which likely explains the high proportion getting this question correct.

How we measured this

Respondents in trial 1 were provided with a mock version of the EME website, that functioned similarly to the real website. They were asked to use the letter previously provided (they could click to open it again), and enter the information into the website. There were 14 fields to enter – we measured how many were entered correctly (the first two were already entered). Respondents were incentivised for each answer they entered correctly.

What kind of offer are you looking for?	<div><div><div>Home</div><div>Small business</div></div></div>	98.8%	✓
What is your postcode? <small>So we can show offers available to you</small>	<div><div>2154</div></div>	99.9%	✓
What would you like to compare?	<div><div>Electricity</div><div>Gas</div><div>Both electricity and gas</div></div>	77.3%	✓
Who is your electricity distributor?	<div><div>Ausgrid</div><div>Endeavour</div></div>	75.7%	
Your electricity usage			
What is your electricity tariff type?	<div><div>Single rate</div><div>Time of use</div><div>I'm not sure</div></div>	65.9%	✓
Do you have a controlled load for your hot water or another appliance?	<div><div>Yes</div><div>No</div></div> <div><small>What is controlled load?</small></div>	71.7%	✓
Do you have your kilowatt hour (kWh) usage from a recent bill?	<div><div>Yes</div><div>No</div></div> <div><small>I'm off-grid or in an embedded network</small></div>	81.6%	✓
<div><div></div> Adding extra bills is optional. You can enter up to 4 bills. Bills must cover a continuous period.</div>			
Electricity bill 1 <div><div>Remove bill</div></div>			
Start date	<div><div>18/01/2018</div></div>	57.0%	✓
End date	<div><div>17/02/2018</div></div>	55.8%	✓
Standard (peak/anytime)	<div><div>189</div></div>	59.0%	✓
Off-Peak	<div><div>112</div></div>	58.8%	✓
Shoulder 1 (if any)	<div><div>57</div></div>	58.7%	✓
Shoulder 2 (if any)	<div><div>0</div></div>	78.9%	✓
Controlled load	<div><div>35</div></div>	58.4%	✓

Respondents believed EME was the most difficult way to find a better deal on energy in trials 2 and 3

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When asked to provide their perceptions of how easy they thought it was to get a better deal on energy through a range of methods, EME came out with the lowest rating. Perhaps surprisingly, consumers thought that the easiest option was to simply do their own research online, but not through any comparison website.

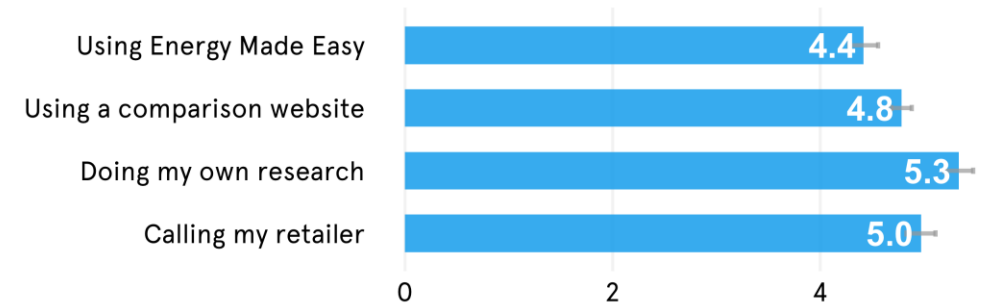
This may reflect a lack of knowledge on consumers' part as to what EME is, and may also represent scepticism about the other methods of finding a retailer. It may also represent substantial overconfidence on the part of consumers in their own ability to do their own research and get a better deal, given that this was rated as the "easiest" option.

How we measured this

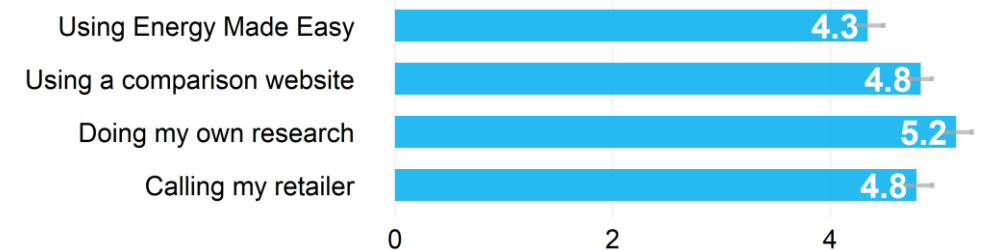
In trials 2 and 3, we asked respondents to provide a response on a 1-10 scale of how easy (1 = very difficult and 10 = very easy) they thought it was to find a better deal on energy through the following methods:

- Using a comparison website like iSelect or CompareTheMarket
- Using the Energy Made Easy comparison website
- Calling their retailer and asking for a better deal
- Doing their own research online, but not using a comparison website

Trial 2



Trial 3



Average rating of how easy consumers perceived each method was for getting a better deal on energy (1 = very difficult and 10 = very easy)

Many respondents had not switched providers or plans recently (trials 1, 2, and 3 combined)

Across the three trials combined, approximately 13% (less than 1 in 6) had changed providers within the last year, suggesting a low rate of “external” switching by consumers.

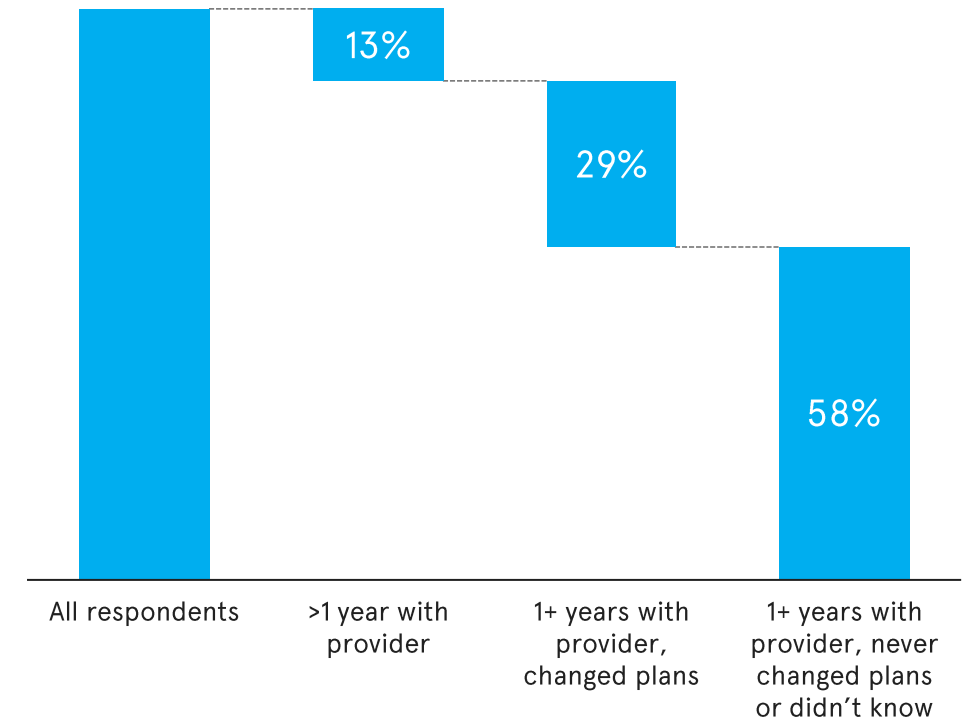
Of the 87% who had been with the same provider for more than 1 year, more than half said that they had been with the same provider for more than four years.

In addition, of the 87% who had been with the same provider for more than 1 year, less than one-third stated that they had changed plans with their current provider. In other words, out of the total sample, well over half had been with the same provider for over a year and had not switched plans whilst with their current provider.

Perhaps most concerning, approximately one-third of all respondents had been with their provider for over 4 years and stated that they had not switched plans.

How we measured this

We asked respondents to tell us how long they had been with their current provider (less than 1 year, 1-2 years, 2-4 years, 4+ years). We also asked if they had changed plans while they had been with their current provider (yes, no, don't know).



Responses to length of time with current provider and whether plans had been changed, all trials combined

1 What we did

2 What we found

3 Caveats and limitations

4 Key recommendations

Framed field experiments will always have limitations

We were measuring intentions, not behaviour

The environment presented to respondents was highly stylised – they simply had to open the letter and respond whether they would take action, and if so what action they would take. The intention-behaviour gap^{1,2} is a common behavioural issue, which means that our estimates are likely to overstate potential behavioural outcomes, at least in terms of what actions consumers would take in response to the letter.

In the real world, we would expect that some consumers that state a preference for taking some action, might not follow through. Our user testing found that some users would have an intention to address the contents of the letter, but would “leave it on [their] desk” or “deal with it later” – these consumers might not in fact end up taking any action.

We were only measuring intention to use EME, not actual switches

Our main outcome measures, which measured the proportion of respondents who stated they would use EME, and the proportion that stated they would take any action at all, are not measuring actual switching behaviour.

Even if our measures of intended behaviour were accurate, this may not translate through to switching behaviour if consumers find the switching process too difficult. For example, during our user testing, we found that many users found the EME website to be confusing and difficult to use – they were put off the process of switching providers when they saw multiple options from the same provider that appeared indistinguishable. We also found that consumers believe that switching via EME is more difficult than using a comparison website, calling their retailer or even doing their own research.

Indeed, if consumers are put off by the EME website, there is a risk that a letter that encourages the use of EME may actually lead to less switching, as compared to one that encourages the consumer to contact their own retailer or to use another comparison site.

¹ Webb, T. L., & Sheeran, P. (2006). Does changing behavioral intentions engender behavior change? A meta-analysis of the experimental evidence. *Psychological bulletin*, 132(2), 249.

