



How to improve the functioning of electricity retail markets: push or pull?

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Current and Future Challenges to Energy Security

Special session - Cognitive-based regulation for consumers empowerment

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Disclaimer: The opinions expressed in this presentation are those of the author and do not represent the official views of AEEGSI



Liberalization of the electricity markets in EU

1996: First Energy Package

- Beginning of the liberalization process

2003: Second Energy Package

- from 2007 also domestic consumers can choose their own suppliers

2009: Third Energy Package

- Increasing competition in the energy market
- Integration of national markets

2017: Clean energy Package proposal

- Empowering consumers



Expected benefits

Risk hedging

- increased number of price structures offered

Retailers' price-cost margin

- retail price close to the forward value of electricity on wholesale markets
- ...plus efficient operation costs

Retail markets structure

- reduction of incumbents' market shares
- high number of retailers, including foreign companies

Proactive consumers and elastic demand

- optimal switching and searching behavior
- demand elasticity

Additional advanced services

- demand side management



Memento

Complexity of the sector

- Value of energy variable in time and location
- Network externalities
- Metering and load profiling
- High taxes and levies (ex. renewable support)
-

Difficult to manage the transition from the incumbent local monopolies

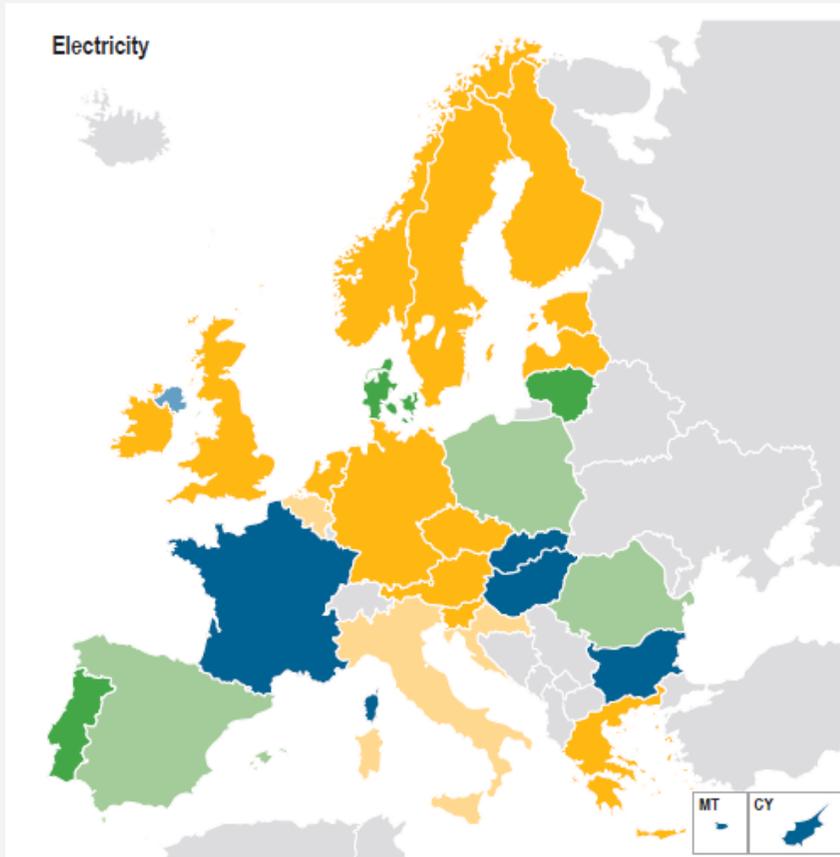
- Phase out of price protection regimes
- Regulation of default supplier....
- ...and of public service obligations



Where do we stand



Regulated prices still widespread



- 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

- Absence of regulated retail price only in 12 countries
- Different forms of retail price regulation (ex-ante, ex-post, market based)
- Always regulation of last resort supplier
- Always protection for vulnerable consumers

