

CEER position paper on well-functioning retail energy markets

A EURELECTRIC response paper

December 2015

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

Carbon-neutral electricity by 2050

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

Competitive electricity for our customers

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

Continent-wide electricity through a coherent European approach

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

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EURELECTRIC welcomes the opportunity to comment on the recently released CEER Position paper on well-functioning retail energy markets (C15-SC-36-03). It is timely to take stock of the changes that are sweeping across Europe's energy retail markets and to identify the right indicators that describe what a well-functioning retail market looks like.

EURELECTRIC supports the proposed three-tiered framework of principles-properties-metrics, and the distinction between supply and demand sides. We think a balance should be struck between having a comprehensive list of indicators and the potential of creating unnecessary reporting obligations on regulators and energy companies alike. **We therefore suggest CEER prioritises a number of key metrics as 'must-have' – that is, necessary to evaluate the performance of retail markets.**

General remarks

- We are very pleased to see that European regulators support the industry's view that competition and innovation are two sides of the same coin, and that regulators have an important role to play to create the framework conditions for competition and innovation to flourish.
- Competitive markets are well-equipped to offer consumer protection as competitive pressure keeps retailers' quality and commercial quality in check. However, it must be noted that healthy margins are essential to attract new entry and spur competition.
- The 2014 CEER/ACER Market Monitoring Report (MMR) showed that the "high level of concentration indicates that retail competition in many countries is still not well developed, a factor often used by national authorities to justify retail price regulation." In other words, there seems to be a direct correlation between markets with high concentration ratio and the continued use of regulated tariffs.¹
- While market concentration is a relevant property to assess competition, market entry barriers might be seen as even a bigger hindrance on the way to well-functioning retail markets.
- We propose that for those markets transitioning from regulated tariffs to full competition the metrics for property 'Low concentration within a relevant market' are broken down in two sub-categories, one for the overall retail market and one for the free market itself.
- Some of the metrics are more relevant for specific consumer segments (e.g. percentage of consumers with regulated energy prices) while being irrelevant for others. The paper would gain in clarity if CEER were to clearly state which metrics apply to which consumer group.
- It would be appropriate for CEER to clarify how the proposed metrics will be used in practice:
 - Frequency of the analysis: Is it done on a yearly, half-yearly or monthly basis?

¹ http://www.ceer.eu/portal/page/portal/EER_HOME/EER_WORKSHOP/CEER-ERGEG%20EVENTS/CROSS-SECTORAL/ACER-CEER_MMR_2014/Tab/ACER%20Market%20Monitoring%20Report%202014.pdf, p. 49

- Stakeholder undertaking the analysis: Will the analysis be undertaken by National Regulatory Authorities? Or CEER/ACER?
- Publication of the indicators: Will the analysis feature in the yearly ACER/CEER Market Monitoring Report or as a standalone benchmarking report?
- It is crucial that a common and accurate definition of each metric is used across CEER members to ensure all metrics are fully aligned and misinterpretations avoided.
- It would be helpful to benchmark the performance of the energy sector vis-à-vis other consumer markets (e.g. telecommunications, banking, etc.) across a variety of metrics rather than mere customer satisfaction, as per the European Commission Consumer Scoreboard.

Detailed remarks on specific metrics

Key to the table:

- All changes/additions/deletions are in red, complemented by a supporting justification in the right-hand side column.
- In some instances, remarks are given on specific metrics for which no modification is proposed.

Principles	Properties	Metrics	Justification/remarks
Competition &	Low concentration within a relevant market	<ul style="list-style-type: none"> ▪ Herfindahl-Hirschman Index ▪ Number of electricity retailers ▪ Market share of three largest retailers 	<ul style="list-style-type: none"> ▪ The HHI is a widely used metric to measure market concentration. However, as CEER correctly point out, it is crucial to get the relevant market right before performing any such analysis. One possible way to identify the relevant market is to use the so-called test of small but significant and non-transitory increase in price (SSNIP). ▪ The two proposed indicators are already used by the European Commission in their country datasheets. The 2015 edition of the MMR also used the CR3 as an indicator. ▪ Also, we propose that for those markets transitioning from regulated tariffs to full competition the metrics for property 'Low concentration within a relevant market' are broken down in two sub-categories, one for the overall retail market and one for the free market itself.
	Low market entry barriers	<ul style="list-style-type: none"> ▪ Time needed and cost of accessing well-functioning wholesale markets and licencing/balancing regimes ▪ Percentage of consumers with regulated energy prices 	

Innovation	Close relationship between wholesale markets and retail prices	<ul style="list-style-type: none"> ▪ Correlation over time between a transparent, market-based wholesale price and the retail energy price ▪ Mark-up expressed as a percentage of gross margin over (total) retail price ▪ Percentage of the retail energy price not directly affected by suppliers 	<ul style="list-style-type: none"> ▪ Correlation between wholesale price and retail energy prices is indeed an important indicator. However, it should be noted that many retail offers do not necessarily track wholesale price as certain customers prefer fixed prices for relative stable periods (e.g. 1 year). These offers provide protection from market price volatility. ▪ CEER should state more clearly that mark-ups do not equate to retailers operating profits. Equally important, it should be noted that value-added services included in energy offers might influence the mark-up. Therefore, we propose this metric is calculated as the gross retailer margin over the retail price as a whole. ▪ The recent hikes in retail prices are due to the impact of soaring taxes, levies, fees and charges on the final price. While the metrics proposed by CEER indeed refer to the ‘retail energy price’ and not to ‘retail price’, we suggest the inclusion of another metric that contributes explaining why retail prices do not (always) track wholesale market prices. This would be similar to the indicator published in the VaasaETT Household Energy Price Index for Europe (http://www.energypriceindex.com/)
	A range of offers including demand response	<ul style="list-style-type: none"> ▪ Availability of a variety of pricing and billing options, online offers and value-added services (including time varying rates such as time-of-use or dynamic pricing; explicit demand response; services for self-generation; services for 	<ul style="list-style-type: none"> ▪ In a bid to prioritise and simplify metrics, we would propose that all metrics belonging to property “a range of offers including demand response” are brought together

		electro-mobility; etc.)	
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	High level of awareness and trust	<ul style="list-style-type: none"> ▪ Percentage of consumers who know that DSOs are responsible for continuity of supply and, where applicable, metering ▪ Percentage of consumers trusting their energy supplier 	<ul style="list-style-type: none"> ▪ Instead of trust in the energy market – which to us is quite vague – we propose consumer trust in their energy supplier is used as a metric
	Availability of empowerment tools	<ul style="list-style-type: none"> ▪ Percentage of consumers having access to at least one independent and verified price comparison tool ▪ Percentage of consumers having online access to historical consumption information ▪ Percentage of consumers having access to a standardised supplier switching process (and its duration) 	
	Sufficient engagement	<ul style="list-style-type: none"> ▪ Intra-supplier switching rate ▪ Inter-supplier switching rate 	<ul style="list-style-type: none"> ▪ Supplier switching is often used as the only metric to ascertain whether retail energy markets work. EURELECTIRC proposes a distinction is made between customers migrating from one retailer to another (inter-supplier switching) and those making an active choice of changing offer while staying with their current retailer (intra-supplier switching).
	Appropriate protection	<ul style="list-style-type: none"> ▪ Number of disconnections due to non-payment ▪ Percentage of consumers having access to ADR 	<ul style="list-style-type: none"> ▪ Alternative Dispute Resolution is an important means of solving quarrels between consumers and companies; therefore we propose the inclusion of a related metric.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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