² Sniehotta, F. F., Scholz, U., & Schwarzer, R. (2005). Bridging the intention-behaviour gap: Planning, self-efficacy, and action control in the adoption and maintenance of physical exercise. *Psychology & Health*, 20(2), 143-160.

We may have seen “ceiling effects” in later trials

There may be ceiling effects for our outcome measures

There is often a limit to how high (or low) an outcome measure can be shifted. This reflects the fact that interventions will only be effective up to a certain point, beyond which broader factors will come into play. For example, a letter encouraging people to pay their taxes will never convince every single person to pay; there will always be a small group that resists.

In the same way, the comprehension measures are likely at or very close to their maximum level, especially the narrow comprehension measure. There is likely a limited amount that can be done to shift these measures much higher (recognising that a small group will almost always misinterpret information).

The nature of the interventions may also create ceiling effects

The three trials have had interventions that have included the same content in the letters, with some variations in the headlines and the way information is presented.

Hence, it may be that we have optimised the design of these letters such that it is not possible to generate higher scores on the outcome measures without radically redesigning the format of the letters.

Given the respondents' scores on the outcome measures, especially comprehension, are already quite high, this is less likely to be the case (though may play a small role).

Online trials may not be able to clearly detect more subtle effects, or sub-conscious effects

Our first trial found significant differences in comprehension between the treatment groups. However, subsequent trials involved changes that may not have been as easily detected given the small sample size.

In addition, some effects on behaviour may be subconscious, such that it may not affect a person's stated intention, but nonetheless would affect their behaviour in the real world. For example, previous research has found that consumers believe information on social norms will not affect their energy consumption, even though it is often more effective than other messages that consumers rate as likely to affect their consumption.¹

¹ Schultz, P. W., et al. (2015). Using in-home displays to provide smart meter feedback about household electricity consumption: A randomized control trial comparing kilowatts, cost, and social norms. *Energy*, 90.

1 What we did

2 What we found

3 Caveats and limitations

4 Key recommendations

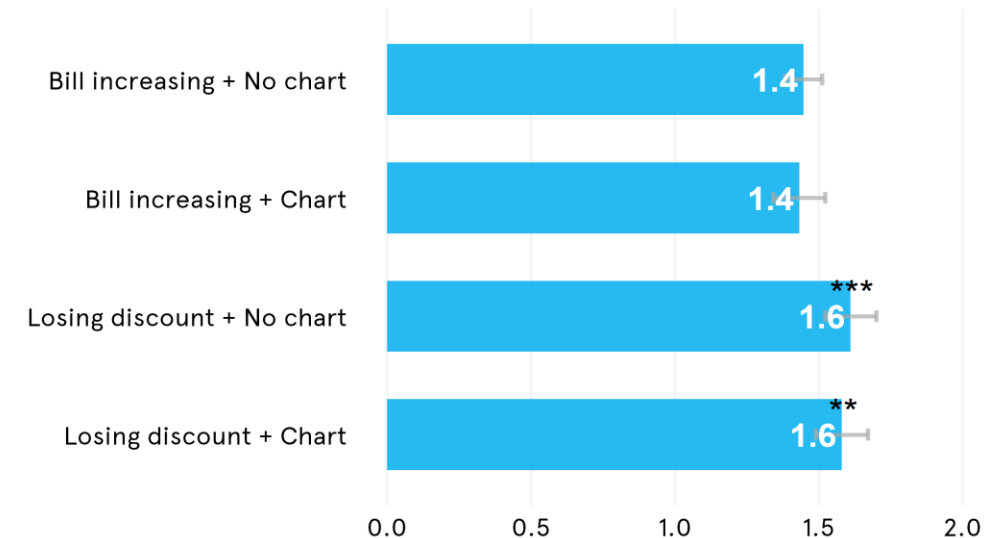
Immediate recommendations

Include the value of the benefit being lost on the notice

One of the strongest and most consistent effects in behavioural science is the concept of loss aversion – that is, individuals feel losses more keenly than equivalent gains.¹ Hence, where messages or outcomes can be framed as potential losses, they are more likely to have an impact (as compared to being framed as a potential gain). Therefore, we recommend that the value of the benefit is included on the notice, and specific reference is made to the fact that the consumer is about to lose this. There appears to be support for this from trial 1 in particular, where focusing on the benefit being lost appears to increase comprehension.

There may also be cases where consumers were not able to obtain the benefit – for example, a pay-on-time discount. In these cases, we would recommend highlighting the potential savings on offer for that consumer, to motivate their behaviour (i.e., “you will lose your discount, which could have saved you \$300 last year). Importantly, the figure should be as large as possible, to have the maximum impact, and should be framed as an imminent loss.

Adding further figures may not provide additional value – user testing revealed that consumers wanted to know what the value of their bill would be next year, so that they could compare this to the figures they saw on EME. This will already be on the notice, in the form of the “do nothing” amount.



Comprehension score (out of 2), by treatment (trial 1)
(+= $p<0.1$, *= $p<0.05$, **= $p<0.01$, ***= $p<0.001$)

¹Tversky, A. & Kahneman, D. (1981). The framing of decisions and the psychology of choice. *Science*, 211(4481), 453-458.

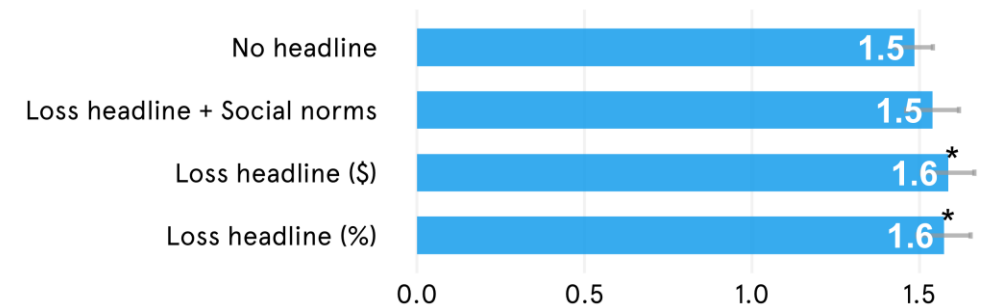
Use a loss aversion headline to maximise comprehension

The three trials have not shown statistically significant differences in intended behaviour between the treatments – an online trial will have some limitations in its ability to predict field behaviour accurately (see caveats, above).

However, we can have confidence about the way that the trials have measured comprehension – while stated intentions online may not translate to behaviour offline, we would expect that comprehension would be more consistent online and offline.

As such, the consistent result from all three trials is that a headline that specifically focuses on loss aversion – i.e., a headline that states that a consumer is about to “lose their discount” – leads to higher comprehension of key aspects of the letter. This persists even where the specific dollar value of the discount is not included. That is, consumers appear to have a better understanding that their electricity bill will increase due to a loss of discount, and that the letter is asking them to use the EME website.

This is consistent with a wide range of academic literature,¹ and suggests that wherever possible the fact that a benefit is being lost is highlighted. For example, we understand that it may not always be possible to include the dollar amount of the benefit being lost – the results suggest that even without a dollar amount, a headline specifying the nature of the benefit being lost can also increase comprehension.



Comprehension score (out of 2), by treatment (trial 2)
(+= $p<0.1$, *= $p<0.05$, **= $p<0.01$, ***= $p<0.001$)

¹Tversky, A. & Kahneman, D. (1981). The framing of decisions and the psychology of choice. *Science*, 211(4481), 453-458.

Include a simple explanation on the nature of the benefit

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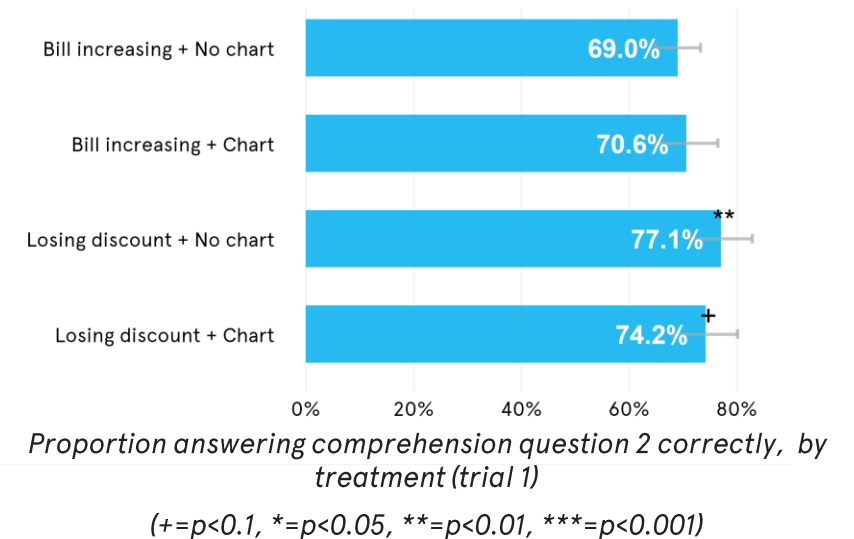
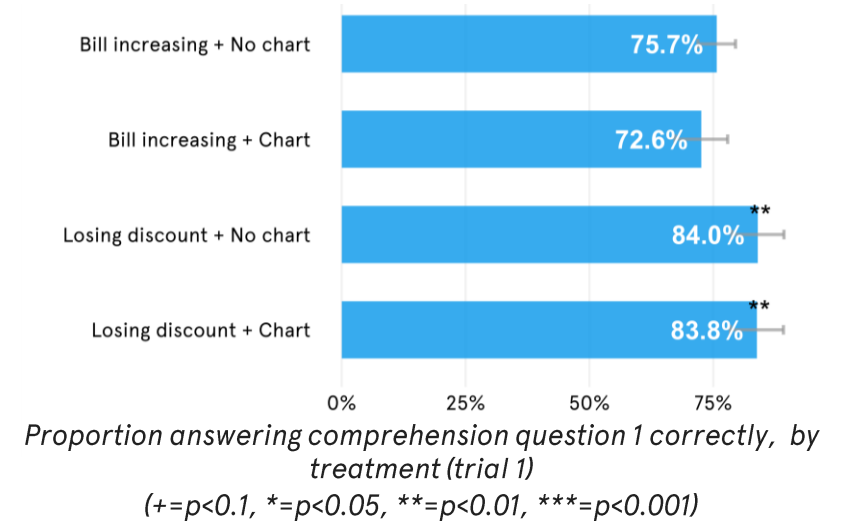
A key finding from our user experience testing was that consumers did not always appreciate why the letter was being sent – a number of consumers believed that it was part of the standard price rises that occur each year.

