

The Consumer Voice in Europe

CEER POSITION PAPER ON WELL- FUNCTIONING RETAIL ENERGY MARKETS

BEUC RESPONSE TO CEER CONSULTATION



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BEUC, The European Consumer Organisation, welcomes the initiatives of the Council of European Energy Regulators to put the interests of consumers first in energy markets so that they can benefit from competitive prices, better quality and greater choice in products and services. A forward-looking framework for evaluating the performance of retail energy markets is essential to ensure markets work in the consumer's interest. While we support the principles, ie. (1) competition and innovation and (2) consumer involvement explained in the CEER position paper¹, our remarks on particular properties outlined in this paper are aimed to further improve regulators' assessment of retail energy markets.

Involving consumers in retail energy markets

High level of consumer awareness and trust

Energy markets should be easily manageable, offer real choice and competing prices to consumers so that they can trust the market. In order for consumers to trust the market, they need understandable, transparent and fully comparable information on their consumption, offers and contracts so that they can better understand their energy use, choose the most suitable offer for them, exercise their rights and act if they wish to do so.

However, essential characteristics of a well-functioning retail energy market are still missing. For instance, consumers often receive unclear, complex, or even misleading, information. Consumers also lack awareness of their rights as energy consumers and/or feel insufficiently protected against practices such as unfair commercial practices.

In addition to metrics aimed to improve consumer awareness and trust, we propose to include the following in regulators' monitoring:

- Percentage of consumers aware of their rights
- Percentage of consumers who are aware of the role of relevant authorities, including the National Regulatory Authority (NRA) and its role
- Percentage of consumers who find their energy bill easy to understand (including understanding of different components on the bill)
- Number and nature of complaints

At the same time, BEUC invites regulators to step up their monitoring of issues including:

- Ease in finding information that helps to carry out a price comparison
- Range of tariff offers available through different sales channels
- Percentage of fixed contracts
- Price comparison process
- Satisfaction with suppliers' customer service and/or complaints handling performance
- Bundled offers and whether these offers provide real benefits to consumers.

¹ http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Customers/Tab5/C15-SC-36-03_V19_Well-functioning_retail_markets.pdf

Availability of empowerment tools

BEUC welcomes CEER's plan to monitor the availability of at least one independent comparison tool for electricity and gas services in every Member State. We nevertheless encourage regulators to carefully monitor available price comparison tools and information provided to consumers, including clear and understandable information on fuel mix and information on environmental benefits and indicators (this also applies to metrics 'Availability of contracts guaranteeing the origin of energy'). If transparency and reliability of price comparison tools is not guaranteed, if the full scale and high quality of the information they provide is not ensured or if they do not comply with existing legislation, these tools can be misleading and undermine consumers' trust in the market.

Furthermore, smart technologies such as smart meters should allow consumers to take control of their energy consumption while having access to timely, frequent and accurate information. When smart meters are rolled out, regulators should monitor if benefits promised to consumers are delivered, especially if bills are accurate, information in a user-friendly format is easy to access and supplier switching is smooth. At the same time, CEER should monitor consumer satisfaction with the deployment experience, the savings achieved and interoperability.

Sufficient consumer engagement

Switching is often perceived as complex, risky and time-consuming. Apart from overall switching rates, regulators should assess a wider range of factors related to switching, in particular:

- Switching levels including a clear focus on which consumer segments are more likely to switch and which segments are not
- Intra-supplier switching level
- Percentage of consumers switching to a better deal
- Switching process itself (accuracy, speed of the switching process and quality of switching, e.g. in terms of consumer experience throughout the process)

Moreover, we welcome CEER's plan to monitor the number of 'prosumers', as facilitating access to self-generation technologies will allow consumers to cut their energy bills and actively participate in the energy transition. However, consumers are currently facing a number of barriers such as lack of knowledge, political and administrative unreliability and/or investment uncertainty. Therefore, the following points should be monitored:

- Ease in accessing information and advice
- Administrative procedure (its length and simplicity/complexity)
- Priority access to the grid for self-generators
- Existence of any charges on in-house electricity generation and self-consumption
- Existence of dedicated and effective remuneration scheme for excess electricity sold into grid by self-generators

Appropriate protection

In addition to the list of metrics outlined in the CEER position paper, more attention should be paid to monitoring the effectiveness of existing measures, such as the number of requests granted for protection against disconnection. For instance, while current legislation in Slovenia protects social aid recipients against the disconnection from electricity and gas in case of a request for protection (emergency supply), consumers are in most cases not aware that this possibility exists.

Competition and innovation

Close relationship between wholesale markets and retail prices

In order to ensure consumers get fair prices, retail electricity prices must reflect wholesale prices and price asymmetries should be prevented. Price asymmetries mainly occur due to a high concentration of incumbents, lack of competition and low switching rates. Moreover, many suppliers have longer term hedging strategies for purchasing wholesale gas and electricity while cost reductions to their businesses are not necessarily passed on immediately to their customers.

For instance, research² from our UK member, Which?, showed that bills could have been lowered further and sooner than the round of cuts proposed by suppliers. Using real market data, Which? analysed the costs to suppliers of buying wholesale energy since 2013 and compared this against what consumers have paid for wholesale costs through energy bills in the same period. According to their findings, the failure of retail prices to align with wholesale costs has cost consumers £2.9bn in 2014, an equivalent of £145 per household on standard energy tariffs.

Regulators should monitor price developments and intervene if wholesale and retail energy components do not follow the same patterns. At the same time, in addition to a mark-up between wholesale and retail prices, regulators should also assess the distribution of supplier's margins across consumer groups.

A range of offers including demand response

Transparency and simplicity are important requirements for dynamic tariffs, otherwise households will be overwhelmed by information without finding the most appropriate option for them. BEUC thus considers clear information and adequate reward for consumer participation as prerequisites for consumer engagement.

Regulators should assess if new tariffs are explained to consumers in a simple and clear way using a set of common terms, so that they can weigh up the costs and benefits and compare offers. For instance, in Norway where consumers can opt for spot price products (ie. price following the fluctuations in the wholesale market), our member, the Norwegian Consumer Council, reported that due to confusing price structures and misleading marketing practices, it is very difficult for households to verify their electricity bills. While most consumers think they pay the so-called spot price, most contracts are in fact only partly based on the spot price. Even the most informed consumers who enter into the most favourable contracts experience changing prices and conditions without being properly informed.

Therefore, regulators' monitoring should cover demand response offers in a broader sense to ensure that:

- Consumer flexibility is properly rewarded
- More 'sophisticated tariffs' do not turn into a jungle of different tariffs
- Consumers are not locked into demand-side response schemes by bundled appliance offers
- Systematic monitoring of consumer protections should also include the impact on non-participating consumers.

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² <http://press.which.co.uk/wp-content/uploads/2015/02/Which-Analysis-Wholesale-costs-and-retail-prices-2-FEB-2015-FINAL.pdf>



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