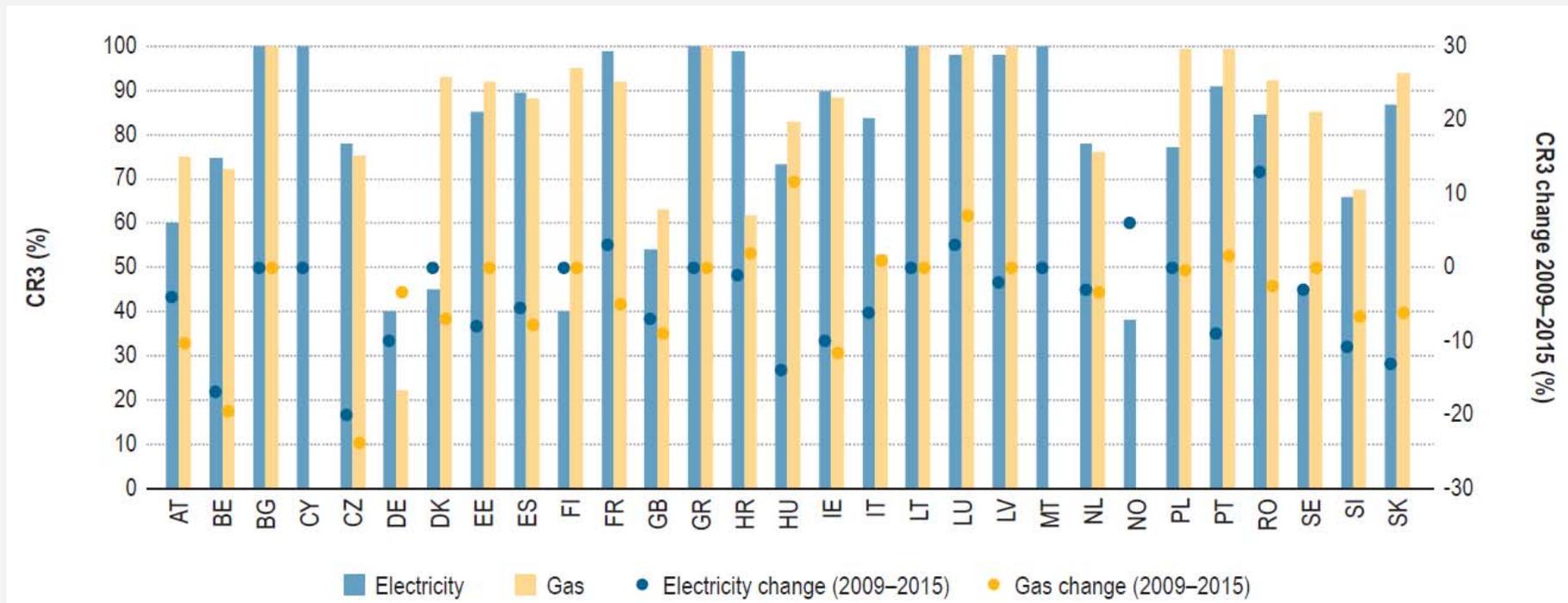
Source :ACER 2016 Market Monitoring Report. Data 2015

- Regulated prices for the household segment with roadmap for their removal
- Non-regulated prices with (a potential) ex-ante intervention in price setting
- Non-regulated prices



