



Transparency of Prices

**An EREG Best Practice Proposition for
Public Consultation**

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Invitation for interested parties to comment

On **1st March 2006**, EREG launched a public consultation on a Best Practice Proposition dealing with Transparency of Prices in view of the opening of retail markets (household customers and small enterprises) to competition in July 2007. The Proposition identifies strategic priorities, highlights best practice, makes recommendations and establishes basic principles.

The Proposition is aimed for helping with the implementation of the Electricity (2003/54/EC) and Natural Gas (2003/55/EC) Directives as well as for applying the national legislation in practice in the energy companies. Both the Electricity and Gas Directives include a separate annex (Annex A), which includes measures on consumer protection to be applied at least to household customers.

EREG invites stakeholders to comment on issues raised in this text and in particular to the items highlighted in the summary of the Proposition. Following the termination of the public consultation period, EREG will publish all comments received from stakeholders.

If a participant would like EREG to treat their contribution with confidentiality then this must be explicitly mentioned in their reply.

Any comments should be received by **28th April 2006** and should be sent by email to customerbestpractice@erreg.org. Any question to this document should in the first instance be directed to:

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Brief description and main issues of Best Practice Proposition follows:

Transparency of Prices

This Best Practice Proposition aims at setting recommendations and principles for the publishing and presentation of price information in the electricity and gas markets. The Proposition includes recommendations on the way that electricity and gas enterprises should provide the customers with relevant price information both before entering a contract and during the contract period. Accordingly, as regards the pre-contract phase, the Proposition will focus on the accessibility and availability of price information as well as the accuracy and reliability of the said information. During the contract period, focus is additionally paid to the manner the price information is presented in the contract and the related bills.

The paper puts forward three strategic priorities for transparency of prices, bills and contracts. They are 1) Creating conditions for customers to make an informed choice; 2) Transparency of

price elements in the bill including accuracy of the bill; and 3) Update information on changes in prices during the contract period.

Summary

EREG has identified three strategic priorities for transparency of prices, bills and contracts. They are 1) Creating conditions for customers to make an informed choice; 2) Transparency of price elements in the bill including accuracy of the bill; and 3) Update information on changes in prices during the contract period. On the basis of the strategic priorities the major recommendations are the following issues:

- Electricity and gas retail suppliers as well as providers of electricity and gas distribution network services shall be obliged to publish their prices in contracts, bills and promotional material. The use of new technology for price publication should be encouraged.
- Availability of comparable price information is to be ensured through general rules at the national level.
- A comprehensive and easily accessible price comparison system (also called tariff calculators) through which the customers can gain comparable up to date information on the energy prices quoted by alternative suppliers should be ensured.
- The bill should provide the customer with up-to-date information on the present price of electricity/gas energy and thus enable the customer to compare the present price with the alternative price offers available. The rules on price information in the bill should be coherent with rules on general price information.
- Customers shall be informed of price changes well in advance during the contract period. The media and means for informing about the price changes and timeframes for submitting the information to the customer should be defined.
- A code of conduct should be prepared both to effectively safeguard the customer interests and to establish and clarify the procedures applied by the electricity and gas service providers as regards transparency issues. In addition to transparency issues, this code of conduct should address a wider scope of customer protection issues.

Subject matter and scope

1. This Best Practice Proposition aims at setting recommendations and principles for the publishing and presentation of price information in the electricity and gas markets. The Proposition includes recommendations on the way that electricity and gas service providers should provide the customers with relevant price information both before entering a contract and during the contract period. Accordingly, as regards the pre-contract phase, the Proposition will focus on the accessibility and availability of price information as well as the accuracy and reliability of the said information. During the contract period, focus is additionally paid to the manner the price information is presented in the contract and the related bills.
2. Both energy and network prices of electricity and gas will be addressed in this Proposition.
3. The Proposition has as its purpose to assist with the implementation of the Electricity (2003/54/EC) and Natural Gas (2003/55/EC) Directives as well as to assist with the application of the national legislation in practice to energy companies. Both the Electricity and Gas Directives include a separate annex (Annex A), which includes measures on consumer protection to be applied at least to household customers.
4. The Proposition covers the rules and practices regarding price transparency in the retail electricity and gas markets. For this purpose, the retail market is defined to be the market for household customers and for small enterprises.¹

Definition and significance of transparency in electricity and gas markets

5. Transparency is defined as principle of openness, honesty and accountability in public and private transactions. Concerning customer protection, the principle of transparency applies to “contractual terms and conditions, general information and dispute settlement mechanisms” (2003/54/EC art.3 §5 and 2003/55/EC art.3 §3).

¹ Directive 2003/54/EC concerning common rules on the internal market in electricity states in its Article 3, paragraph 3 that Member States shall ensure that all households and where Member States deem it appropriate, small enterprises (namely enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million) enjoy universal service.

