



European Federation of Local Energy Companies
Confédération Européenne des Entreprises Locales d'Énergie

ERGEG Public Consultation Paper on Draft Guidelines of Good Practice on Indicators for Retail Market Monitoring

Brussels, 16 June 2010

CEDEC defends, at European level, the interests of local energy companies.

CEDEC represents 1500 companies with a total turnover of about 100 billion Euros, and more than 250.000 employees. Together, they serve 60 million electricity and gas customers.

These predominantly medium-sized local energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid operators (including metering & communication) and electricity and gas suppliers.

GENERAL COMMENTS

CEDEC welcomes the public consultation on the submitted Draft Guidelines of Good Practice on Indicators for Retail Market Monitoring, and the possibility offered by ERGEG to stakeholders to be involved in the development of these new instruments.

The guidelines on monitoring should stay within the limits of the third internal market package, and concentrate on *the level and effectiveness of market opening and competition at (wholesale and) retail levels*.

The additional reporting obligations that will result from these guidelines and from other initiatives a EU level (like the Commission "Recommendation on the use of a harmonised methodology for classifying and reporting consumer complaints and enquiries" of 12/5/2010) should be coordinated, and should not lead to duplication of reporting.

Moreover it should be taken into account that too complex and regular reporting obligations may put a particularly heavy burden on small and medium sized companies, in terms of investment in time, personnel and underlying systems.

Indicators should be limited to what is really relevant, without duplication or overlapping in the questions, and not more frequent than is necessary for a reasonable judgment of results.

CEDEC attracts the attention of ERGEG to the complexity of determining the level and effectiveness of market opening and competition by monitoring retail markets and the use of indicators.

This is due to the triangular relationship of the market parties involved (DSO, Supplier and Customer). Also the mixture of network aspects, data measurement and communication aspects, and aspects related to supply market functioning, make it difficult to determine an overall figure of effectiveness and maturity of the market.

Consumer satisfaction and consumer complaints on the accomplishments of companies therefore involve in a joint manner DSO, Supplier and Customer : this implies the crucial need for a clear understanding of the processes and contractual relationships between all parties involved.

Besides the suggested 19 indicators, ERGEG should advise the national regulatory authorities that interpretation of the outcome is difficult, dependent of the market processes, market arrangements and of the legal status and legal contracts of all the parties involved – all of which may differ from country to country.

This also means that the value of the market indicators is for the NRA to identify trends in its national markets, but clearly not in the comparison with other member states.

GENERAL CONSULTATION QUESTIONS

- Do the proposals of the ERGEG constitute a comprehensive method of evaluating the development of the market?

We believe that most of the proposed indicators can provide insight in the effectiveness and market opening at retail market levels.

Data collection must be coordinated and harmonised between EU (through the proposed “Guidelines of Good Practice for retail market monitoring for NRAs and the Agency”) and NRAs (through national surveys). This applies both to the content and timing of the data requests.

- Are any indicators to be deleted from the recommendations?

The disadvantages of collection and classification (costs, administration, etc) of the indicators should be balanced with the potential benefits. Therefore we prefer a simple system with few indicators.

The following may be considered to be deleted, for the reasons explained in further detail in the following pages :

Indicator 2;
Indicator 5;
Indicator 11;
Indicator 13;
(Indicator 14);
(Indicator 15);
Indicator 16;
Indicator 17;
Indicator 18;
Indicator 19.

- Are important indicators lacking?

No

- Should indicators be measured differently?

No. But the measurement of indicators is strongly connected to the specific market design and processes in the individual member states.

- In the light of national circumstances, are the suggested frequencies for collection appropriate and feasible ?

In order to reduce administrative costs, a yearly data enquiry seems sufficient (not quarterly). If open sources and/or results from inquiries of the regulatory authority are already available, these should be consulted first, before sending additional inquiries to market players.

- Is there any indicator for which the results should be published in an unaggregated form, thus naming the individual energy company ?

It should be ensured that any publication of confidential data takes place in an anonymous and cumulative form, so that no conclusions regarding individual companies are possible. Reasons for this include preservation of business secrets and avoidance of competition disadvantages.

SPECIFIC CONSULTATION QUESTIONS

1. Customer Satisfaction

INDICATOR 1:

Number of customer complaints by category

Comment:

A customer complaint is to be taken seriously by the company in question and processed without delay. The risk of losing a dissatisfied customer or generating unnecessary costs by delays in handling the complaint is sufficient reason to deal with the complaint quickly and definitively, to the satisfaction of the customer.

Fundamentally : the absolute number of complaints do not allow conclusions as to the proper or improper functioning of the market and competition.

