

European Energy Regulators Put Consumers First



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A Fact Sheet on how the EU's energy regulators help **empower** energy consumers, including 3 concrete examples

The European energy regulators¹, represented by CEER and ERGEG, oversee the efficient functioning of Europe's energy markets and play an important role in facilitating the development of competition in the *energy consumer's interests*.

The first priority of EU energy regulators is to ensure that *energy consumers get the best possible deal*. The best way to do this is through a single, competitive EU market in electricity and gas.

Regulators' efforts to create well-functioning and competitive EU energy markets help ensure that consumers get the best *prices*, the widest *choice* of supplier and the best *quality* of service possible.

Customers should be empowered in the market

We believe that for energy market liberalisation to really deliver, the consumer must

- (a) have a real choice of supplier and
- (b) be empowered to actively participate in the market by plugging into the best deals available.

Empowering consumers protects consumers

The proper functioning of competitive energy markets and the rights of energy consumers are linked. A well-functioning market needs *well-informed and active customers*, and *strong regulators*. Consumers can force a supplier to deliver a quality service at the best price by the credible threat of moving their business to another supplier.

Some messages on consumer issues

- Consumers must get the *best choice, price and quality* from energy suppliers. Competitive markets can deliver this.
- Customers should be *empowered in the market* rather than protected from the market.
- *Protecting vulnerable customers* is necessary in a competitive market.
- Protecting vulnerable customers should not be confused with regulated end-user prices.
- *Artificially low regulated end-user prices* are a big *obstacle to supplier switching*.
- *Regulated end-user prices* are distortionary and *should be abolished* or brought in line with market conditions.
- Everyone wins with *energy efficiency*.
- *Energy consumers' rights* must be reinforced and implemented.
- Better information and more ease of switching *empower consumers*.
- *Supplier switching* process must be *easy*, fast and free.
- A sound EU energy framework with strong, independent *national regulators* and an *EU Agency* for the cooperation of regulators *acts in the EU consumer's interest*.

¹ The Council of European Energy Regulators (CEER) and the European Regulators' Group for Electricity and Gas (ERGEG) are two organisations established for the cooperation of the independent energy regulators of Europe. ERGEG is a formal advisory body of the European Commission on energy issues, whereas the CEER was set up by the regulators on their own initiative and is based upon the voluntary cooperation of the regulators themselves. Visit www.energy-regulators.eu.

Why and how the EU's energy regulators promote competition

Our overall objective is to introduce competitive pressure by integrating national markets into one single, competitive EU energy market.

Why? In promoting competition, regulators help foster suppliers' responsiveness to meet customers' expectations.

How? Creating the conditions for a competitive environment is at the heart of what we do.

1. Our core work focuses on *stimulating investment and competition*, and *regulating monopolies* which impacts on consumers:
 - the development of and non-discriminatory access to the grid – without this there can be no supplier choice;
 - encouraging investment and facilitating cross-border trade so that Member States' networks are more interconnected;
 - encouraging better co-operation between network operators – this needs effective unbundling with proper regulatory oversight by strong national regulators;
 - facilitating well-functioning wholesale markets – this is necessary for well-functioning retail markets;
 - tackling barriers to competition (e.g. lack of transparency, fragmented balancing markets) through regulatory tools.
2. We set up the *EREG Regional Initiatives*, creating 7 regional electricity and 3 regional gas markets in Europe. This project is designed to tackle specific barriers to competition (such as a lack of transparency, balancing) on a regional basis, and *to accelerate the development of a single energy market in Europe*.

3. Regulators *police compliance with existing rules*. We believe that full implementation of the existing EU energy legislation is imperative for competitive markets to develop. ERGEG carries out *extensive monitoring* of compliance with the current rules (e.g. transparency, access, implementation of consumer rights) and *advises the European Commission* accordingly.

EREGEG's monitoring:

- (a) provides *unbiased facts and figures*;
 - (b) *enables the European Commission to consider appropriate action*, for example whether to take legal action against Member States for not fulfilling their legal obligations or whether to introduce new stricter rules or other measures such as ERGEG Guidelines for Good Practice²;
 - (c) *helps ensure a consistent application of EU laws*.
4. *Advising the European Commission on the 3rd energy liberalisation legislative package*
Believing that Europe needs a strong energy regulatory framework to protect consumers, ERGEG provided detailed advice to the European Commission in its preparation of the key elements of 3rd energy liberalisation package proposals such as strengthening regulators' powers, the creation of an EU Agency for the cooperation of energy regulators, unbundling, how to improve the functioning of markets and customer rights (see Example 3 below).

The *3rd energy liberalisation legislative package* is designed to boost competition and create effective regulation *in the interest of the energy consumer*.

² ERGEG GGPs (e.g. on gas storage, balancing, accounts unbundling) are voluntary guidelines which are developed in consultation with stakeholders and their implementation is monitored by ERGEG. Although not legally enforceable, they are designed to assist in the proper implementation of the principles set out in the current energy laws.

Why and how the EU's energy regulators seek to empower consumers?

Why? Well-functioning markets need well-informed and active consumers with strong positions.

How do regulators empower consumers?

