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**Performance of European Retail
Markets in 2017**

CEER Monitoring Report

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INFORMATION PAGE

Abstract

This document (C18-MRM-93-03) presents the CEER Monitoring Report on the Performance of European Retail Markets in 2017. ACER and CEER jointly publish the “Annual Report of the Results of Monitoring the Internal Electricity and Natural Gas Markets”, which includes retail- and consumer-focused volumes. The main objective of this CEER report on retail energy markets is to provide further analysis on some of the most important aspects of retail markets, allowing a more in-depth and comprehensive understanding of their performance and evolution. The topics addressed are also highly relevant to the discussions triggered by the European Commission’s “Clean Energy for All Europeans” proposals.

Target Audience

European Commission, energy suppliers, investors, traders, gas/electricity customers, gas/electricity industry, consumer representative groups, network operators, Member States, academics and other interested parties.

Keywords

Electricity retail markets; gas retail markets; market structure; entry/exit activities; market concentration; consumer issues; supplier switching; 3rd Package; market monitoring, price regulation, intervention in price setting; National Regulatory Authorities (NRAs); Clean Energy for All Europeans Package; Herfindahl-Hirschman Index

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Related Documents

CEER Documents

- “ACER-CEER – Annual Report of the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2017”, ACER/CEER, October 2018. <https://www.ceer.eu/national-reporting-2018>
- “Retail Markets Monitoring Report”, CEER, November 2017, Ref. C17-MMR-83-02. <https://www.ceer.eu/1256>
- “ACER-CEER – Annual Report of the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2016”, ACER/CEER, October 2017. <https://www.ceer.eu/national-report-2017>
- “Handbook for National Energy Regulators: How to assess retail market functioning”, CEER, January 2017, Ref. C16-SC-52-03. <https://www.ceer.eu/1256>
- “CEER Report on Commercial Barriers to Supplier Switching in EU Retail Energy Markets”, CEER, July 2016, Ref. C15-CEM-80-04. <https://www.ceer.eu/1257>

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EXECUTIVE SUMMARY

- (1) The ACER Conclusions Paper “Energy Regulation: A Bridge to 2025”¹ highlights the importance of competitive and fully-integrated internal markets for all European consumers and states that an efficient monitoring of retail markets is vital to evaluate progress and assure that its (positive) effects are to the benefit of all consumers. Recognising the importance of this monitoring function, and in line with EU requirements, every year ACER and CEER publish a joint Market Monitoring Report on the “Results of Monitoring the Internal Electricity and Natural Gas Markets”². The report consists of four volumes, including those on price developments and consumer empowerment issues in European Electricity and Gas Retail Markets.
- (2) The main objective of this CEER monitoring report on the performance of retail energy markets is to provide further analysis on some of the most important aspects of retail markets, allowing a more in-depth and comprehensive understanding of their performance and evolution. The topics addressed are also highly relevant to the discussions triggered by the European Commission’s “[Clean Energy for All Europeans](#)” proposals.
- (3) The report consists of three chapters on retail market developments, examining market structures, switching rates and price regulation in EU Member States (MS) and Norway (henceforth all simply referred to as MS), with a focus on changes between 2016 and 2017 and case studies on historical developments in some MS. The data used in this report stem entirely from NRAs’ input to CEER’s National Indicators Database.
- (4) The aggregated and country-based analysis of this year’s report leads to the following findings:

Market structure and entry/exit activity

- (5) A well-functioning retail market requires a sufficient number of active suppliers and robust competition among them. It is worth noting that although smaller countries tend to have fewer suppliers, this does not necessarily imply that competition is less developed or that energy prices³ are higher than in bigger countries.
- (6) European electricity and gas retail markets are characterised by differences in their structures. This is most obvious if one looks at statistics such as the overall number of suppliers or the number of suppliers that are active nationwide⁴. In 13 MS, 100% of the electricity and gas suppliers act on a nationwide level while in the remaining countries both regional and nationwide suppliers are active on the market. The highest number of household electricity suppliers that are active nationwide in 2017 has been recorded for

¹ “Energy Regulation: A Bridge to 2025, Conclusions Paper”, ACER, September 2014. Retrieved at: http://www.acer.europa.eu/official_documents/acts_of_the_agency/sd052005/supporting%20document%20to%20acer%20recommendation%2005-2014%20-%20%20energy%20regulation%20a%20bridge%20to%202025%20conclusions%20paper.pdf

² Most recent edition: “ACER-CEER – Annual Report of the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2017”, ACER/CEER, October 2018. <https://www.ceer.eu/national-reporting-2018>

³ Data and detailed analysis on price levels and price developments can be found in the [Retail Volume of the ACER-CEER Retail Market Monitoring Report 2017 per the previous citation](#).

⁴ Nationwide suppliers are those serving clients in the whole country. A supplier is considered as active when having at least one client in the country. Many energy markets (e.g. Austria) are organised on a regional level (or lower) instead of on a national level. In Germany, half of the suppliers are active only on a regional level, supplying in less than 10 network areas. In the analysis of nationwide suppliers, the characteristics of each national market are not taken into account, thus, the real size of the market can vary significantly.



Spain and Norway, with 213 and 82 suppliers, respectively. In the gas market, the number of household suppliers that are active nationwide is the highest in the Czech Republic (110), followed by Great Britain (101), while in a few countries there is only one supplier.

- (7) In the majority of MS (20 out of 27), there are more nationwide electricity suppliers in 2017 than there were in 2016, which can be interpreted as a positive development for consumers. In the case of gas markets, the number of nationwide suppliers increased in 10 out of 23 MS. In six MS, the number of nationwide suppliers was constant but seemed to be sufficient to ensure a certain level of competition as there are multiple active suppliers competing on the market. In the electricity sector, Poland and Spain are the countries with the highest increase in the number of nationwide suppliers in 2017: 38 and 10 more, respectively. For gas, the country with the highest increase in the number of available nationwide suppliers since 2016 was Great Britain (22).
- (8) In some MS, a remarkable amount of market activity in terms of entry/exit number of suppliers occurred in 2017, however, on average, the markets are not as active as they were during 2016. The country that experienced the most entries to its electricity retail market was Germany, with 89 new entrants, which would tend to indicate low entry barriers in this MS. Meanwhile, as in 2016, gas markets remain less active in terms of entry/exit activities. Italy is the country with most new entrants (50), out of which three are from a foreign country, while 23 suppliers exited the market.
- (9) Although new suppliers in the MS are mainly national, there are various suppliers which act on an international level (e.g. E.ON is present in the majority of MS, while RWE, EDF, ENI, ENGIE and Alpiq are also active across several MS). Interestingly, in Ireland, all new entrants came from another country.

Market shares and market concentration

- (10) As a result of unbundling, other liberalisation measures over the years and favourable wholesale market access and price conditions, many new companies entered retail markets and are operating as alternatives to incumbent suppliers.⁵ Despite the slow decrease in the shares of the three largest suppliers in many countries and persistent high levels of market concentration in most EU electricity and gas retail markets, some positive developments can be reported for 2017 in terms of the common market indicators CR3⁶ and HHI⁷. For the household sector, there were 10 countries in 2016 with a CR3 equal to/above 90% in both gas and electricity markets, denoting high levels of concentration in those markets. In 2017, this number fell to eight countries. Furthermore, the calculations show that, in electricity, eight countries⁸ have an HHI below 2,000, which indicates that these markets are less concentrated. In 2016, that was true for only five countries. For gas, the number of countries with a HHI below 2,000 moved from two to three from 2016 to 2017.

⁵ Though some of these new suppliers from abroad may be incumbents in their home countries.

⁶ CR is a traditional structural measure of market concentration based on market shares. In this report, we measure the concentration ratio "CR3" which measures the total market shares of the 3 largest suppliers in one market.

⁷ HHI refers to Herfindahl-Hirschman Index which ranges between 0 for an infinite number of small firms and 10,000 for one firm with 100% market share. Based on guidance from the EC, an HHI above 2,000 signifies a highly concentrated market with a small number of firms.

⁸ Some countries do not monitor this indicator.



Switching rates

- (11) Customers' switching activities depend on many different factors, such as a lack of monetary incentives which might occur due to below-cost regulated prices. However, there are further behavioural or procedural factors (such as awareness and simplified/automated processes) which need to be considered as well. This year's analysis underlines the complexity of the issue: the eight countries with an external (to a different supplier) electricity switching rate above 10% in 2017 (Belgium, Finland, Great Britain, Ireland, Norway, Portugal, Spain and the Netherlands) have, on average among this group, a lower contestable part in the bill⁹, but may also differ on non-monetary and other factors. The internal switching rate, meaning a renegotiation of/change of contract with the current supplier, is highest in Great Britain and Sweden, with 27% and 26% respectively.
- (12) For gas, the highest external switching rate for 2017 was reported by Great Britain (18.6%), the lowest by Luxembourg (0.2%). Countries with a relatively high switching rate in 2017 (at least 10%) were France, Ireland, Portugal, Spain and the Netherlands. In Luxembourg, Poland, Romania and Sweden there is almost no customer activity in the gas market. In France and Ireland, the switching rate increased by more than four percentage points from 2016 to 2017. Customers in Great Britain renegotiate contracts with the current supplier the most (30%).
- (13) In most cases, switching rates in 2017 were significantly higher than the average of the years from 2012 to 2016. This might be a positive impact of policy measures set at European and national level and their potential impact on competition. For electricity and gas, the external switching rate in France increased the most (+4.2 percentage points for gas and +2.5 percentage points for electricity).

Offers

- (14) Greater product variety on the market might also stimulate the switching activities of customers. In terms of product variety, customers have generally more choice for electricity than for gas. For electricity and for gas, the most common offer components are fixed and variable pricing, followed by green offers for electricity and online pricing/billing options for gas.
- (15) Customers in Great Britain are offered the largest variety in terms of electricity products, followed by Norway and France. For gas, Great Britain again offers the widest variety, followed by France and Italy.

Regulated prices

- (16) The number of MSs with price regulation in place remains high. For the household segment, 13 MS for electricity and 12 for gas still apply price regulation to household customers, 11 of which have it in place for both markets. Compared to the total number of households, three countries, Poland, Bulgaria and Romania have the highest percentage of households supplied under regulated prices with a percentage between 88% and 97% in electricity, whereas in Hungary, Cyprus, Lithuania and Malta 100% of the households are supplied under regulated prices. Regarding the gas market, the number of customers supplied with

⁹ See the [Retail Volume of the ACER-CEER Retail Market Monitoring Report 2017. With a low contestable portion of the bill, there is less scope for difference among suppliers in percentage terms.](#)



regulated prices is 100% in six countries out of 12 with regulated prices. Six MS for electricity and five for gas still apply regulated prices for non-household customers.

- (17) Denmark, Greece¹⁰ and Poland¹¹ reported the successful removal of regulated prices during 2017 or the beginning of 2018. Lithuania, Portugal and Romania are on the road towards removing regulated end-user prices in the coming years, while Great Britain reintroduced regulated prices in the form of a price cap on domestic prepayment meter charges. For the first time in 2017, the Netherlands imposed maximum tariffs (retroactively) for two electricity products of one supplier for a limited period of time, from the 1 January 2017 to 30 June 2017.
- (18) The existence of regulated energy prices does not seem to always necessarily hinder switching activities. The level at which the regulated price is set also plays a role, as switching seems to be less encumbered if the regulated price is still at a relatively high level. Bulgaria, Poland, Portugal, Romania and Spain are the countries for which data on switching activities from and to regulated prices is available in 2017, while others do not differentiate switching activities related to regulated prices. For gas customers, such data is available only for Poland, Romania and Spain.

¹⁰ This removal refers to all gas customers since 1st January 2018.

¹¹ Poland reported the removal of regulated-end user prices for non-household gas customers.



1 Market structure

1.1 General overview

The 3rd Energy Package¹² has been enacted to fulfil the objectives of the European energy policy, including in particular to complete the single and well-functioning energy market, where customers can benefit from more choice and lower prices. Implementation of this package will result in increased competition, transparency of retail markets, and reinforcement of consumer protection rules. A well-functioning retail market requires sufficient competition among suppliers, which tends to be positively related to the number of active suppliers and to DSOs acting as neutral and efficient market facilitators on a level playing field.

This chapter examines the main developments with regard to market structure in the electricity and gas sectors, which is an important element in understanding the level of competition and the overall functioning of retail energy markets. Although the European electricity and gas retail markets are still driven by many national differences, an aggregated analysis is aimed at delivering the overall impact of European legislation on selected aspects of European retail markets. In order to better illustrate the national differences and developments, this chapter will provide two case studies on Germany and Great Britain where market structures and the progress since the 3rd Package will be described and analysed.

The overall trends show that retail electricity and gas markets develop continuously but still slowly, with the exception of a few countries, where no progress can be noted since several years. This is mainly because of price regulation/intervention in the setting of energy prices below costs, and often because of the presence of only one main supplier and therefore very little choice and switching activity among customers.

Figures 1 and 2 present the total number of nationwide suppliers per country in the whole retail market. In the electricity sector, Spain and Poland are the countries with the most nationwide¹³ suppliers in 2017. Spain has 213 active nationwide suppliers, 38 more than in 2016, becoming the country that has experienced the highest increase in the number of nationwide suppliers. Poland has 139 nationwide suppliers, 10 more than in 2016. On the other hand, Cyprus and Malta have, as in 2016, still just one nationwide supplier.¹⁴

¹² <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>

¹³ Nationwide means offering the product throughout the whole country, while active supplier means having at least one customer. In some countries (e.g. Austria with regard to the gas market) markets are not national, but defined of a smaller (often regional) size. In the analysis of nationwide suppliers, the definition of national markets is not taken into account, meaning that the real size of the market can vary significantly.

¹⁴ Cyprus and Malta have a status as EU energy islands and as emergent systems under the 3rd Energy Package, which allows opt outs from certain provisions. This should be taken into consideration not only here, but throughout this report.

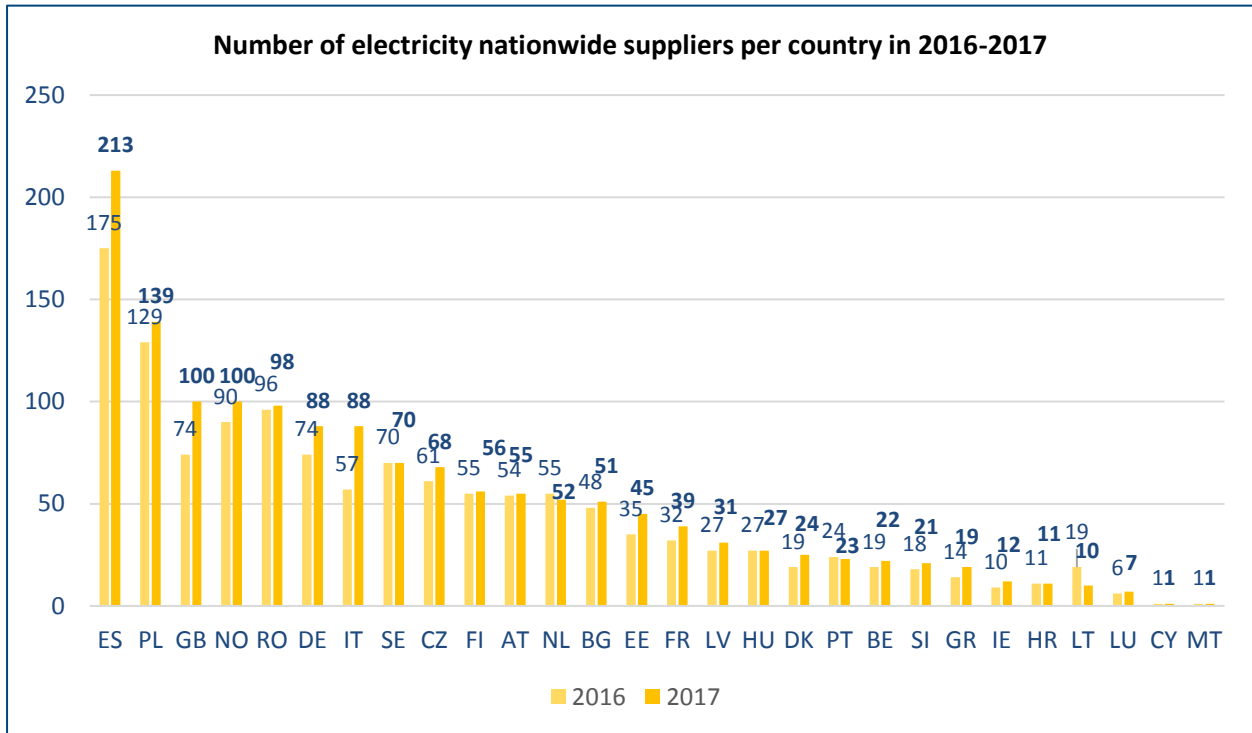


Figure 1: Number of nationwide electricity suppliers per country in 2016 and 2017

In the gas sector, the Czech Republic is the country with the most nationwide suppliers (110), followed by Great Britain (101) and Poland (76). In addition, the countries with the highest increases in the number of available nationwide suppliers since 2016 were Great Britain (22), Spain (15)¹⁵ and Poland (15).

