

Fall in wholesale energy prices still not reflected at retail level

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Wholesale energy prices continued to decrease in 2014. This fall had a positive impact on the prices paid by industrial consumers, but often not on the energy bills of residential customers.

According to the latest Market Monitoring Report¹ presented today by the EU Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER), 2014, household electricity bills in the EU increased², on average, by 2.6% with respect to the previous year, and gas bills by 2.1%.

Alberto Pototschnig, ACER Director, highlighted that *“whilst half of the household bill is non-contestable, the other half of the bill is open to competition. There needs to be competition both at wholesale and retail level to ensure that EU energy consumers reap the full benefits of market liberalisation. Market integration efforts should continue and be intensified. Social welfare losses for Europeans due to unscheduled electricity flows alone total about 1 billion euro every year”*.

The Report highlights the need to:

- fully implement the gas and electricity target models;
- integrate renewables into the energy system at least costs; and
- use cross-border network capacity in the most efficient manner³.

The Report confirms that day-ahead market coupling in electricity has enabled a more efficient use of capacity and helps price formation. It calls for coupling to be implemented on the remaining 12 (out of 40) borders within the EU. Also, national security of supply approaches should be coordinated, including through a European-wide adequacy assessment. For gas, the Report reveals there is an increasing price convergence among EU hubs as well as a narrowing gap between hub and long-term contract prices. Although gaps persist, recent infrastructure investments, in particular in reverse flow capabilities, are bearing fruit.

Any benefits for final consumers?

Although the lower wholesale prices did not result in lower retail prices in most countries, the Report shows that countries⁴ with longer experience of open markets generally offered more choice (including price preservation periods, dual-fuel offers or specific renewable features) to consumers who were in turn more active. Retail market concentration, however, remained high in general and higher in gas than in electricity.

Commenting on the consumer’s experience with energy markets⁵, **Lord Mogg**, Chair of ACER’s Board of Regulators and CEER President, said: *“More than half of all consumer complaints were related to prices, contracts and bills. Much more needs to be done to improve the functioning of retail markets and to gain the trust of customers to engage in our markets, including ensuring they get the information and services they need. Also, more than 80% of EU energy consumers remain with their original suppliers seven years after retail market liberalisation. Promoting well-functioning retail markets is therefore a core focus for regulators”*.

Which are the main barriers to competition?

Despite the progress registered during 2014 towards completion of the Internal Energy Market, barriers to full market integration remain in most Member States, with the Baltic region and the South Eastern part of the EU facing the greatest challenges. According to the Report, in these regions the functioning of wholesale markets and transparency in price formation should be improved, while infrastructure should be further developed to support market integration.

Notes for Editors

- (1) The [Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets](#) presented on 30 November 2015 fulfills the Agency's mandate established by Article 11 of [Regulation \(EC\) No 713/2009](#). It covers retail prices for electricity and natural gas, access to networks (including network access by electricity produced from renewable energy sources), and compliance with the consumer rights laid down in [Directive 2009/72/EC](#) and [Directive 2009/73/EC](#). By producing a joint Report, ACER and CEER aim to provide as complete an assessment as possible of progress towards the implementation of the [Third Energy Legislative Package](#), focusing on the remaining barriers for the completion of well-functioning electricity and gas markets. In parallel, the [2015 National Country Reports by each National Regulatory Authority](#) are now available on the CEER website www.ceer.eu.
- (2) The Report explains that retail energy prices paid by households in most EU Member States are greatly influenced by the so-called "non-contestable charges"- such as taxes and charges for the use of the network - which represent, on average, 60% of the electricity bill and almost 50% of the gas bill. These charges have significantly increased in the last few years largely in order to fund support schemes for renewable energy sources (RES).
- (3) The Report shows that day-ahead market coupling has enabled a more efficient use of available cross-zonal capacity and helps price formation of hedging products. The Report promotes making the most of the systems by performing more coordinated capacity calculations in all time frames, implementing flow-based calculation methods where appropriate and ensuring more equal treatment of internal and cross-zonal exchanges.
- (4) The Report shows that relative competition levels in the gas retail market are the highest in Great Britain, the Netherlands, Slovenia, the Czech Republic and Spain while for electricity Sweden, Finland, the Netherlands, Norway and Great Britain score the highest.
- (5) The Report found that consumer protection measures foreseen in EU law were largely implemented across Europe. Nearly all countries have an electricity 'supplier of last resort.' Also, Member States had implemented conditions and procedures for disconnecting consumers due to non-payment. Although data across Europe is limited, disconnection rates were generally low (between 0-2%). Regarding the obligation for countries to define the concept of vulnerable customers, the Report found that while many (18) had explicit definitions, others could also (or instead) have a more implicit approach (included in national social policies, etc.). In addition, in analysing the type of information available in energy bills, the Report found that in many countries information about switching was lacking. Meanwhile, when looking at the categories of complaints, the data showed that more than half (58%) of customer complaints across Europe were related to price, contract or billing issues. Importantly, an alternative dispute settlement is available and free of charge for final household customers in 25 countries. From a consumer perspective, connection, activation, maintenance and disconnection are key process and, in some cases, they represent the consumer's first interaction with the energy market. In most countries, the quality and timing of some of these distribution services could be improved (e.g. time to provide a price offer for a grid connection; to connect to the network and activate the energy supply to a customer; to disconnect the energy supply following a customer request; and the maximum duration of a planned supply interruption).

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