The existence of a large number of complaints does not necessarily mean that the market has failed. On the contrary this can also be a sign of open communication with customers. For example customer-friendly companies often ask their customers to voice any complaints they have, thereby obtaining comprehensive feedback from their customers and thus being able to implement the ensuing improvement measures in customer orientation more efficiently.

On the other hand, a low number of customer complaints in connection with a low switch rate can also be the expression of customer satisfaction with their current supplier.

In addition, it should be borne in mind that not every complaint is justified.

When the number of complaints is evaluated, it should be related to the size of the company (number of customers).

If the recommendations of the EU Commission on introduction of an EU-wide method of classifying and reporting customer complaints are going to be put in practice, it does not seem to make sense to organize a parallel collection of data regarding customer complaints according to category (as in indicator 1) on the basis of these ERGEG guidelines.

CEDEC insists on harmonization and centralization of the data enquiries, on content as well as on timing (annual statistics, also gathered annually).

Given the relationship between the market parties involved (DSO, Supplier and Customer) and the potential responsibility of any of them, any 'absolute' result must be interpreted with prudence.

INDICATOR 2:

Number of customer enquiries by category

Comment:

CEDEC considers this indicator not as a suitable means for monitoring effectiveness of market opening.

The internet has now become a vital information channel. Portals are in particular a means for customers to compare the various service providers and form a good idea of the various services on offer and what they cost. It is not clear how this could be taken into account in the context of this indicator.

Moreover, attention is to be paid to duplication with the enquiries in the context of the recommendations of the EU Commission on classifying customer complaints.

In addition, "customer enquiry" should be clearly defined, in order to avoid distortions in the evaluation of the indicators.

INDICATOR 3:

Is there a reliable price comparison website available for customers?

Comment:

Publication of prices on the internet permits a market that is transparent.

Such price calculation services must be independent. If it is not offered by NRAs, monitoring of credibility and quality is necessary to avoid misleading of the consumer.

In addition, it makes sense to examine which information, e.g. on services or contractual terms and conditions of the different electricity suppliers, is to be taken into consideration in addition to the price.

Valuable independent consumer portals are also offered by consumer representative organisations.

2. Retail Market Outcomes

INDICATOR 4:

End-user price for typical household customer

Comment:

Today it is standard practice to establish the end-user price by means of a rate calculator. This provides the customer with transparency as to the costs for the individual household (based on his consumption) : the rate calculator is to be such that the components of the price (with and without payment in advance; non-recurring bonus for switching to a different supplier, deposit models etc.) are clear.

If, in addition, there is to be a price indicator for the regulatory authority, all possible contract conditions must be clearly defined, to avoid the risk of comparing prices of “products different in nature”. Such an would appear to be very complex if the danger of misinterpretation is to be ruled out. For this reason, it would make sense to define a standard product.

EUROSTAT data already provide an entirely acceptable overview of typical household consumption patterns that can be obtained easily and without additional administrative costs.

Data enquiries at national and European levels based on different categories are to be avoided.

In addition, the reasons for the necessity of a quarterly provision of data are not convincing. It is certainly sufficient if the (annual average) price is communicated once a year. In the event that ERGEG insists on receiving information on quarterly prices, it will suffice if such information is provided once a year.

INDICATOR 5:

Retail margin for typical household customer

Comment:

Indicator 5 does not seem to be an indicator suitable to describe competition.

An “objective” comparison between different suppliers can certainly be carried out by means of “supply prices” (end-user price less network charges & taxes) provided that all other contractual terms and conditions are also taken into consideration.

There is however little sense in comparing the “supply price” with the wholesale purchase price. The wholesale purchase price is a “snapshot” subject to extreme fluctuations within the course of a year and also cannot be related to the current costs of supply by the supplier who has a purchase portfolio.

In addition, the wholesale prices are highly dependent on the delivery period (half yearly, yearly or over a number of years) : therefore the validity of prices for a specific period of time and contract durations necessarily have to be taken into consideration.

To get reliable statements comparable products and service levels are needed. Hence, it would appear to make sense to define a standard product (cf indicator 4).

INDICATOR 6:

Price spread on comparable products for typical household customer

Comment:

When data for this indicator are gathered it must be ensured that the prices compared are those of products that are genuinely comparable. A comparison of prices of the most expensive and cheapest product on a given date can only be conclusive if the products are identical.

If it is a question of products provided for contractually different periods, different periods for which prices are binding (e.g. one month or 3 years) or a different service level, the price spread of these products does not lead to any conclusions about the competition position and is hence not suitable as an indicator.

Data to evaluate price spreads can now already be collected simply through existing data sources (for example web sites of the relevant market partner). Hence, an additional data enquiry and the resulting additional work for the supplier can be avoided.