¹⁵ In Spain, this boost is related to an increase in the number of agents operating in the organised gas market (managed by [MIBGAS](#)). MIBGAS commenced operations in 2016, since then, the organised market has progressively gained both volume and participants. In 2017 MIBGAS reached 65 registered agents, 20 more than in 2016. The volume of transactions also doubled from 2016 to 2017.

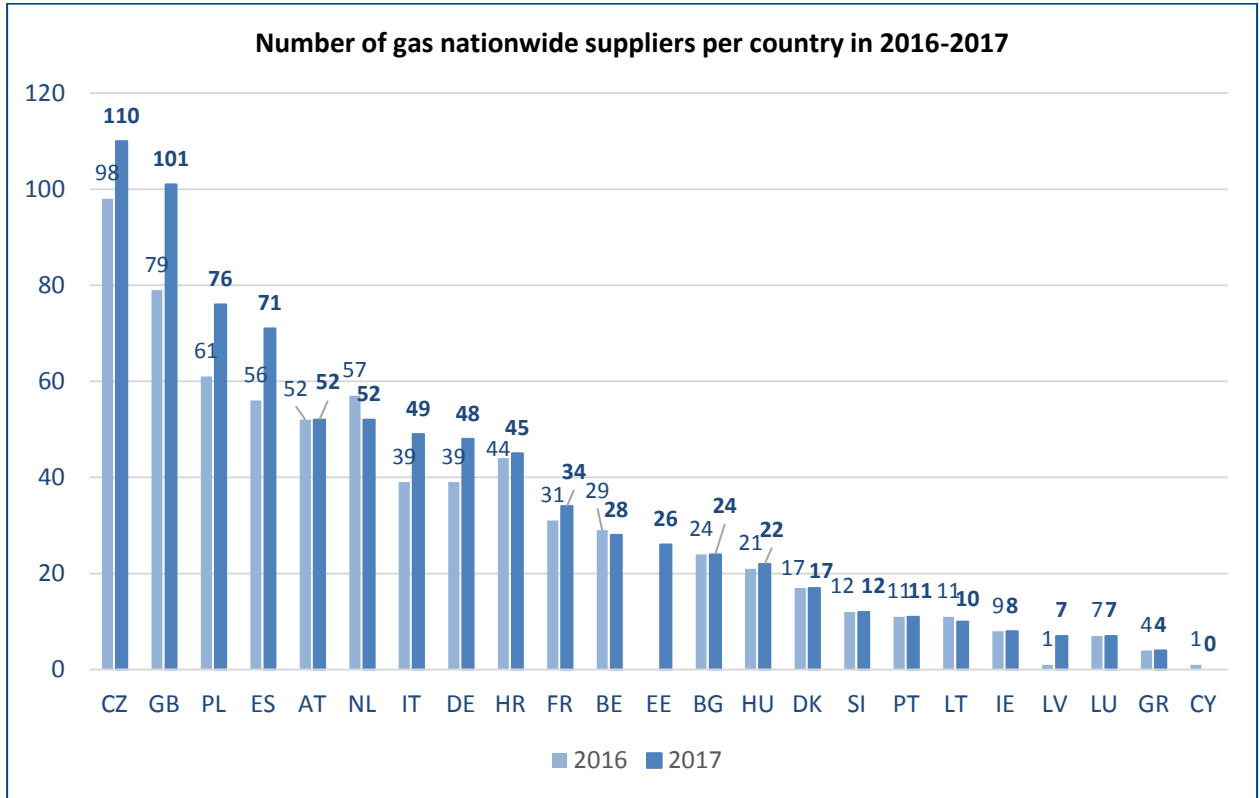


Figure 2: Number of nationwide gas suppliers per country in 2016 and 2017

A high number of nationwide suppliers may be related to low entry barriers.

On the other hand, to monitor market concentration, figure 3 exhibits the evolution of the average market shares of the three largest suppliers in each country, considering EU weighted averages (by number of consumers per country) and taking into account household and non-household sectors. National electricity and gas retail markets are dominated in many countries by a few suppliers. Comparing the developments of electricity and gas market shares, the gas sector is experiencing a slightly faster decrease in the dominant market shares, experiencing a decrease of almost 10 percentage points between 2011 and 2017

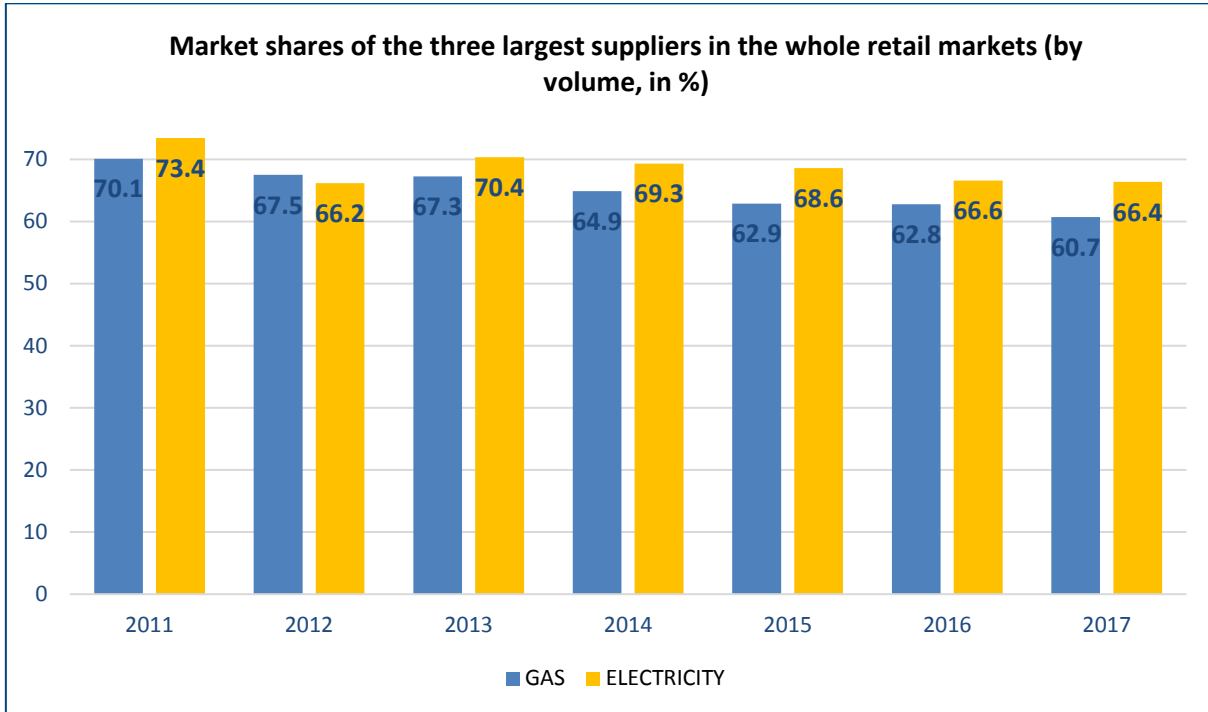


Figure 3: Market shares of the three largest suppliers in the whole retail markets for electricity and gas by volume, in % (Excl. Gas: CY, DE, UK, SE and Electricity: CZ, DE, FI, DE, UK, SE)

Even though the aggregated development of the European average seems to be slightly downwards, performances by single MSs are disparate. In the gas sector, France and Croatia are the countries that have experienced the highest decreases on market concentration levels over the observed period (decreases above 29%) while Hungary is the country that has experienced the highest increase in market concentration (28%). In electricity, the country that performed the best was Bulgaria, achieving a 37% decrease in market concentration, taking into account that in 2011, CR3 in Bulgaria was 97% and that the number of electricity consumers has increased by a million during the referenced period (from 5 to 6 million consumers). In a few countries, no significant change occurred, and few large suppliers still dominate national retail markets.

In general, a sufficient number of suppliers is needed to develop a competitive market. In relatively small countries (e.g. Slovenia, Portugal, Lithuania, Ireland or Luxembourg) the number of active suppliers is usually much lower than in bigger markets, which does not necessarily imply that competition in these markets is less developed. However, there are differences in some countries between the number of suppliers holding licenses and therefore being allowed to offer electricity or gas nationwide, and the number of suppliers who actually participate in the market.



1.2 Household segment

1.2.1 Number of suppliers and entry/exit activity

In order to facilitate competition and innovation, barriers to market entry and growth for new market actors (i.e. suppliers and third parties) as well as barriers to innovation (including demand response) need to be as low as possible¹⁶. Therefore, total number and entry-exit activity of suppliers are indicative of consumers' choice and of the available options in each national market as well of a presence of local suppliers owned by local DSOs, while the low/high entry-exit activity are indicative of the existence/non-existence of entry barriers.

As results in Figures 4 and 5 show, there are significant differences in some countries between the total number of suppliers and the number of suppliers which are active nationwide. In Italy the majority of suppliers are active in their local area only. In Italy, there are in total around 490 electricity suppliers and around 370 in gas, but only 54 in electricity and 36 in gas are active nationwide¹⁷. In Germany there are more than 1,250 electricity suppliers of which just 64 are active nationwide and more than 880 gas suppliers of which just 37 are active nationwide.

The number of electricity suppliers for households that are active nationwide is the highest in Spain, Norway and Sweden with 213, 82 and 70 suppliers, respectively. In other countries, this figure varies from one supplier in some countries like Malta, Hungary and Cyprus to around 60 in countries Romania, Germany and Great Britain. In the gas market, the number of household suppliers that are active nationwide is the highest in the Czech Republic, followed by Great Britain and Spain while the lowest number of suppliers is found in Hungary, Latvia and Luxembourg¹⁸.

The figures below show the percentages of nationwide suppliers for household customers in electricity and in gas out of the total number of suppliers in the selection of countries¹⁹. When analysing the data, it becomes obvious that many countries with low HHI values have less than 70% nationwide suppliers, implying that the size of the relevant market is smaller than a national one (e.g. DSO areas in Austria).

¹⁶ See CEER Position paper on well-functioning retail energy markets (2015), Ref: C15-SC-36-03

¹⁷ The large number of non-nationwide suppliers in the Italian electricity market (calculated as the number of suppliers which are not active in all the 20 Italian regions; most of these are traditional municipal suppliers) is balanced by the existence of a small number of suppliers active nationwide which cover almost the whole electricity market. The market share of the 54 nationwide suppliers is equal to 93.5% of the household retail market.

¹⁸ Note that some MS do not have retail gas markets.

¹⁹ Some countries are missing from the figures, as they do not have all the available data either for the total number of suppliers, either for the number of nationwide suppliers.

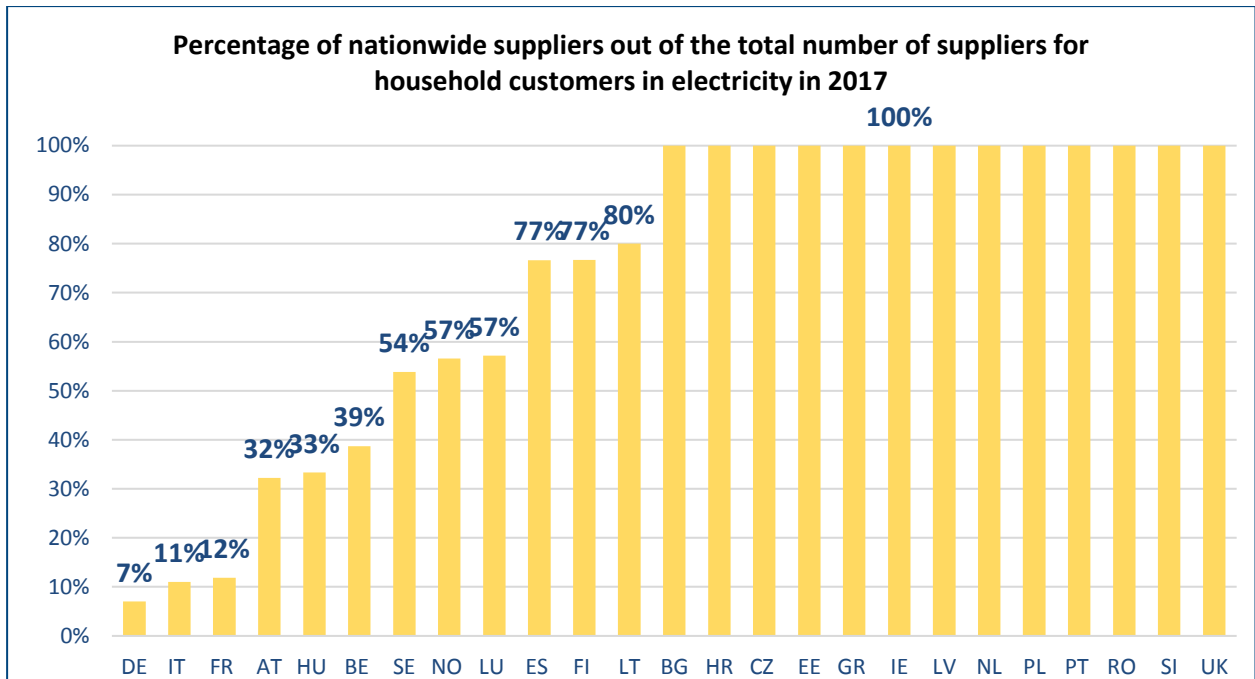


Figure 4: Percentage of nationwide suppliers out of the total number of suppliers of household customers in electricity in 2017 for selected countries

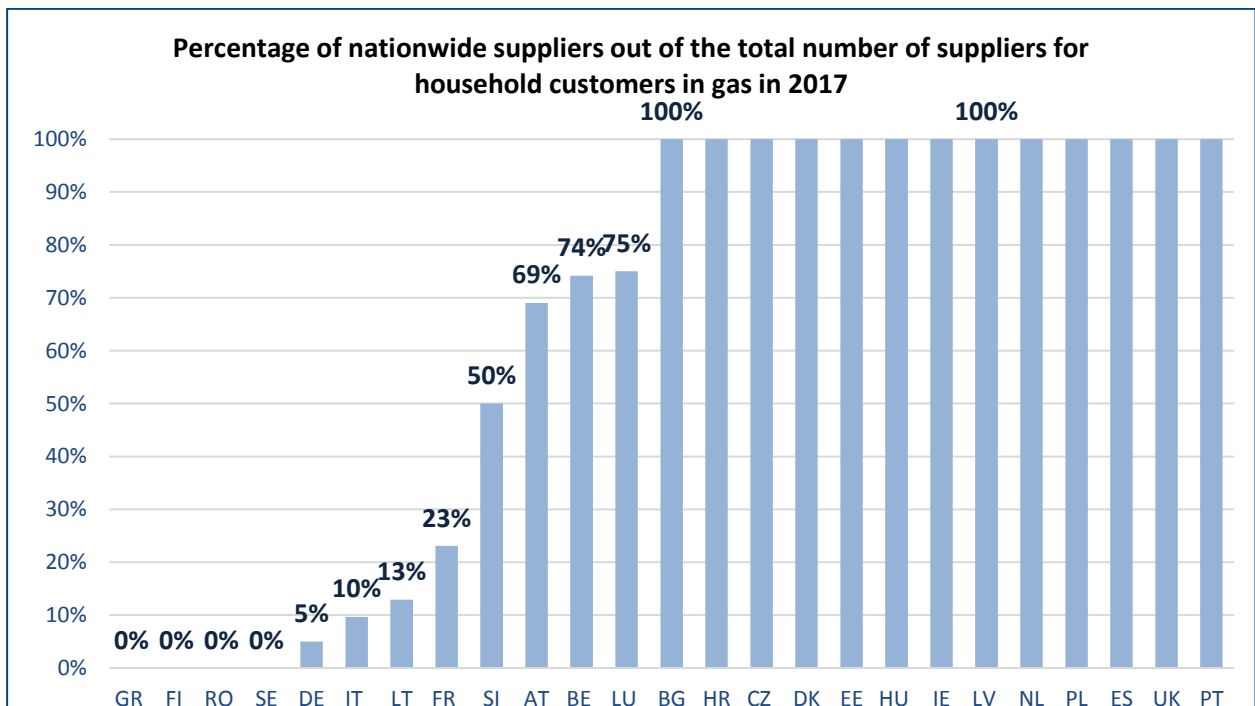


Figure 5: Percentage of nationwide suppliers out of the total number of supplies for household customers in gas in 2017 for selected countries



A higher number of suppliers active nationwide usually implies more offers and thus, more customer choice. It also acts as a driver for consumer switching.

