



# ‘Making the Internal Energy Market Work’

A BEUC reality check on the European Commission Communication

# Did you know?<sup>1</sup>

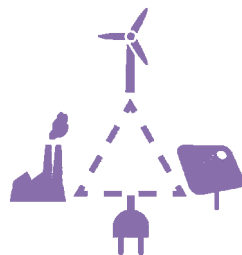
*“Less than two thirds of consumers are satisfied with their energy supplier”*

*“Less than one third of consumers have compared offers from different suppliers”*

*“41% of consumers do not know if there is a cheaper price for them”*

*“Less than half of consumers know how much electricity they consume”*

*“72% of consumers are dissatisfied with how their complaints were handled”*



# Let's look at some real life examples

It is a widespread assumption that the liberalisation of energy markets would bring more competition, lower prices and better information on energy products to consumers. However, after multiple legislative packages, European consumers are still waiting to reap the benefits of truly competitive, consumer-friendly energy markets.



## IN THE UK, CONSUMERS HAVE NOT EMBRACED THE MARKET AND MANY DO NOT BENEFIT FROM CHOICE

The regulator estimates that **40-60%** of consumers are disengaged from the market, while **20-30%** are considered 'passive'<sup>2</sup>. Just between **10-20%** frequently switch supplier (although only half of these do so proactively) and these numbers are in decline<sup>3</sup>. Switching by active consumers has little impact on the prices paid by those who do not switch due to market segmentation by suppliers that see competitive (allegedly below-cost<sup>4</sup>) fixed-term tariffs offered to the minority of engaged consumers, while around 75% languish on expensive standard (default tariffs).

Which?, our UK member, has estimated that consumers are collectively missing out on £4billion a year from not being on the best deals. 'Innovation' has been used to defend the development of overly complex tariffs that the majority of consumers cannot understand and make straightforward comparisons between, making it difficult to determine if they should switch their supplier. According to UK energy regulator Ofgem, there were around 900 'live' tariffs on the market in August 2012<sup>5</sup>.



## IN FRANCE, MANY CONSUMERS HAVE NO IDEA THEY CAN SWITCH THEIR SUPPLIER

Poor awareness of the gas and electricity markets remain among consumers despite the fact that the market was liberalised in 2007. Only 42% of electricity consumers know they can switch supplier (37% of gas customers). The lack of understanding of the energy market results in a very low switching rate in France.

Moreover, consumers often struggle to pay their energy bills with an estimated 1 in 10 French citizens, i.e. 6.5 million people, suffering from the cold winter of 2010-2011.

Electricity prices in particular are expected to see further increases in the near future – by as much as 30% before 2016<sup>6</sup>.



## IN SPAIN, LIBERALISATION HAS NOT BROUGHT ABOUT TRUE COMPETITION

Although the market opened up to competition in January 2003, it has not brought effective competition to consumers and Spain remains an energy island with high barriers to entry.

Almost 80% of consumers believe that liberalisation has not brought better electricity prices. 75% think that comparing gas and electricity prices is not easy and 60% believe there is not enough information available to consumers<sup>7</sup>. Spain's wholesale market is under question as cases of price fixing and other uncompetitive practices continue to arise. By setting the regulated price below wholesale costs, the Spanish Government has created the so-called *tariff deficit*, which now amounts to €28 billion.



## IN POLAND, THERE IS LITTLE POINT IN SWITCHING SUPPLIERS

Polish consumers have had the possibility to switch energy suppliers since 2007. However, there is no real competition in the retail market and therefore the benefits from switching suppliers remain low. Those who switch do not necessarily get better service or benefit from better contract terms; the savings are also rather small<sup>8</sup>.

Doorstep selling remains a serious problem as it results in many misled consumers. Energy is also being sold as a package with other services such as insurance policies, which is usually unfavourable to consumers. The situation may get even worse with the deregulation of retail prices because the needs of vulnerable customers have not been properly taken into account.

## IN MANY EASTERN AND SOUTH-EASTERN EUROPEAN COUNTRIES, THE SITUATION IS EVEN WORSE

In many countries such as Latvia, Cyprus, Malta, Romania or Bulgaria, switching supplier rarely happens, if at all. This is mainly due to the existence of national or regional monopolies<sup>9</sup>. In many of these countries, the number of vulnerable consumers is increasing and prices are rising continuously, for example in 2011 electricity prices rose by 33% in Latvia.