Incumbents still dominant

Share of the 3 largest suppliers (CR3) in 2015

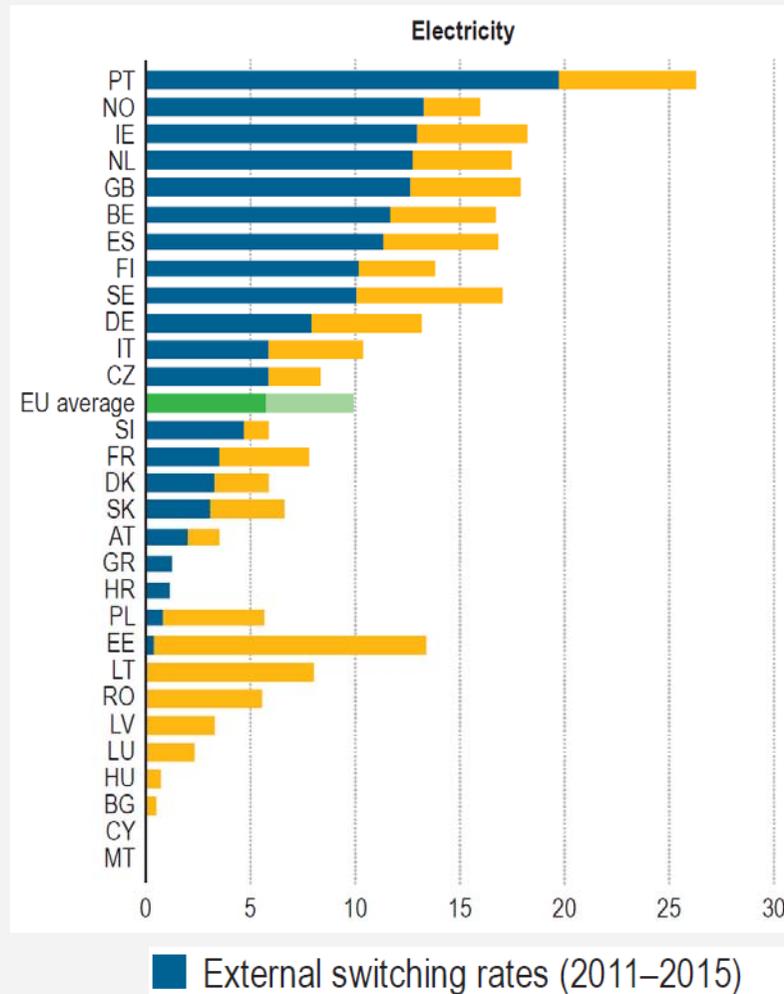


Source :ACER 2016 Market Monitoring Report

- In many countries the market share of the 3 largest suppliers is above 70%
- Incumbents have high market shares



Low switching rates



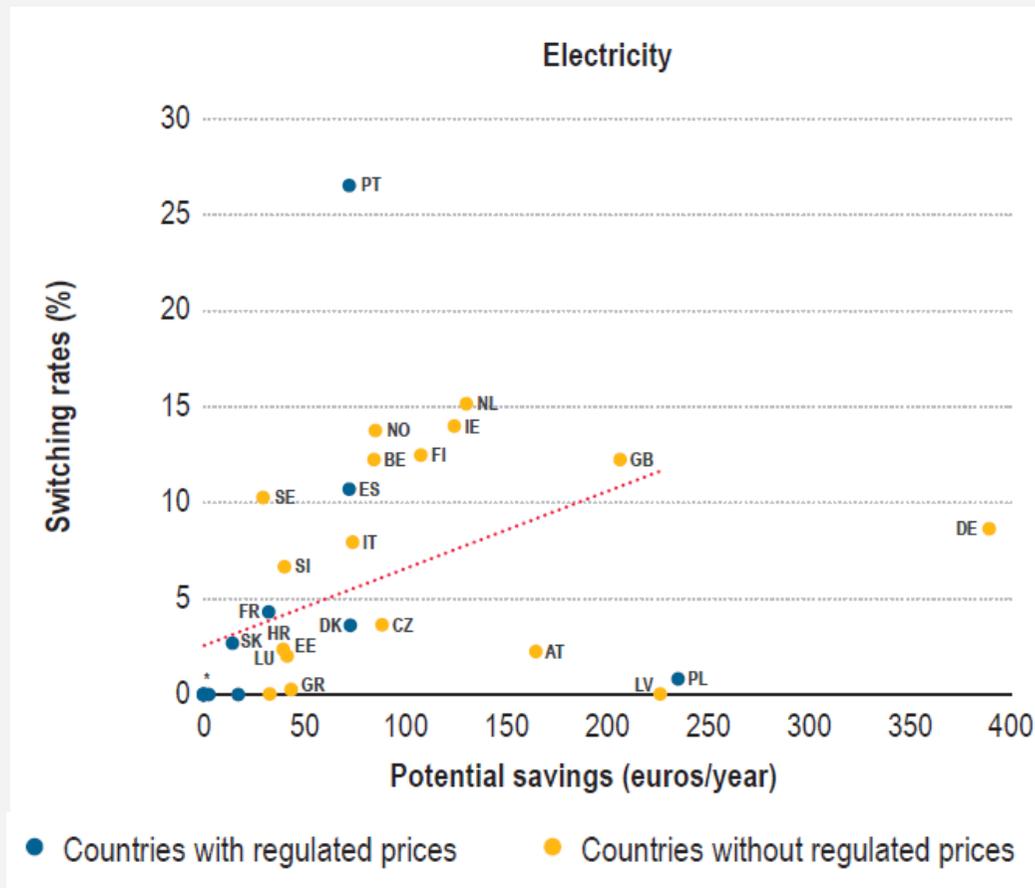
- Average below 10%
- Even in Countries with high saving potentials
- Switching mistakes are common among consumers