In some MSs very significant market activity with entry/exit activity of suppliers has occurred in 2017, however, in general, the EU selected markets are not as active as they were during 2016. The country that experienced more entries was Germany, with 89 new entrants. In Spain, in the whole household electricity market there have been 27 new entrants and only 8 suppliers that have exited the market. In Italy, 42 new suppliers have entered the household electricity market (of which just one came from a different country) and 38 suppliers have exited the market; giving a net balance of 4 new entries along 2017. In Bulgaria, 5 new nationwide suppliers have entered the household electricity market in 2017, but 5 have also exited the market. On the other hand, it is worthwhile to point out that in Ireland all new entrants came from another country.

Some entry/exit activity is also recorded in other countries albeit with a less significant number of entrants and fewer suppliers exiting their markets.

The results show that the gas market is still less active in terms of entry/exit activity. Italy is the country with the most entrants (50), 3 of them coming from a foreign country and 23 exiting the market. In the rest of the analysed countries, the number of suppliers that have entered the gas household market along 2017 varies between 0 and 15, with few exits, between 0 and 2. In 13 MSs for electricity and gas, 100% of suppliers are nationwide. Interestingly, some countries show both low levels of market concentration and nationwide suppliers, indicating that competition takes place, but that the size of the relevant market is smaller than a national one.

1.2.2 Market shares and market concentration

While absolute numbers of the suppliers and their entry/exit levels statistics can deliver useful insights on the market structures and entry barriers, indicators such as market shares and concentrations are important to understand competition dynamics. With low market concentration, the ability of any market player to exploit market power to the detriment of consumers is reduced and consumers can benefit from competition, innovation and customer services.

Figure 6 and Figure 7 illustrate the level of concentration of European retail markets for households in electricity and in gas in 2017, measured by the concentration ratio CR3²⁰, expressed as the sum of the market shares of the three largest suppliers in a market by metering points as well as the number of suppliers with a market share above 5%.

There are eight countries in electricity and eight in gas with a CR3 equal or above 90%, in comparison to 2016, when there were ten countries in gas and ten in electricity with CR3 equal/above 90%. It means there is still a very high level of market concentration.

²⁰ CR is a traditional structural measure of market concentration based on market shares. In this report we measure the concentration ratio 3 which measures the total market shares of the 3 largest suppliers in one market. For the purpose of this analysis data is available on national level only, even though not all markets are defined as national, but might be of a smaller (regional) size.

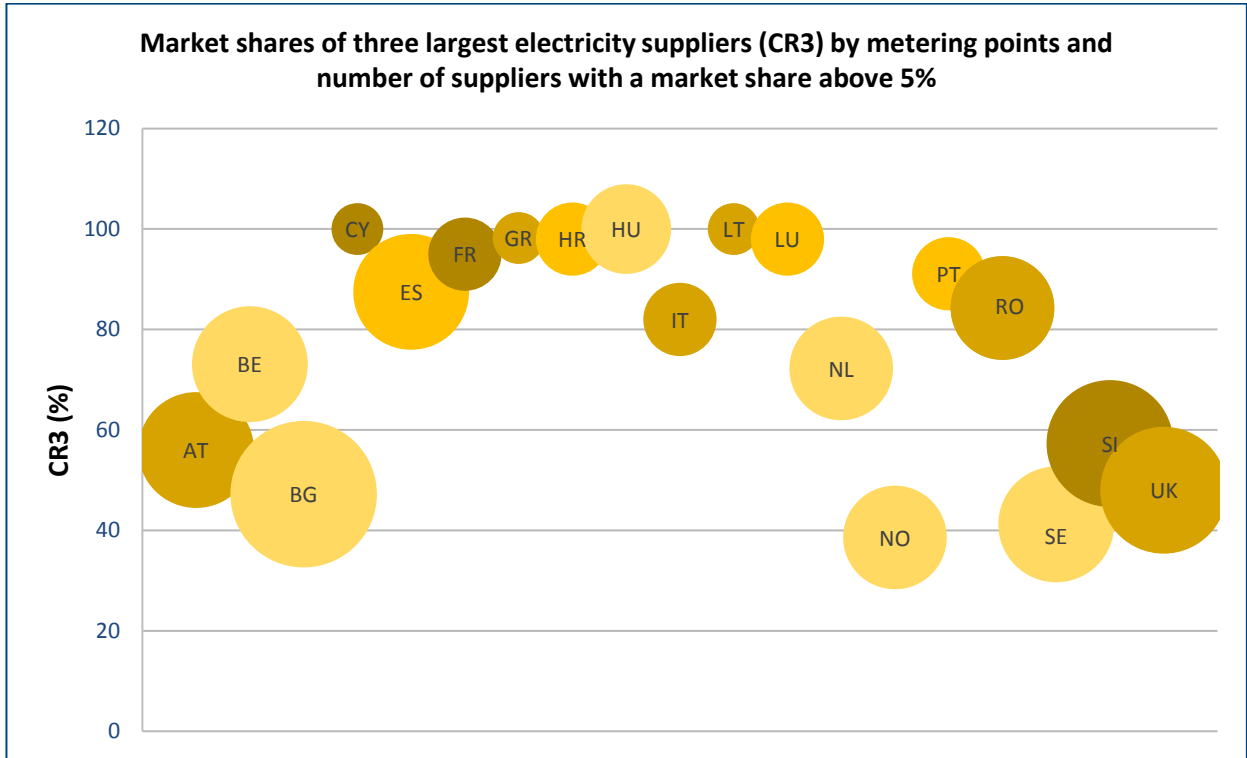


Figure 6: Market share of three largest nationwide suppliers (CR3) and number of main suppliers with a market share above 5% in electricity on the household market for selected countries in 2017
 Note: The size of the circle represents the number of suppliers with a market share above 5%. The colours of the circles are chosen randomly. The X axis presents countries by alphabetical order.

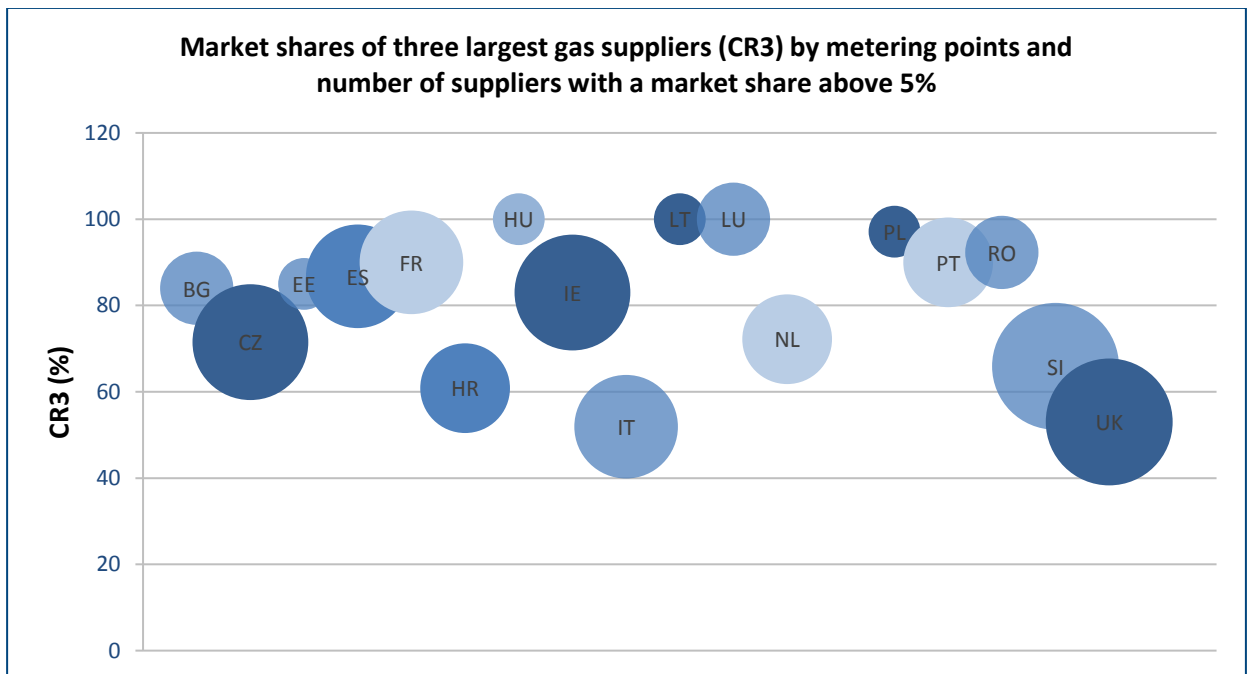


Figure 7: Market share of three largest nationwide suppliers (CR3) and number of main suppliers with a market share above 5% in gas on the household market for selected countries in 2017
 Note: The size of the circle represents the number of suppliers with a market share above 5%. The colours of the circles are chosen randomly. The X axis presents countries by alphabetical order.



In non-concentrated household electricity markets according to CR3, such as Norway, Bulgaria and Sweden, the number of suppliers with market shares above 5% varies between 4 and 8. On the other hand, in these same MSs, the number of overall suppliers with market shares below 1%, is 125 in Norway (out of 145 suppliers in the country), 20 in Bulgaria (out of 35 suppliers in the country) and 112 in Sweden out of 130. Thus, there are many suppliers with low market shares, which might reflect there is a high number of new nationwide suppliers that entered these markets very recently or that there are many suppliers active exclusively at a local level.

In the gas sector, Great Britain has the lowest CR3 in 2017, with 51 suppliers (out of 64 suppliers in the country) holding market shares below 1%. Other countries like Italy, Czech Republic, France, Romania and Spain that also have a high number of suppliers with market shares below 1%.

The HHI²¹ is another indicator to measure the degree of market concentration. It is calculated as the sum of the market squares of all firms in the market. Figure 8 and Figure 9 present the HHI for electricity and for gas in the household segment.

The results show that in only 8 out of the 21 responding countries²² in electricity, the HHI is below 2,000 proving a low concentration in the household market. In two countries, Cyprus and Lithuania, there is an HHI value of 10,000, meaning that there is just one supplier and therefore no competitive development. Retail electricity markets for households are also highly concentrated in many other countries, there are 7 MSs with HHI values between 3,000 and 8,000.

The situation was different in 2016, although there were five MSs with HHIs below 2,000, nine MSs got an HHI score between 5,000 and 10,000. Cyprus, Lithuania and Greece got the highest scores, with HHIs above 9,000.

²¹ It ranges between 0 for an infinite number of small firms and 10,000 for one firm with 100% market share. Based on guidance from the EC, an HHI above 2,000 signifies a highly concentrated market. For the purpose of this analysis data is available on national level only, even though not all markets are defined as national, but might be of a smaller (regional) size.

²² Some countries do not monitor this indicator, such as Sweden, for instance.

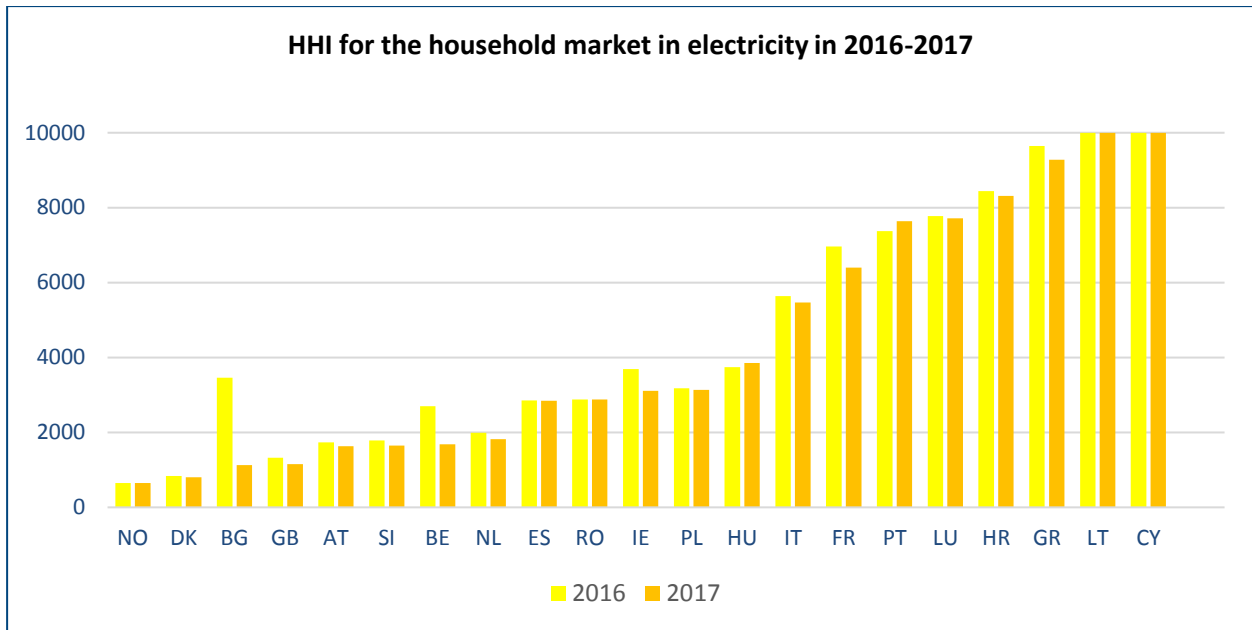


Figure 8: HHI for the household market in electricity for selected countries

In the gas retail market there are three countries, out of the 17 responding MSs, where the household market presents low market concentration with a HHI below 2,000. Therefore, in all remaining countries household markets are highly concentrated. In 6 countries, the HHI is between 2,000 and 4,000 while in another 6 MSs HHI values range between 4,000 and 6,000.

In 2 MSs, Hungary and Lithuania, the HHI is almost 10,000 (in Lithuania there is one incumbent nationwide supplier in gas, but there are other smaller suppliers supplying gas to customers located in different regions of the country).

In 2016, there were two MSs with HHIs below 2,000. There were six MSs with HHI values between 2,000 and 4,000 and two MSs, Lithuania and Poland above 9,000.

