

Incentivising the Uptake of Time of Use Tariffs

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Essential action is currently underway to decarbonise our energy system – it is important that needs of households in energy poverty are considered at every stage of this transition. The Society of St Vincent de Paul supports thousands of households struggling with the cost of energy each year, and we welcome the opportunity to submit this response to the CRU on supporting people in energy poverty to navigate Time of Use Tariffs. We hope this forms part of an ongoing programme of engagement and consumer research on this matter.

Introduction

Time of use (ToU) tariffs aim to make use of consumers' ability to alter their behaviour in response to new information and new financial incentives. This brings many opportunities across information and communication, tariff design, and ultimately demand management.

We welcome improved technology that can lead to a more tailored experience of the energy market, as well as the potential to reduce costs. However, these developments are not neutral and must be 'poverty proofed' to make sure that they benefit people in energy poverty as much as other cohorts, and that the necessary protections are in place.

It is important to understand the differences and dynamics within the overarching 'residential consumer' group that will impact on different households' ability to respond to this technological development. This includes the factors that will influence awareness and selection of tariffs, and their 'flexibility capital'¹, a term used by Citizens Advice UK to refer to a households' different abilities to change their energy use patterns, which can lead to either benefit or detriment from tariff choice.

Tariffs and supporting structures (such as price comparison website, supplier comms, etc) must be designed to minimise unintended negative consequences – the key risk here being that people see bills go up from choosing an inappropriate tariff. In an increasingly complex market, it is important that the quality of communications is kept in focus, with the ability of all consumer groups to navigate new developments being the objective.

Characteristics that could influence a households' ability to benefit from ToU tariffs include:

- Customers with literacy and digital literacy barriers

¹ Citizens Advice (2023) 'A flexible future: Extending the benefits of energy flexibility to more households. Available [here](#).

- People in energy poverty who are very sensitive to price incentives, and may be optimistic about ability to change behavior
- People with health or disability needs
- Household size and make up
- Disengaged/inactive customers
- People, such as renters, who might move frequently and so build up less data
- Tenants, when there is shared control or oversight of energy services at home (including tariff choice but also ability to invest in optimal appliances such as those with timing functions)
- Shared homes with less cohesive or adjustable schedules

When designing the tariff, as well as accompanying structures and resources, the full range of circumstances that a household may be in need to be considered.

- Different parameters to alter behavior – are there personal or household factors that mean someone cannot or should not change their energy usage patterns due to a financial incentive? There are many households who currently already use energy below safe and healthy levels, and other households who must use energy (eg. For medical equipment, or due to household circumstances) at what might be peak times on certain tariffs.
- How information is communicated before and during tariff choice – in an increasingly complex tariff marketplace, is enough emphasis and resources being put in to ensuring consumers – every consumer – understands their choice and is making an informed decision, ie. Measuring the customer outcome as well as the output. This is about the quality as well as quantity of communication. The responsibility should be on the organizations that manage the energy system, rather than the individual, to make sure customers are ‘well-informed’.
- Tariff conditions and design - are tariffs designed with the necessary protections for people’s different circumstances? This is important to make sure people have the best possible outcomes (ie. Reduced bills) but also that people feel confident that their circumstances are catered for, and can choose the tariff – ToU or 24hr – that is right for them. As Citizens Advice have commented in the UK context: ‘Rather than simply helping customers change their behaviour to benefit from cost savings, companies can also build protection into the product design.’²
- If things go wrong, such as increased bills – is their sufficient planning and protections to support customers, such as from a wrong tariff choice, or a change of life circumstance, etc.³

² Kruja, K. (2019) ‘What do changing energy tariff designs mean for consumer protection?’ Citizens Advice blog available [here](#).

³ Ibid.

The above considerations lead to important questions when discussing ToU tariffs and incentivising the uptake of ToU tariffs. We believe emphasising the uptake of the ‘right’ ToU tariff highlights the need - in both regulation and practice - to enable personalised decision making to work out what tariff will be the best fit. This is in line with the CRU’s aim to consider *‘possible measures to create a more enabling environment where consumers have more information to help them decide whether a time of use tariff is appropriate for them, and to be able to better compare tariffs.’*⁴

We would urge the CRU to ensure that, in addition to having ‘more’ information, there is emphasis and attention on ensuring the quality of the information, and that it is designed and tested with all consumer groups in mind. This would build on research carried out by ESRI in 2020, which provides important insights into a range of issues that impact customer uptake of tariffs, and in particular the importance of testing and developing information tools: as the ESRI state *‘[i]ntuitive predictions can be wrong, with the potential for well-intentioned interventions to misfire.’*⁵ It will be important to extend this research to further explore the nuances for different consumer groups, as well as their experience *after* taking up tariffs.