6. In the context of electricity and natural gas prices, price transparency is important in three ways. Firstly, the electricity and gas energy prices have to be easily available to the customers so that they can decide from which supplier to make their electricity and gas purchases. Without good knowledge of the prices of competing suppliers it is difficult for the customer to choose the supplier. Poor transparency of prices has a negative effect on the competitive situation among the suppliers by giving them more power over pricing as the customers are not well-informed about prices.

7. Secondly, the price information included in the contracts must be transparent. The requirement on transparency applies to other information included in the contract as well. Unless the information on the electricity or gas energy prices in the contract is transparent, the customer may not be able to make comparisons among the present supplier and the competing ones, and thus, is not able to make rational decisions on the electricity or gas supplier.

8. Thirdly, the price information in the bills shall be transparent. Without this, the customer is not in the position to verify that the bill and charges in it are according to the contract concluded between the customer and the supplier. Furthermore, in the case of changing prices (the contract allows the supplier to make changes in the price charged during the contract period, which may be for an indefinite period of time), transparent information on the energy prices is vital for the customer to actively follow the development of energy prices charged, and moreover, to make price comparisons among suppliers and eventually to change a supplier.

9. The importance of price transparency is affected by the degree of market opening. In the pre-liberalised market, the significance of price transparency is limited as the customers mainly need price information to verify the correctness of their electricity and gas bills, and to some extent, to follow the price development of these energy commodities. The need for transparency regarding electricity and gas energy prices increases radically as soon as market opening takes place, alternative suppliers exist and the customers are able to choose their supplier.

Status of price transparency in ERGEG member countries – ERGEG report

10. In autumn of 2005, the ERGEG published a status report on the Transparency of Energy Prices, Bills and Contracts. The report examines in a detailed manner issues relating to transparency requirements on energy prices, bills and contracts per member state participating in the survey. Conclusions of the report highlight the fact that the degree of market opening affects price transparency. Additionally, there is existence of many types of prices (regulated prices, incumbent list prices, offer prices etc.), while the requirement to publish prices is a critical issue affecting transparency. This is also the case with access to price information and availability of tariff-related information. Another highlight of the report concerns the legal framework for price transparency of bills with policies such as itemization of bills and separation of energy and network prices and charges.

11. In most of the respondent countries, suppliers are required to publish their public list prices whereas there may be limitations as regards its application. In a number of countries it is just the incumbent supplier that is required to publish its prices. However, in less than half of the respondent countries, the suppliers are obliged to publish their offer prices.

12. In all respondent countries it is possible for customers to compare prices, but the comparability of price information depends on the accessibility to the information in practice. It seems that the most common approach for a customer to get price information is to use the Internet. The sources of information are the websites of suppliers, regulators, other authorities (competition or consumer authorities), consumer associations and independent organizations like brokers and universities.

13. Despite the fact that it is possible to gain information on prices via Internet, the level of transparency may not be good enough. If the information is scattered (the customer has to go to find information on the websites of several suppliers) and it is not up-to-date (the prices quoted are not valid), it may be difficult for the customer to compare suppliers. It may be too much to expect that as simultaneously customers have to purchase many other goods and services – gas and electricity being only two commodities among the many others – they are ready to put a lot of time and effort to gathering information and to make subsequent buying decisions. Therefore, as far as the small-user segment of the electricity and gas markets are concerned, the price information should be easily accessible to lower the threshold to enter the competitive market and act as an active customer in these markets.

14. In some countries a specific tariff calculator is available for electricity customers. The tariff calculator includes information on the valid electricity prices of all active suppliers. The key issues with the tariff calculator are that all suppliers are included (to guarantee maximum coverage) and that the price information is valid (the prices being the ones that the suppliers really apply at that moment). If not all suppliers are included, customers still have to go somewhere else to complete their information. Similarly, if the prices are not the valid ones, the value of the comparison is lowered and the customer has to turn to some other sources to information before the eventual supplier switching decision.

15. In a number of countries, there exists a price register, which contains historical price information. The need for historical price information is evident but less important than the need for a system like the tariff calculator. For the purpose of making price comparisons on a time-series basis historical information is needed. However, for the purpose of ensuring a functioning market, it is the up-to-date price information on each supplier that the customer needs for a price comparison.

16. Most countries have some kind of legal framework concerning the transparency of bills and billing. The relevant factor here for the market functioning and thus for the customer to be able to draw conclusions from the present supplier's prices and to make price comparisons is the separation of energy prices from network prices. There is great variation between countries in terms of the components which are required within bills and only a minority of respondent countries separate energy prices from distribution prices.

17. It is important for customers to be informed in advance about price changes so that they can take appropriate action. In some cases, however, price changes are not directly communicated to customers and information is provided only after the change takes place.