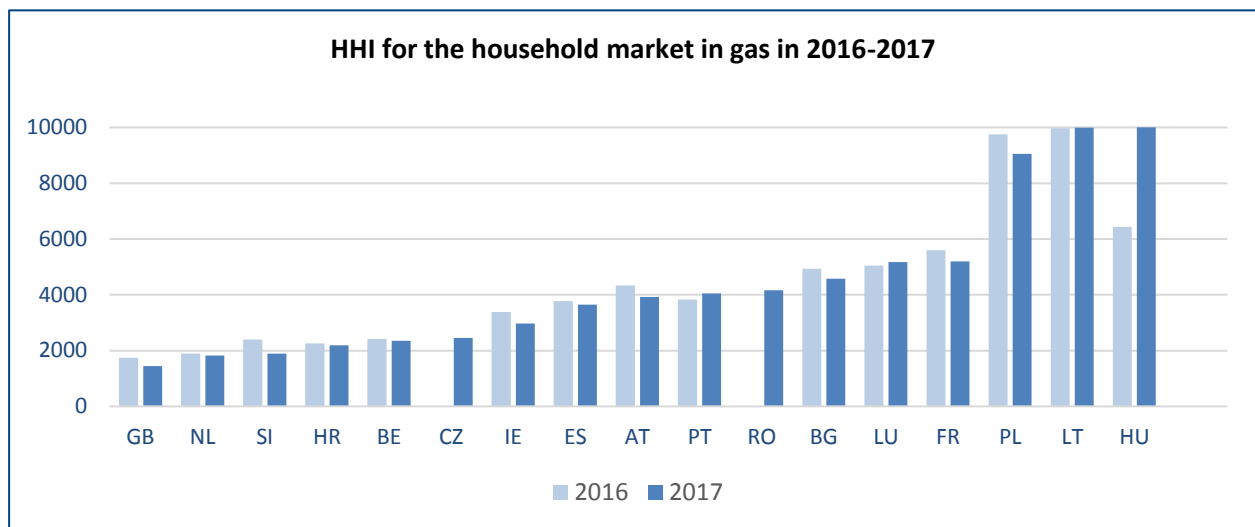


Figure 9: HHI for the household market in gas for selected countries

Comparing 2016 and 2017 electricity scenarios, it is noted that there has been an overall decrease in the EU HHIs related to a market competition increase. Belgium and Bulgaria are the two countries with greater decreases, 1,020 and 2,328 points respectively.

The opposite happened in the gas market where there has been a slight increase of the HHI between 2016 and 2017. This is due to high HHI increases in Hungary and Luxembourg. On the other hand, the most important decrease has been registered in Slovenia, where the HHI has fallen by 496 points between 2016 and 2017.

Comparing electricity and gas markets, the household electricity segment gives, in general, better results in comparison to its gas counterpart (i.e. electricity markets are less concentrated).

1.3 Non-household segment

1.3.1 Number of suppliers and entry/exit activity

The total number of electricity suppliers in a country ranges between one in Cyprus or Malta and 1,404 in Germany, and for gas between three in Greece and 990 in Germany. However, as the figure below shows, in some countries there is a significant difference between the total number of suppliers and the number of suppliers that are active nationwide.

In some countries, the majority of suppliers are active only within their local area (e.g. in France and Austria in the electricity market). Therefore, the number of suppliers active nationwide is smaller in some of these countries (32 active nationwide suppliers in France). The number of electricity suppliers for non-households that are active nationwide is the highest in Spain (213 nationwide suppliers). In Poland the 139 suppliers operating in the country are also active nationwide. The same case applies in some other countries, such as Romania with 98 suppliers in the country that are at the same time active nationwide.

As results show for gas, in Italy and Germany the number of nationwide suppliers is much lower than the total number of suppliers, where a certain activity of suppliers on a local/regional level is noted. On the other hand, in 12 MSs out of the 26 MSs that have replied, all suppliers are active nationwide.

The two figures below present the percentages of nationwide suppliers²³ compared to the total number of suppliers in one country. In some countries data is only available either for the total number of suppliers, either for the number of nationwide suppliers, hence, those countries are excluded from the graph.

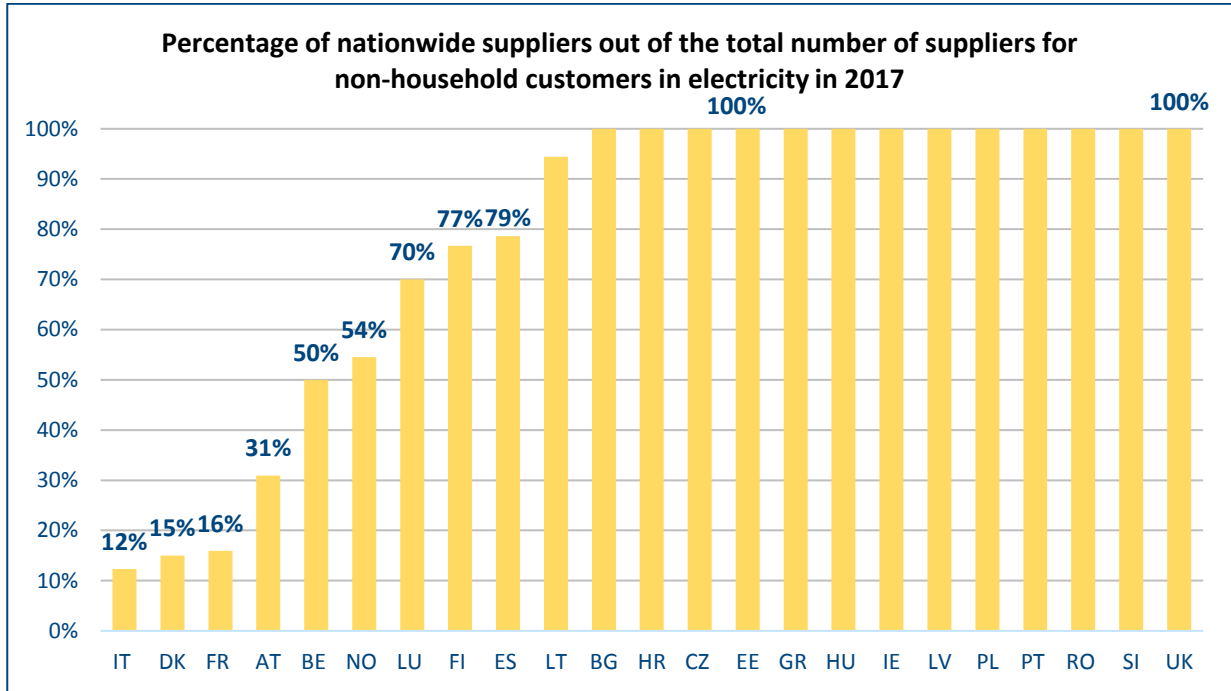


Figure 10: Percentage of nationwide suppliers out of the total number of suppliers for non-household customers in electricity in 2017 for selected countries

²³ This is Great Britain-only for the UK.

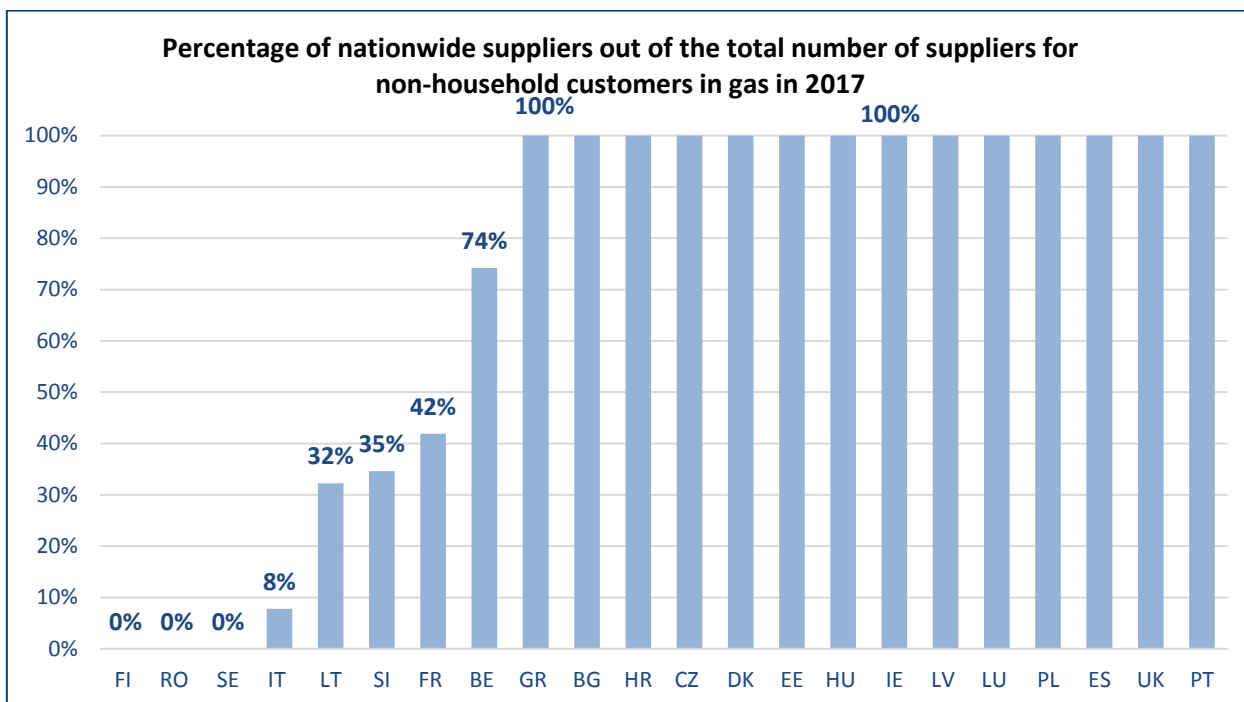


Figure 11: Total number of suppliers and number of nationwide suppliers for non-household customers in gas in 2017 for selected

The previous paragraph is linked to the entry and exit activity of the suppliers. A higher number of suppliers could be translated into more offers and more choice available to customers.

Regarding entry-exit activity, in Italy 53 and 42 new suppliers have entered the non-household electricity and gas markets, respectively, of which seven came from a different country in electricity, hence, many new national suppliers started an activity in both markets. At the same time, in Italy, there have been 49 electricity and 38 gas suppliers exiting the market. In the majority of the countries, the new suppliers that have entered the electricity non-household market in 2017 come from the same country they are entering. In several countries, no significant entry-exit activity occurred over the past 2 years. In the gas market, entry-exit activity of non-household suppliers is less significant with entry figures varying between 1 and 13 suppliers.

1.3.2 Market shares and market concentration

Figure 12 and Figure 13 illustrate the level of concentration of European retail markets for non-households in 2017, measured by the concentration ratio CR3, expressed as the sum of the market shares of the three largest suppliers in a market by volume and the number of suppliers with market shares above 5%.

There are just two MSs in electricity and four in gas with CR3 equal/above 90% while in 2016 there were three MSs in electricity and five in gas with CR3 shares above 90%.

In the electricity sector, CR3 is equal or above 70% in 10 MSs, out of the 20 MSs responding. This fact in some MSs such as Cyprus, Luxembourg and Croatia, may be related to the existence of few suppliers, being an indication of low competition in the market, of low market openness and of low customer choice.

Italy scores the lowest CR3 (36%); there is just one supplier with a market share above 5%, and a majority of suppliers with market shares below 1%.

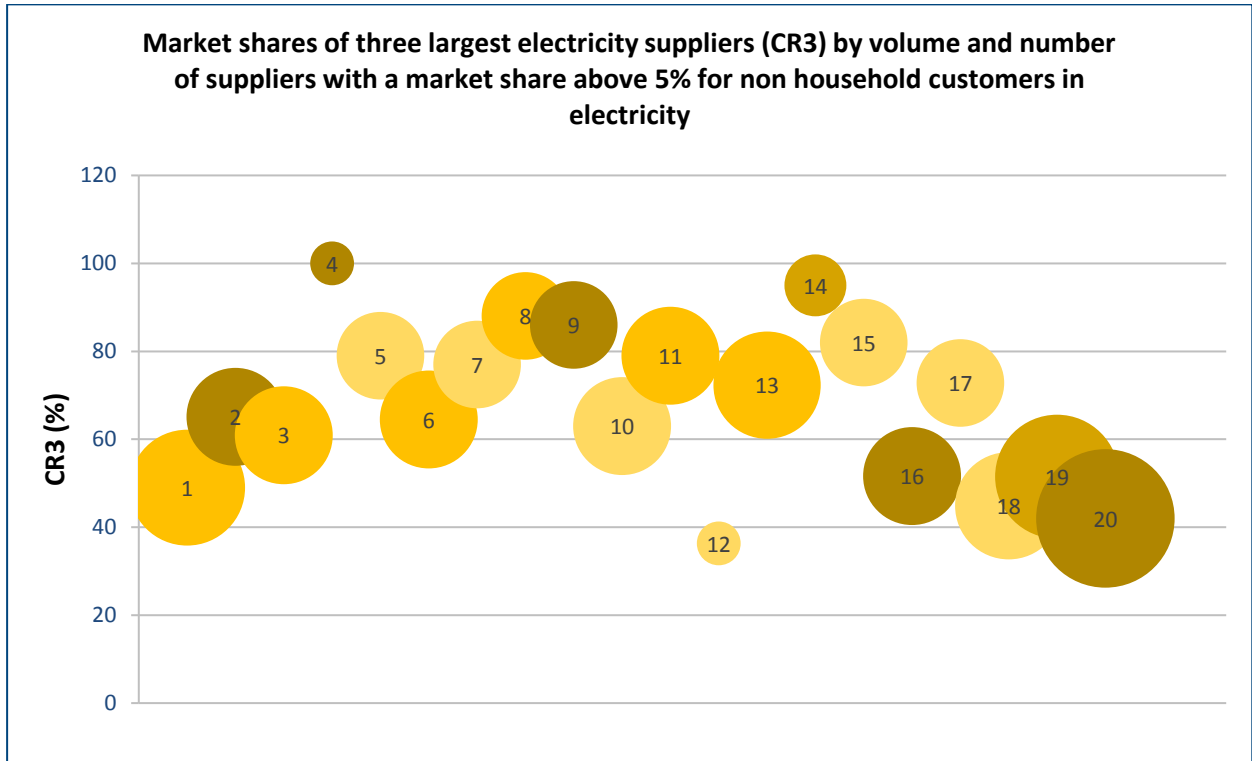


Figure 12: Market share of three largest nationwide suppliers (CR3) and number of main suppliers with a market share above 5% for non-household customers in electricity for selected countries in 2017
Note: The size of the circle represents the number of suppliers with a market share above 5%. The colours of the circles are chosen randomly. The X axis presents countries by alphabetical order.

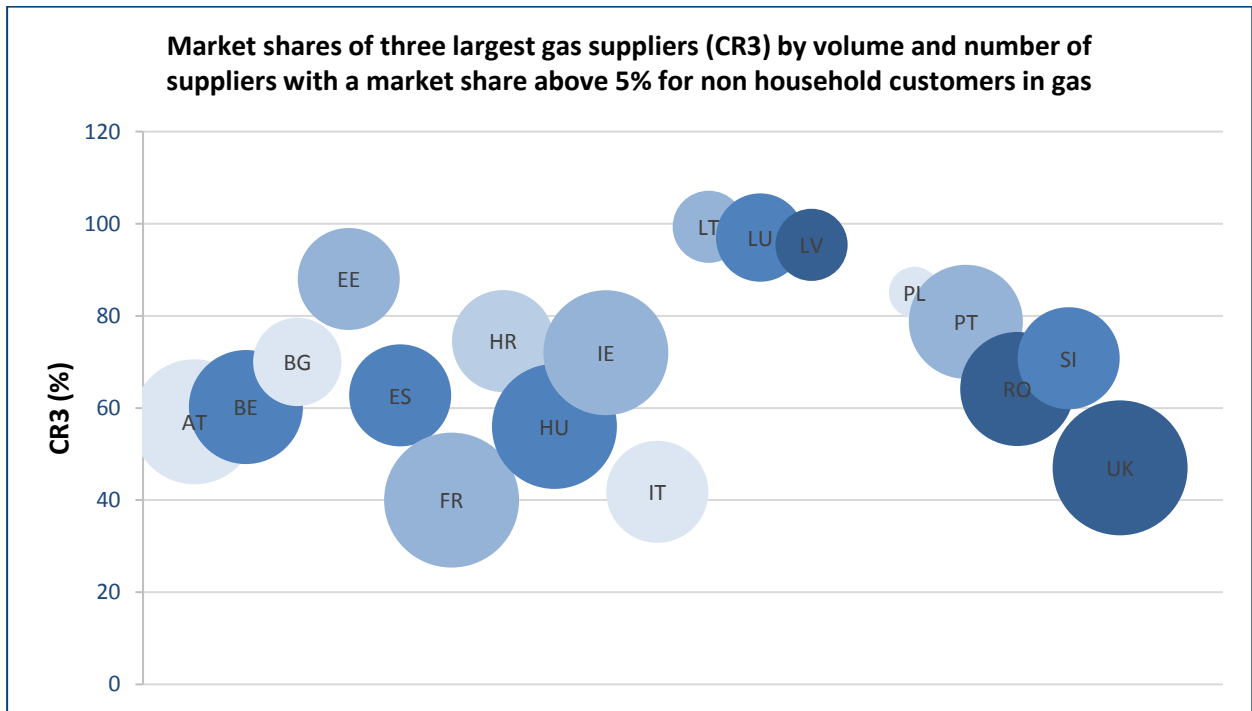


Figure 13: Market share of three largest nationwide suppliers (CR3) and number of main suppliers with a market share above 5% for non-household customers in gas for selected countries in 2017



Note: The size of the circle represents the number of suppliers with a market share above 5%. The colours of the circles are chosen randomly. The X axis presents countries by alphabetical order.