UK research on ToU tariff impacts

In 2020 Ofgem commissioned research with both ToU and non-ToU tariff customers to understand perception and experience of static and dynamic ToU options. The research found that simpler tariffs were the easiest to navigate and most appealing. It also found that those customers with EVs found it much easier to change their behaviour to respond to pricing, whereas those without EVs ‘struggled to adjust behaviours’ as changes needed were more complex.⁶

In a previous Ofgem-commissioned report in 2017, the distributional impact of ToU tariffs was assessed for the UK market.⁷ The report explored how responsive different groups were to price changes, and the level of cost savings that may accrue to different groups. Key relevant findings include:

- On average customers with a range of different characteristics classed as ‘vulnerable’ show cost savings. However, within each group there is a wide range of

⁴ CRU (2023) ‘Energy Demand Strategy: Call for Evidence’ Available [here](#), p2.

⁵ Belton, C. and Lunn, P. (2020) ‘consumers struggle to choose new types of electricity tariffs, but comparison tools can help’ Available [here](#).

⁶ Ofgem (2020) ‘Energy consumers’ experiences and perceptions of smart ‘Time of Use’ tariffs’ Available [here](#).

⁷ CEPA (2017) ‘distributional impact of time of use tariffs (Ofgem)’ Available [here](#).

cost changes, and ‘within each vulnerable group, there is potentially an ill-defined subset that would experience a bill increase if they were to take up a ToU tariff’.

- Responsiveness to ToU pricing varies for income and vulnerability categories due to ‘factors that in practice inhibit them from responding to price’, including having already reduced energy use to the lowest possible level, and that purchasing appliances that can maximise ToU tariffs may not be possible (this is a factor also noted by Citizens Advice UK⁸).

Summary of recommendations (further details are within the table below):

Communications

1. Communications used by suppliers and PCWs must be piloted and tested with different consumer groups to ensure that they are accessible and successfully communicate the necessary information to consumers.
2. To ensure digitally excluded consumers receive equivalent information, the regulator should consider requiring freephone numbers to reach dedicated supplier staff with capacity to support people transitioning to TOU Tariffs.⁹

Tariff design

3. There should be cooling off periods after a customer transitions to a ToU tariff if they subsequently don’t believe it’s the correct choice.
4. There should be an opportunity to switch tariffs without penalty due to change of personal circumstance.

Research and monitoring

5. The Regulator should commission research to understand the uptake, experience and impact of ToU tariffs amongst different consumer groups, paying particular attention to groups who may experience adverse impacts from either missing out on potential cost-savings, or from inappropriate tariff selection.

Response to select consultation questions:

CRU Question	SVP Response
Price Comparison Websites (PCW)	
Question 2: The CRU is proposing not to put any restrictions on the minimum period of time that needs to be contained in smart meter consumption data that consumers can upload to the PCW. However, we propose that a warning message be	This is a risk to the consumer that needs to be effectively mitigated. This approach relies on customers knowing enough about their usage without smart meter data to choose the right tariff – there

⁸ Citizens Advice (2017) ‘The Value of Time of Use Tariffs in Great Britain’ Available [here](#).

⁹ Kruja, K. (2019) ‘What do changing energy tariff designs mean for consumer protection?’ Citizens Advice blog available [here](#).

