



Consumer Engagement in Energy Markets: The Role of Information and Knowledge

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Abstract External information (e.g., monetary and opportunity costs, retailer messaging), internal information (e.g., consumer knowledge, information processing), and the interaction between different forms of information can affect consumer engagement in markets. We employ an analytical framework which embraces both economic and psychological motives behind consumer behavior to investigate the motives and obstacles associated with household behavior in energy markets, using data from over 18,000 randomly selected responses drawn from three annual surveys of British households commissioned by the UK energy regulator. Three forms of household engagement – switching to a new electricity and/or gas supplier, changing electricity or/and gas tariffs, and changing payment methods of energy bills – are explored using a multiple-discrete choice framework. We find that internal information pathways have robust and strong effects on switching suppliers and tariffs. Concretely, a lack of belief in tariff differences discourages participation in energy markets. By contrast, professed knowledge of household energy spending and familiarity with energy tariffs drives consumer engagement. External information – supplier messages and Internet information may enhance each other in promoting market participation, conditional on message source and participation form. We also find that engagement by incumbent retailers (such as through consumer messages) can be effective in discouraging households from switching suppliers.

Keywords Consumer switching; services market participation; household engagement; multivariate probit; UK retail gas and electricity markets; information and knowledge effects

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