

CEER 2013 Annual Conference on Energy Customers

"On the path towards achieving the 2020 Vision"

19 June 2013

[delivered by P. Pinho on behalf of Commissioner Oettinger]

Ladies and gentlemen, dear Lord Mogg,

It's with much regret that Commissioner Oettinger is not able to be present here today to personally reiterate the importance he attaches to putting consumers at the core of energy policy. In fact, as we speak, the weekly Commissioner's meeting is taking place which is why Mr Oettinger could not be present here today.

I am supposed to represent the Commissioner but I will certainly not be able to replace him. One year ago, at this same event, Commissioner Oettinger focused on the energy internal market and the vision of the European energy regulators. He then considered the concept of "happy hour" in a bar where you can get drinks and food for a lower price at certain hours of the day. He wondered why we do not have a "happy hour" in the energy market. I will come back on this.

The energy sector is developing rapidly, yet we consumers need a constant energy supply, with no interruptions. Energy producers and suppliers are key to this process. And we are all aware that there is still much to be done to ensure all consumers have access to an affordable, reliable energy supply.

This is why Commissioner Oettinger is most pleased that the Commission can host today's event and is grateful to CEER for their initiative in organising it. The event reinforces the main message of last year's CEER conference. Consumers have a central - and

evolving - role to play in energy retail markets to ensure these markets function effectively.

Last year Commissioner Oettinger stressed that the role of national regulatory authorities is vital for ensuring consumers' engagement. This is certainly still valid today; we need them to work hand-in-hand both with us and with consumer associations across the EU to ensure the timely completion of an integrated internal energy market that functions in the best interest of consumers. I am therefore very pleased to see that so many consumer associations are represented at today's conference.

In fact, the joint BEUC-CEER statement on "*A 2020 vision for Europe's energy customers*" is most welcome because it is very much in line with the Commission's view. Consumers should be active participants and truly engaged in energy markets to ensure the Third Energy Package is successfully implemented. The Vision rightly identifies key principles that we think are important for both household and commercial energy customers. Empowered consumers should receive an affordable, reliable and understandable service from energy suppliers.

Today, **the consumer experience** of the liberalisation of the internal energy market for households has not always been positive **in a number of Member States**. This has **led to a lack of general consumer trust that** energy services can satisfy these key principles.

Some consumers are naturally dissatisfied that **energy prices remain high**. [Just think of what happened recently in Bulgaria where the Gov had to step down following demonstrations against the high energy prices]. This makes it very difficult to communicate the benefits of deregulated prices and an open energy internal market. It requires further and deeper explanation. Liberalisation and deregulation alone will not **solve the problem of high energy prices if there is not**

enough competition among suppliers, and if there is not a real choice for consumers to switch suppliers.

In other cases, Member States do have competition in the energy retail market, but consumers still face high prices due to **taxes and obligations** placed upon suppliers or producers.

In addition, consumers still face obstacles in exercising their rights. However, it should be acknowledged that even in Member States where liberalisation has advanced well and revolutionised the energy markets, consumers remain rather passive even if they can benefit from switching supplier.

All these circumstances emphasise the reluctance of many consumers to enforce their rights and to benefit from the advantages provided by the Third Energy Package.

[Once we did a test in the Cabinet and asked colleagues if they were happy with their energy supplier; most of them weren't; then we asked how many had switched suppliers: only very few had! And among those who had, most realised they had not switched to the most attractive offer. I wonder what the outcome would be if we did that same test now among us...]

Therefore, the Commission recognizes that affordable and reliable supplies must be based on consumer engagement and empowerment. When consumers exercise their choices in a competitive market, only those suppliers who respond to consumer signals should prosper. When it comes to energy, an integrated, open internal market, offering proper support for vulnerable consumers, remains the most effective and efficient way of matching consumer demand with supply.

We at the Commission consider that the potential of an internal energy market can only be optimised with consumers who are:

- empowered, i.e. informed and engaged to play an active role in the market;
- provided with choice and the possibility to exercise that choice (of suppliers, sources, etc.);
- integrated in the energy system so that they can both consume and supply energy.

The Commission has already established comprehensive regulatory conditions to address all these concerns. The electricity and gas directives of the Third Energy Package push and boost competition in a sector where monopoly has historically been the norm. This legislation introduces strict rules for the functioning of individual players in the energy system as well as rules on consumer protection.

The importance of complementary legislation in supporting innovation in retail energy markets should not be forgotten. For example, legislation has **already been implemented for renewable energy sources and energy efficiency. Legislation under preparation** includes that for network codes.

