

PRICE TRANSPARENCY IN RESIDENTIAL ELECTRICITY

EXPERIMENTS FOR REGULATORY POLICY

PETE LUNN AND MAREK BOHACEK



PRICE TRANSPARENCY IN RESIDENTIAL ELECTRICITY: EXPERIMENTS FOR REGULATORY POLICY¹

*Pete Lunn (ESRI, TCD) and Marek Bohacek (TCD)

ESRI Research Bulletins provide short summaries of work published by ESRI researchers and overviews of thematic areas covered by ESRI programmes of research. Bulletins are designed to be easily accessible to a wide readership. An earlier version of this research appeared as ESRI Working Paper No. 543.

INTRODUCTION

For markets to be efficient and competitive, consumers need to be able to identify which products are good value. PRICE Lab² conducted two laboratory experiments in collaboration with the Commission for Energy Regulation (now the Commission for Regulation of Utilities, CRU). The first tested whether consumers find it hard to choose among energy providers when prices are expressed as discounts from a standard unit rate, which can differ between providers. The second pre-tested a new regulation designed to make it easier for consumers to compare prices. This is the first time a regulation has been experimentally pre-tested like this in Ireland. The regulation, which requires providers to display an “Estimated Annual Bill” (EAB), is now in place.

EXPERIMENT 1 — METHOD

In Experiment 1, a representative sample of 36 consumers completed two types of task. In the first task, they were shown pairs of electricity packages and had to decide each time which one they preferred. We compared choices when prices were displayed as discounts from standard rates with choices when prices were instead displayed as unit rates. The second task required participants to identify

¹ This Bulletin summarises the findings from: Lunn, P.D. & Bohacek, M. (2017). “Price transparency in residential electricity: Experiments for regulatory policy”, *Journal of Behavioral Economics for Policy*, 1(2), 31-37. Available online: <http://www.sabeconomics.org/wordpress/wp-content/uploads/JBEP-1-2-5.pdf>

²PRICE (Programme of Research Investigating Consumer Evaluation) Lab is funded by the Commission for the Regulation of Utilities (CRU), the Competition and Consumer Protection Commission (CCPC) and the Commission for Telecommunications Regulation (ComReg).

* pete.lunn@esri.ie

which of two offerings was better value. There was a right and a wrong answer in this second task and, again, we varied how prices were displayed.

EXPERIMENT 1 — RESULTS

The way prices were displayed altered choices. While participants generally preferred some brands over others, when prices were shown as unit rates they chose the cheaper package 80% of the time. However, when given exactly the same options with prices instead shown as discounts, they chose the cheaper package just 54% of the time. Results from the second task also showed that expressing prices as percentage discounts made it harder for participants to determine which package was better value.

EXPERIMENT 2 — METHOD

Experiment 2 pre-tested the EAB regulation, which requires providers to display the annual bill in Euro for a consumer with average usage. Forty consumers undertook three tasks, with and without the EAB information. In the first task they rated typical adverts for good versus bad value. In the second task they chose their preferred package from pairs of offerings. In the third task they had to decide which of two was better value.

EXPERIMENT 2 — RESULTS

When prices were expressed as discounts, ad-ratings were almost random. When the EAB was shown as well, ratings went up for cheaper providers and down for more expensive ones. This difference widened when the EAB was shown in the same font size and with the same prominence as other price information. In the second task, participants chose cheaper packages more often when the EAB information was shown. In the third task, they found it easier to identify better value offerings when the EAB was displayed.

CONCLUSIONS

The experimental evidence clearly implies that marketing energy packages as discounts from variable standard rates reduces price transparency and confuses consumers. The evidence also suggests that displaying the EAB makes it easier to identify better value and helps consumers to opt for cheaper energy.

The study is a direct application of behavioural economics to regulatory policy and is the first time a regulation in Ireland has been experimentally pre-tested like this. The regulation mandating the display of the EAB now covers printed marketing and advertising material and will come into force for television and radio advertising in mid-2018.

Whitaker Square,
Sir John Rogerson's Quay,
Dublin 2
Telephone **+353 1 863 2000**
Email **admin@esri.ie**
Web **www.esri.ie**
Twitter **@ESRIDublin**