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## Supplier Switching in Electricity and Gas Retail Markets

### Sharing experiences and good practices

Workshop for consumer organisations, European Commission officials, DSOs, meter-operators, suppliers, and energy regulators

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**23 September 2008 from 8:30 to 16:00**

**Commission de régulation de l'énergie (CRE)**

**2 rue du Quatre Septembre – 75002 Paris – France**

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### Workshop Minutes<sup>1</sup>

#### Opening

**Mrs. Patricia de Suzzoni**, Chair of ERGEG's Customer Focus Group (CFG), opened the Workshop, welcoming the participants and the opportunity to hold an exchange of views on supplier switching.

**Mrs. Gunn Oland**, Chair of ERGEG's Retail Market Functioning (RMF) Task Force, gave an introduction of the day's issue and underlined the challenges in the retail market for gas and electricity. Some of the problems faced by customers include a low understanding of how the market works, supplier changes and moving failures, invoices which are difficult to understand, invoices which are perceived to be incorrect, and unclear understanding of pricing and contracts. There is also the important question of the neutrality of the DSOs in a competitive market. Having principles of neutrality can be important for a well-functioning end-user market. These questions illustrate the complexity of the retail market, which is often overshadowed by the focus on wholesale markets.

ERGEG's Retail Market Functioning Task Force has committed much time to examining various aspects of retail markets and has produced reports on supplier switching, smart metering and other issues.

#### The interests of European energy consumers

**Mr. Levi Nietvelt**, representative from BEUC, presented the European Consumers' Organisation's views on the switching process, highlighting improvements that could be made.

By way of an example, Mr. Nietvelt explained the process for switching in Brussels. To the average customer, the process could easily be considered lengthy and complicated. An overall conclusion from the example was that it is not easy to find detailed information; it is very difficult to compare offers and price comparison tools are very valuable.

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<sup>1</sup> These minutes represent an informal summary of the proceedings as prepared by ERGEG. Speakers should in no way be held liable for what is reported herein.

BEUC focuses its attention on the first step of the switching process (as identified by ERGEG<sup>2</sup>) – in particular, information on suppliers and offers and information on costs and consumption. In addition, BEUC feels that attention should be centred on information on terms and conditions, complaint handling and redress procedures and representation of consumers.

It should be noted that information on suppliers varies between countries, in part depending on the number of suppliers available on a national market and that given the nature of the product itself, households are unlikely to switch suppliers often. Another difficulty is that easy access to adequate information is not guaranteed; roughly only one quarter of BEUC consumers are able to find information easily.

BEUC feels it is important to address a number of issues:

- There should be easy access to the terms and conditions and information on the difference between DSOs and suppliers; treatment of complaint handling and redress should be easy and with the possibility of out-of-court procedure. Currently, out-of-court procedures exist in two-thirds of EU Member States.
- Representation and dialogue are crucial to a market's functioning and proper consumer protection. In many sectors and countries, consumers are not officially represented. Relations with regulators are often informal.

With regard to the remainder of the switching process (stages 2 and 3 identified by ERGEG), BEUC members reported many difficulties with switching in 2003. However, since then much progress has been made. For example, since 2007 the Federation of German Consumer Organisations, VZBV, has run a successful campaign to promote switching and to inform consumers of their options. As a result of this experience, VZBV recommends several improvements as regards the technical aspects of the switch and contracts which stimulate trust and competition.

When compared with other sectors, telecommunications, for example, the energy sector is one of the poorest switching performers, along with banking for which the European Commission is currently drafting switching guidelines.

**Ms. Linette Heiberg**, representative from the Consumer Council of Norway, presented the consumer-oriented activities/practices within the Norwegian energy market.

The Consumer Council is an independent body which is financed by the state budget and covers a wide spectrum of sectors. The energy market was opened in 1990, and fully for all consumers in 1995.

Ms Heiberg noted that the switching priorities identified by ERGEG mirror the issues focused on by the Consumer Council.