1. With a dedicated working group, there is a *solid consumer element to our work* to help retail energy markets deliver for consumers. This includes work on:
 - *Quality of electricity supply* (benchmarking the number and frequency of electricity outages, compensation for outages etc.);
 - Making it easier to *switch supplier* (e.g. by identifying and removing the obstacles to switching);
 - *Customer protection* issues (e.g. dispute settlement, complaints, supplier of last resort, customer service quality);
 - Retail issues such as retail market design, smart metering and end-user price regulation;
 - Improving *transparency* of information (e.g. prices, billing information, supplier contracts) – this is key to reinforcing consumer confidence in energy markets.
2. Energy regulators *advised the EU policy makers* (European Commission, European Parliament and Ministries) *on how to strengthen Consumers' Rights and their implementation in the 3rd energy liberalisation legislative package*.
3. Regulators establish *best regulatory practices on consumer issues* (e.g. developing handbooks, sharing experiences in workshops).
4. *EREG monitors and reports* on the state of market opening and whether retail markets are delivering for consumers (e.g. 2008 Transposition of Consumer Rights Monitoring Report).

Monitoring is an important tool for measuring implementation of consumer rights.

5. ERGEG, as an advisory body to the European Commission, helps shape energy policy. We encouraged the European Commission to set up a new *Citizens' Energy Forum (London Forum) on energy consumer and retail issues*. This forum should *strengthen the role of consumers' representative bodies* in influencing best practices and policy development at an EU level. In parallel, we continue to engage with consumer representative organisations, listening to and acting upon the voice of consumers.

Consumer welfare-enhancing aspects of the 3rd energy liberalisation legislative package proposals, currently under negotiation in European Parliament and Council:

- New measures for *increased consumer information* (e.g. free access to consumption data, frequent information on actual energy consumption, supplier switching at any time of year with no unnecessary burden from previous supplier and access to a single contact point in case of disputes);
- Reinforcing and *harmonising the powers and independence of national regulators*. All *regulators have the duty to ensure customers are protected* and that measures (in Annex A of the Directives) are effective and enforced; and the duty to monitor the level of market opening at retail level (including household prices, switching rates, disconnection and household complaints and the distortion or restriction of competition);
- Mandating national regulators to ensure the *“efficient functioning of their national market and to promote effective competition”*. In the context of developing a competitive, single EU energy market, it means *acting in the interest of the EU energy consumer*;
- Creating a new EU *Agency* for the cooperation of energy regulators;
- *Effective unbundling* of supply from transmission – which should guarantee access to networks for any supplier.

Example 1 – ERGEG calls for an end to regulated end-user prices

Facts and Figures

ERGEG's monitoring (2007³) found that *regulated end-user prices*⁴ continue to coexist (with market prices) in many EU countries (9 for gas, 17 for electricity) and that there is a lack of competition in the retail market in these countries.

ERGEG (2008⁵) also found that *regulated prices are a big obstacle to supplier switching*. In some countries, it is even irreversible to leave the regulated prices, thereby locking the customer to the incumbent.

ERGEG (2008⁶) found that

- In 15 countries more than 85% of electricity and 90% of gas household customers are still supplied under regulated prices;
- The provision of information, and therefore customer rights levels, is higher in markets without regulated prices;
- Price calculators (which help consumers compare offers) are more prevalent in Member States without regulated prices; and
- Transparency of bills is better in markets without regulated prices.



ERGEG's message

- *Regulated end-user prices distort the functioning of markets and jeopardise both security of supply and efforts to fight climate change;*
- Reducing obstacles to supplier switching will be of little consequence if customers continue to be offered regulated prices;
- Well-functioning competition cannot in the long term coexist with regulated prices;
- *Regulated end-user prices should be abolished* or, where appropriate, brought into line with market conditions.

What we did

In 2007, through monitoring, ERGEG identified those Member States who have/have not removed regulated prices. ERGEG *called on Member State governments to rapidly progress towards a competitive market without regulated end-user prices* and to publish (by 1 July 2008) a roadmap on how they were going to do this.

Results | Some Member States are reviewing how to phase out regulated end-user prices.

³ See Status Review on End-User Price Regulation (E07-CPR-08-04), 14 June 2007 and ERGEG Position Paper on End-User Price Regulation (E07-CPR-10-03), 18 July 2007.

⁴ Regulated end-user prices offer the customer the possibility to continue with the incumbent supplier on a regulated tariff (which is often kept artificially low when compared to market prices) – the customer has no incentive to switch, thus deterring the entry of new suppliers. This distorts competition.

⁵ See Obstacles to Supplier Switching in the Electricity Retail Market – Guidelines of Good Practice and Status Review, (E08-RMF-06-03), 10 April 2008.

⁶ See Transposition of Consumer Rights Monitoring Report (E08-CPR-20-03), 13 October 2008.

Example 2 – ERGEG inspires better Supplier Switching Processes

Facts and Figures

ERGEG's monitoring exercise identified *obstacles to supplier switching* in gas (2007) and electricity (2008). Despite many similarities in the switching process across countries, some key differences relate to

- the time it takes to switch (from 15 days – 60 days in electricity, from 15 days – 75 days in gas);
- the number of parties that the customers must contact (in 1/3 of Member States, customers are required to have more than one point of contact to switch supplier); and
- the information the customer needs in order to switch (in 1/2 of Member States the process customers must follow to access consumption data is not standardised).