<p>included where consumers have included less than a year of data. Do you agree with this approach? If not, why not?</p>	<p>should be piloting to ensure this works for customers, otherwise the CRU should consider a minimum period of data to be required.</p> <p>We would emphasise that the warning message should be tested with a range of consumers to ensure that it is clear and effectively delivers the necessary information. The timing, design and content of the warning should be tested.</p>
<p>Question 3: Is there anything else CRU should consider with regards to this matter?</p>	<p>We believe there should be a 'cooling off period' in ToU tariffs where customers can realise their usage patterns do not suit the tariff and switch to a more appropriate tariff without financial penalty.</p> <p>If there were mechanisms to detect this and inform the customer directly that would be beneficial (if, for eg, the customer's bills went up and it wasn't due to actual higher KWH usage).</p> <p>We also believe there should be consideration of protections for customers who, due to unexpected change in circumstance, are no longer on the right ToU tariff for their usage: an opportunity to switch tariffs due to change of circumstance. This could include onset of illness or disability requiring medical equipment. There are points of vulnerability in people's lifecycle and there should be no financial penalty due to a particular ToU</p>

	<p>tariff no longer being the right choice – these customers should be able to move tariff with no charge.</p>
<p>Question 6: The CRU would be interested in hearing whether respondents believe there is added value or not in allowing PCWs to ask consumers additional questions to identify their consumption behaviour, and tailor price comparisons. For example, whether a consumer has an Electric Vehicle. If you believe there is added value in this approach, what guidelines, if any, do you believe the CRU should implement to ensure a minimum standard across PCWs?</p>	<p>We believe this is necessary and there would be added value. There is important household information, not limited to EV use, that would impact a household's appropriate ToU tariff.</p> <p>Requiring the household to think through this stage independently, rather than requiring them to be prompted by the PCW, puts the responsibility on the individual to accurately understand and assess their energy use, potentially prior to smart meter data (even with smart meter data, it would be subject to the individual's interpretation and understanding).</p> <p>The responsibility should be on the PCW to develop the necessary questions, steps, and safeguards, to inform the best possible tariff choice.</p> <p>We would suggest the CRU specify a minimum list PCW must use, and engage stakeholders to test this.</p> <p>For example, the households heating source such as a heat pump, use of electronic medical equipment that may need to be permanently on, or may need to be in use at Tariff 'peak' times, could both lead to bills vastly different to the EAB. As</p>

	<p>well as household size, circumstance and usage patterns, including some of the factors listed on page 1 of this submission.</p> <p>A wider group of stakeholders would need to be consulted to make sure this list is appropriate and comprehensive.</p>
Estimated Annual Bill (EAB)	
Question 11: The CRU proposes to extend the requirement for an EAB to all tariffs available on the market, including time of use tariffs. Do you agree with this approach? If not, why not?	We agree with this approach however the Warning and caveats discussed above (question 2 and 3) should be applied.
Limitation of number of ToU Tariffs	
Question 15: The CRU proposes to increase the limit on the maximum number of Time of Use (ToU) tariffs from four to eight from 1 October 2023. Do you agree with this approach? If not, why not?	<p>Increasing the number of ToU tariffs available from suppliers should be contingent on the communications and warnings about tariffs being fully tested with a range of consumer groups, and protections built into tariffs design, including the introduction of ‘cooling off’ periods with no financial penalty for switching tariff.</p> <p>Navigating an increasing number of tariffs will be much harder for people with low digital literacy – this needs to be actively planned for so this group of consumers do not experience higher bills – and an increasing gap with customers who are able to navigate PCW – by default.</p> <p>One response is to require specific call centre capacity and a freephone</p>

	<p>number¹⁰ from suppliers to enable customers to discuss and navigate TOU tariffs over the phone. This would be an important part of mitigating TOU tariffs contributing to digital exclusion.¹¹ We recommend the CRU requires this from suppliers.</p>
Other Measures	
<p>Question 19: CRU would welcome any additional suggestions to incentivise the uptake of time of use tariffs.</p>	<p>We believe the CRU needs to focus the drive to incentivise ToU tariffs on customers being able to choose the <i>right</i> time of use tariff. This acknowledges the importance of personal circumstance in dictating the best tariff for each household. ToU tariff selection needs to be an informed decision based on personal circumstance, and the ability and appropriateness of altering usage behaviour in response to a financial incentive.</p>

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¹⁰ Kruja, K. (2019) 'What do changing energy tariff designs mean for consumer protection?' Citizens Advice blog available [here](#).

¹¹ Citizens Advice in the UK have written about the importance of maintaining telephone and offline contact routes for customers in the energy sector as it is an 'essential to life' service: [Why energy suppliers need to keep their customer phone services | by Alexander Belsham-Harris | We are Citizens Advice](#)