The results of trial 1 support this – one of the biggest noticeable differences between the various treatments was that comprehension of why prices were rising was highest when the headline specifically stated that the discounts were about to be lost. In addition, under the treatments with a headline, the proportion that believed the price rise was due to a general rise in prices was less than half that under the more general headline.

Importantly, this effect appears to also have driven comprehension of the second question, about what the letter was asking the reader to do.

Including a headline and a short explanation of the nature of the benefit – and highlighting that the consumer is losing it¹ – will help to increase comprehension about why the letter is being sent, and what consumers need to do in response. It also appears to cause consumers to pay more attention to the content of the letter, leading to higher general comprehension.

¹Tversky, A. & Kahneman, D. (1981). The framing of decisions and the psychology of choice. *Science*, 211(4481), 453-458.



Provide any usage information in an easy to access format on the notice itself.

While the notice is required to include a provision to allow consumers to contact the retailer to obtain their usage information, we believe that there is significant benefit in simply including this information on the form itself, and doing so in a format that clearly explains how the information should be used when entering it into the EME website.


Small “frictions” such as extra processes can have substantial impacts on behaviour – one study found that providing people with personalised information about the best healthcare plans for them substantially increased switching rates. Importantly, this information was freely available, but instead of requiring consumers to actively seek it out, the intervention focused on providing it directly.¹ Similarly, past BIT trials have found that even the presence of an extra click in an online process can lead to substantial proportions of individuals dropping out.² Hence, reducing the steps involved for consumers to access their information is key to ensuring they take action on receipt of the notice.


Where the information is not available, and only estimates are available, then the retailer should be required to provide sufficient instructions for the consumer to be able to use the EME website as accurately as possible.

¹Kling, J. R. et al (2012). Comparison friction: Experimental evidence from Medicare drug plans. *The Quarterly Journal of Economics*, 127(1), 199–235.

²Behavioural Insights Team (2014). EAST: Four simple ways to apply behavioural insights. *Behavioural Insight Team, London*.

Summary of your most recent bills
Your National Meter Identifier is: 1234 123 123

 Your Energy Company

 Visit www.EnergyMadeEasy.gov.au/offer-search and enter the information below to see how much you can save by switching

Question on Energy Made Easy	What to enter
Compare energy offers	
What kind of offer are you looking for?	Home
Postcode	2154
What would you like to compare?	Electricity
Who is your electricity distributor?	Endeavour
Your electricity usage	
What is your electricity tariff type?	Time of use
Do you have a controlled load for your hot water or another appliance?	Yes
Do you have your kilowatt hour (kWh) usage from a recent bill?	Yes
Electricity bill 1	
Start date	18/1/2018
End date	17/2/2018
Standard (peak/anytime)	189
Off-Peak	112
Shoulder (if any)	57
Shoulder 2 (if any)	0
Controlled load	35

Don't add another bill. Accept the terms and conditions and click:

Compare energy offers

You should now see a list of offers that you can compare to your estimated bill next year of \$2,072*.

For emails, require hyperlinks and pre-filled information

We note that the proposed guidelines will require retailers to provide the notice via email, if the consumer has elected to receive notifications via email. We support this proposal (though we would recommend monitoring whether there are differential rates of behaviour between email and letters).

In addition, using email allows for frictions to be further reduced – at a minimum, the link to EME should be a direct hyperlink.

However, there is scope to further reduce friction – we note that currently, when a consumer enters their information on the entry page and clicks “Get Started”, they are taken to a website with a customized URL (e.g., <https://www.energymadeeasy.gov.au/offer-search/R/2154>). Therefore, we recommend that the hyperlink is actually a customized one for each recipient, such that their type of offer and postcode is pre-filled.

This has the advantage of reducing friction, but also of taking advantage of the “goal gradient” – the concept that as we progress towards a goal, we are more likely to complete it.¹ Demonstrating progress towards a goal (for example, by pre-filling a form) can often speed up individual achievement of the goal itself. Hence, pre-filling some information is likely to increase the likelihood of completion. Evidence from the trial also suggests pre-filling information could reduce any potential errors.

The screenshot shows a web browser window with the URL <https://www.energymadeeasy.gov.au/offer-search/R/2154> highlighted in the address bar. The page is titled "Compare energy offers" and features the Australian Government logo and the "ENERGYMADE easy" logo. A search bar is present in the top right. The main navigation bar includes links for "Compare energy offers", "Get energy smart", and "Control your costs". The page content shows a form for comparing electricity and gas offers. The form has two sections: "What kind of offer are you looking for?" with radio buttons for "Home" (selected) and "Small business", and "What is your postcode?" with a text box containing "2154". Both sections have green checkmarks to the right, indicating successful completion or selection.

¹Kivetz, R., Urminsky, O., & Zheng, Y. (2006). The goal-gradient hypothesis resurrected: Purchase acceleration, illusory goal progress, and customer retention. *Journal of Marketing Research*, 43(1), 39–58.

A clear headline statement is crucial, particularly online

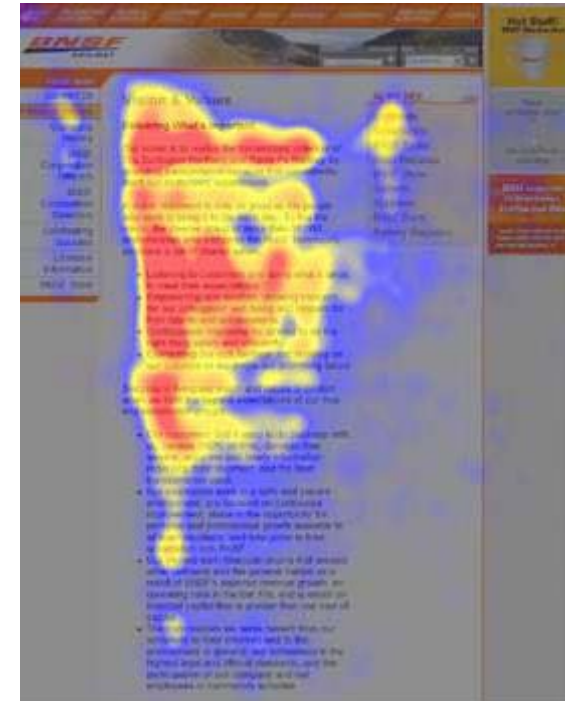
Most consumers will likely encounter the notice either in an online environment (i.e., through email), or in a situation where they are likely to already have a range of materials competing for their attention (i.e., as one of multiple letters in their letterbox).

Our qualitative user testing found that even in an environment where the consumer was focused purely on the letter they had received, they were not paying full attention to all aspects of the letter.

This is likely to be exacerbated if some messages will be delivered online (for example, via email) – research shows that comprehension is worse in an online environment,^{1,2} with consumers likely to read in an “F-pattern” (see image).³

Therefore, having a clear headline statement that makes it clear what individuals have to do is crucial for shifting behaviour. The headline should also be personalised, where possible (for example, with their first name in the headline) – typically, consumers will respond better to communications that are personalised to them in some way.

In particular, results from trial 1 suggest that a headline statement that clearly indicates that a benefit is about to be lost increases comprehension, and may increase behaviour.



¹Mangen, A., Walgermo, B. R., & Brønnick, K. (2013). Reading linear texts on paper versus computer screen: Effects on reading comprehension. International Journal of Educational Research, 58, 61-68.

²Oppenheimer, D. M., Meyvis, T., & Davidenko, N. (2009). Instructional manipulation checks: Detecting satisficing to increase statistical power. Journal of Experimental Social Psychology, 45(4), 867-872.

³<https://www.nngroup.com/articles/f-shaped-pattern-reading-web-content-discovered/>

Limit the amount of information presented, and set rules around how it is presented

In general, reducing the amount of information that consumers need to process is likely to lead to better outcomes.¹ Keeping information as simple as possible and the letter as short as possible is key to ensuring that consumers have both maximal understanding, as well as maximal likelihood of taking action.

We would recommend either single-page limit or a word limit, with a view to limiting the communication to a single page. Note that the page and word limit does not include the content discussed on the previous page, relating to usage information. This should ideally be separated and provided on a different page, to make understanding both the notice and the usage information as easy as possible.

In addition, to ensure that the EME website is foregrounded, there may need to be requirements to ensure that the EME website is made no less prominent than any retailer website, and that it is mentioned first. Current retailer practice appears to mention both EME and the retailer's own site, with the retailer's own site typically more prominent and mentioned earlier.

While these may be more prescriptive requirements, this may present an opportunity to encourage retailers to conduct trials to find out "what works", if they wish to deviate from the requirements.

¹Eppler, M. J., & Mengis, J. (2004). The concept of information overload: A review of literature from organization science, accounting, marketing, MIS, and related disciplines. *The information society*, 20(5), 325-344..

Short- to medium-term recommendations

Conduct field tests to validate findings

As noted, a key limitation of the trials is that they tested intention to switch, not actual switching. In addition, the letter aims to drive people to the EME website – however, it may be that this leads to poorer outcomes if, for example, people are more likely to take action when prompted by a letter to contact their own retailer instead.