Source :ACER 2016 Market Monitoring Report



High price-cost margins

Relationship between 'external' switching rates and annual savings available in capital cities – 2015 (% , euros)

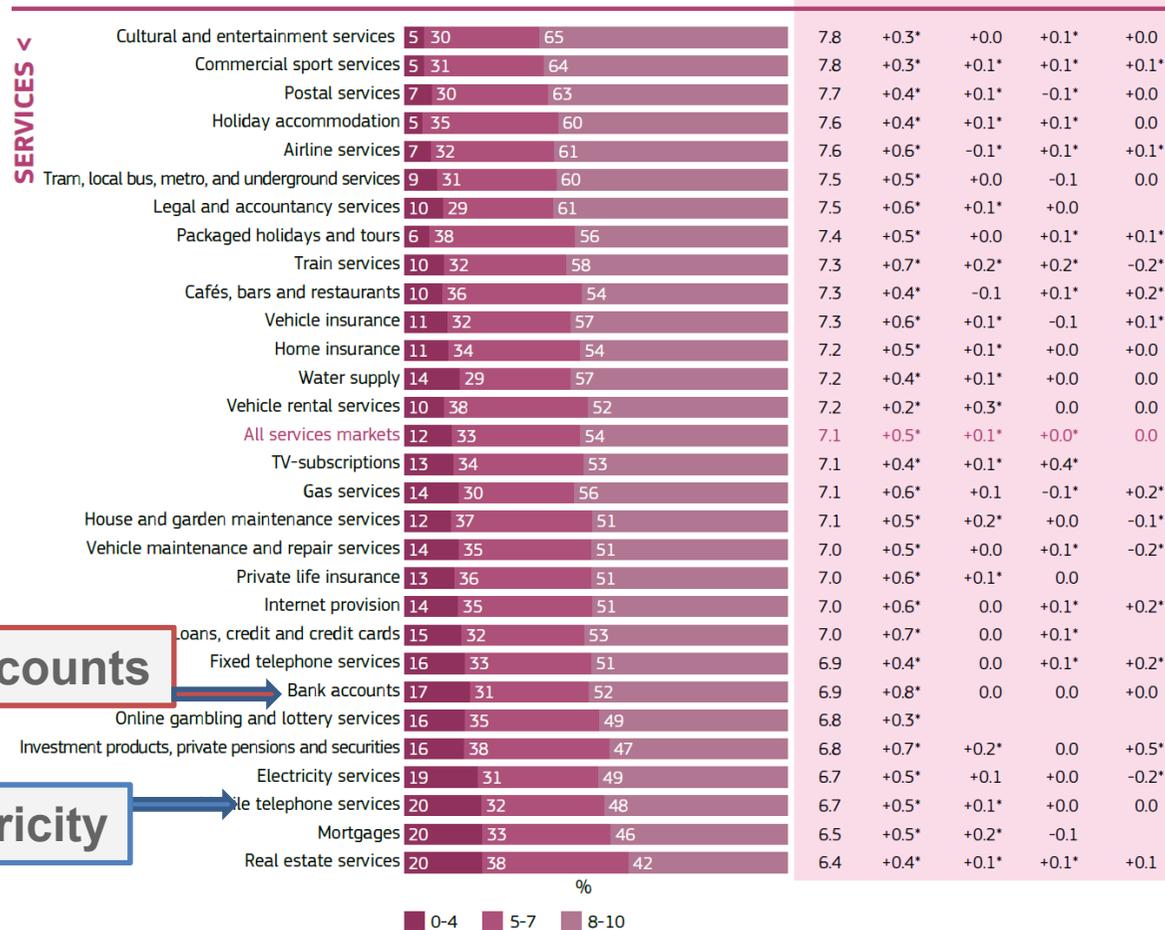


- Not only UK
- Germany, Austria, Lithuania

Source :ACER 2016
Market Monitoring
Report



Very low trust



Bank accounts

Electricity

Source :2016
Consumer
Markets
Scoreboard - EC

Trust by consumers - scale from 0 to 10



Lessons learned

- ✓ Inactive consumers
- ✓ Strong default bias
- ✓ Consumer decisions not always economically justified
- ✓ Price signal alone not enough to improve retail markets functioning
- ✓ Low trust in the market



Focus on the phase out of households price protection regimes



How to phase out price protection regimes

- ✓ **Let consumers choose: pool measures**
 - Data and information management rules to support a more efficient and accountable switching process
 - Metering
 - Billing
 - Standardized price structure
 - Price comparison tools
 - Tutela SIMILE



Italy: Tutela SIMILE (TS)

General Framework	Objectives
