

**Overcoming Defaults:
Cognitive Biases and Consumer Engagement with Local Energy in a Multiple Supplier
Model**

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1. Introduction and background

Local energy is increasingly referenced in UK government strategy documents as having a key role to play in the energy transition (BEIS and Ofgem, 2017). As well as supporting integration of renewable generation assets, under certain conditions, local energy systems have the potential to reduce constraints on the grid at peak times and help achieve social policy objectives, such as alleviating fuel poverty, strengthening community ties, and empowering consumers. The rise of local energy is creating challenges for energy market regulation: under the ‘supplier-hub’ principle, consumers have a relationship with one energy supplier. Increasingly, the option for consumers to take on contracts with multiple suppliers is viewed as having the potential to support energy market innovation (Spence 2018). However, making changes to the supplier-hub model would necessitate understanding how consumers might react to more complex alternatives, such as multiple supplier models (MSMs).

This study takes a behavioural economic approach and views consumers’ tendency to remain with incumbent suppliers through the theory of ‘default effects’. Three behavioural mechanisms have been proposed to explain why individuals tend to stick with defaults assigned to them: cognitive effort; implied endorsement; and loss-aversion (Jachimowicz et al., 2019). Cognitive effort suggests people stick with defaults because of the mental effort required to process alternatives and form preferences (Tversky and Kahneman, 1974). Implied endorsement suggests that individuals perceive defaults as recommended to them by the default-setter (McKenzie et al., 2006). Loss-aversion claims individuals compare against the status-quo and emphasise potential losses over gains when making decisions (Tversky and Kahneman, 1991). As evidence suggests these mechanisms already affect tariff switching (Ofgem, 2011), they may also impact switching to local suppliers. However, it is unclear how an MSM might affect this. This study fills a gap in the behavioural economic literature, as well as providing empirical evidence on the social acceptability of MSMs in Great Britain, and insight into how the growth of local energy could be supported.

2. Methods

Two nationally representative online survey experiments were conducted in July 2019. The first experiment (n=1200) was designed to test two things. Firstly, the social acceptability of MSMs. Secondly, for those sticking with defaults, the relative importance of cognitive effort, implied endorsement, and loss-aversion. Participants were asked to imagine they had received a letter from their current energy supplier offering them an opportunity to ‘add on’ a local supplier to their current tariff. They were randomly assigned to one of three conditions. In the ‘multiple-supplier default’ condition, participants were told that they had been automatically enrolled on to the MSM. In the ‘single supplier default’ condition, participants had to take action if they wanted to switch to the new MSM. In the ‘active choice’ condition, participants were asked to choose between a single supplier and a multiple-supplier option.

The second experiment (n=800) was designed to test two things. Firstly, whether an MSM could mitigate loss aversion associated with supplier switching. Secondly, whether participants would be more willing to switch to a local supplier under the current supplier-hub model or an MSM. Participants were asked to imagine that they had received a letter from a local energy supplier. They were randomly assigned to one of two conditions. In the ‘single supplier condition’, participants were asked if they would like to switch entirely to the new local supplier. In the ‘multiple-supplier condition’, participants were invited to add the local supplier’s services on to their current tariff in an MSM, with their current supplier meeting any extra demand.

Behavioural mechanisms were measured through survey questions. Data was analysed using logistic regression models.

3. Results

In the first experiment, in the ‘multiple-supplier default’ condition, only 16% chose to take action to switch back to their current single supplier tariff. In the ‘active choice’ condition 78% chose the MSM, indicating a strong preference for this model. Strikingly, in the ‘single supplier default’ condition consumers’ preference for adding a local supplier under a multiple supplier model was so strong that it overcame default effects, with 58% choosing to actively switch to the MSM.

The perception that the supplier has been recommended (i.e. implied endorsement) was the most robust mechanism associated with remaining with default suppliers. There was no robust association between loss aversion or cognitive effort and remaining with a default.

In the second experiment, the majority of participants stayed with their default supplier model in both conditions. However, participants were significantly more likely to engage with local energy in an MSM than under the current supplier hub model: 43% of participants chose to add on the local energy company’s services in an MSM compared to

35% who switched in the single supplier condition. There was no evidence that loss aversion could explain the higher willingness to switch in an MSM.

4. Discussions and Conclusions

Participants showed a high level of interest in MSMs, dependent on how they were approached. Given the difference in willingness to switch when participants were hypothetically contacted by their current supplier rather than a local supplier, the cooperation and support of existing suppliers is likely to be important. The importance of implied endorsement suggests that explicit recommendations from trusted actors may also help to drive supplier switching and engagement with innovative offers in the energy market. Previous research on loss aversion could not be replicated in this work. This suggests that loss-aversion may be overcome in certain circumstances.

These findings suggest that MSMs are likely to be a promising avenue for supporting the growth of local energy and creating opportunities for innovation in the British energy market. In addition to these empirical findings, this conference paper will present ongoing research into the potential configurations of future supplier models and discuss how these might be approached from a behavioural perspective.

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