Moreover, trials 2 and 3 did not detect substantial differences between the trial arms. However, this does not necessarily mean that there would not be differences in the field – it is more likely that the differences are smaller than can be detected online with a small sample size. There may also be differences that would only be apparent in a field trial, because the interventions may have a subconscious effect that influences actual behaviour, rather than stated intentions.

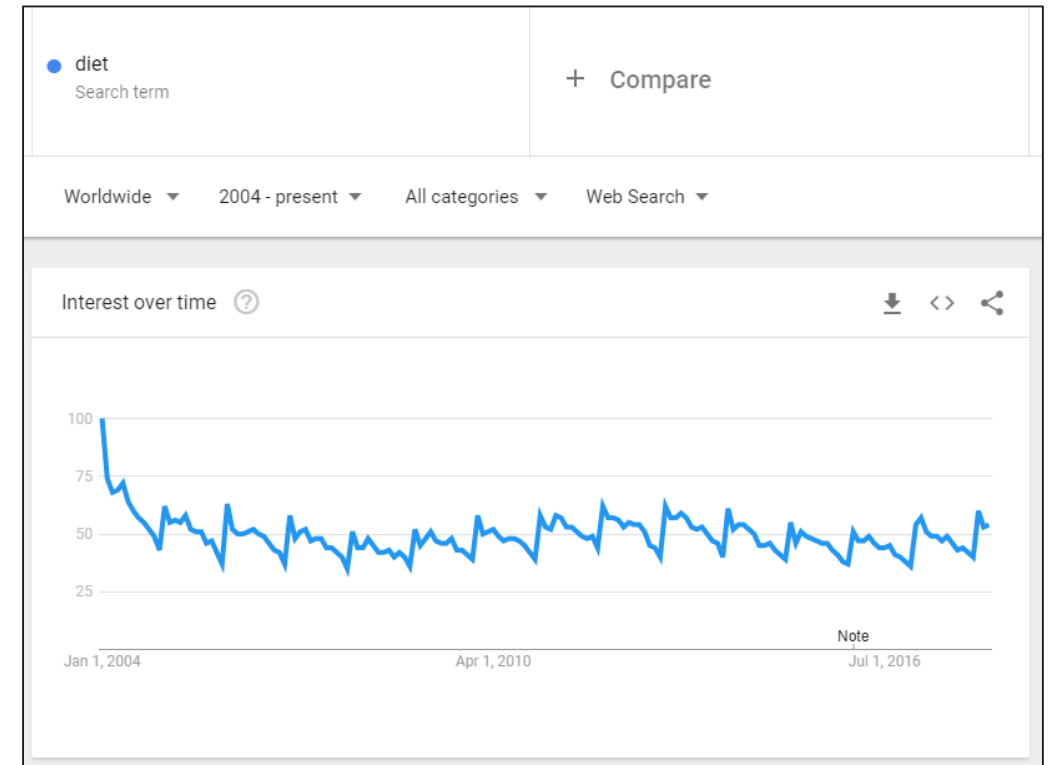
Retailers have significant scope to conduct these trials (and may already be doing so – albeit with a view to increasing customer retention rather than switching behaviour). Partnering with retailers to validate findings and test new alternatives may lead to even better outcomes.

Benefit changes are a key opportunity to prompt behaviour

A key issue with consumer behaviour in energy markets is that there are rarely significant events that cause them to re-assess their choice of energy provider, outside of the quarterly bill or moving house. Moreover, the complexity of the market makes the default of staying with the current provider a cognitively easier option for consumers.¹

Hence, it is important to maximise any opportunity that arises to prompt consumers, or create an artificial point that offers a change to disrupt the status quo. Evidence has shown that arbitrary temporal landmarks (e.g., the start of a new month or new year) can motivate behaviour.² A looming benefit change might be seen as a specific temporal landmark that might motivate switching behaviour, even if the benefit change is minor. There may be other landmarks, such as the start of summer or the hottest day of the year.

Therefore, we recommend that as few benefit changes are excluded from the requirement to send a notice as possible. Moreover, even some excluded categories could arguably still be cause for a notice – a customer being rolled over on the same conditions may still be able to switch to a better deal if prompted to do so at the time of the rollover. Indeed, any situation where a customer does manage to maintain their current conditions without taking any action is highly unlikely to be the best possible deal for that consumer.



Google search activity over time for the term "diet" – clear peaks are visible at the start of each year

¹Jachimowicz, J. M., Duncan, S., & Weber, E. U. (2016). Default-Rejection: The Hidden Cost of Defaults. Available at SSRN: <https://ssrn.com/abstract=2727301>

²Dai, H., Milkman, K. L., & Riis, J. (2014). The fresh start effect: Temporal landmarks motivate aspirational behavior. *Management Science*, 60(10), 2563–2582.

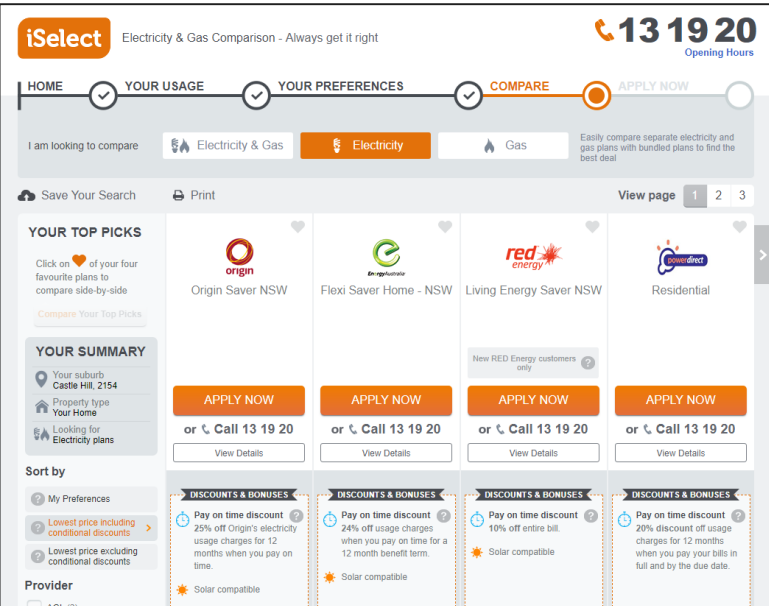
Reduce complexity and options to improve outcomes

There is well established evidence that greater choice does not necessarily lead to better outcomes – providing additional options in markets often leads to “choice overload”, where consumers either don’t choose at all or make worse choices.¹

During our user testing, we found that a number of users found it overwhelming that the results page for EME included multiple plans from the same retailer that appeared almost identical (see image, right). Several commented on the fact that they were just looking for the cheapest options, not necessarily all options. Indeed, experimental evidence suggests that as the number of complex tariffs in the market increases, the rates of sub-optimal switching (i.e., choosing an option that is not the best) increases.²

This has been supported by field evidence, where analysis of switching behaviour in one academic paper found that as the number of options in an energy market increases, the share of potential gains from switching captured by consumers decreases.³

Therefore, we recommend that the EME website only provide the cheapest deal from each retailer, or groups deals from each retailer so that the initial presentation of offers is not as overwhelming. Alternatively, make it easier for consumers to specify up front how they wish results to be sorted.



Provider	Plan Name	Contract Term	Price	Other Details
red energy	Living Energy Saver - Residential RED390170MR	No contract term	\$0	\$1,792 \$1,613
red energy	Living Energy Saver - Residential RED390172MR	No contract term	\$0	\$1,792 \$1,613
origin	BillSaver ORI458705MR	Ongoing contract with benefit period	\$0	\$1,795 \$1,795
origin	BillSaver ORI458708MR	Ongoing contract with benefit period	\$0	\$1,795 \$1,795
origin	Solar Boost Plus ORI458928MR	Ongoing contract with benefit period	\$0	\$1,806 \$1,806
origin	Solar Boost Plus ORI458931MR	Ongoing contract with benefit period	\$0	\$1,806 \$1,806

iSelect vs EME results page

¹Chernev, A., Böckenholt, U. & Goodman, J., 2015. Choice overload: A conceptual review and meta-analysis. *Journal of Consumer Psychology*, 25(2), pp.333–358.

²Sitzia, S., Zheng, J., & Zizzo, D. J. (2015). Inattentive consumers in markets for services. *Theory and Decision*, 79(2), 307–332.

³Wilson, C.M. & Price, C.W., 2005. Irrationality in Consumers’ Switching Decisions: When More Firms May Mean Less Benefit. , (August), pp.1–28.

Reduce friction on the EME website

Even where consumers are able to view results on the EME website, there are still frictions involved. Clicking for more information provides a phone number and the website of the retailer – but the website is not a hyperlink, and it is not clear how a consumer can find the specific plan on a retailer’s website (see image).

Past BIT trials have found that even the presence of an extra click in an online process can lead to substantial proportions of individuals dropping out,¹ while recent work by Ofgem also focused on including direct contact numbers and steps involved in switching in direct communications.²

Hence, we recommend finding ways to reduce these frictions and making it as easy as possible for people to go directly from EME to signing up to a specific plan. This would involve, at a minimum, a hyperlink instead of plain text for the retailer website. Ideally, the link would in fact go directly to the specific page for that plan, so that a customer could get information directly from the retailer and sign up to the plan if they wished.

Phone number	13 12 45
Website	http://www.agl.com.au
Offer details	
Offer name	AGL Set and Forget New South Wales residential electricity market offer
Offer ID	AGL466279MR
Customer type	Residential
Fuel type	Electricity
Distributor	Essential Energy
Tariff type	Single rate
Offer type	Market offer
Offer release date	05-Mar-2018

¹Behavioural Insights Team (2014). EAST: Four simple ways to apply behavioural insights. *Behavioural Insight Team, London*.