The figures below present HHIs for non-household electricity and gas markets in 2016 and 2017. HHI values show that non-household markets are less concentrated than household markets, while within the non-household segment electricity markets are less concentrated than gas markets.

In the electricity market there are 14 countries out of the 21 responding that have low concentrated non-household markets according to their HHIs (<2,000). Denmark and Romania have the lowest HHIs, scoring 274 and 693 respectively. In Romania there are six suppliers with market shares above 5% and a CR3 of 45% in volume, the 82% of suppliers have market shares below 1%. This high number of suppliers with low market shares could be caused by a high number of suppliers active only in certain municipalities but it might also reflect a high number of new entrants and also the fact that many of these suppliers may just serve a few large industrial customers.

In Cyprus, an HHI score of 10,000 meaning that only one supplier exists in the non-household market. Greece and Hungary have HHI scores above 5,000, indicating very concentrated markets. The rest of the countries evidence HHI values between 1,000 and 5,000.

In the gas market, nine countries, out of 19 responding, have an HHI below 2,000. France scores lowest with an HHI value of 884.

Comparing the HHI values between 2016 and 2017 in the non-household sector for gas, there is in general in the EU an HHI increase. The country that has experienced the biggest increase is Luxembourg with a change of 792 points between 2016 and 2017.

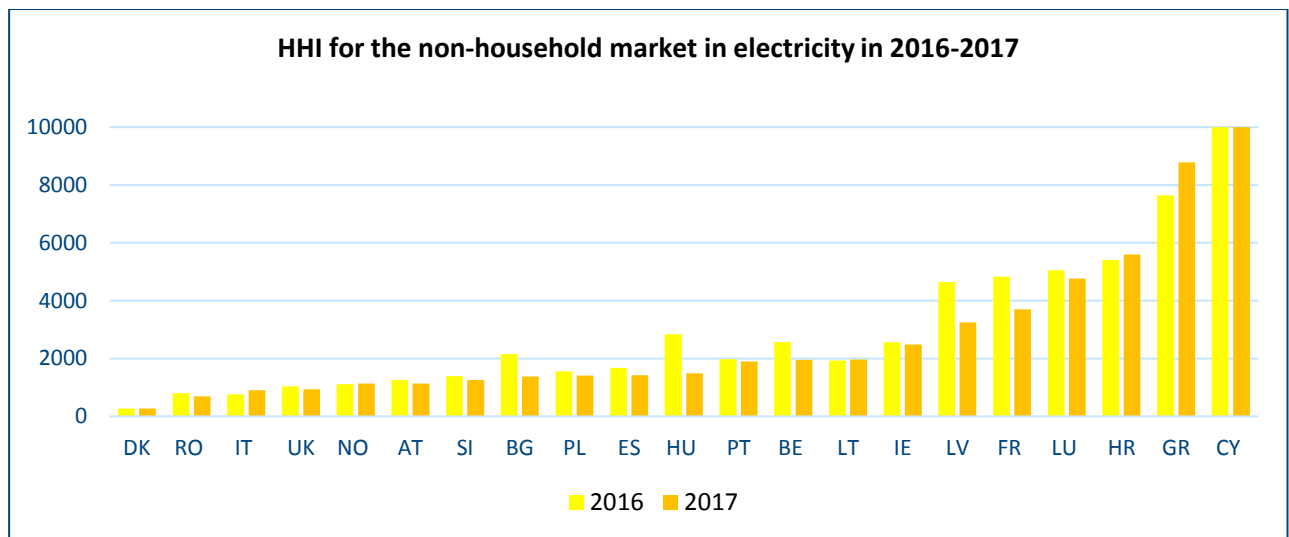


Figure 14: HHI for the non-household market in electricity for selected

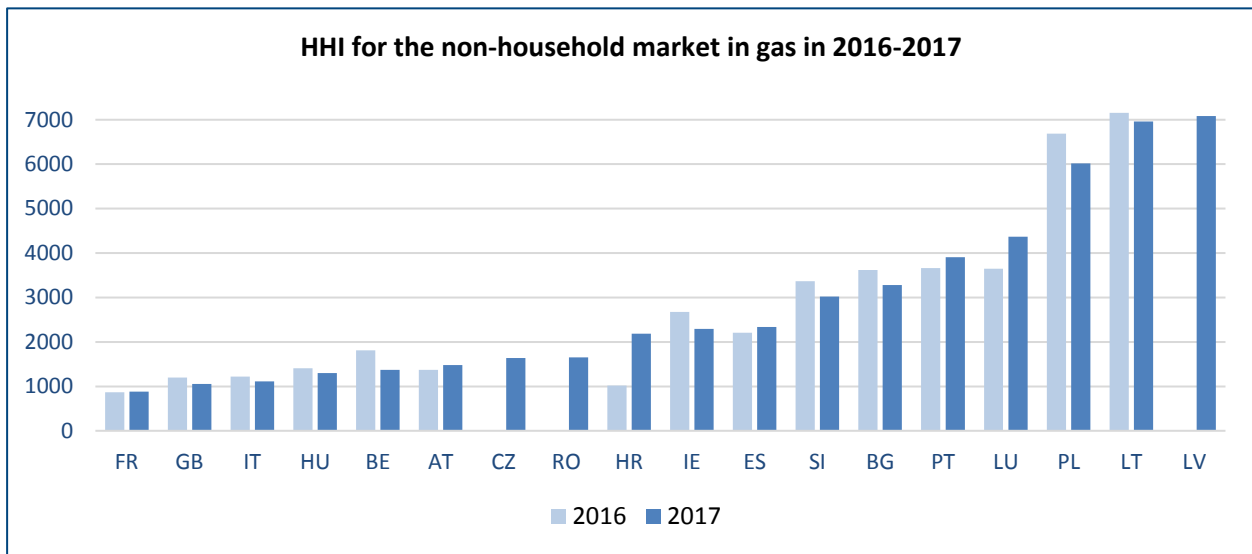


Figure 15: HHI for the non-household market in gas for selected countries

There are a few major players²⁴ in the entire retail market that are present in several European countries either directly or indirectly through a subsidiary. E.ON is present in the majority of countries, EDF being present mainly in the Western European countries and RWE which is present mainly in Central Europe. ENI, ENGIE (ex GDF Suez) and Alpiq are also present in several countries.

In most of the cases big suppliers accessed new markets through a process of acquisitions of national companies, instead of entering directly into the markets.

Case Study: The Changing structure of domestic retail energy markets in Great Britain

Retail markets need effective competition between suppliers if they are to work in consumers' interests. The number of suppliers in the market and the significance of their operations are key drivers of competitive dynamics in the retail markets. Monitoring the level of concentration and entry/exit helps us understand the competitive constraints that existing suppliers face.

Substantial new entry and falling market concentration

Retail energy markets in GB have seen substantial new entry in recent years, supported until mid-2016 by falling wholesale prices and low volatility in wholesale markets.

In December 2017, there were 69 active licenced suppliers in the domestic retail market, mainly active in both gas and electricity. This is a net increase of 17 active domestic suppliers since December 2016. These suppliers form a heterogeneous group with a wide variety of business models. In addition, there were 15 white label providers²⁵, often with a regional focus.

²⁴ Major players meaning suppliers active in the household and/or non-household electricity and gas markets in several MSs and which have captured a considerable share of the overall EU gas and/or electricity market (even if this may not always be the case for all countries in which they operate).

²⁵ "White label" suppliers are organisations without supply licenses that partner with an active licensed supplier to offer gas and electricity using their own brand.

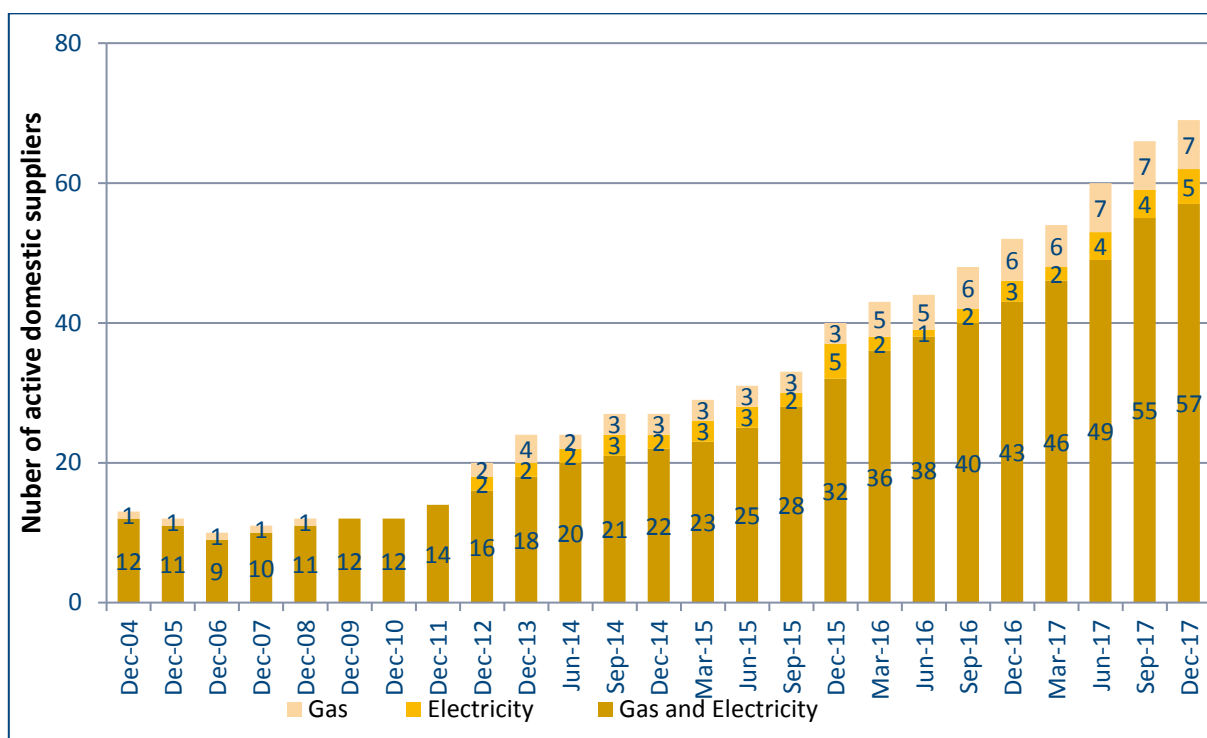


Figure 16: Number of active domestic licensed suppliers in retail energy markets in Great Britain
Source: Ofgem analysis of distribution network operator (DNO) and Xoserve reports

The high level of entry into the retail market indicates that barriers to entry are low. In particular, we have observed an increase in entries via simplified routes, such as the creation of white label providers and the acquisition of off-the-shelf pre-accredited licensed companies.

As a result of new entry, the combined market share of the large six suppliers (i.e. British Gas, EDF, E.ON, RWE npower, Scottish Power and SSE) dropped from nearly 100% in 2011 to 79% and 78% in 2017 in electricity and gas respectively. In turn, this contributed to a significant reduction in market concentration levels over time, with the Herfindahl–Hirschman Index (HHI)²⁶ in December 2017 down to 1,157 in the electricity market and 1,443 in the gas market.

²⁶ The Herfindahl–Hirschman Index (HHI), which is used by the Competition and Markets Authority (CMA) to measure concentration, provides insights into how competitive a market is. The closer a market is to being a monopoly, the higher will be the measure of concentration. The CMA typically regards markets with HHI below 1000 as unconcentrated, markets with HHI between 1000 and 2000 as concentrated, and markets with HHI above 2000 as highly concentrated (see [CMA market investigation guidelines](#), p.87).

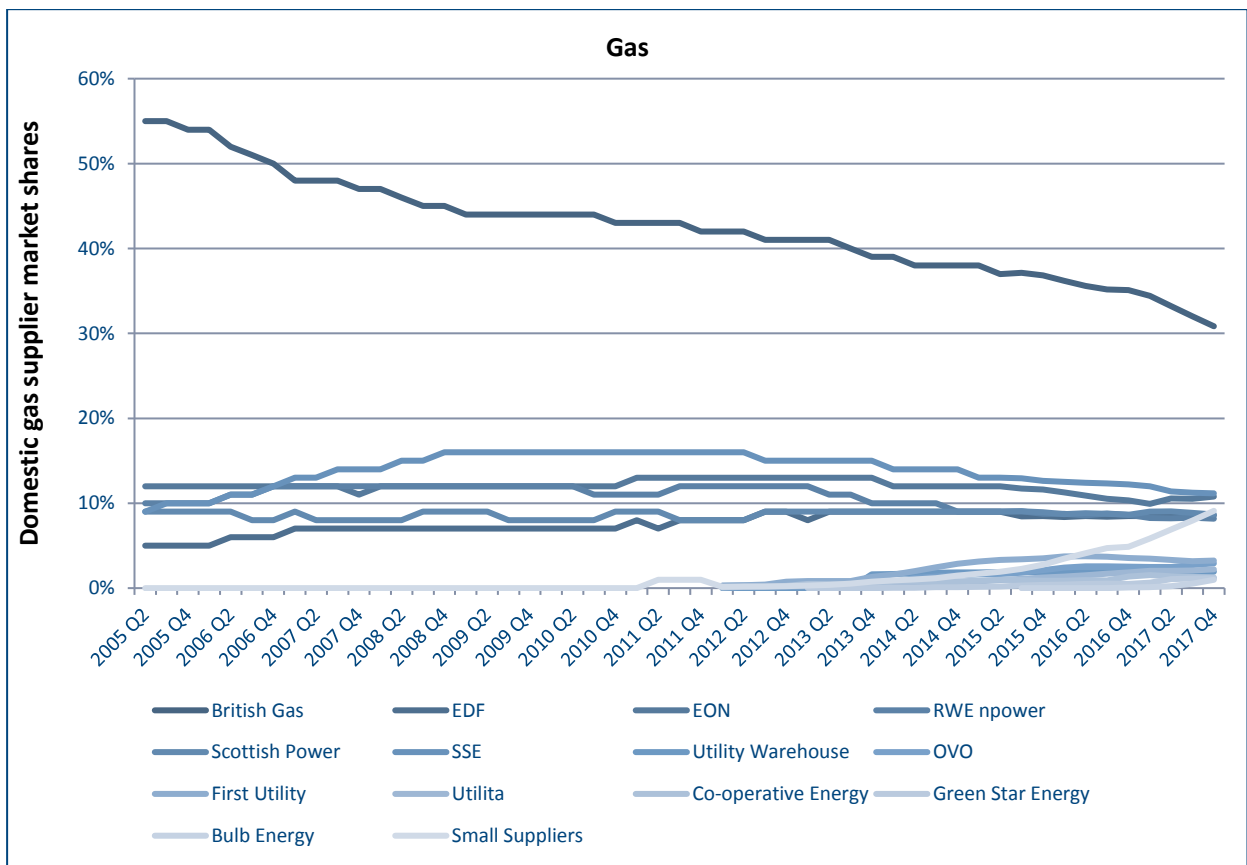
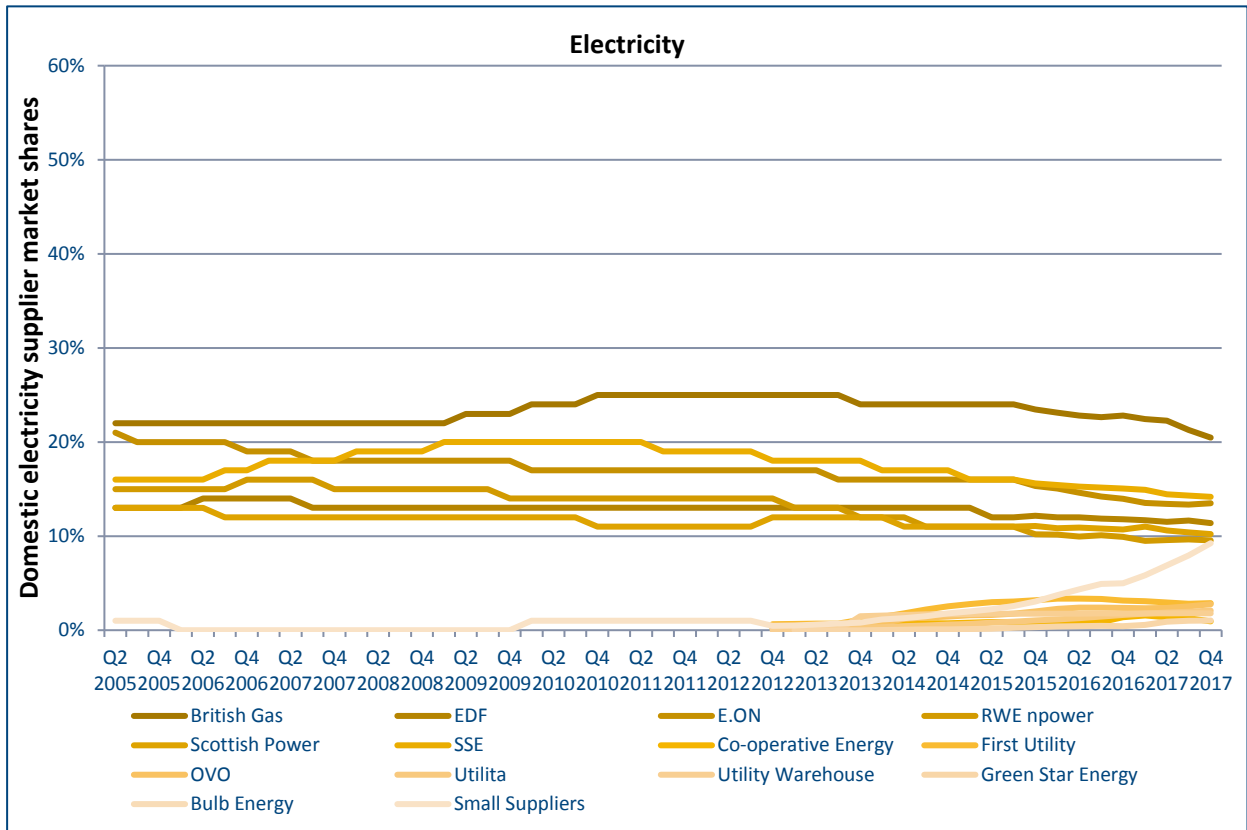