ERGEG's message

- Better information, more ease of switching *empowers consumers*;
- *Switching* process must be *easy, fast and free* – standardised data formats are key;
- *Consumers themselves have a key role* in stimulating competition by *shopping around* between suppliers for the best value *and exercising their right to choose*.

What we did

In 2006, ERGEG recommended principles for improving the supplier switching process. Then in 2007⁷ and 2008⁸ ERGEG published reports on obstacles to switching in gas and electricity and how to remove them.

Through switching workshops with consumer organisations, regulators acted upon the experiences and advice of the consumers themselves.

Results

In sharing best practice experiences, many countries are now improving their switching processes⁹.

⁷ See Guidelines of Good Practice (GGP) and Status Review - Obstacles to Switching in the Gas Retail Market (Ref: E06-CSW-05-03), 18 April 2007.

⁸ See Obstacles to Supplier Switching in the Electricity Retail Market: Guidelines of Good Practice and Status Review (Ref: E07-RMF-06-03), 10 April 2008.

⁹ See Status Review Supplier Switching Process Electricity and Gas Markets - Five case studies (Ref: E08-RMF-10-04), 19 September 2008.

Example 3 - Strengthening consumers' position in the 3rd energy liberalisation legislative package

Facts and Figures

ERGEG's (2008) monitoring of Member States' transposition of consumer rights shows a high level of consumer protection as regards being informed about supply contacts before signing and information on price changes. However there is room for improvement:

- 50% of energy consumers might have difficulties with price comparisons because of a lack of standardised procedures for access to consumption data – more transparency and comparability of offers is required;
- 2/3 of Member States have alternative dispute boards – however customer positions would be strengthened if quick resolution mechanisms were available in all countries;
- 2/3 of the Member States who replied have legal provisions to help customers avoid disconnection – this is needed in all countries;
- Obligation to offer a wide choice of payment methods needs to be applied more widely.



ERGEG's messages

- Energy liberalisation and empowering consumers must go hand in hand;
- Strengthening the consumer's position is not just about implementing existing customer rights; new measures are needed in the 3rd energy liberalisation legislative package.

What we did

ERGEG advised the EU Commission, MEPs and Ministries on how best to *strengthen the consumer's position* in the 3rd energy liberalisation legislative package (e.g. adding new rights and strengthening all regulators' powers to monitor their implementation).

Results

Amendments to the 3rd package proposals (currently still under negotiation in the European Parliament and Council) include *new consumer rights* (e.g. on access to customer information) and *provisions for better enforcement of consumer rights and vulnerable customer protection*. This includes vesting powers on regulators to ensure consumer rights provisions are effective and enforced, giving regulators the duty to monitor high levels of universal public service for electricity and vulnerable customers, and allowing regulators to fine companies which fail to comply with quality of electricity service standards defined by the regulator.

Reinforcing consumer rights should make a real difference in empowering consumers.

EU Energy Regulators' Publications on Consumer Issues

Title	Reference No.	Date
• Transposition of Consumer Rights Monitoring Report	E08-CPR-20-03	13 October 2008
• Status Review Supplier Switching Process Electricity and Gas Markets - Five Case Studies	E08-RMF-10-04	19 September 2008
• Obstacles to Supplier Switching in the Electricity Retail Market: Guidelines of Good Practice and Status Review	E07-RMF-06-03	10 April 2008
• Position Paper on Smart Metering with a Focus on Electricity Regulation	E07-RMF-04-03	31 October 2007
• Response to the European Commission's public consultation "Towards a European Charter of the Rights of Energy Consumers"	E07-CFG-15-03	12 September 2007
• Position Paper on End-User Price Regulation	E07-CPR-10-03	18 July 2007
• Status Review on End-User Price Regulation	E07-CPR-08-04	14 June 2007
• Guidelines of Good Practice (GGP) and Status Review - Obstacles to Switching in the Gas Retail Market	E06-CSW-05-03	18 April 2007
• Customer Information Handbook	E06-CPR-04-03	6 December 2006
• Best Practice Proposition Transparency of Prices	E05-CFG-03-04	21 July 2006
• Best Practice Proposition Supplier Switching Process	E05-CFG-03-05	21 July 2006
• Best Practice Proposition Customer Protection	E05-CFG-03-06	21 July 2006
Fact Sheets		
• EU energy regulators put consumers first	FS-08-02	October 2008
• 3rd energy package and creating an effective EU Agency (ACER) in the consumer's interest	FS-08-01	February 2008
Press releases		
• Empowering consumers – the first Citizens' Energy Forum	PR-08-09	28 October 2008
• ERGEG inspires better Supplier Switching Processes	PR-08-06	23 September 2008
• Putting energy consumers first	PR-07-08	5 July 2007
• European Energy Regulators put forward a set of "good practices" in the field of consumer information	PR-07-02	22 January 2007

Press Contact: