Insights and Positions on Regulated Retail Prices

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CEER: Fostering energy markets, empowering consumers

• Independent voice for 35 European energy regulators
• Promotes competitive, secure and sustainable markets for consumers
• Champions sound energy regulation with stakeholders, incl. policy-makers
• Supports NRAs and encourages best practices:
  ► Training Academy
  ► Workshops, e.g. international events on security of supply
  ► Papers, reports, benchmarking

Putting consumers at the heart of energy policy: CEER-BEUC 2020 Vision
European Energy Markets: The Challenge of Adaptation

**Liberalised Markets**
- Competition
- Consumer choice
- Demand-side and prosumer growth at DSO level

**Renewables Growth**
- Dispersed and Variable
- Low marginal cost
- Often small-scale at DSO level

**New Technology**
- Smart Meters
- Smart Grids
- Smart Heating
- Electric Vehicles
- Internet of Things
- Data Management
- Cybersecurity

**Digitalisation**

3”Ds”:
- Decarbonisation
- Decentralisation

RES > 28% of EU demand
260 GW of RES, >10 GW DRS
In 2015, retail energy prices dropped, except for electricity households.

Average level: 20.78 cents/kWh, 1.7% yearly increase (28% since 2008).

Electricity and Gas post-tax price trends for household and industrial consumers in Europe over 2008-2015 (euro cents/kWh)
RES induce lower wholesale prices, feeding into consumer bills.

But, subsidies and other levies have risen, squeezing competition effects.

Better market functioning being partially offset by governmental interventions.

Household Energy Bill Composition, ACER/CEER MMR
• Several retail markets still price regulated.

• In these cases, the competition index is lower on average.

• More choice for consumers where prices have been liberalized for longer.

• We recommend price deregulation once the market is competitive.

• We support facilitating new supplier entry by reducing barriers.

• We advocate consumer protection and empowerment.
Regulated Retail Prices: Facts and Developments

- **Definition:** Prices subject to regulation or control by public authorities (e.g. NRAs, governments), as opposed to being determined exclusively by supply and demand.

- **Condition:** If they apply to consumers that are not defined as ‘vulnerable’.

- **Different forms:** Setting or approving prices, standardization of prices, or combinations. Heterogeneous methods.

- **Differentiation:** A clear roadmap or not for phasing out regulated prices.

- **12 Countries (2015):** households - Bulgaria, Cyprus, Denmark, France, Hungary, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Spain.

- **9 countries:** industrial market segments as well.

- **EU households under regulated prices** decreased from 54% in 2008 to 35% in 2015.

- This mainly reflects *progressive liberalization* of household segment in Spain (- 48%), Portugal (- 65%) and Italy (-100%).
Price Regulation: Diverse conditions, including the presence or not of a phase-out roadmap

- Regulated prices for the entire retail market
- Regulated prices for the household segment
- Regulated prices for the entire retail market with roadmap for their removal
- Non-regulated prices with (potential) ex-ante intervention
- Non-regulated prices
Evidence from Competition Indicators and Case Studies

- Even if switching to non-regulated prices is possible, most households remain under regulated prices 100% in Bulgaria, Lithuania, Romania and Slovakia.

- Even if regulated prices apply for less than 95% of household consumers (as in Denmark, France, Portugal and Spain), retail markets exhibit:
  - higher concentration ratios
  - fewer average net entries
  - fewer offers per supplier available in capital cities
  - higher average annual mark-ups.

- The Portuguese case: A success story
  - Introduction of a phase-out roadmap.
  - The regulator contributed through various measures aimed at: removing barriers to entry, improving competition, simplifying switching and increasing transparency.
  - Despite extension of regulated transitory tariffs until 2017, The switching rates that emerged are amongst the highest in EU (27%).
Positions on Regulated Retail Prices

- European Commission: Obstacle to demand-side participation and retail competition, if not limited in time or applied to exceptional cases based on socio-economic criteria (Energy Union Communication).

- End-user prices below energy sourcing costs may seem attractive to consumers but only in the short term.

- Such a policy is a barrier to market entry, and hence, to competition.

- In markets with persistent negative mark-ups, market participants do not receive the right signals.

- Negative impacts:
  - For consumers: Barrier for demand response, flexibility provision.
  - For investment: Uncertainty about suppliers’ return in the long run.
Energy Retail in Europe: Diversity in the ARCI score

- Retail competition and consumer empowerment are still **mixed** across EU.
- Industry obtains more benefits than households.

**ACER Retail Competition Index, Electricity Households, ACER/CEER MMR**
Energy Retail in Europe: Diversity in Switching Times

- Average change of energy supplier time is 14 working days
- ACER/CEER vision of 24 hours by 2025
• Regulators' Overview Paper of 23 January 2017 broadly welcomed the Clean Energy package, highlighting issues for consideration

• Regulatory White Papers being published on specific wholesale, network and consumer topics
Energy Regulators’ Initial Reactions

- Maintain and enhance security of supply.
- Promote competition and avoid cross-subsidies.
- Promote cost efficiency and sectoral synergies in delivering maximum benefits to consumers.
- Ensure that EU legislation allows flexibility for innovation and national/regional developments.
- Consistency with 3rd Package and NCs implementation.
- Avoid over-regulation, so as not to stifle markets and overwhelm consumers.
- Ensure robust European regulatory system.
Key CEER Retail Positions on Clean Energy Package

• 24-hour supplier switching process by 2025 if CBA is positive

• Keep required consumer bill information simple

• Mandatory sector-specific certification of CTs not recommended

• We support enabling suppliers to offer dynamic tariffs - but requiring them to be provided could harm retail competition

• Maintain a flexible approach to Smart Meter roll-out

• Data interoperability more important for retail functioning than common data standard
The Dynamics of Wholesale Prices in Greece, Jan 2014 - Mar 2017

SMP Monthly Variation

€/MWh
Still, consumers were not seeing the effect of wholesale price drop until June 2016, i.e. until legislation on retail reforms (NOME) was introduced.
NOME Auctions

- Remedy for asymmetry due to PPC’s exclusive access to lignite and hydro. Auctions for alternative suppliers (Incumbent’s retail market share: 87.5%).

- In June 2016, RAE proposed the reserve price (37.37 €/MWh), which was adopted via a ministerial decision.

- RAE approves quantities, products, schedule (quarterly basis, yearly products).

- 1st auction: 25 October 2016, 460 MWh/h (highest bid: 37.5 €/MWh)
- 2nd auction: 31 January 2017, 145 MWh/h (highest bid: 41.14 €/MWh)
- 3rd auction: 26 April 2017, 145 MWh/h (highest bid: 40.09 €/MWh)

- Benefits should be balanced across consumer categories.
  Ex-post monitoring of retail market.
  Competitive charges and revenues per consumer category are submitted to RAE and assessed on a quarterly basis.
NOME Impact on Retail Tariffs
Competitive Charges for the Average Consumer

Inelastic competitive charges, not reflecting the drop in wholesale market costs ~1 bil €

Non-paying bills (2.7 bil € arrears) deter the reduction of tariffs for those that pay

15% discount for good payers by Incumbent

Offers of Alternative Suppliers

July - Consistent Customers

December - Consistent Customers