²https://www.ofgem.gov.uk/system/files/docs/2017/11/cmol_report_0.pdf

Long-term recommendations

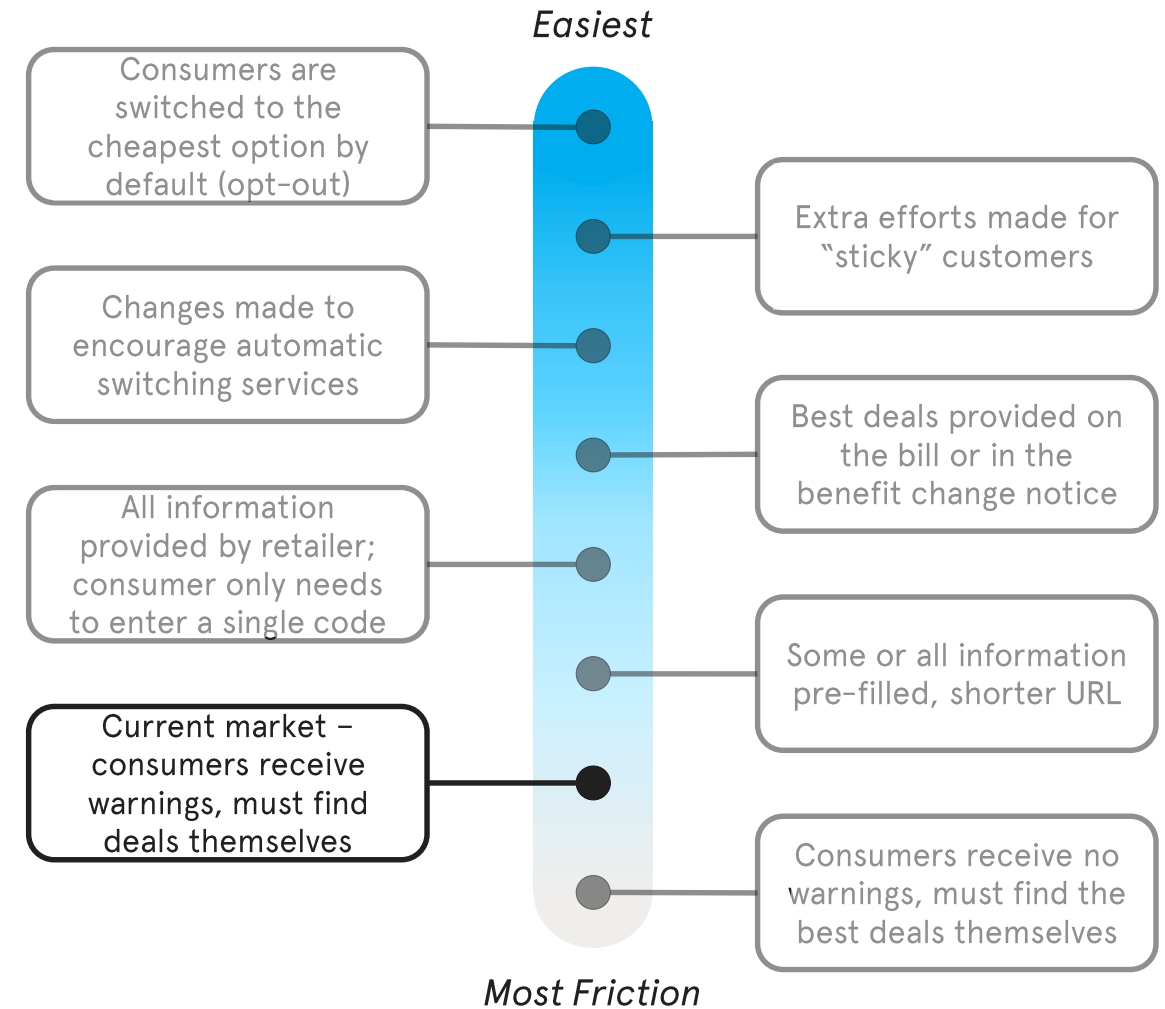
Move towards a frictionless system

As noted, frictions in the process of finding information and switching are likely to act as barriers to behaviour change.^{1,2} Beyond improving the EME website, there are many opportunities more broadly to improve switching by consumers when their benefits expire.

There is a spectrum of different options that could be adopted to try and reduce the friction and create a more effective and well-functioning market. At one end, this is represented by a situation where consumers receive no warnings and are required to find the best deals themselves.

At the other end of the spectrum, and arguably the closest representation of a truly “efficient free market”, would be a situation where consumers are automatically switched to the cheapest deal for them (with the opportunity to opt-out if they choose).

We have indicated where we believe the market is currently (see image, right), and on the following pages we discuss options for moving closer towards the free market ideal.



¹Kling, J. R. et al (2012). Comparison friction: Experimental evidence from Medicare drug plans. *The Quarterly Journal of Economics*, 127(1), 199–235.

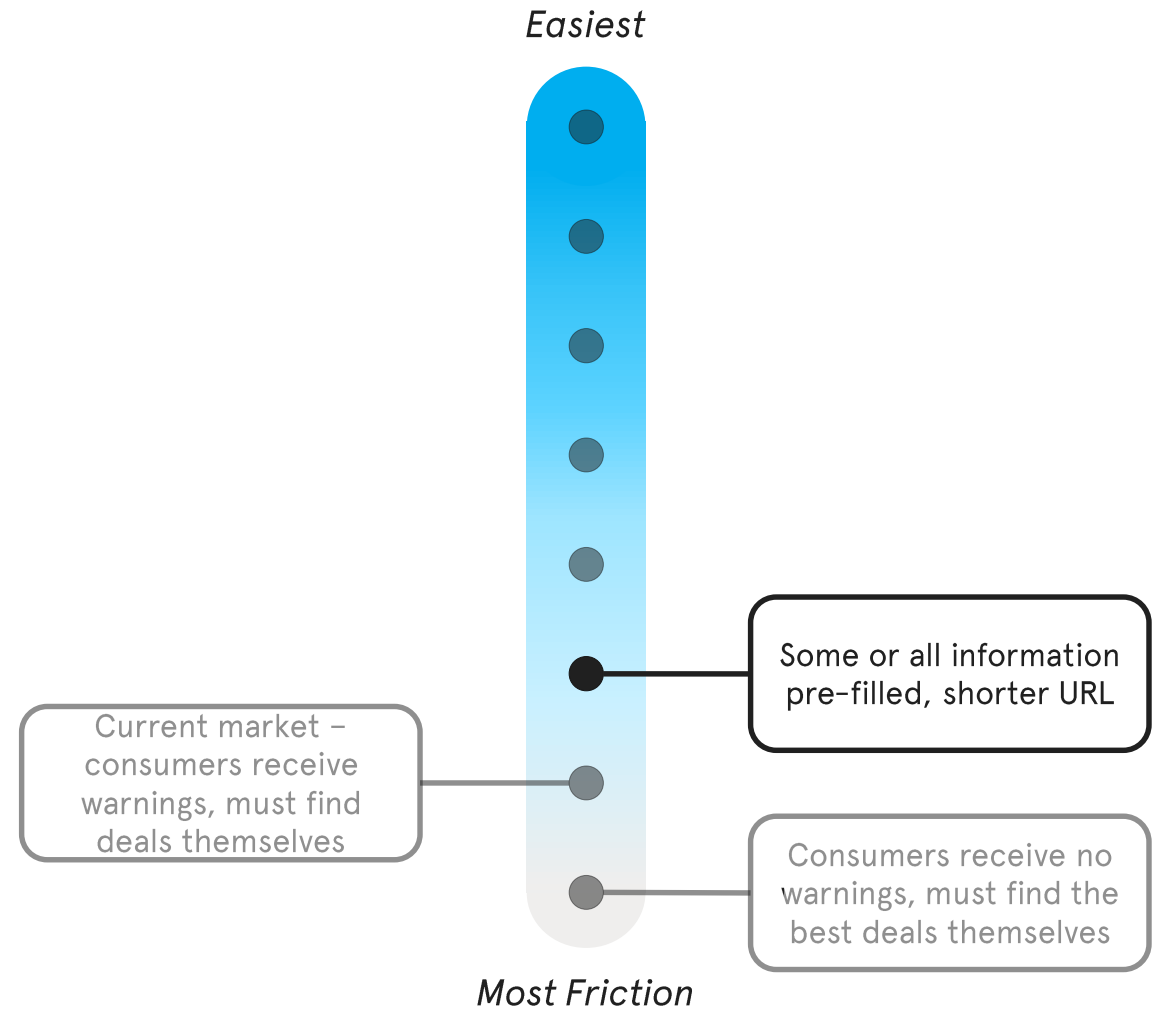
²Behavioural Insights Team (2014). EAST: Four simple ways to apply behavioural insights. *Behavioural Insight Team*, London.

Make small changes to reduce frictions

There are some simple steps that could be taken to reduce immediate frictions. For example, we have already recommended that online, the link should pre-fill the type of offer and postcode. Building further functionality to pre-fill additional information may lead to greater completion.

Other small changes could include shortening the URL – for example, www.eme.gov.au/offers is a much shorter URL. This means that errors are less likely, but it also means that the headline on the letters is shorter and easier to process.

The EME website could also be made easier to use in conjunction with the notices – for example, by numbering the questions on the EME website. This would allow for usage information on the back for the notice to be provided in a format that references the questions more directly, making it easier for consumers to enter the information.