The essence/core of the switching issue in Norway relates to the coupling between access to price information, price volatility, possibility to react and switch, how quickly switching is executed and what sanctions are possible in case of a breach of contract. The situation in Norway is based on a mature and well-functioning market, without regulated prices, with fixed, standard variable or spot price contracts. Switching is relatively frequent but could be improved, although it is considered to be one of the highest in Europe, per capita. Information is centralised and consumers can use one source (the Competition Authority) to switch. The process itself is quite easy. Norway will introduce smart meters by 2013 and the regulator is currently examining the basic functionalities the meters should include.

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<sup>2</sup> 1) Information gathering; 2) supplier switching procedure, and 3) Execution of the switch, delay or cancellation

The metering process in Norway, as provided for in national legislation, should take two weeks, requires a meter reading and should involve contact by the consumer with only one party. There is a dispute settlement board for energy, with balanced representation from the industry and consumers, which deals with consumer complaints. Whilst the decisions are advisory in nature, the process is free for consumers and generally the decisions are respected.

A number of challenges persist in Norway, such as estimations of date of contract change, meter readings, who accesses what information and price volatility/fluctuations. To date, experience shows that Norwegians do not have much incentive to switch, as energy costs represent roughly 4.9% of a household budget. Information campaigns are necessary to sensitise consumers to their possible contribution to energy efficiency and climate change goals through switching.

The issue of unbundling DSO and suppliers is relevant, in particular for consumer convenience, for example when receiving one single bill.

The Consumer Council recommends:

- legally binding requirements;
- technological advancement;
- consumer awareness and incentives;
- consumer information on costs; and
- a central role for regulators to put a framework in place.

ERGEG's recommendations are a strong framework on which to build, and could be strengthened by provisions on incentives for consumers and dispute settlement.

## **ERGEG Guidelines of Good Practice and Status Review,**

**Mr. Sebastian Gras**, from the German regulator - BNetzA, presented an overview of ERGEG's work on obstacles to supplier switching in the electricity retail market. ERGEG produced a report containing Guidelines of Good Practice (GGP) and a Status Review<sup>3</sup>.

Obstacles remain to supplier switching, and their resolution is one of the most important issues for achieving a well-functioning end-user market. ERGEG's Report identifies three stages for the switching process:

1. Information gathering;
2. Supplier switching procedure;
3. Execution of the switch, delay or cancellation.

Regulated prices are the largest obstacle to supplier switching

There are two important prerequisites relating to switching. Firstly, 17 Member States have regulated end-user prices, which can remove the incentive to switch suppliers (if the regulated price is below market price) or restrict customers ability to return to regulated prices if they do switch to market prices. For example, when Germany eliminated regulated prices in mid-2007, switching rates increased significantly. The DSO should act as a market facilitator and information hub, with no vested interest in securing customers.

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<sup>3</sup> GGP and Status Review on obstacles to supplier switching in the electricity retail market (E07-RMF-06-03): [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_ERGEG\\_PAPERS/Customers/2008/E07-RMF-06-03\\_switching%20electricity%20GGP%20status%20review\\_10.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Customers/2008/E07-RMF-06-03_switching%20electricity%20GGP%20status%20review_10.pdf)

ERGEG's report identifies a number of conditions, for each stage of the switching process, which should be applied to ensure proper and easy switching.

In stage 1 on information gathering, for instance, the following propositions were put forward on the switching process:

1. Create conditions for customers to make an informed choice;
2. Switching the supplier shall be free of charge;
3. Customer needs confidence in the market participants and the switching process;
4. To ensure the availability of comparable price information, generally agreed principles are needed;
5. The electricity bill should be accurate;
6. All customers must be informed of price changes well in advance;
7. There shall not be any fees for withdrawing from non-fixed term contracts;
8. Every metering point should have a unique identification number;
9. The customer should only need to be in direct contact with one party.

As regards stage 2 on the switching procedure itself, ERGEG proposes:

10. The process of switching supplier has to be easy from the customer's point of view;
11. Clear roles and responsibilities among actors are of vital importance;
12. Metering should not be an object to switching;
13. A load profile system should be in place;
14. Electronic data exchange is required;
15. It should not be possible for the DSOs to charge the suppliers;
16. The switching period should be as short as possible.