18. The Electricity Market Directive has required that as of 1 July 2004 electricity suppliers have to specify in or with the bills and in promotional materials make available to final customers the contribution of each energy source to the overall fuel mix of the supplier over the preceding year with reference to information on the environmental impact of generating the electricity.

19. On the basis of the ERGEG report on the transparency of electricity and gas prices, there seems to be room for improving transparency to enhance the position of small and medium-sized users in the European electricity and gas retail markets. Despite many other factors affecting the choice of supplier, price ranks amongst the most important ones. Without good knowledge of the prices of competing suppliers it is difficult and frustrating for the customer to make enlightened decisions when buying necessity goods like electricity and gas. Poor transparency of prices has a negative effect on the competitive situation among the suppliers by giving them more power over pricing as the customers are not well-informed about prices. Accordingly, accurate, up-to-date information on energy prices must be easily available for the customers.

Strategic priorities for price transparency

20. On the basis of the ERGEG report on the Transparency of Energy Prices, Bills and Contracts and on the basis of the experiences and knowledge of the ERGEG member regulatory authorities, the strategic priorities for price transparency were identified.

21. The three strategic priorities for the transparency of prices in general and the transparency of prices in bills and contracts are 1) Creating conditions for customers to make an informed choice; 2) Transparency of price elements in the bill including accuracy of the bill; and 3) Update information on changes in prices during the contract period.

22. The first strategic priority entails requirements and recommendations primarily on issues related to electricity and gas supply. The two others include requirements and recommendations on issues related to both supply and provision of distribution network services.

23. To emphasize the importance of the role of electricity and gas service providers in promoting and safeguarding the proper practices of transparency, as here it is linked to prices in promotional material, contracts and bills, it is recommended that each service provider should prepare and have a code of conduct including the practices to be applied when marketing and selling electricity/gas energy and distribution network services to final customers. Such a code of conduct should not be limited to transparency issues only, but should cover other dimensions of customer protection as well.

Creating conditions for customers to make an informed choice

24. To create conditions for customers to make an informed choice, three issues are of major significance. It has to be ensured that customers are able to get comparable price information, relevant and applicable price information has to be publicly available and customers should be able to compare new price offers with their existing contract.

25. To ensure the availability of comparable price information, generally agreed principles are needed in the first phase at national level to define the way the prices are informed to customers via marketing (promotional material like advertisements, commercials etc.). The practice where the suppliers quote their prices based on similar principles, provides the customers with comparable prices of alternative suppliers.

26. To facilitate the comparison of electricity and gas prices by small customers, a price comparison indicator formula could be defined (e.g. annual total expense for pre-defined consumption levels).

27. An integral piece of pre-contractual information is the array of alternative suppliers from whom the customer can ask for price offers. To provide the customer with this information, a list of all electricity/gas retail suppliers that are active in the market should be made available. The energy regulatory authority, or any other competent body, should ensure the easy availability of such a list.

28. A prerequisite for price transparency in the market is the public availability of price information. To achieve this, the suppliers should be obliged to publish their prices. This obligation should cover all the suppliers that are active in the retail market defined in this Proposition.

29. To make the use of new technology for the proper functioning of the electricity and gas retail markets, the use of Internet for publishing price information should be encouraged. However, price information availability through traditional systems should be guaranteed, at least on request, to those customers that do not have easy access to advanced information technologies (e.g. elderly people and low-income customers).

30. To assist the small customers to avail of the competitive markets through ensuring the access to comparable price information with a reasonable effort, websites that are independent of individual suppliers and that combine and offer the price information of a larger number of suppliers should be encouraged.

31. On the basis of the experience gathered so far from the opened up electricity end-user markets, the availability and access to independent and concentrated price information without an extra charge has been one of the key issues when facilitating the active participation of small customers in the competitive market.

32. There are various ways to organise the availability of correct and up to date price information without a direct cost to the customer. Currently, there are price comparison systems (also called tariff calculators) provided by energy regulators, competition authorities, consumer authorities, branch organisations and commercial actors. It is possible that simultaneously more than one price comparison systems exist, if the systems complement each other and, for instance, advertise other commodities as well.

33. It should be ensured, however, that at least one comprehensive and easily accessible system exists through which the customers can gain comparable up to date information on the prices quoted by alternative suppliers. In the case that such a system is not brought up on a commercial basis, it is for the national authorities to establish such a system.

34. In the case that the price comparison system is provided by other instance than authorities, it would be preferable to define the minimum content of the service in collaboration with the suppliers, customers and authorities. Furthermore, it would be recommendable for the authorities to monitor regularly the content of the service to ensure the appropriate functioning of the price comparison system.

35. To increase the awareness of the existence of the various sources of price information, especially the existence and access to comprehensive price comparison systems like tariff calculators, customers should be properly informed through information campaigns by relevant authorities (e.g. energy regulators and consumer authorities).