# Reality exposes some myths

## 1 LIBERALISED MARKETS PROVIDE MORE CHOICE AND LOWER PRICES FOR CONSUMERS

[FALSE]

Liberalisation has not brought about more competition and lower prices to consumers. The process has often made the market more complex and unclear for consumers with very little price differences between suppliers. Policy makers have ignored that for a market to be truly competitive, transparent conditions and consumer mobility must become a reality. Consumer satisfaction in liberalised markets is not necessarily higher than in those which are yet to be.

## 2 REGULATED PRICES ARE BAD FOR MARKETS AND CONSUMERS

Price regulation is often necessary until markets become truly competitive and are delivering affordable energy services to consumers. In countries where dual systems exist, regulated prices can serve as benchmarks for the free market, providing a fair and transparent energy price which consumers can then use to compare other offers against. When evaluating whether regulated prices are being set below or above costs, it is also important to look into the formation and transparency of the costs being used to for the evaluation of the regulated retail price – these costs are often misrepresented. Where possible, regulated prices should be set competitively rather than administratively.

[FALSE]

## 3 SMART METERS ALONE WILL REDUCE ENERGY COSTS

New technologies such as smart meters, new appliances and home automation systems may offer a larger choice of energy-related products and services to consumers and some households will be able to profit from such advances to consume less energy and save money. However, while industry will benefit from reductions in the costs of existing systems and processes that underpin the competitive market<sup>10</sup>, the installation of smart meters alone will not necessarily deliver any energy or monetary savings to consumers. If consumers are provided with accurate bills, advice and information on their energy consumption in a user-friendly format, smart meters may help them achieve a reduction of 2-4% in the short term<sup>11</sup>.

[FALSE]



# The need for a sector where consumers truly come first

As the energy sector embarks on a period of profound change in the way we produce, transport and use energy, it is of critical importance that politicians, policy-makers, regulators and industry put consumers at the forefront of their decisions<sup>12</sup>.

## **MAKING ENERGY PRODUCTION AND CONSUMPTION SMARTER**

As Europe embraces new, smart technologies and reforms its energy infrastructure, it must be ensured that markets are manageable for consumers. Current retail markets are unjustifiably complex for a basic utility, and there is a real danger that, without a significant uplift in consumer confidence and engagement with retail energy markets, the greatest benefits from the smart meter roll-out in Member States will be to industry, rather than consumers, who will ultimately pay for it through their bills.

There is no need to roll out smart meters into every single home to grasp the benefits of smart grids. Consumers should always have a choice to decide if they want a smart meter in their home and if so, there should not be any barriers to switching energy providers. Consumers should also have free access to their consumption data in an appropriate format and frequency.

The advantages and challenges posed by new technologies need detailed analysis. The impact of time of use tariffs, direct load control of appliances and demand response on final consumers must be further investigated. Only some consumers will be able and willing to shift a part of their energy consumption in time, so demand response should always remain a choice for consumers.

## **REBALANCING ENERGY MARKETS TO THE BENEFIT OF CONSUMERS**

Although the liberalisation processes are at widely differing stages among Member States, a general trend can be observed across Europe that markets are still largely and unacceptably imbalanced in favour of the energy industry. By and large, European consumers lack appropriate tools to navigate the market and gain access to services that give them reasonably-priced, affordable and reliable energy. Therefore, it is unsurprising that electricity and gas are rated amongst the worst performing and most distrusted of all markets. It is crucial that new and innovative ideas to empower consumers are discussed, better understood and then replicated.

## **COLLECTIVE SWITCHING**

This is when a large number of consumers join forces and get better, cheaper offers from energy suppliers. The process is often led or facilitated by a consumer organisation as it is complicated and requires both resources and expertise to be gathered. Collective switching campaigns demonstrate there are ways for European consumers to rebalance energy retail markets somewhat and thereby gain some strength when bargaining with energy suppliers<sup>13</sup>.