Harmonised standard offer	Easy to compare
Yearly discount on supply of last resort	Better frame of switching decisions
Web based	Cost efficient
Suppliers	Objectives
Not compulsory	Improve supply structure
Cap to the N. of consumers a supplier can serve as TS	Improve supply structure
Prerequisites for participation defined by the NRA	Improve consumer trust



Italy: Tutela SIMILE (TS)

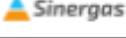
Switching	Objectives
Consumers freely choose to switch to TS	Consumer engagement
End of period consumers have to choose a supplier – no way back	Consumer engagement



Tutela SIMILE: annual discounts

	Engie	115 €	99092
	Eni	106 €	498947
	Vivigas	84 €	49647
	Hera Comm	80 €	9899
	Gas Natural Vendita	75 €	49984
	E.ON	70 €	499966
	Illumia	65,15 €	499990
	Bluenergy	65 €	499960
	Lineapiù	65 €	99989
	AGSM Energia	60 €	99924

	Edison	55 €	499986
	AIM Energy	50 €	9990
	SGR	40,8 €	499998
	Green Network	40,2 €	499999
	AZA Energia	40 €	499801
	Axpo	40 €	499996
	Sorgenia	36 €	9992
	Estenergy	35 €	9998
	Ascotrade	33 €	299994
	Enel Energia	33 €	499810