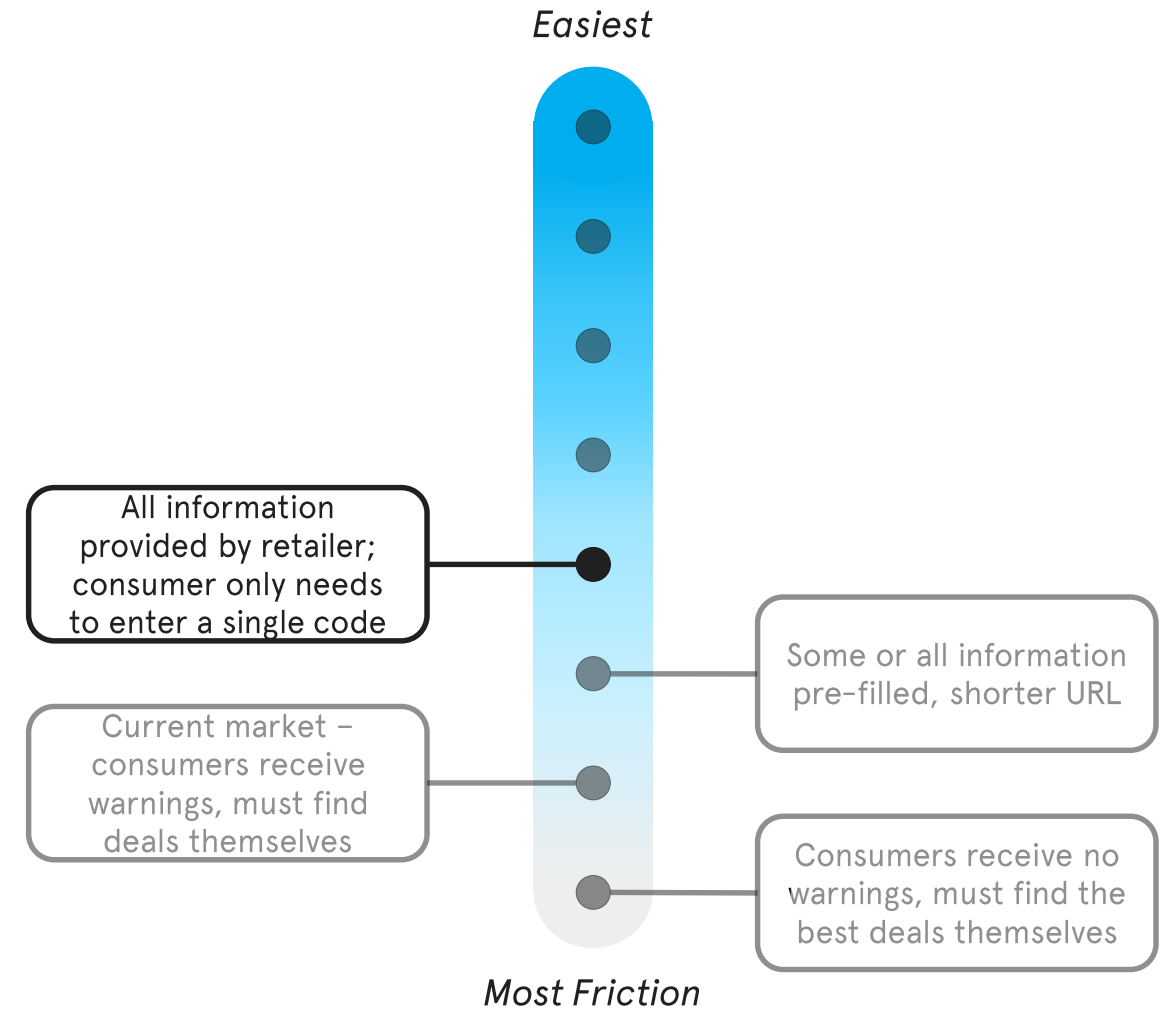


Require retailers to enter all information for consumers

A further reduction of friction would be to simply require retailers to upload all the information directly to the AER, and provide the associated National Metering Identifier (NMI). Notably, retailers already have the information, and will be in the best position to interpret it and enter it on behalf of consumers.

Consumers could then simply enter their NMI, or an associated unique code sent to them in the benefit notice, into EME. This would have the advantage of both reducing the perceived effort required by consumers who see the letter, as well as reducing the actual effort required to access information via EME.

This is likely to be particularly important if consumers find entering information into EME difficult or are unable to do so correctly – we understand that overall completion rates on the live website are low. In addition, our first test found that under half of participants were able to correctly enter all the information into EME – suggesting that even with all the information, consumers have difficulty with EME.

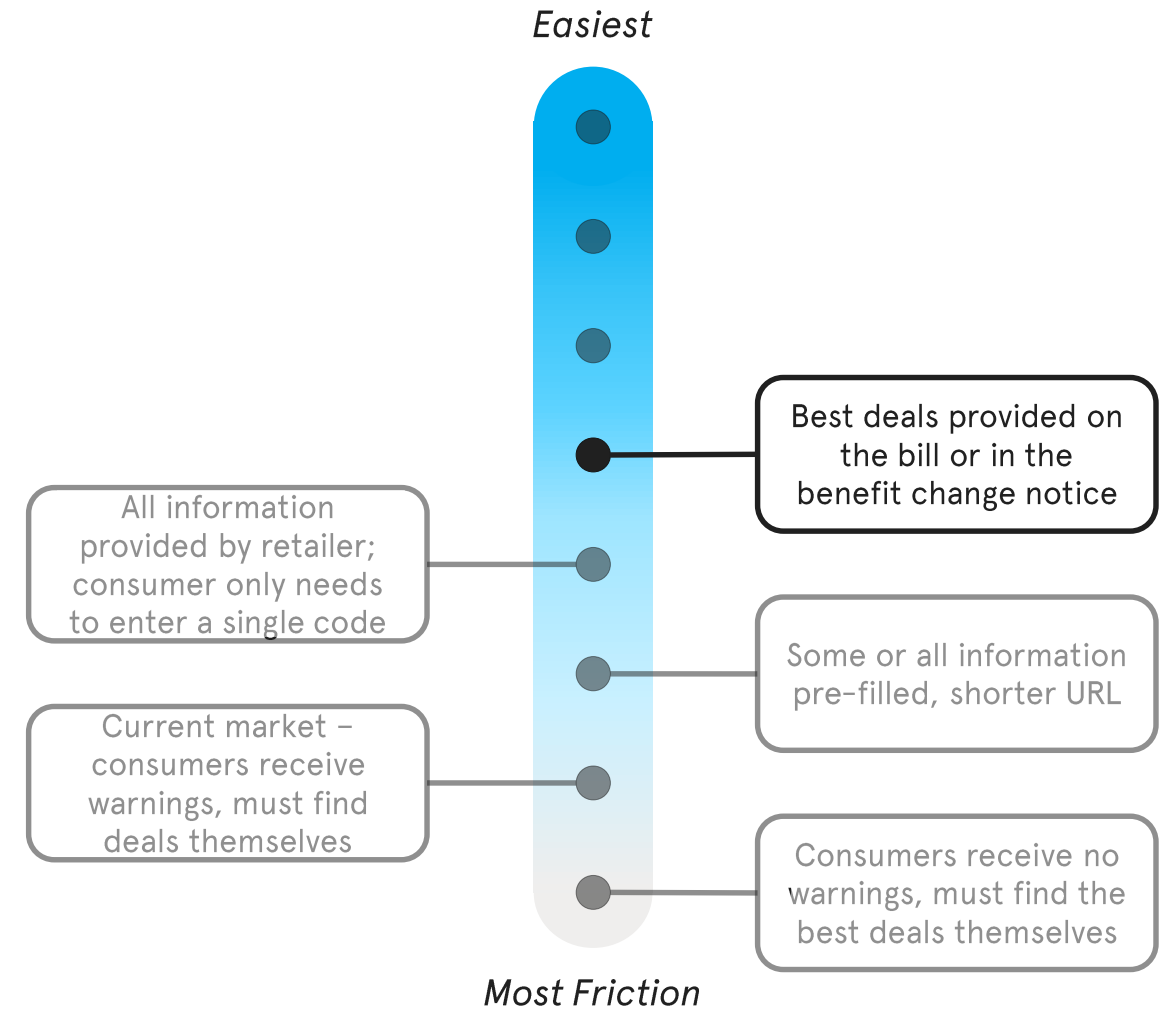


Provide the cheapest options directly to customers

A key barrier that may arise is that some consumers may be suspicious of claims about potential savings – without seeing the specific details there may be scepticism that they can actually achieve these savings. The free text comments in the trials indicated that this was the case for at least some consumers.

Hence, providing the cheapest offers for a consumer directly on the benefit change notice (or on the bill itself) could make a substantial difference in terms of overcoming this barrier. Moreover, it will significantly reduce the friction costs for consumers – some of the biggest gains in encouraging consumer switching behaviour have come from providing information directly.¹

This has already been trialled successfully in the UK with disengaged customers,² and we note that the Thwaites review recommended that Victorian energy bills include the cheapest offer from a customer's own retailer.³ This suggests that there is a broader shift towards providing this information directly to consumers.