# What do consumers need?

- Complete and urgent **transposition** and **implementation** of relevant EU legislation, in particular the Third Energy Package in order to make markets work better for consumers and ensure they can enjoy their rights.
- Energy is a **basic service** which consumers need in their daily lives. As such supply must be reliable and affordable.
- **Bills** must be clear, understandable and accurate.
- **Prices** must be simple and easy to understand and comparable on a 'like for like' basis, in particular by reputable price comparison websites<sup>14</sup>.
- **Switching** must be easy, fast and consumers should be able to switch suppliers at any time without penalty.
- Special attention needs to be paid to **vulnerable consumers** and **low income households**. Member States should put in place tools ensuring consumers in vulnerable situations are effectively protected.
- **Information** and **advice** on energy issues need to be easily accessible for all consumers.
- Effective **complaint handling** and **redress mechanisms** as well as **independent Alternative Dispute Resolution bodies** must be in place. Reporting of complaints handling performance must be regular and provide information that allows direct comparisons to be made between suppliers.
- Greater **transparency** in both the **wholesale** and **retail markets**, providing full accountability, is necessary. Retail markets' prices need to reflect the real costs companies incur in wholesale markets.
- Regarding the investments to upgrade the infrastructure and the roll-out of new and **smart technologies**, consumers need commitments on the benefits that will be delivered to them. These commitments need to be monitored and enforced.
- As investment in energy efficient solutions are made, Member States must ensure that any solution is cost-effective and that schemes are transparent and properly audited so that **energy savings** are indeed delivered to consumers.

# Notes

- <sup>1</sup> Consumer Market Scoreboard 2011 and 'The functioning of retail electricity markets for consumers in the European Union', European Commission, 2010.
- <sup>2</sup> Disengaged consumers report having never switched. Half of this group are considered „permanently disengaged“ and say they will never switch. Passive consumers report having switched once – most commonly to do a dual electricity / gas contract with one of the suppliers they were with prior to liberalisation – but say they are unlikely to do so again (The Imbalance of Power, Which? Report, December 2012).
- <sup>3</sup> <http://www.consumerfocus.org.uk/news/consumers-should-feel-the-benefit-from-ofgem-market-reforms-says-consumer-focus>
- <sup>4</sup> The True Cost of Energy, Institute for Public Policy Research (IPPR), April 2012.
- <sup>5</sup> The Imbalance of Power, Which? Report, December 2012.
- <sup>6</sup> French Energy Ombudsman, Activity Report 2011.
- <sup>7</sup> 2011 survey prepared by BEUC member Organizacion de Consumidores y Usuarios (OCU); survey amongst 2117 users, by mail and telephone.
- <sup>8</sup> According to the price comparison tool provided by the regulator (available at [http://ure.gov.pl/ftp/urekalkulator/ure/formularz\\_kalkulator\\_html.php](http://ure.gov.pl/ftp/urekalkulator/ure/formularz_kalkulator_html.php)), yearly savings on switching are approximately €30.
- <sup>9</sup> 'The functioning of retail electricity markets for consumers in the European Union', European Commission, 2010.
- <sup>10</sup> These include energy settlement, meter reading, change of supplier and data processing and aggregation.
- <sup>11</sup> Klopfert & Wallenborn (2012), 'Université Libre de Bruxelles, Empowering consumers through smart metering'.
- <sup>12</sup> BEUC/CEER, A 2020 Vision for Europe's energy customers <http://bit.ly/XfVgp2>
- <sup>13</sup> *The Big Switch* was an initiative by UK consumer organisation Which? and online campaigning community 38 Degrees which helped over 37,000 people get a better deal on their gas and electricity services. In total, 287,365 people signed up to The Big Switch and those who went on to switch their energy suppliers saved on average 233GBP a year. *Réduisez votre facture* was the first ever collective switch initiative organised in Belgium at a national level, run by Belgian consumer organisation Test-Achats/Test-Aankoop. In total, 151,586 consumers signed up to an initiative that led to 46,753 consumers switching energy suppliers and moving to a better deal, with an average saving of €435/year for dual electricity and gas contracts and of €130/year for electricity contracts. The campaign achieved €16,947,575 in total savings for consumers in Belgium.
- <sup>14</sup> BEUC position paper on Comparison Website, available at <http://bit.ly/13IMFDJ>





The Consumer Voice in Europe

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