Figure 17: Evolution of market shares in electricity and gas markets



Source: Ofgem analysis of distribution network operator (DNO) and Xoserve reports

Small and medium suppliers are struggling to expand

Although a number of new suppliers that have entered the market over the last five years have managed to expand significantly (e.g. Utilita, OVO Energy, Bulb Energy), there are no suppliers, besides the six large aforementioned suppliers that have yet reached an individual market share of 5%. As of December 2017, seven suppliers had a market share between 1% and 5% and 60 suppliers had market shares below 1%.

There are some barriers to expansion for medium and small suppliers. For instance, there is currently a 250,000-customer account threshold, above which suppliers must bear the costs of contributing to Energy Company Obligation (ECO)²⁷ and providing Warm Home Discount (WHD)²⁸. Increased cash flow requirements related to meeting ongoing checks of suppliers' financial position may also limit expansion. These constraints have so far not prevented the continued erosion of the six large suppliers' market share.

Exits have also started to happen. Following greater wholesale price volatility since late 2016, a few small suppliers found themselves in financial difficulties and exited the market. Ofgem successfully operated the Supplier of Last Resort (SOLR) arrangements for GB Energy (November 2016), Future Energy (January 2018), Iresa (July 2018), GEN4U (October 2018), Usio Energy (October 2018), Spark Energy (November 2018) and Extra Energy (November 2018). In addition, for some other suppliers' exit happened as a result of a corporate decision (e.g. Flow Energy in June 2018 and Tempus with gradual exit during 2016). Exits form part of competitive market dynamics, which is acceptable as long as continuity of supply and consumers' credit balances are protected. All the exits that have occurred since 2016 have happened smoothly.

Future prospects

As mergers and acquisitions are announced, the structure of the domestic retail market will change further. For instance, Shell announced the acquisition of First Utility in December 2017 and SSE and npower announced a merger with the declared rationale to create a new independent retail supplier in GB. If the latter were to go ahead, the current market structure would change to one where there are two very large suppliers of similar size, controlling around 50% of the market, followed at some distance by three large suppliers and a fringe of many smaller suppliers. The Competition and Markets Authority (CMA) decided on 10 October 2018, following a thorough review, that the proposed merger between SSE and npower could proceed

GB NRA Ofgem is reviewing existing arrangements for supply market entry, exit and monitoring. Low entry barriers make companies more likely to enter the market but also carry the risk of failing to meet expectations for customer service and make it more likely that they will fail. The review aims at striking a balance between maintaining competition that works for consumers and attracting new entrants who are able to withstand the financial pressures and operate under high-quality service standards. The review also covers the SoLR and the safety net arrangements to ensure that they are as efficient as possible and continue to work in the interests of consumers.

²⁷ The Energy Company Obligation (ECO) is a government energy efficiency scheme in Great Britain to help reduce carbon emissions and tackle fuel poverty. Suppliers' obligations depend on their market share, and delivery of the obligation is market driven.

²⁸ The Warm Home Discount obligates energy suppliers over a certain size to provide support to vulnerable customers in Great Britain. Most support is provided through annual electricity rebates of £140 to customers in or at risk of fuel poverty. This can include low income pensioners and families with young children.



2 Customer switching activities

Well-functioning retail markets require the involvement of consumers in market activities. This involvement in the current setting mainly refers to supplier switching. It depends on many factors such as easy switching processes, consumers being aware of their opportunities and of the rights and tools that can empower them to participate. The engagement of consumers puts pressure on energy suppliers, which in turn increases competition between suppliers. Engagement necessitates awareness and understanding of consumer opportunities on the market as well as knowledge of a set of rights and tools to pursue individual decisions.

Customers' switching rate is one of the key indicators for competitive development in energy retail markets. Even though switching processes have been facilitated by regulation and the automation of processes in many MS, there still is a high number of customers – especially households – who remain with their incumbent supplier. There are multiple reasons for customers not to switch their supplier, ranging from regulatory barriers to behavioural aspects. Regulatory barriers can refer to regulated prices in the first place (see Chapter 3). This is especially the case if regulated prices are set below cost levels such that the development of competitive retail markets is hampered and no economic incentive for switching exists. However, there are other reasons why monetary incentives to switch are not sufficient, for example, if taxes and other fixed price components make up a high percentage of the final price. Besides regulatory issues and monetary incentives, behavioural aspects play a major role. A lack of trust in new suppliers or loyalty to the old supplier may prevent customers from switching.

This section will present the main developments of switching activities in the electricity and gas markets. The focus is on relevant trends for different customer types across selected MS, while a case study on switching activities of household consumers in France presents valuable and detailed insights into the French retail market.

2.1 Household segment

This section assesses the level of switching activity in different categories for electricity and gas retail markets: in external and in internal switching and switching in and out of regulated prices.

2.1.1 External switching rates

External switching is defined as the voluntary action by which a customer changes his supplier. Figure 18 shows switching rates for electricity household customers by metering points in 2017 and the annual average from 2012 to 2016 for a selection of MS. It reveals that among MS, external switching rates of household customers differ significantly.

For electricity, the highest external switching rate in 2017 was reported by Norway (18.8%) and the lowest by Bulgaria (0.002%). Other countries with a relatively high switching rate for electricity household customers by metering points in 2017 (at least 10%) are Great Britain, Finland, Ireland, Portugal and Spain. Belgium and the Netherlands are also countries with a high switching activity, they do however use different indicators to measure switching behaviour.²⁹ Those countries have, on average, a lower contestable part in the bill,³⁰ but may also differ on non-monetary factors. Other reporting countries with a very low switching rate (below 1%) are Poland and Luxembourg. In Cyprus, there is only one supplier so switching is not possible. In most of the cases, switching rates in 2017 were higher than the average of the years from 2012 to 2016.

²⁹ Due to data availability the specific indicator for external switching of household and non-household customers for the Netherlands cannot be calculated separately. The external switching activity on the whole electricity retail market

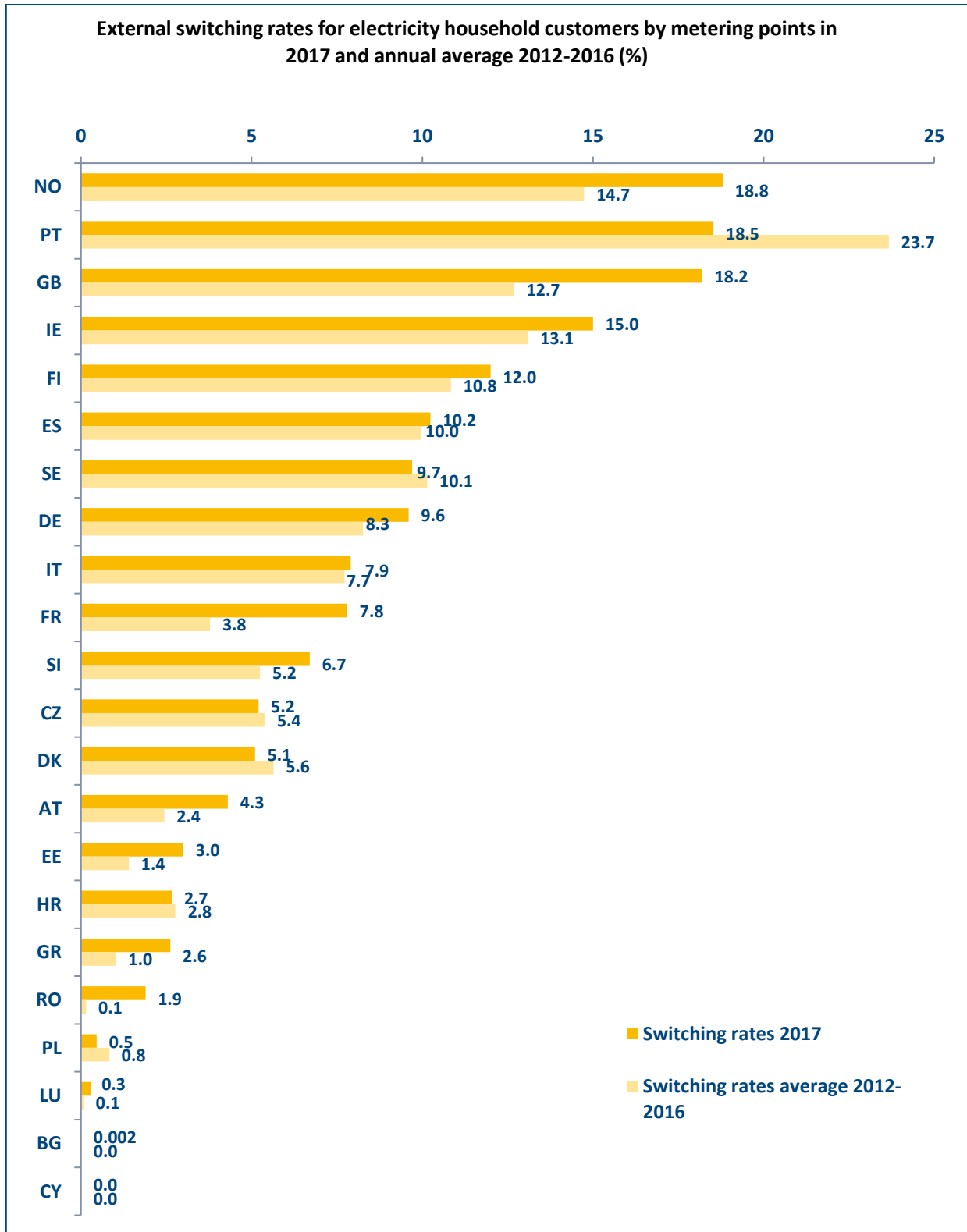


Figure 18: Switching rates for electricity household customers in 2017 and annual average 2012-2016 (%; by metering points) for selected countries

in NL was 15.8 % in 2017 and on average 13.2 % between 2012 and 2016. In Belgium regional data for the whole retail market is available and shows a spread from 9.19% in the Brussels Capital Region to 19.8 % in Flanders.

³⁰ [Retail Volume of the ACER-CEER Retail Market Monitoring Report 2017](#)

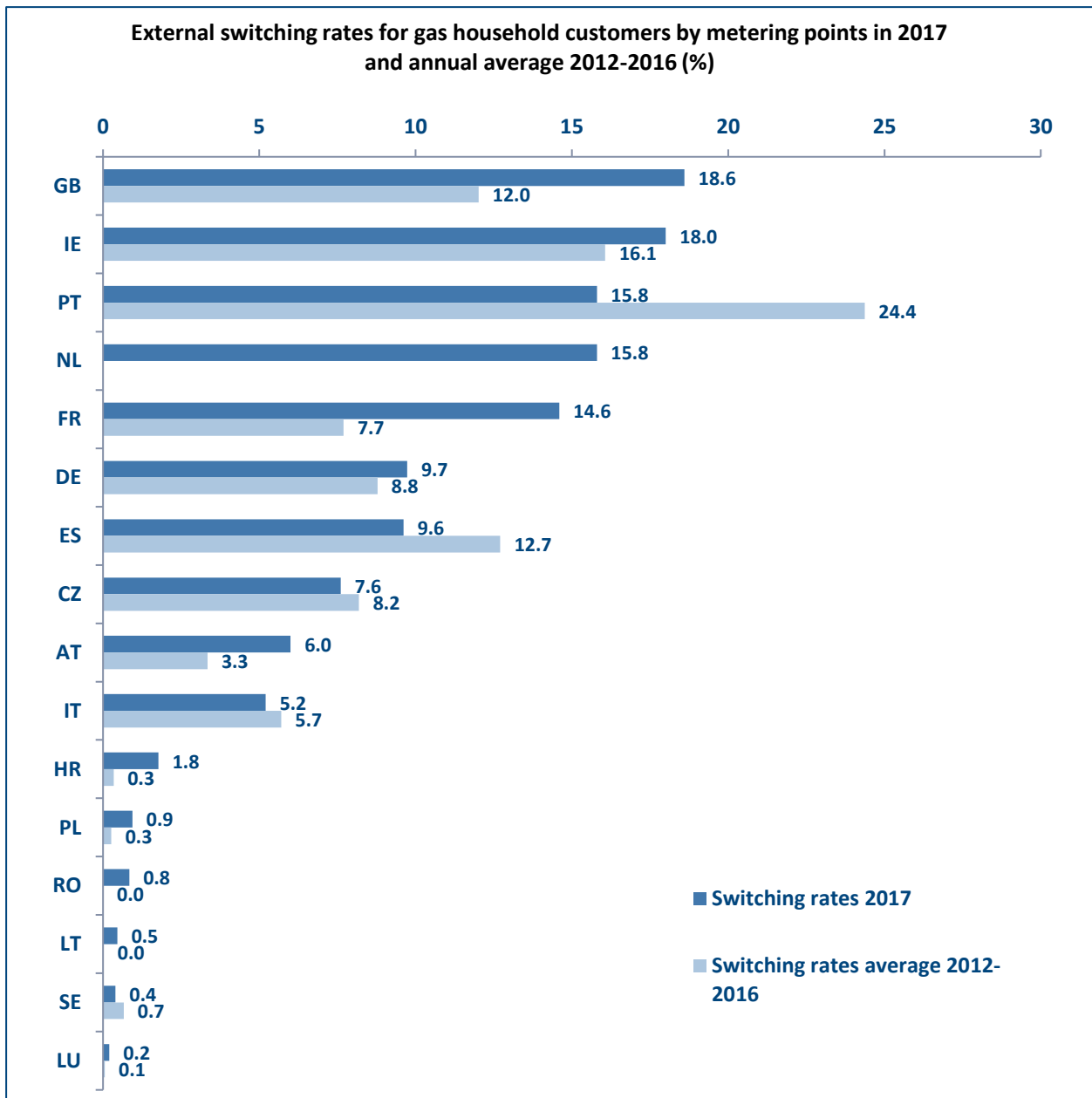


Figure 19: Switching rates for gas household customers in 2017 and annual average 2012-2016 (%; by metering points) for selected countries

Figure 19 shows the switching rates for gas household customers by metering points in 2017 and the annual average in years between 2012 and 2016. The highest rate for 2017 was reported by Great Britain (18.6%), the lowest by Luxembourg (0.18%). Countries besides Great Britain with a relatively high switching rate in 2017 (at least 10%) are Ireland, Portugal and France. The Netherlands has a high switching rate with 15.8%, which presents a three-year average based on the results of an energy consumer survey. Belgium is also a country with a high amount of switching activity.³¹ Reporting countries with a very low switching rate (below 1%) are Poland, Romania, Lithuania and Sweden.