Nevertheless, involving consumers in a proactive and informed way in the functioning of the internal energy market does not rely simply on the implementation of **legislation**, but rather on establishing mechanisms to enhance the effective functioning of a competitive retail market across the EU.

The importance of prices, and ultimately consumers' energy bills, cannot be underestimated. They need to closely reflect supply and demand in the market to ensure competition works as it should, and not simply be formed by market regulation or subsidies.

And here, I would like to revert to the example used by Commissioner Oettinger of the "**happy hours**" in a bar. **What if consumers could benefit from "happy hours" in their energy consumption?**

Whereas some industrial consumers, via dynamic electricity tariffs, are incentivised to apply demand-side measures, most retail consumers do not currently have access to these tariffs. Households and small companies thus use electricity without considering the supply situation at any given moment in time. This results in intra-day peak demand putting huge pressure on the electricity supply chain, both on generation and transmission/distribution. This pressure has an impact on the balancing of the grid and is reflected in the wholesale prices. Yet retail consumers, who choose when they want to use electricity, are not exposed to these intra-day price signals.

The introduction of economic incentives to consumers to change their consumption patterns by adapting energy use according to actual market conditions, such as the **introduction of time-of-use tariffs**, is thus essential to build flexible demand in the retail market. It is crucial for meeting future energy needs and reducing supply capacity as far as possible.

And we would also like to stress that smart metering **could fundamentally change the retail market** by allowing consumers to adjust their electricity consumption in response to market price fluctuations. **Smart meters** enable "real-time" consumption to be measured through bi-directional communication between the consumer and the supply chain.

They encourage energy service providers and other players to create innovative services, like home energy management. And they allow consumers to choose from a wider range of providers and power options, such as green energy. In this sense, smart meters constitute an important element of a future supply system oriented to delivering better consumer services.

Smart meters can greatly improve billing accuracy, and offer useful information to consumers on various aspects of their consumption.

They facilitate the use of smart appliances, contributing to lower energy bills for consumers. Already smart meters introduced by the "British Gas and First Utility Smart Metering" have helped more than 73% of all consumers to make significant energy savings through lower consumption. Moreover, 64% of consumers reported an energy efficiency improvement.

These aspects should improve competition in the retail markets by increasing the number of eligible suppliers and making supplier switching easier.

We have taken the first steps to ensure that the smart metering provisions in the Third Package are implemented by Member States and market actors with full regard to consumers' interests. Now we are looking further into ways to ensure the protection of privacy and data security in relation to smart meter use.

In fact, the integration of the increasing volume of intermittent renewable generation sources in the electricity supply leads to price fluctuations. These are times of the day when there is so much electricity being generated at a given moment that system operators offer compensation to anyone prepared to temporarily increase their consumption. This means periods of negative wholesale prices.

To respond to these challenges, dynamic retail prices would be likely to enhance flexible demand by discouraging excessive consumption at peak times. This would help to "shave" peak demand, thereby achieving optimal balancing in the supply chain and, consequently, a better price in the future for the end consumers. Nevertheless it should be noted that a large-scale rollout of such energy services and appliances will take time, possibly one or two decades. But it should already be part of the vision as we develop it now.

This being said, **smart meters are not a panacea** but rather **one piece in this bigger puzzle** consisting of internal market rules, consumer empowerment and awareness and technical tools.

Ultimately we should focus on the benefits for all consumers of these market developments. We must ensure that vulnerable consumers are included in this process. Along with all other consumers, they should have the opportunity to benefit from new market offers. We must find a way to ensure this happens.

This may require public intervention in the market and specific regulation. This too should be part of our vision. This vision of a consumer-oriented approach to energy retail is also shaping the programme for this year's Citizens' Energy Forum, where focus will be placed more than ever on consumer experiences of the internal energy market.

And of course I could not conclude without referring to the *Commission Communication "Making the internal energy market work"*, which was adopted last November and which elaborates on this and much more. And of direct and immediate relevance also for all of us here today, in the Communication an Action Plan is foreseen with concrete measure, notably aimed at improving consumer empowerment and support, such as measures to improve the consumers' information through best practice on price comparison tools, clear and transparent billing and support to vulnerable consumers. In fact, I see you will be dealing with these in the course of the day.

I would like to thank CEER and Lord Mogg for once again bringing together so many stakeholders to discuss the role of the consumer, the key element to the success of the electricity market reform. The future for the consumer in an integrated internal energy market is already being defined and several solutions are already available or at least

conceivable to support it. This event represents a rare opportunity for us to work together to fill in the gaps and find optimal solutions in the most efficient way. I look forward to hearing about the results of what I am sure will prove to be an enjoyable and thought-provoking day.