For stage 3, ERGEG calls for:

17. The type of contract should not prevent the customer from switching supplier;
18. The incumbent supplier should not be able to object the implementation of the switch.

The basic principle is that the parties should not "capture" a customer, rather if the customer wants to switch, the switch should proceed. The implementation of the customers' requests should be carried out and arranged behind the scenes by the regulators, suppliers and DSOs.

Following this report, in 2009 ERGEG will examine the possibility of developing indicators for the switching process and monitoring of best practices.

**Ms. Nicole Suon**, from the French regulator - CRE, presented the situation for gas retail markets, based on ERGEG's GGP and Status Review on obstacles to supplier switching in the gas retail market<sup>4</sup>. There are several priorities for the switching process which are

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<sup>4</sup> GGP and Status Review on obstacles to supplier switching in the gas retail market (E06-CSW-05-03): [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_ERGEG\\_PAPERS/Customers/2007/E06-CSW-05-03\\_SwitchingToGRM\\_final.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Customers/2007/E06-CSW-05-03_SwitchingToGRM_final.pdf)

specific to the gas market. In addition to the issues addressed in the above proposals for electricity, for gas ERGEG identified two specific provisions:

1. Information on gas price changes mechanism, in order to improve customers understanding;
2. Non-discriminatory access to a list of existing and new connections for all suppliers, insofar as the entire population is not connected to a gas DSO network.

Mrs. Suon illustrated the application of ERGEG recommendations in the French gas market. In particular, French legislation has tackled the relationship between the customer and the supplier as regards customer information and contracts; the relationship between the supplier and the DSO; and the possibility of cancelling an erroneous switch.

It is worth noting that price comparators for gas are more complex and less common than comparators for electricity.

### **Case studies on several national situations: Austria, France, Romania, Spain and Sweden**

**Ms. Sara Sundberg**, from the Swedish regulator - EI, presented ERGEG's examination of switching procedures in five countries, set against ERGEG's previous work in its Best Practice Propositions<sup>5</sup> and GGP and Status Reviews.

ERGEG's recent report, Status Review of Supplier Switching in the electricity and gas markets – five case studies<sup>6</sup>, provides a summary of the switching process in five countries. The Status Review illustrates the different practices in national markets, with varying durations of the process; information required for the switch; access to information and possibilities to object to a switch.

The experiences from the case studies show that the switching process has been improved and that regulators have identified further improvements, which are being pursued. In particular, the importance of addressing two issues was brought out by the report - standardised procedures and exchange of information/data.

### **How to establish an efficient end-user market? The industry's work on reducing the obstacles for supplier switching**

**Mr. Petter Sandøy**, Chair of Eurelectric's Working Group Retail Markets, presented Eurelectric's point of view on speeding up the liberalisation process and reducing obstacles to supplier switching. Industry would like less but more precise regulation. Eurelectric's three priorities for the electricity retail markets are:

1. simplicity (easy switching, accurate information, simple bills);
2. trust (contracts that are transparent and fair, no fear in switching);
3. choice (market conditions, number of competing offers).

Switching is the key in the entire value chain.

<sup>5</sup> Best Practice Proposition Supplier Switching Process (E05-CFG-03-05): [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_ERGEG\\_PAPERS/Customers/2006/E05-CFG-03-05.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Customers/2006/E05-CFG-03-05.pdf)

<sup>6</sup> Status Review of supplier switching in the electricity and gas markets – five case studies (E08-RMF-10-04): [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_ERGEG\\_PAPERS/Customers/2008/E08-RMF-10-04\\_Supplier%20Switching%20case%20studies\\_19%20Sept%2020.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Customers/2008/E08-RMF-10-04_Supplier%20Switching%20case%20studies_19%20Sept%2020.pdf)

As regards ERGEG's three stages for the switching process, Eurelectric would promote for each a number of key issues:

1. Information gathering: impartiality (of actors), comparability (of tariffs) and quotability (of consumption data);
2. Switching procedure: co-ordination (between supplier and DSO), simplicity (with a single point of contact), market facilitation (neutrality of DSO as a data hub) and speed (of the switch, 14-28 days);
3. Execution/objection to switch: ease (of customer contact), risk management (for contract fulfilment) and exit (for contract release).