INDICATOR 7:

Number of current offers to typical household customer

Comment:

CEDEC considers that this indicator is a suitable means of providing a picture of the competition on the energy market. Elements to be taken into consideration to ensure comparability, are not only prices but also other distinguishing product features such as the contract duration, notice periods, and service levels.

Portals provide a good overview of the electricity suppliers on the market, the possible contractual options including those regarding payment (period for which prices are fixed, advance payment etc.), giving both the customer and the regulatory authorities a full overview of existing suppliers and the products they offer.

INDICATOR 8:

*What percentage of customers is eligible to receive a regulated end-user price?
What percentage of eligible customers is served under regulated end-user prices?*

Comment:

Regulated end-user prices still exist in most Member States.

This is only one of the possible indicators on the effectiveness of the energy market, as a distinction must be made between large categories of consumers with regulated prices (for example household consumers under a specific threshold), and specific categories of consumers under PSO regulation (for example social tariffs).

The first category should be allowed in a transition period as long there is a clear lack of competition in the electricity production or gas import. The second category is possible if Member States establish clearly defined public service obligations.

3. Market Structure

INDICATOR 9:

Number of active suppliers that are selling electricity and/or gas to household customers across the same market

Comment:

This indicator is a suitable means of obtaining a picture of the competition existing on the energy market. The data required regarding the number of suppliers can be gathered simply via existing public data sources, such as websites of the relevant market players or by assessing the data already collected by the NRAs. Normally, NRAs dispose of the lists of energy suppliers that have obtained a licence for its national market.

Hence, an additional data enquiry and additional work on the part of the supplier can be avoided.

INDICATOR 10:

Market shares by number of customers and consumption

Comment:

This indicator can be a reflection of competition.

However, a large market share can also be an indication of attractive prices and good service in a defined area and should not necessarily be associated with an absence of competition. As a supra-regional indicator the market concentration in combination with other indicators can make sense.

ERGEG proposes that data be gathered at least once a year by the suppliers and network operators. However, a calculation seems sufficient either by means of reports provided by suppliers, **or** by the network operators.

Annual collection of data seems sufficient.

INDICATOR 11:

What percentage of customers is served by a DSO that

- *has separate branding from the supply branch of its vertically integrated undertaking ?*
- *does not have separate branding from the supply branch of its vertically integrated undertaking ?*
- *is totally separate from the supplier of that customer ?*

Comment:

This indicator is unsatisfactory for a number of reasons.

For one thing, implementation of the third EU energy internal market package makes the obligation for network operators to introduce their own brands mandatory (to avoid any confusion between network operators and suppliers. Hence, introduction of this indicator is not necessary.

In several countries the customer is never supplied by the distribution network operators but by the suppliers in the individual network area. Provision by the suppliers is then without discrimination irrespective of branding or whether the network operators are separate. This makes the question on percentages not relevant.

In other countries the question can be relevant, but then the questions and its relevant conclusions on market effectiveness should be on “branding” and not on the percentage of customers deserved by the DSO.

4. Market Conditions and DSO Service

INDICATOR 12:

Number of switches for household customers as a percentage of customer numbers

Comment:

The number of switches in the energy market is not necessarily a conclusive indicator for the existence of competition.

In our view this indicator only provides some insight of market performance, although the interpretation of this indicator is dependent of the type of market, the number of suppliers, etc within the member states. Also the type of switches (consumers switch, residential move or changes in the portfolio of holding company's by transferring groups of consumers from one entity to another) can influence this indicator.

As already stated regarding Indicator 1, a low number of customer complaints in connection with a low number of switches does not necessarily indicate an absence of competition on the market : it can also be an expression of satisfaction of customers with their current supplier.

However, in the event that the switch rate proposed by the ERGEG is taken as an indicator, such data should not be collected quarterly but only once a year to avoid administrative costs.

Double data enquiries – by national and European bodies - are to be avoided.

Finally, it should be borne in mind that switching of supplier involves the business and trade secrets for the supplier. Hence, confidential treatment of data collected is essential.

INDICATOR 13:

Number of renegotiated contracts for household customers

Comment:

Firstly, these data cannot be collected by the DSO as he has no knowledge of rate switches at one and the same supplier. This should be an indicator only for suppliers.

Otherwise, the switch of rates should be considered together with the switch in supplier. As switching suppliers is just as straightforward as switching a rate (undertaken by suppliers to create customer loyalty), the number of supplier switches alone does not provide any further information on the way the end-user market works. Both procedures are to be seen as equivalent from the customer point of view.

INDICATOR 14:

Number of delayed switches

Comment:

Collection of this indicator raises a number of problems.

