European University Institute

ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

Florence School of Regulation

EU Retail Markets Initiatives: where do we stand?

Brussels Cedec Congress (19th November 2014)

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…64 years old academic

…born in a retail market

3 step introduction to our retail session…

- 1 Academic introduction to retail puzzle: **actual behavior in actual retail is still puzzling (1) me; (2) Catherine UK; (3) Severing California**

  …of course we go ahead (the proof of the puzzling is in the eating)…

- 2 EU institutions' introduction to puzzle: **(1) DG Sanco; (2) DG Ener; (3) Acer-CEER**

  …2010-2014; for sure a lot of work, ideas, proposals…

- 3 Puzzling questions, questions & questions: (1) **EU market normative; (2) EU market paradigm shift; (3) consumers' side of EU markets**

  … well; well;… indeed…

…born in a retail market

1 Academic introduction to retail puzzle …(from my Chair)…

- 1.1 My father and his “pork vs veal” meat special offer

- 1.2 Was my father’s offer making these consumers worse or better?

- 1.3 Many implicit assumptions in “retail market simple reasonning”?

(a) What does the consumer know when buying?

Ordinary goods (vs) Experience goods (vs) Trust goods

(a) What could the supplier do knowing that?

Cheating? Incr. Switching Costs? Branding & Gold Plating?

1 Academic introduction to retail puzzle …UK vs California real cases with comprehensive data

- 1 UK / Waddams-Price

Switching Campaign of 250 000 voluntary people… does not make it

- 2 California / Borenstein

The “happy few” CA wealthiests make the highest NPV (Net Present Value)… of solar PV investment schemes… within IBP tariffs (Increasing Block Pricing)

1 Academic introduction …UK real case data for Massive Switching Campaign

- Consumer organisation & social networking lobby group canvassed for participants in collective auction Spring 2012
- 250,000 expressed interest, 150,000 submitted full energy details (supplier, tariff, consumption/expenditure, post code)
- Companies invited to offer tariff (3 payment methods)
- Participants: older, better, educated, richer than average

Participants Great Britain

- Age group with median age 55-64 / 35-39
- % male 71.63 / 49.16
- % with first degree or higher 60.40 / 27.12
- % own their home (full or part) 93.43 / 67.00
- income (£ per annum)35,000-39,999 / 30,000-34,999

1 Academic introduction ...UK real case data for Massive Switching Campaign

Final Results

- % Switching 26.83
- Median bill size (£) 1,170

- Median best saving (£) 112.57
- Median saving, % of bill 1 10.24

Observations 109,924

COMMENTS: even in UK; even with “particular” volunteers; considerable inertia

As 3/4 consumers do not switch for 10% better deal

1 Academic introduction to retail puzzle
…California real cases with comprehensive data

- 2 / California / Borenstein

- Comprehensive data base with every consumer, every PV investor, each individual consumption metering, billing and detailed Postal Code
- within IBP tariffs (Increasing Block Pricing)
- The “happy few” CA wealthiests make the highest NPV (Net Present Value)… of solar PV investment schemes…
- The lowest revenues have negative NPV (they loose by investing)

<u>EU institutions' introduction to puzzle</u>: DG Sanco; DG Ener; Acer-CEER …2010-2014

- <u>1 DG SANCO – 2010 – 560 pages report</u>

EU institutions' introduction : DG Sanco 2010

- 1 DG SANCO – 2010 – 560 pages report

2 questions 1/ Do retail markets deliver?

2/ Could consumers fully benefit from retail markets

a) consumers "economic rationality";

b) consumer "empowerment"

1/ Competition in energy retail is limited; pricing & contracting formula complex to misleading; transparency is low

2/ Consumers are too poorly aware & informed; too poorly equipped to compare, calculate and verify credibility; complexity always puzzles them; and consumers do not like taking risk of "trying"

>> This suggests two "big things"

a) a vicious circle (consumers do not "shop")> (suppliers do not compete)

b) More "forced open" retail cannot go with less protection for all consumers

EU institutions' introduction to puzzle: DG Ener… 2012

- **2 DG ENERGY – 2012 – Action Plan – 21 pages & 22 actions**

EUROPEAN
COMMISSION

Brussels, 15.11.2012
COM(2012) 663 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Making the internal energy market work