Transparency of price elements in the bill

36. The electricity and gas bills are important instruments for proper market functioning. The bill should provide customers with the up-to-date information on the present price of electricity/gas energy as well as distribution network services, and accordingly, enable customers to compare their present energy price with alternative price offers available. The rules on price information in the bill should be coherent with rules on general price information (point 23).

37. The bill should contain the information on the present electricity/gas energy price as well as the distribution network price in a clear and transparent way so that the customer is able with a reasonable effort to find out the prices that are being applied. In the case of a complex price structure (for instance the price is comprised of a fixed fee and a variable fee) two levels of price information – aggregated and detailed – are to be presented in the bill. In order to ask for competitive offers for electricity/gas energy and to compare the total cost (unit price of electricity/gas multiplied with consumption) of various offers, information like the customer average consumption should be included in the bill.

38. To guarantee that the customer receives all the necessary information (e.g. history of consumption) that is needed to be able to participate in the competitive market, the minimum information content of a bill should be defined. This information should be provided free of charge by either network operator or present supplier to the customer or a party empowered by the customer. In some countries it is customary to define the minimum contents of the bill in some level of legal order to ensure harmonised national procedures.

39. Another dimension of the transparency of price elements in the bill is the accuracy of the bill. The objective should be that the customers are able to pay according to their actual consumption instead of consumption estimates (maintaining also the possibility to prescribe advance payment for the customers with no automated meter reading). There are different ways to organise this ranging from customer self-reading to automated meter reading.

40. To protect the customers in case of wrong billing, easy and time-efficient procedures to obtain correction of bills and repayment should be in place.

Update information on price changes during the contract period

41. It is of utmost importance that customers are informed of price changes well in advance during the contract period. This enables the customer to foresee the increase in his/her electricity/gas bill and to be prepared for that. On the other hand the advance information on the coming price increase will make the customer informed so as to seek for alternative suppliers and their offers.

42. The media and means for informing about the price changes and timeframes for submitting the information to the customer should be defined.

43. To ensure the smooth functioning of the market and to avoid the unnecessary capture of the customers, there should not be any fees for withdrawing from the contract the only exception being a contract that has been made for a fixed term where a reasonable penalty may be requested. To increase the customer transparency regarding the conditions for withdrawing from a contract, these conditions should be defined and properly communicated.

Annex – Definitions

Terms extracted from directives 2003/54/EC and 2003/55/EC

Consumer protection: Measures ensuring “transparency regarding general contractual terms and conditions, general information and dispute settlement mechanisms” (2003/54/EC and 2003/55/EC art.3).

Contract: Written agreement between the client and the supplier, or between the client and the transmission/distribution operator for the provision of a certain service or product.

Customers: “Wholesale and final customers of energy” (2003/54/EC art.2 §7 and 2003/55/EC art.2 § 24).

Customer protection: Same definition as Consumer protection.

Dispute settlement mechanisms: The mechanisms in place to resolve disputes related to transmission, distribution and supply of energy.

Distribution: The transport of energy through local or regional networks with a view to its delivery to customers, but not including supply (2003/54/EC and 2003/55/EC art.2 §5).

Final Customers: “Customers purchasing energy for their own use” (2003/54/EC art.2 §9 and 2003/55/EC art.2 §27).

Household customers: “Customers purchasing energy for their own household consumption, excluding commercial or professional activities” (2003/54/EC art.2 §10 and 2003/55/EC art.2 §25).

Service provider: A provider of services related to energy supply or distribution/transmission. A Service provider is not necessarily a Supplier (see this definition).

Small customers: Same definition as Small enterprises and Household customers.

Small enterprises: “Enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million” (2003/54/EC art.3 §3).

Supplier: Seller or reseller of energy to customers (see Supply).

Supply: “The sale, including resale, of energy to customers” (2003/54/EC art.2 §19 and 2003/55/EC art.2 §7).

Transparency: Principle of openness, honesty and accountability in public and private transactions. Concerning customer protection, the principle of transparency applies to “contractual terms and conditions, general information and dispute settlement mechanisms” (2003/54/EC art.3 §5 and 2003/55/EC art.3 §3).

Universal service: “Right to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices” (2003/54/EC art.3 §3).

Other relevant terms:

Active supplier: A supplier which sells energy to at least one point of supply.

Alternative supplier: Any different supplier from the incumbent supplier within the considered distribution area (and, for gas, within the market segment considered).

End-user: Same definition as Final customers.

Incumbent supplier: The historical supplier in a specific geographical area (sometimes with the obligation to supply energy to local customers).

Meter: An instrument for measuring the energy transmitted or consumed. If installed at the point of supply (see this definition), data are primarily used to invoice the customer.