³¹ For Belgium, only regional data is available. The annual switching rate of gas household customers by number of eligible metering points is 20.9% in Flanders, 22.9% in Wallonia and 10.4% in the Brussels Capital Region.



The comparison between the latest developments in 2017 and the five preceding years does not show a clear trend. In some countries switching rates for gas household customers in 2017 were higher than the average from 2012 to 2016, while in some countries it is the other way around.

As shown in Figure 20, France is the country with the highest increase in external switching rates in electricity, compared to the previous year (+2.5 percentage points). A significant increase was also reported by Great Britain (+2.4 percentage points) where the rate of external switching has increased for the fourth consecutive year. This long-term trend is consistent with the rapid increase in the number of active suppliers since 2014, which has led to greater variety of products and sustained price differentials in the market. Over the same period, various information campaigns have contributed to raising consumer awareness about the benefits of engagement, while the internet has become the main tool for consumers to compare tariffs and switching possibilities. More recently, resurgence in direct sales activity, especially from small and medium suppliers, also has contributed to higher switching rates. However, the switching rate has decreased the second year in a row in Portugal (-2.2%). Overall, the data shows a heterogeneous development of switching rates.

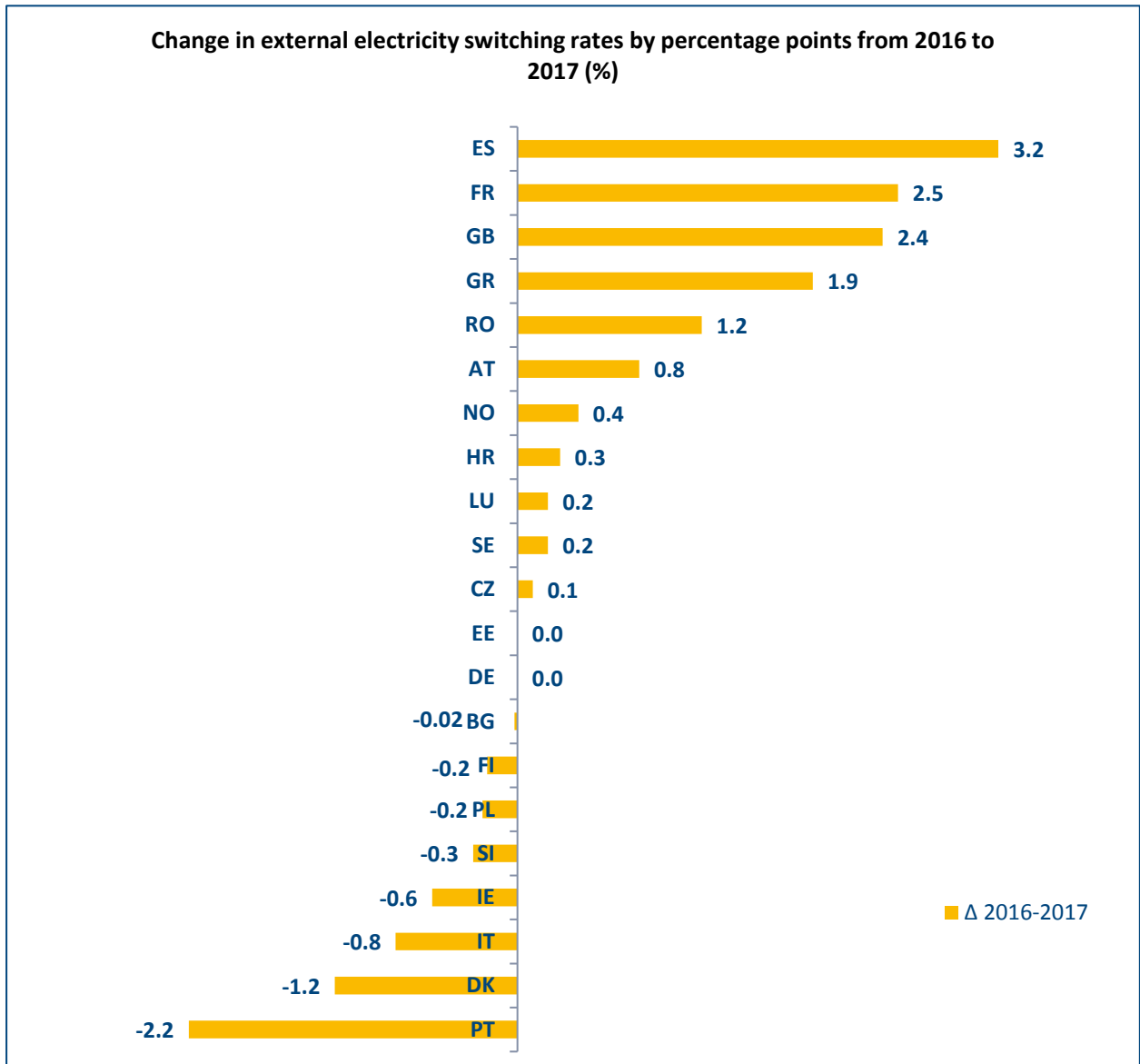


Figure 20: Change in electricity switching rates of household customers from 2016 to 2017 for selected countries (in percentage points)

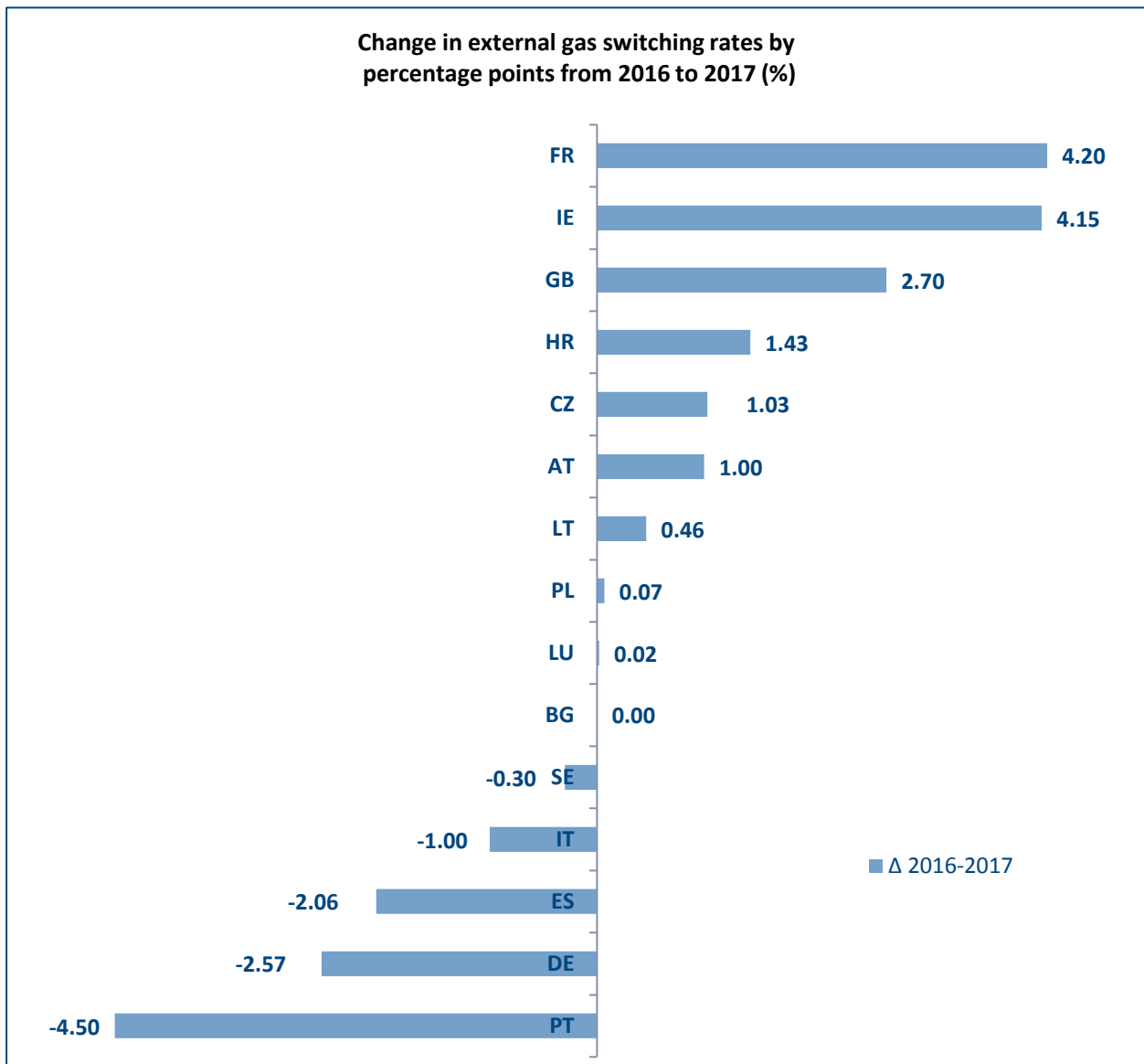


Figure 21: Change in gas switching rates of household customers from 2016 to 2017 for selected countries (in percentage points)

According to Figure 21, the countries with the highest increase of the external switching rate in gas (at least 2 percentage points) compared to the previous year (2016) are France, Ireland and Great Britain. Countries with the greatest decrease (at least minus 2 percentage points) compared to the previous year are Germany, Portugal and Spain.

2.1.2 Internal switching

A change of product or contract with the same supplier (renegotiation/choosing a different option) is defined as internal switching. This is the case whenever customers have renegotiated their contracts with their existing suppliers. Automatic roll-overs and changes of contract that only affect payments are excluded. Like switching the supplier, a switch of contract requires an active decision by the customer. Every switch (external and internal) is a market activity and a sign of a competitive environment on the retail market. Data for annual internal switching rates have been

collected from CEER since the reporting year 2015, however, the number of countries reporting is limited.

Figure 22 shows the developments of internal switching for electricity (and gas) household customers in the years 2016 and 2017. Like external switching rates, the level of internal switching is quite different between MS. In 2017, the highest rates for electricity are reported by Great Britain and Sweden, the lowest rates by Luxembourg and Italy.

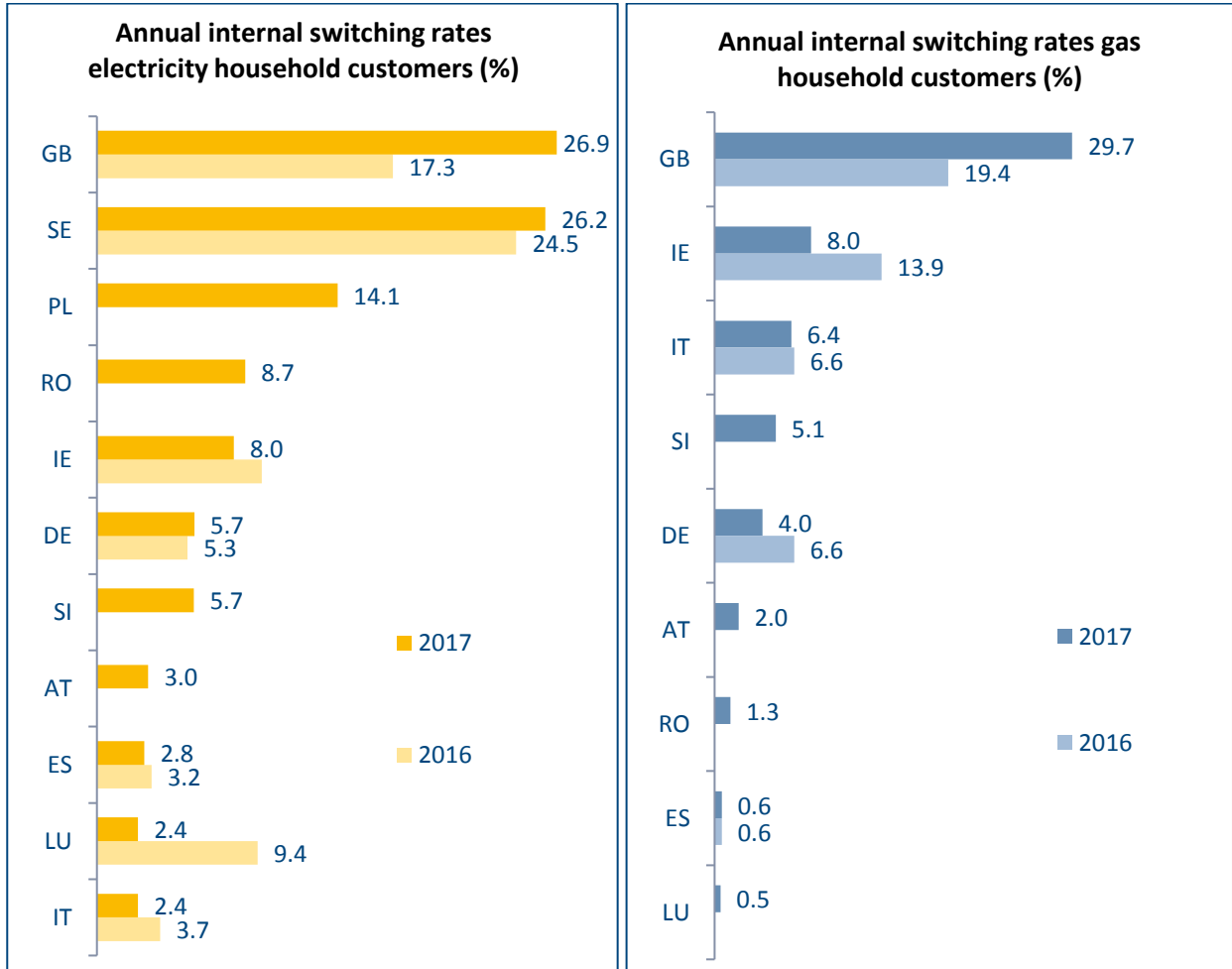


Figure 22: Annual internal switching rates for electricity and gas household customers for selected countries (%; by metering points)³²

Figure 22 also shows the developments of internal switching rates for gas household customers in the years 2016 and 2017. Like the rates for gas external switching, the level of internal switching across MSs is quite different as well. The highest rate is reported by Great Britain, the lowest rate by Luxembourg.

³² In Spain, data only measure the number of internal switches from regulated prices to non-regulated market offers (and vice-versa) of companies belonging to the same company group/affiliation; the rest of internal switches are not counted.

2.1.3 Switching activities of customers with regulated prices

Portugal, Spain, Bulgaria, Poland and Romania are the only countries that reported switching activities for regulated prices in 2017 for electricity customers. For gas customers, only Spain, Romania and Poland reported switching activities for regulated prices in 2017.³³ In 2017, Romania was the country with the highest switching rate of the countries that reported any switching activities out of regulated prices (9.77% for electricity customers). In the gas sector, only Spain and Romania reported any switching activities out of regulated prices in 2017. Switching into regulated prices is a rare phenomenon, all countries reported values smaller than 1%. In the gas sector only, Poland and Spain reported the switching rates into regulated prices for the year 2017.

MS	Percentage of household customers with regulated prices		Annual switching rate out of regulated prices		Annual switching rate into regulated prices		MS
	Electr.	Gas	Electr.	Gas	Electr.	Gas	
PL	97%	100%			0.3%	0.9%	PL
RO	88%	97%	9.8%	0.8%	0.01%		RO
ES	41%	21%	2.9%	1.0%	0.8%	0.2%	ES
PT ¹	21%		6.2%		0.1%		PT
BG	88%		0.1%		0.0%		BG

Table 1: Overview of switching rates in and out of regulated prices in 2017

¹ Transitory tariffs

Case Study: Switching activities of household customers under regulated end-user prices in France

This case study aims at presenting the switching activities of household customers under regulated prices in France.