{SWD(2012) 367 final}
{SWD(2012) 368 final}

Annex 1: Action Plan for Europe

Action/Measure	Actor(s) involved	Timing
Enforcement		
1. Timely and comprehensive transposition of the Third energy package Directives and implementation of the Third energy package Regulations	Member States / national regulators for energy / Commission	March 2011
2. Guidance on defining the concept of "vulnerable customers"	Commission	2013

Improve consumer empowerment and support		
6. Further efforts to involve, inform and motivate consumers, including through the implementation of the Energy Efficiency Directive and through web-based content for consumers pointing to relevant consumer-protection resources and energy consumers' main rights.	Commission / Member States / national regulators for energy/ consumer associations	2013 / 2014
7. Through the Citizens' Energy Forum, support Member States in setting the scope for research, data collection and reporting on energy retail markets.	Commission/ Member States / national regulators for energy/ consumer associations	2013
8. Improve information provision to consumers, establish guidelines and best practice on price comparison tools, clear and transparent billing, and on support to vulnerable consumers	Commission / Member States / national regulators for energy / consumer associations	2013
9. Targeted assistance to vulnerable consumers to make informed choices and giving them the necessary support to enable them to cover their energy needs in competitive retail markets	Commission / Member States	2013

13. Create framework and market for broad introduction of smart appliances (e.g. via R&D support, standardisation, ecodesign and energy labelling)	Commission / stakeholders (in particular European standardisation organisations)	2014
14. Prepare national action plans for swift deployment of smart grids	Member States / Commission	2013
15. Reflection on future roles and responsibilities of DSOs, demand response, smart appliances and home automation, distributed generation and energy saving obligation schemes	Commission / Member States	2013

Ensuring appropriate State interventions		
18. Phase-out of regulated gas and electricity prices taking into account universal service obligation and effective protection of vulnerable customers.	Commission / Member States	2009 and beyond

EU institutions' introduction to puzzle: Acer-CEER …2014

- **3 ACER-CEER – 2014 – Market Monitoring – 278 pages & 5 Chap**

ACER
Agency for the Cooperation of Energy Regulators

CEER
Council of European Energy Regulators

EU institutions' introduction to puzzle: Acer-CEER …2014

1- Intro Mogg-Pototschnig

a) A vicious circle

weak competition = few incentives for consumers

- **few consumers active**
- **> few incentives for supply entry and competition**

b) To break this

***facilitating consumers move: switching – awareness - comparability of offers**

****removing existing barriers to suppliers entry (as national regulation)**

*****phasing out Price Regulation while protecting vulnerable consumers**

2-CHAP 2 / Retail Markets

- ***It exists barriers in consumers behavior and in supplier behavior***
- ***NRAs could be more active to remove most of them***
- ***MS have to phase out Price Reg (3 best practices to follow)***

<u>EU institutions' introduction to puzzle</u>: Acer-CEER …2014

3-CHAP 5 / Consumer protection & empowerment

- ***Actual MS practice with supplier last resort & restriction disconnection***
- ***Vulnerable consumers definition and particular protection(s)***
- ***Consumers general protection (information; transparency; appeal)***
- ***Supplier switching, metering & billing rules***
- ***Complaints & dispute resolution***

> Room for improvement (actual practice disconnection – data on complaints); (standard for complaints handling); (information on switching - frequency of actual consumption information)

3 Wonderful but 3 sets of puzzling questions, questions & questions:

1 EU retail market normatives

1.1 EC-ACEER-CEER "Retail competition is too slow" According to what? What's the benchmark or ideal? Retail banking? Retail insurance? Divorce lawyers?

1.2 "Retail energy demand has to be more flexible" According to what? What can be done knowing what retail markets already are (see 1.1)?

*****2 EU market paradigm shift***

2.1 Energy Efficiency Directive etc. pave the way for more demand-response as a "major shift" in market paradigm: demand as active as supply. Will consumers follow? How? / Will new "providers" enter? How? / Whom responsible for? Whom does what? What's the new regulatory landscape?

2.2 More consumers interested in "self-generation" and "self-balancing with own demand"; What happens at system level? Whom pay for system & network costs?

3 Wonderful but 3 sets of puzzling questions, questions & questions:

3 Consumers' side of EU market

1) AFFORDABILITY When consumers spend much say for heat – How to make it affordable? Whom takes care? What instruments? Are DSOs to be last resort? Or other social programs to take care of actual poverty?

2) VULNERABLE CONSUMERS should get assistance and freedom to choose. How to help them managing increased complexity (as price volatility in dynamic pricing)?

Thank you for your attention

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"Economics of Energy & Environmental Policy"

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