¹Kling, J. R. et al (2012). Comparison friction: Experimental evidence from Medicare drug plans. *The Quarterly Journal of Economics*, 127(1), 199–235

²<https://www.ofgem.gov.uk/publications-and-updates/results-cheaper-market-offers-letter-trial>

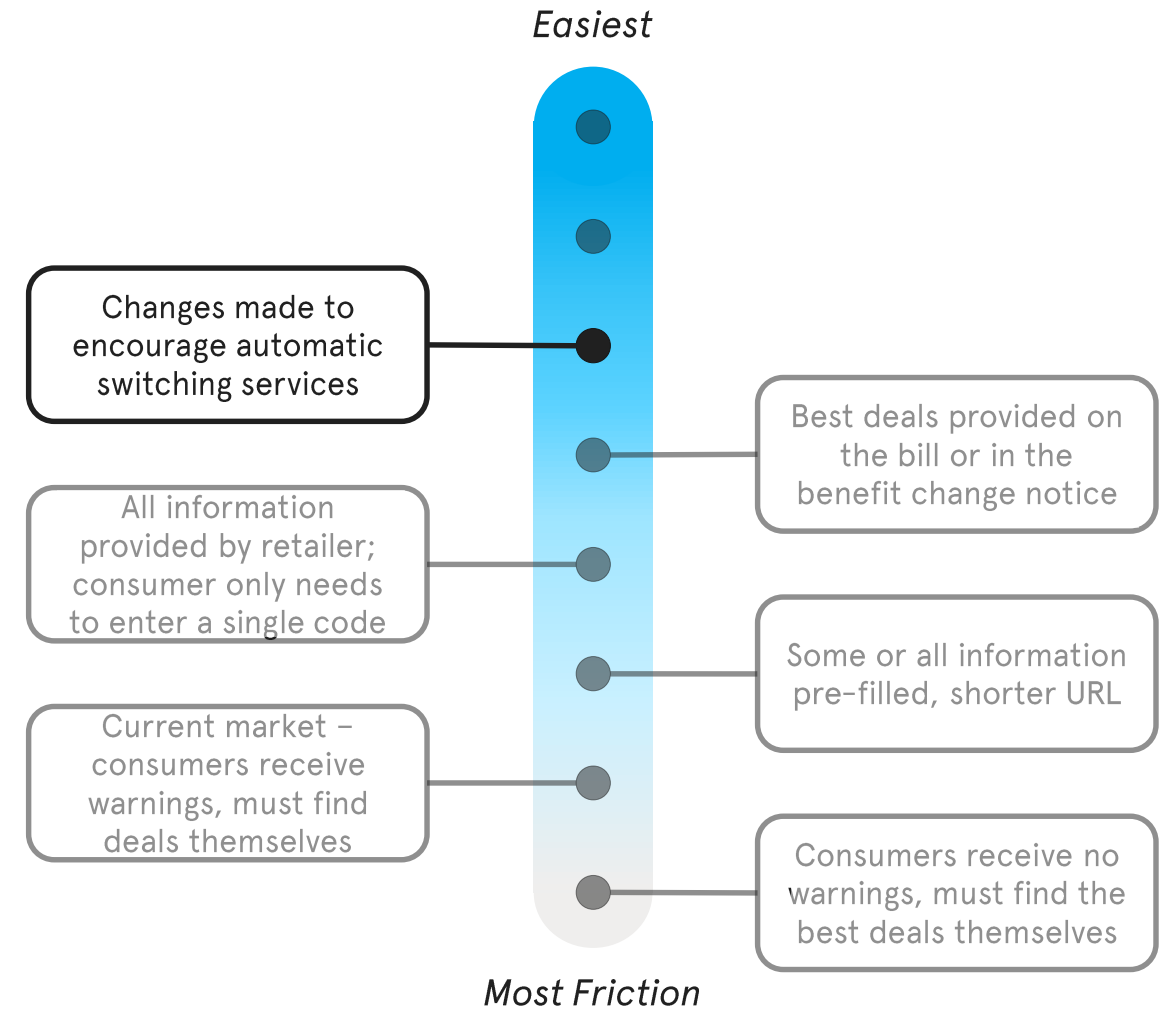
³https://engage.vic.gov.au/application/files/7415/0267/4425/Retail_Energy_Review_-_Final_Report.pdf - Recommendation 3G

Make changes to encourage automatic switching services

Currently, there are services in the market who have recognised that for many consumers, the frictions involved in constantly comparing and switching can be overwhelming. These services, often run by consumer groups such as Choice,¹ offer to search and switch consumers to the cheapest plan. However, they typically involve an ongoing annual fee – both options reviewed by BIT involve an ongoing \$99 annual fee.

While these service are valuable, the requirement to pay a guaranteed annual fee upfront for these services in return for potential savings in the future likely deters consumers (and adds transaction costs that distort the market). This particularly likely as consumers tend to weight upfront costs (and benefits) much more highly than potential future benefits (and costs).²

As a key regulator, the AER may be able to make changes that enable these services to operate more efficiently. This might include, for example, allowing for more automated access to EME through the use of APIs, or requiring that all retailers provide information about their plans in a standardised, machine-readable format that is made available both publicly and in a timely fashion. There may also be ways to encourage “pay as you save” models, which reduces the upfront cost for consumers.



¹www.canlsaeonenergy.com.au; see also www.robosave.com

²Thaler, R. (1981). Some empirical evidence on dynamic inconsistency. *Economics letters*, 8(3), 201-207.

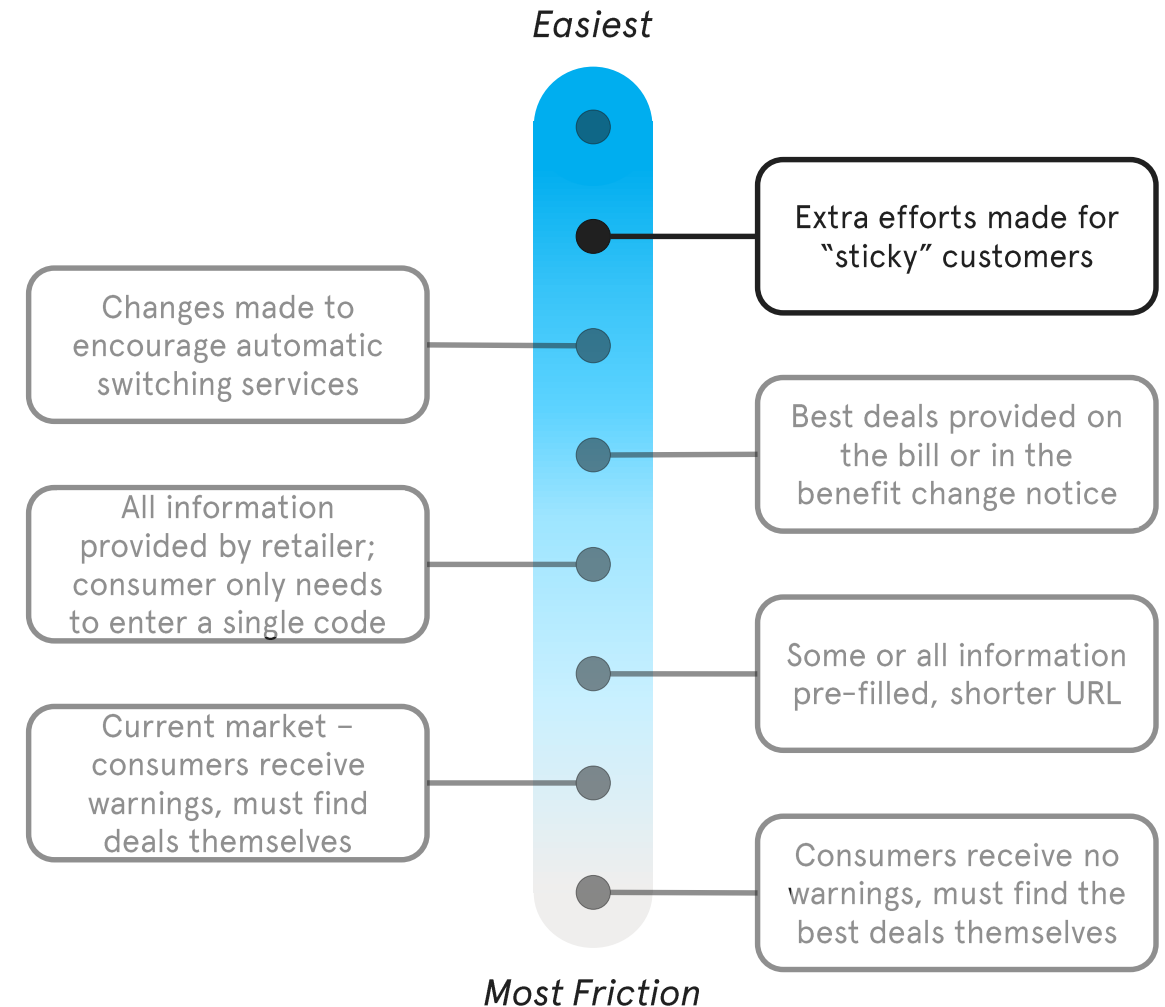
Take extra effort with “sticky” customers

The results of BIT’s work with Ofgem and wider field studies show that even when provided with personalised information about the cheapest offer for them, a majority of consumers do not switch – even where there are clearly gains to be had from doing so. This is likely due to substantial status-quo bias, whereby individuals tend to stick with the default option.¹

Indeed, of the respondents in our trials, over 85% (more than 5 in 6) had been with same provider for over a year – and over half more than 4 years. Of the respondents who had been with the same provider for over a year, less than a third had changed plan within providers.

Especially “sticky” consumers may also be more vulnerable, and less able to navigate the market – uncertainty aversion² may mean that they feel more comfortable with their current retailer than the potential options in an uncertain and confusing market.

For these customers, extra effort may need to be taken. This might include providing their details to other suppliers to be offered cheaper deals,³ or providing their details on an opt-out basis to automatic switching services.



¹Samuelson, W., & Zeckhauser, R. (1988). Status quo bias in decision making. *Journal of risk and uncertainty*, 1(1), 7-59; Wilson, C., & Price, C. W. (2005). Irrationality in consumers’ switching decisions: when more firms may mean less benefit. *ESRC Centre for Competition Policy, University of East Anglia August*.

²Klibanoff, P. (2001). Characterizing uncertainty aversion through preference for mixtures. *Social Choice and Welfare*, 18(2), 289-301.