Eurelectric feels regulators should ensure the neutrality of information, to ensure impartiality of private companies. There should be a minimum switching period, which takes into account a statutory "cooling period" for customers. Fees for contract release should be reasonable.

Tracking rates of switching does provide an indication of competition, but not the ultimate measure of market functioning. Customer churn in established markets is more accurate where new entry is facilitated and there is no price regulation. Low churn rates do not necessarily mean a non-functioning retail market. In an established market, the "ability to switch" may be enough.

Price regulation distorts the market when it does not reflect true market prices. There is a need for more certainty as regards definitions for default supplier; the DSO's role; emergency/SoLR supplier and vulnerable customers.

Cross-border/new entry for electricity should be developed such that suppliers from one jurisdiction can register customers in another jurisdiction. This possibility would be facilitated by compatible data exchange.

**Mr. David Johnson**, Chair of Eurogas's Supply and Markets Development Committee, provided an overview of Eurogas's activities in the area of supplier switching. Eurogas is composed of 40 members from 25 countries, specifically 12 federations and 27 companies, with 1 international organisation.

Eurogas has dedicated resources to studying switching in gas. Some of the obstacles they have identified are structural in nature. Much progress has been made since market opening and improvements continue.

In its work, Eurogas has come to a number of conclusions, which in many respects mirror those of ERGEG:

- New supplier as primary contact point for customers;
- Neutrality of DSO;
- All data necessary for switching to be readily available to industry players involved;
- High quality data essential to avoid errors;
- Efficient switching service;
- Monitoring of problems and exceptions and identification of root causes;
- Co-operation by industry players involved;
- Learning from experience – modification of processes where necessary.

In Eurogas's view, the following are criteria for a well-functioning market:

- Market (low barriers to entry, non-discriminatory provision of network services);
- Customers (well-informed, confident in switching and process, vulnerable protection);
- Suppliers (responsible and responsive).

Eurogas's work on key areas includes papers on direct selling to household customers; review of customer switching processes in the domestic gas market; a response to ERGEG's best practice propositions; consumer protection in the domestic gas market; regulated end-user prices; gas tariffs for socially disadvantaged customers and input to the European Commission's Consumer Checklist. The term "consumer protection" can mistakenly suggest that customers need to be defended from the industry.

There are a number of voluntary initiatives in the Member States in several areas, including voluntary codes of conduct on direct and distance selling, industry database of customer supply contracts, industry code to protect vulnerable customers from disconnection, etc.

A number of issues cannot be resolved by suppliers alone, for example regulated tariffs, regulation of DSOs and public service obligations and vulnerable customers.

### **Three separate group discussions**

The Workshop participants were divided into three groups for parallel discussions on information, time limits for switching and obstacles to a well-functioning market. Participants held informal exchanges of view on how to address the three issues, sharing national experiences and possible ways of tackling the problems inherent in each.

Among the questions addressed were: what information should be given to the customer?; what are some ways of shortening the switching process?; and what obstacles are there to switching and who should be responsible for addressing them?

### **Closing address**

**Mrs. de Suzzoni**, Chair of ERGEG's Customer Focus Group (CFG), presented a brief overview of the Customer Focus Group, which was created within ERGEG in 2005. To date, CFG has done extensive work on customer information, end-user price regulation, regulatory aspects of smart metering and removing obstacles to supplier switching. In addition, ERGEG will present in October 2008 its Monitoring of Transposition of consumer rights provisions (Annex A of Electricity and Gas Directives). In future, CFG will also address establishing reliable indicators for retail market monitoring and customer complaint handling.

The outcome of the workshop will feed into the preparations for the Citizens' Energy Forum on 27-28 October 2008 in London. ERGEG will make two presentations during the Forum – the first on the transposition of Annex A of the Electricity and Gas Directives and the second on removing obstacles to supplier switching.

This workshop has been an opportunity to share experiences, to hear from key experts and to renew or make new contacts. Meeting with stakeholders and open dialogue is highly relevant to ERGEG's work and will continue in future.