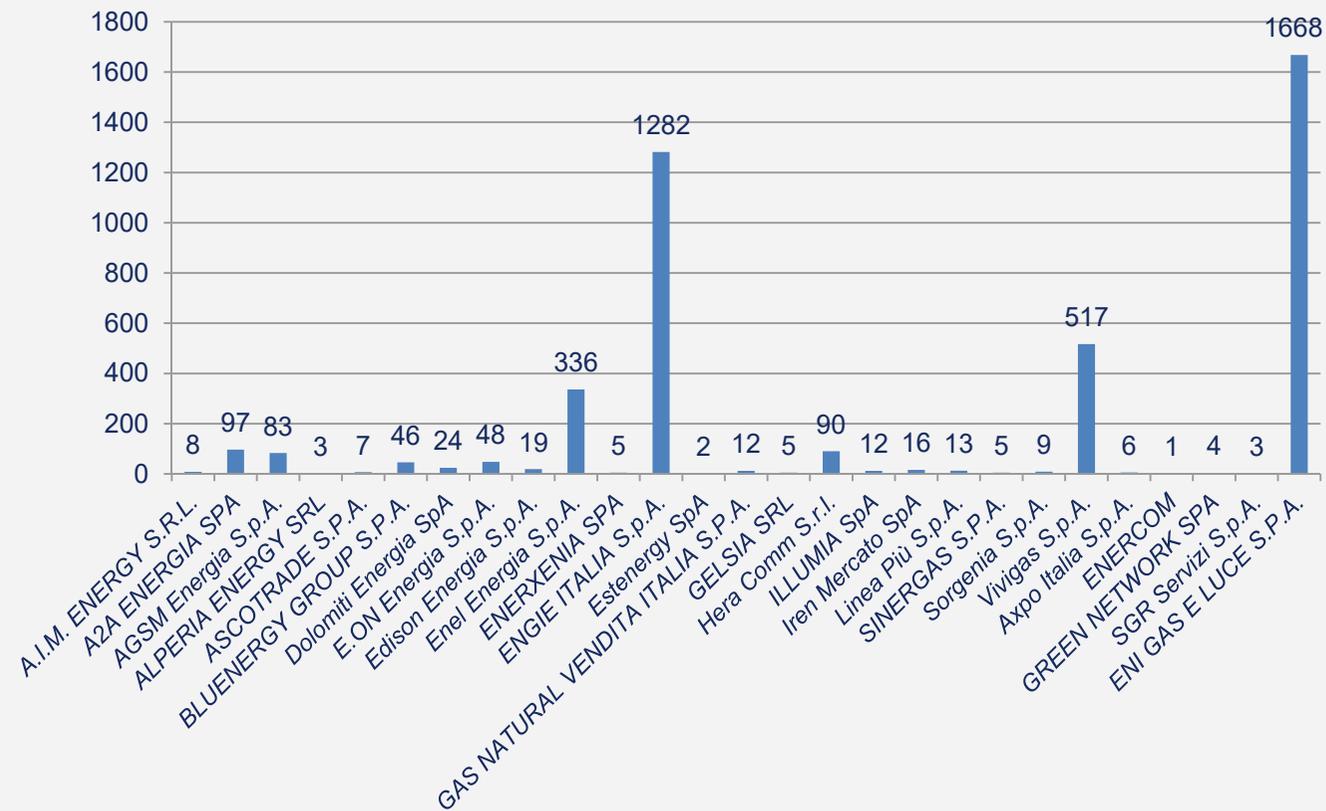
	Gelsia	33 €	199997
	Dolomiti Energia	31 €	499975
	Enerxenia	30 €	14995
	Alperia	25 €	49988
	Enercom	20 €	499999
	Iren	12 €	59981
	Sinergas	10 €	500000

<https://www.portaletutelasimile.it/offerte/offerte-domestici>



Tutela SIMILE: number of contract requests

January - August 2017



Source: <https://www.portaletutelasimile.it/offerte/offerte-domestici>



How to phase out price protection regimes

- ✓ **But: what happens to consumers that do not choose?**
Push measures
 - Disconnection: not feasible
 - Historic supplier as default (eg UK)
 - Auctioning
 - Price increase above costs



Portugal: push and pull (1)

- 2013: end of the regulated tariffs
- *Transitional period* with **cost based transitional tariffs** until end of 2015 for passive consumers
- **Possible surcharge** to avoid the tariff going below the market price **never applied**
- **Uncertainty** about supply conditions for passive customers at the end of the transitional period
- Transitional period has been extended and it is still ongoing
- The **policy was very successful**: since 2013 Portugal has the highest switching rate in EU of above 20%, although potential savings are not so high



Portugal: push and pull (2)

This success was due to the combination of ***pull measures***

- **strong communication campaigns** from regulator, government, stakeholders and consumer associations

And **perceived *push measures***:

- many consumers went to the market because of the uncertainty about the future

Consumers became very active (20% switching within the market)

20% of consumers still under the transitional tariff



Conclusions

Where are we going?



Two opposite visions

1. Very complex market that will remain characterized by passive consumers and market failures
2. The sector is becoming more dynamic thanks also to smart technologies that will make consumers active

The Third Package embraces the second vision

- Possibility for consumers to produce and sell electricity (prosumers)
- Complete phase out of regulated prices
- Scarcity pricing and balancing responsibility
- Demand side response

Need to better understand consumers' behavior and adjust regulation accordingly



Thank you for your attention

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