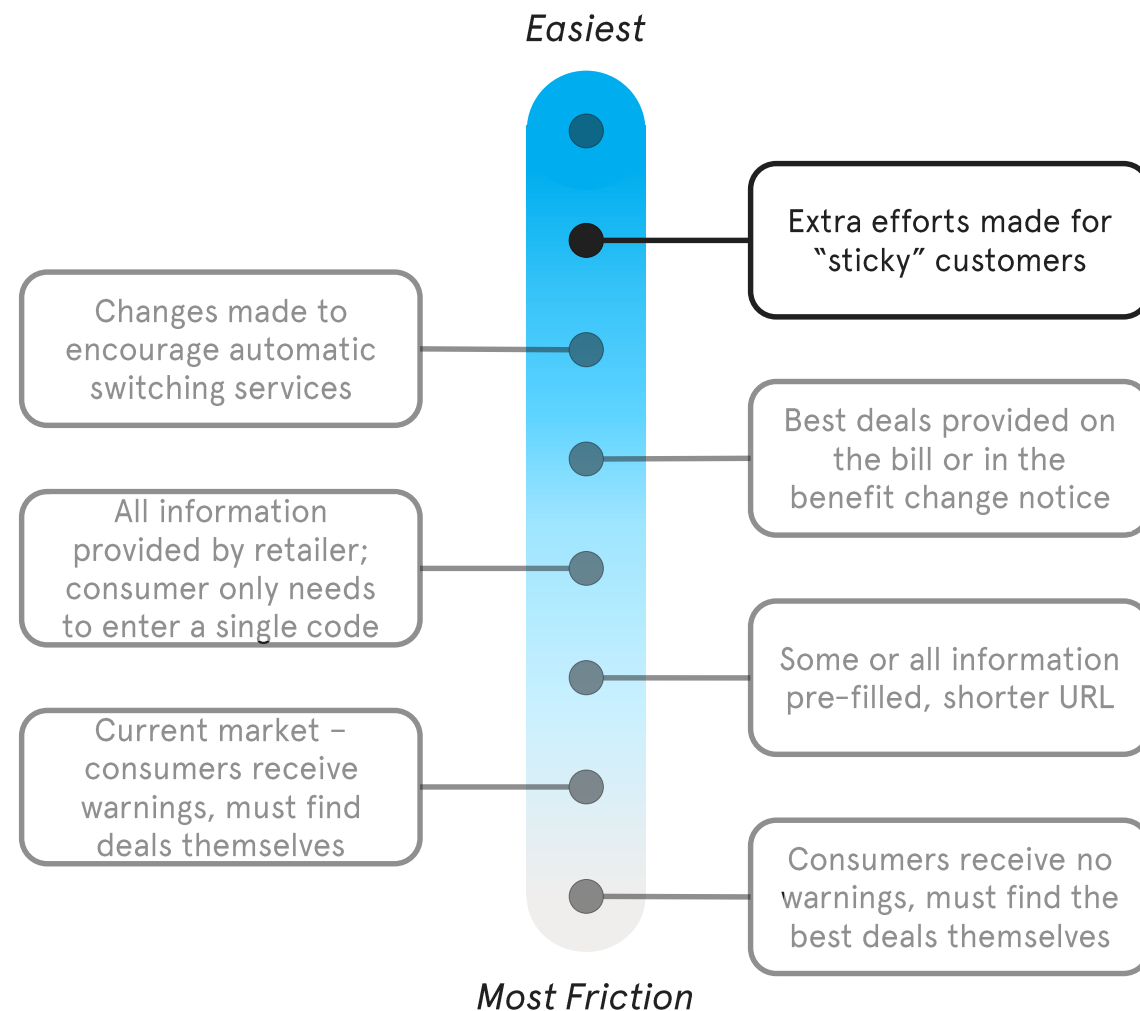
³<https://www.ofgem.gov.uk/publications-and-updates/results-research-database-remedy-disengaged-energy-consumers>

Take extra effort with “sticky” customers (cont.)

There are other alternatives that could also be applied to these customers.¹ For example, a group of consumers could be identified in advance, and the rights to provide cheaper deals to these consumers might be reverse-auctioned (i.e., the suppliers would bid with their cheapest offers, with the winner or winners given the right to approach these consumers).

Another option might identify 100,000 disengaged customers, of which a subset of 10,000 would be randomly divided up amongst four or five providers. Each provider would approach their allocated customers, and their performance – both in terms of the amounts saved AND the number of consumers converted – would be monitored. The best performers could then be given increasing shares of the remaining 90,000 based on performance. The best performers from the broader group would then receive larger shares of future disengaged customers.

These two approaches could conceivably be combined – all providers could bid for the right to market to the disengaged customers, with the cheapest four or five then proceeding to the second stage where they would each market to a subset of the total cohort. Periodic auctions and test subsets could occur to ensure the incumbents remained competitive and to allow new challengers the opportunity to enter the market.



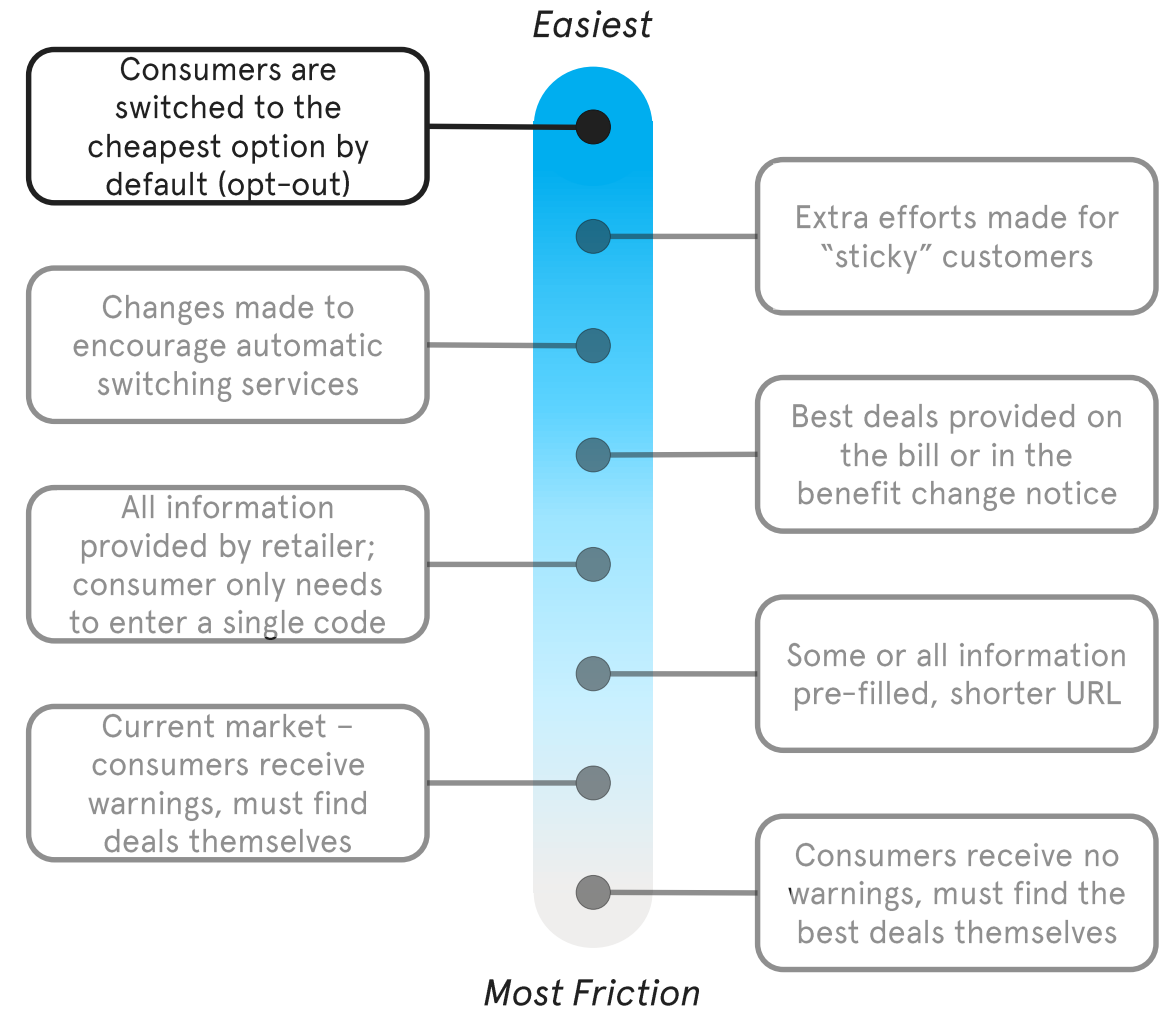
¹Costa, E., King, K., Dutta, R., & Algate, F. (2016). Applying behavioural insights to regulated markets.

Switch customers by default to the cheapest option

Ultimately, the lowest friction option would be to use the power of defaults and automatically switch consumers to the cheapest plan for them.¹ This would involve taking the data entered by retailers on customer usage, using this to find the cheapest plan and then automatically switching consumers over to the best plan available for them. To avoid excessive or unnecessary switches, a minimum saving threshold could be set (but should be kept relatively low, for example, \$10-\$20). There may also need to be a threshold for maximum switches within a year, for similar reasons. In addition, a notification could be provided to consumers, allowing them to opt-out of a proposed switch if they chose.

A milder version of this would provide consumers with the chance to opt-in to such a system, with ongoing notifications when they were switched.

While this is a relatively bold market design, we note that this would be the closest to the conceptual “free market”. Consumers would in effect have perfect information and would not face any transaction costs, and would switch to the cheapest offer for them automatically. In addition, due to the opt-out provisions, they would be able to retain their current retailer if they preferred. In theory this should see no-frills, low-cost options that offer substantial savings emerge. This would have the biggest pro-competitive impact, and likely lead to the greatest numbers of consumers switching.



¹Letzler, R., Sandler, R., Jaroszewicz, A., Knowles, I., & Olson, L. M. (2017). Knowing When to Quit: Default Choices, Demographics and Fraud. *The Economic Journal*, 127(607), 2617-2640.

Attachments and appendices

Technical appendix, AER letter trial 1

Technical appendix, AER letter trial 2

Technical appendix, AER letter trial 3

AER letter trials – full question list