In our view this indicator alone provides insufficient insight of market performance. Important is to know exactly why there are delays and not necessarily the amount of delayed switches.

Switches is a complex process that requires the effort of consumers (delivering the index of the meters), supplier (breaking up the old contract and setting up a new contract) and DSO's (providing information on the connection).

As it can be assumed that a large number of the potential complaints are related to delayed supplier switches, Indicator 1 (number of complaints according to category) already should reflect this circumstance.

Should ERGEG envisage collection of the reasons of delay arising from "contractual issues", these enquiries can only be made at DSO level if there is a contractual relationship between DSO and customer, which is not always the case. In addition, it is not clear what is actually meant by "contractual issues". Delays arising from legally permissible contractual periods and periods for giving notice may not in any circumstances be equated with other delays.

A further problem arises if the length of the delay is to be collected. The DSO could collect the number of delayed switches, although in the case of multiple delays of one switch, each delay would be counted as individual delayed switch. The length of delays however is very hard to determine (because of complex inquiries regarding reasons, timeframe etc.) and should therefore not be collected from the DSO.

In addition, the conclusiveness of the indicator is to be called into question if the grounds for delays cannot be measured. The reasons for the delay can also lie with the customer if, for example, the customer provides the new supplier with data other than that it gave the old supplier or names a different authorised representative.

If, even so, Indicator 14 is introduced, an annual enquiry will suffice.

INDICATOR 15:

Number of failures in relation to the total switching rate

Comment:

In our view this indicator alone provides insufficient insight of market performance.

Important is to know why there are failures. As stated at indicator 14 switching is a complex process that needs precise information from three stakeholders. If for whatever reason the wrong information is provided, the switch fails. It therefore is not an indicator of an efficient market but an indicator how efficient the switching process is.

In the case of a "failure to fulfill switch" it is also to be assumed that these cases come under the Indicator 1 category as complaints (reference is made to the remarks on Indicator 14).

CEDEC considers a further data collection to be disproportionate as this would give rise to additional costs without providing any new information.

Furthermore, the DSO is not always able to say something about the categories of “outstanding debts”, “transfer being in error” and “customer being in breach of contract” as he is mostly not directly involved in a contractual supply relationship with the customer.

INDICATOR 16:

Average time between a connection being requested by a customer and completed

Comment:

This indicator does not achieve the intended target and for this reason should be deleted.

The performance of individual companies regarding the time necessary to build a connection is not helpful in determining the level and effectiveness of market opening and competition. It is an indicator of the effectiveness and organizational skills of that company. The completion time is also dependent on the timing of the request.

The time between the customer request and completion of the network connection is not an indicator of the efficiency of the network operator as network connections are generally applied for well in advance and are then put in place on an date or period agreed with the customer.

The DSO has interest to avoid delays. For one thing, the DSO requires payment of the network connection, thus generating revenue; on the other hand it creates earnings via the ensuing supply through connections.

Important factors for the duration of the network connection are the network topology (level of the network development in the area of the new network connection) and sometimes the necessity of obtaining necessary permission. Also there is the possibility of delays caused by third parties (like authorities or customers with special demands). These are factors that the network operator is not able to influence.

INDICATOR 17:

Average time until repair

Comment:

The performance of individual companies regarding the time necessary for repairs is not helpful in determining the level and effectiveness of market opening and competition. It is an indicator of the effectiveness and organizational skills of that company. This is also an indicator of supply quality and availability.

Here, too, it is in the interest of the DSO to avoid delays : if the DSO takes excessive time over repairs it will only be harming himself as he is not able to earn anything during a repair period.

If it is a question of a separate number of enquiries regarding repair times, a precise definition of the repairs is necessary as this term can include diverging matters that are not comparable.

INDICATOR 18:

Relative number of disconnections

Comment:

It is not a question of a competition indicator relating to the end-user market : supply disruptions are either technical by nature or caused by the customer on account of infringement of the supply contract. Neither case permits conclusions to be drawn regarding competition on the end-user market.

The performance of individual companies regarding the number of disconnections is not helpful in determining the level and effectiveness of market opening and competition.

This indicator is strongly linked to the economic circumstances within the member states and the payment discipline of the consumer involved. We would like to point out that in some member states it is prohibited to disconnect in winter; seasonal patterns are common in the number of disconnections .

INDICATOR 19:

Is there a charge for execution of maintenance services? (Y/N)

Average time taken for execution of maintenance services

Average charge for execution of maintenance services

Comment:

In our view this indicator provides insufficient insight of market performance. Charges for maintenance can be part of the regulated allowed turnover of DSO's.

Public service obligations regarding the quality of service usually set a certain response time to repairs/maintenance services.

It is not clear what is meant exactly with "maintenance services" related to individual customers.
