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EDISON'S COMMENTS ON THE ERGEG PUBLIC CONSULTATION PAPER ON DRAFT GUIDELINES OF GOOD PRACTICE ON INDICATORS FOR RETAIL MARKET MONITORING

WHO WE ARE

Born in 1881, Edison is one of Europe's oldest energy companies. In 2008, it reported sales revenues of 8.867 mln €, and is carrying out an ambitious investment plan in the electricity and gas sectors. Edison had to diversify its business, when the national monopoly on electricity was established in Italy in 1963. Thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again, this becoming the largest new entrant on the Italian market.

With 50,3 TWh produced in 2009, it is now Italy's second largest electricity generator. Thanks to 7.000 MW of new highly efficient and low emission plants (CCGT thermo plants, as well as hydro and wind power plants), the Company has now a total installed capacity of 12.500 MW. In the hydrocarbons business, Edison has an integrated presence in the natural gas chain, from production to importation, distribution and selling, with sales of 13.2 billion cubic meters in 2009.

In 2009 the new LNG terminal in Rovigo started to contribute to the diversification of Italy's supply sources with its regasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. The start up of Galsi and ITGI pipelines will further connect Italy to Algeria and Caspian Sea, two areas rich in hydrocarbons.

GENERAL REMARKS

a) Do ERGEG's suggestions provide a comprehensive approach to assigning market development?

Edison welcomes the opportunity to answer to ERGEG's public consultation on Draft Guidelines of Good Practice on Indicators for Retail Market Monitoring. We deem advisable the introduction of an adequate level of harmonization in energy retail markets monitoring across Member States in order to enable NRAs to comply with, and even exceed, the Third Energy Package obligations.

The new Directives on the rules for the internal markets in electricity and natural gas (2009/72 EC and 2009/73 EC) strengthen the role of National Regulatory Authorities in "*monitoring the level and effectiveness of market opening and competition at wholesale and retail levels*". Thus, the comprehensive approach established by ERGEG guidelines can help to guarantee the effectiveness of the monitoring carried out at a national level.

Nevertheless, the use of these indicators to make a comparison between Member States should not be the purpose of these Guidelines, since differences in market structures across countries may actually risk to undermine the reliability of this kind of exercise. Therefore, we believe that indicators should be strictly aimed at enabling NRAs to monitor and evaluate the correct functioning of their own internal energy markets.

We wish to highlight that the European energy markets experience has clearly shown that the degree of liberalization of retail markets is strictly correlated to regulatory arrangements. Therefore, NRA's should streamline rules regulating the relations between suppliers and final customers avoiding the risk of overregulation which could result in excessive burdens for new retail market entrants (e.g regulatory obligations that excessively increase access and supply costs of new entrants in the retail markets).

Hence, we believe that the NRA's common objective should be a competitive and pluralistic market capable of guaranteeing the development and growth of new entrants. A high level of operational efficiency is also greatly needed to ensure low functioning costs, high quality services and a price level so competitive that regulated prices become unnecessary. For this reason, NRAs should be allowed to use further monitoring indicators when these are based on data already collected

Edison's experience as a new entrant in the Italian retail market shows that some operational issues must be taken into account by regulators, since they are crucial for a correct retail market functioning. The most significant are:

- **Switching procedures** (data collection, information exchange with DSOs etc.)
- **Metering** (responsibilities in meter reading, standardization etc.)
- **Communications between suppliers and DSOs** (standardization, timing etc.)
- **Post-sale services** (standardization in communication of metering data etc.)
- **Delay or default in payment of final customers** (switching prohibition for defaulting customers etc.).

Thus, besides customer perception of retail markets, possible regulatory barriers to market entry for new suppliers should be included in the scope of the indicators of market-functioning.

We strongly believe that, when defining indicators, it should be taken in due consideration the balance between the costs incurred in providing information and the quality of the results. Priority should be given to data already collected and publicly available, whereas the improvement of monitoring mechanisms should not impose new burdens to market players. Moreover, it is of utmost importance that indicators strictly refer to the assessment of the functioning of retail markets, without requiring NRAs to introduce any further regulatory obligation at a national level.

We finally whish to highlight that we agree with ERGEG consultation paper when it states that collected data should be strictly made available in an aggregated form rather than for single suppliers and DSOs.

ANSWERS TO SPECIFIC QUESTIONS

In particular we are seeking views regarding:

b) If any indicator should be left out of the final recommendations

We think that indicator n.5 on retail margin should be left out. We believe that this indicator doesn't fully reflect the level of competition in retail markets, since it doesn't take in due account other significant factors (e.g. regulated prices, investment decisions, fiscal regimes etc.). On the contrary, the switching rate, as described further below (answer D), can be considered much more reliable to evaluate retail markets functioning.

c) If any indicators you think are insightful are not present

As regards indicators referring to DSOs services we are convinced that they should be maintained, where related data are already collected by NRAs. We suggest, as a possible indicators, the average time of DSOs in meeting final clients and supplier requests, if these performances are already regulated by NRAs, (for example to register DSOs quality standards in providing their services).

Another indicator that could be added in the Retail Market Outcome section is the presence of commercial offers of energy expressly produced with renewable sources. The indicator is not directly related to the level of market competition, still it is useful to detect the level of diversity of contract offers (indicator n.7).

We finally think that an effective way to evaluate the level of customer satisfaction could be the existence of well-functioning and cost-effective specific dispute settlement tools organized by suppliers. Thus, the presence of ad hoc platforms aimed at settling disputes with customers is surely a useful benchmark to evaluate the level of customer satisfaction in retail markets. Nevertheless, any evaluation of the number and the content of received complaints should be carefully avoided.

d) If any indicator should be measured differently

The indicator n.2 on the number of customer complaints can be misleading since complaints received by both suppliers and DSOs are often referred to problems related to the wrong counterpart. Therefore, a customer complaint classification should be flexible enough to address the objective of an effective evaluation of the connection between the complaints received and the correct functioning of the retail market.

As far as indicator n.3 (customer information) is concerned, we believe that price comparison website available to customers is not sufficient in a free and competitive market. Even if price is a fundamental component in suppliers' offers, other additional services should be considered in order for customers to have enough information to mindfully switch their suppliers. Therefore, particular attention should be paid to avoid unfair commercial practices due to lack of information about the whole content of different commercial offers.

According to the above general remarks, we propose a further breakdown of indicator n.9 related to the number of suppliers in order to give a clear overview of defaults related to market design, e.g. including the size of suppliers and the number of clients associated to them.

We also suggest to strengthen the correlation between different indicators, such as indicator n.11 on branding and indicator n.12 referred to switching rates. If the customers' switching rate from the distribution branch to the supply branch of the same vertically integrated undertaking is not counted, the overall switching rate could be indeed significantly lower. Therefore, we propose a breakdown of indicator n.12 (switching rates) as follows:

a) Percentage of household customers/small enterprises which have never switched;

b) Percentage of household customers/small enterprises which have switched to the supply branch of the same integrated company;

c) Percentage of household customers/small enterprises which have switched to a non integrated supply company;

d) Percentage of household customers/small enterprises which have switched more than once in a certain period.

However, we wish to highlight that these indicators on branding and switching should be further specified by NRAs according to their national market conditions, avoiding misleading comparisons among countries with different market structures.

A higher level of detail allows to distinguish customers who just switched from regulated to free tariff from customers who entered the competitive market by choosing a supplier perceived as different from the former one.