Historical and current electricity and gas retail market data shows that French household customers have been more and more switching from regulated end-user prices to non-regulated end-user prices in the past few years. This trend can be explained in particular by a new building method of regulated end-user prices, proposed or verified by French regulator CRE and aiming at “contestability”.

The following discussion focuses on the household customers’ segment of the French electricity and gas retail markets. Here, “regulated end-user prices” are defined as supply offers whose characteristics and price are set by public authorities. In France, regulated end-user prices are only proposed by incumbent suppliers. On the contrary, non-regulated end-user prices or “market offers” can be proposed by all suppliers (alternative and incumbent suppliers). In market offers the price of the contract is freely determined by suppliers.

³³ More information about countries with intervention in price setting and in price regulation can be found in chapter 4.



Background

Since the French electricity and natural gas retail markets were fully opened up to competition on 1 July 2007, consumers have been free to choose their energy supplier. Since the 1 January 2016, only household consumers and small non-household consumers (whose annual power usage is under or equal to 36 kVA in electricity or whose annual consumption is under 30 MWh in gas) can choose regulated prices.

Trends after 10 years since the opening of the electricity and gas retail markets to competition

At the end of the year 2017, 82% of electricity household consumers and 46% of gas household consumers were under regulated prices (versus 86% and 53% in 2016).

Regarding electricity, there was a significant growth in the development of market offers in 2017: 1,323,000 consumers chose a market offer (against 871,000 in 2016, an increase of 52%). At the end of 2017, 5,880,000 consumers (out of 32 million) made use of a market offer.

Regarding gas, the number of household customers making use of market offers has still continued to progress strongly in 2017: 709,000 chose a market offer (against 688,000 in 2016). At the end of 2017, 5,758,000 out of 10,673,000 customers in total made use of a market offer.

In electricity, in 2017, 99% of the domestic consumers with a market offer had one with an alternative supplier. In gas, in 2017, incumbent and alternative suppliers equally shared the domestic consumers under market offers.

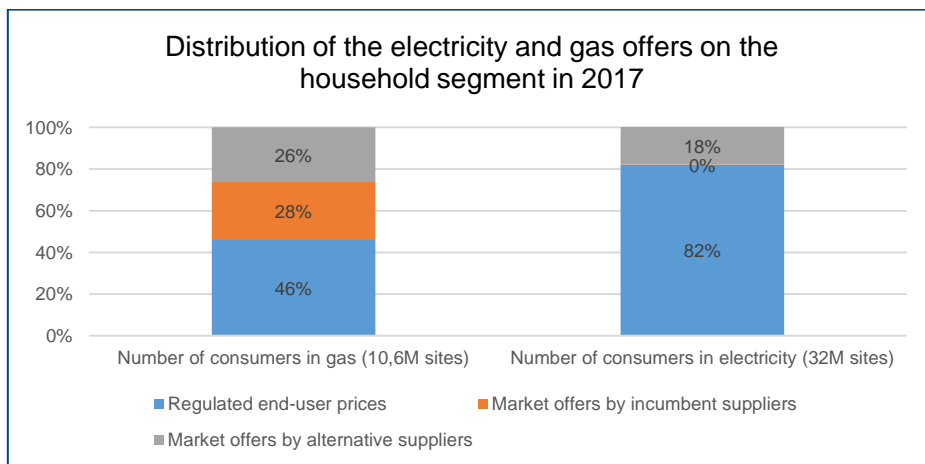


Figure 23: Distribution of electricity and gas offers in the household sector in 2017

The following figure shows the evolution, according to the number of customers, of the distribution between regulated prices and market offers among household customers, in electricity and in gas, from 2007 to 2017.

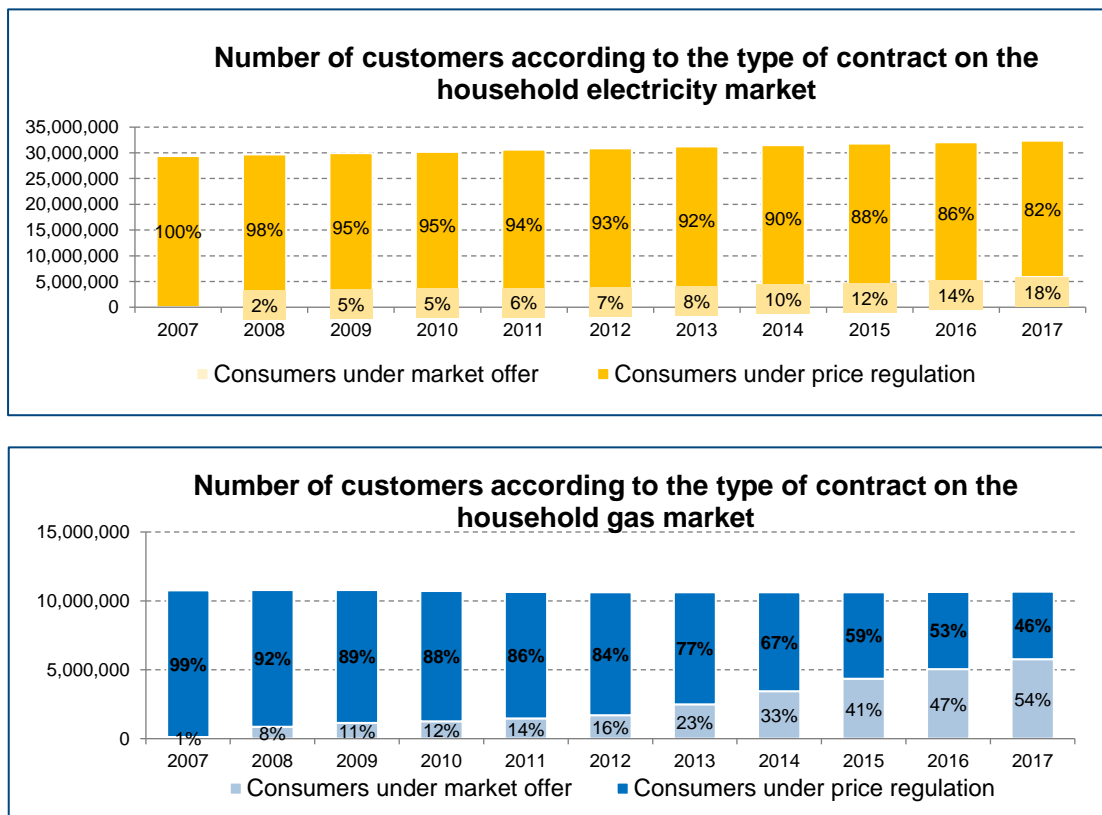


Figure 24: Number of household customers according to the type of contract (regulated prices or market offers) in electricity and gas in France in 2007-2017

Switching rate applied to regulated end-user prices

The total switching rate³⁴ has been growing since 2013 in both sectors. In 2017, the switching rate was at 7.8% in the electricity sector and at 11.5% in the gas sector (versus 5.4% and 10.4%, respectively, in 2016).

From 2013 onward there was significant growth of the annual switching rate of household customers from regulated prices towards market offers in electricity (from 2.1% in 2013 to 5.2% in 2017) and in gas (from 9.62% in 2013 to 14.43% in 2017)³⁵.

³⁴The switching rate is defined as the ratio of the amount of supplier's changes and of commissioning (request of a new customer entering into a new or an existing premise) among alternative suppliers divided by the total number of clients in each client's segment.

³⁵For the need of this study CRE established a first estimation of the switching rate of household clients who change from a regulated end-user price to a market offer. CRE draws the attention of the reader to the fact that the following results are very provisional. This specific switching rate was calculated (i) in electricity as the ratio of the amount of commissioning among alternative suppliers and of the number of clients exiting from regulated end-user prices towards market offers divided by the total number of clients under regulated prices, and (ii) in gas as the variation among market offers divided by the number of clients under regulated prices. This estimation does not take into account the number of commissioning under regulated end-user prices. It has to be noted that the number of returns of household customers under a market-based offer towards a regulated end-user price is negligible.



The annual switching rate is more significant in gas than in electricity (2.7 times higher in gas than in electricity).

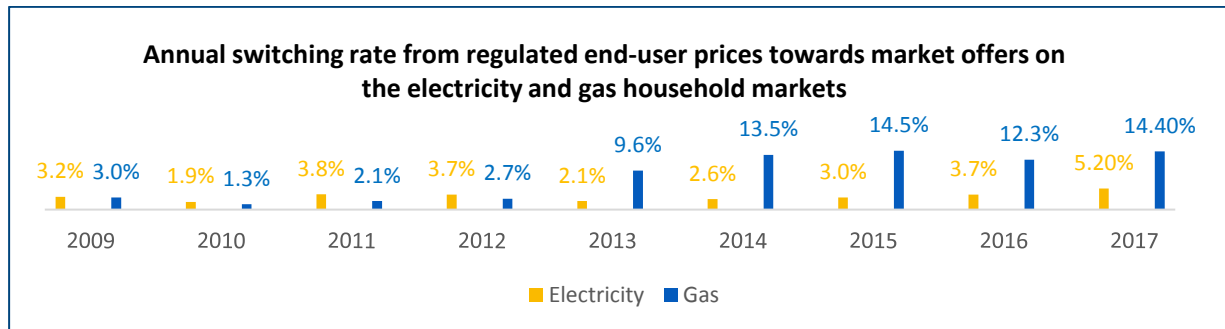


Figure 25: Annual switching rate from regulated end-user prices towards market offers for electricity and gas, 2009-2017

Analysis

All data produced in this case study allow one to draw the following conclusions:

The switching rates among household consumers are more significant in the gas retail market than in the electricity retail market. In electricity, a large majority of clients has not exercised any option yet and stays under regulated end-user prices. There are several potential explanations³⁶: the clients' loyalty to their incumbent supplier, the sense of safety with this supplier and probably the lack of understanding of energy markets' opening.

The new price-setting methodology of regulated end-user prices, proposed or checked by CRE, has supported this opening to competition of the electricity and gas retail markets. Since 8 December 2015, CRE proposes the regulated end-user prices of electricity to the Ministers for Energy and Economy³⁷. This method aims to ensure that these regulated end-user prices can be "challenged" by alternative suppliers, i.e. the price is set the same way as an alternative supplier would build its offer so that the latter are able to offer consumers market products at prices equal to or lower than the regulated end-user price (the so-called "contestability" of the regulated end-user prices)³⁸. As regards the natural gas sector, the regulated end-user prices for gas charged by each incumbent supplier are set by the Ministers for Economy and Energy, based on a report assessing the costs' coverage by CRE. The regulated end-user prices must cover the supply costs of operators. CRE issues an official opinion on the level and the structure of the regulated end-user prices³⁹.

³⁶ 11th annual barometer of Energie-info regarding the opening of the markets.

³⁷ The decision is deemed to be established unless one of the Ministers opposes this proposal within three months.

³⁸ Electricity regulated end-user prices are established by adding the price of regulated access to incumbent nuclear electricity (known by the acronym "ARENH"), the cost of the electricity supply complement which includes the capacity guarantee, transmission costs and marketing costs, as well as a normal rate of return on investment.

³⁹ These regulated end-user prices vary to reflect:

- changes in gas supply costs, based on the specific supply formula published for each supplier by ministerial order;
- changes in non-supply related costs (transmission, storage, commercial costs).

Between two ministerial orders, suppliers may alter their price scale. These apply directly, after being checked by CRE to ensure they satisfy the formula published in the supplier's specific ministerial order. Price changes are monthly for ENGIE, and quarterly for the other incumbent suppliers.



The situation regarding the existence of regulated end-user prices in France could even evolve due to a very recent decision of the French *Conseil d'Etat* leading to a phasing out of gas regulated prices.

2.2 Non-household segment

Cost minimisation and high consumption volumes make the non-household segment, i.e. business, more sensitive to potential saving in regard to their energy expenditures. For this reason, business customers have a higher degree of awareness and evidence higher switching rates.

2.2.1 Annual switching rates

Annual switching rates of non-household customers are determined by eligible volume instead of metering points. Figure 26 shows the switching rates for electricity non-household customers in 2017 and the annual average 2012-2016.

For electricity, countries with a high switching rate in 2017 (at least 25%) are Poland, Italy, Lithuania, Romania and Portugal.

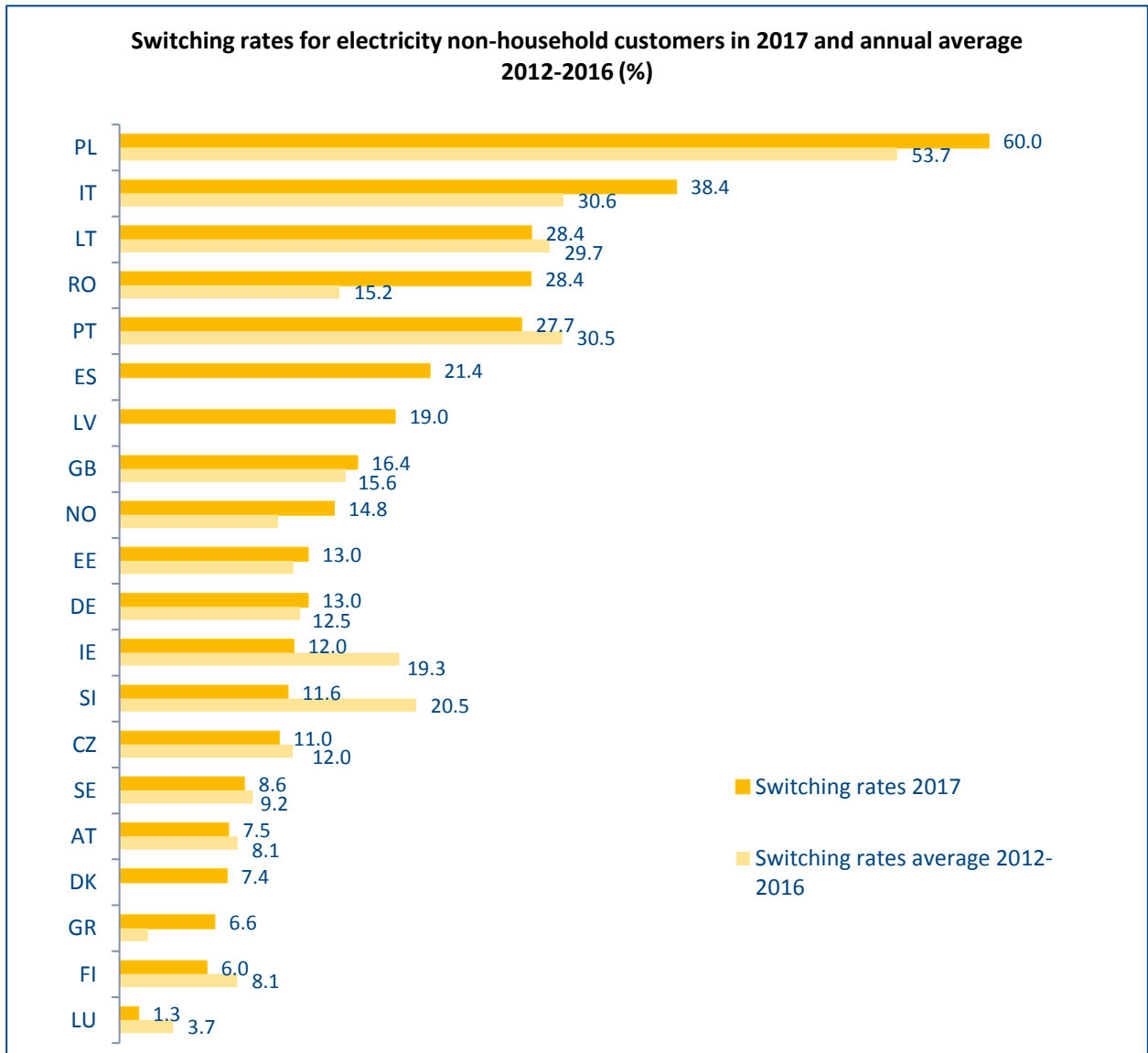


Figure 26: Switching rates for electricity non-household customers in 2017 and annual average 2012-2016 for selected countries (%; by eligible volume)

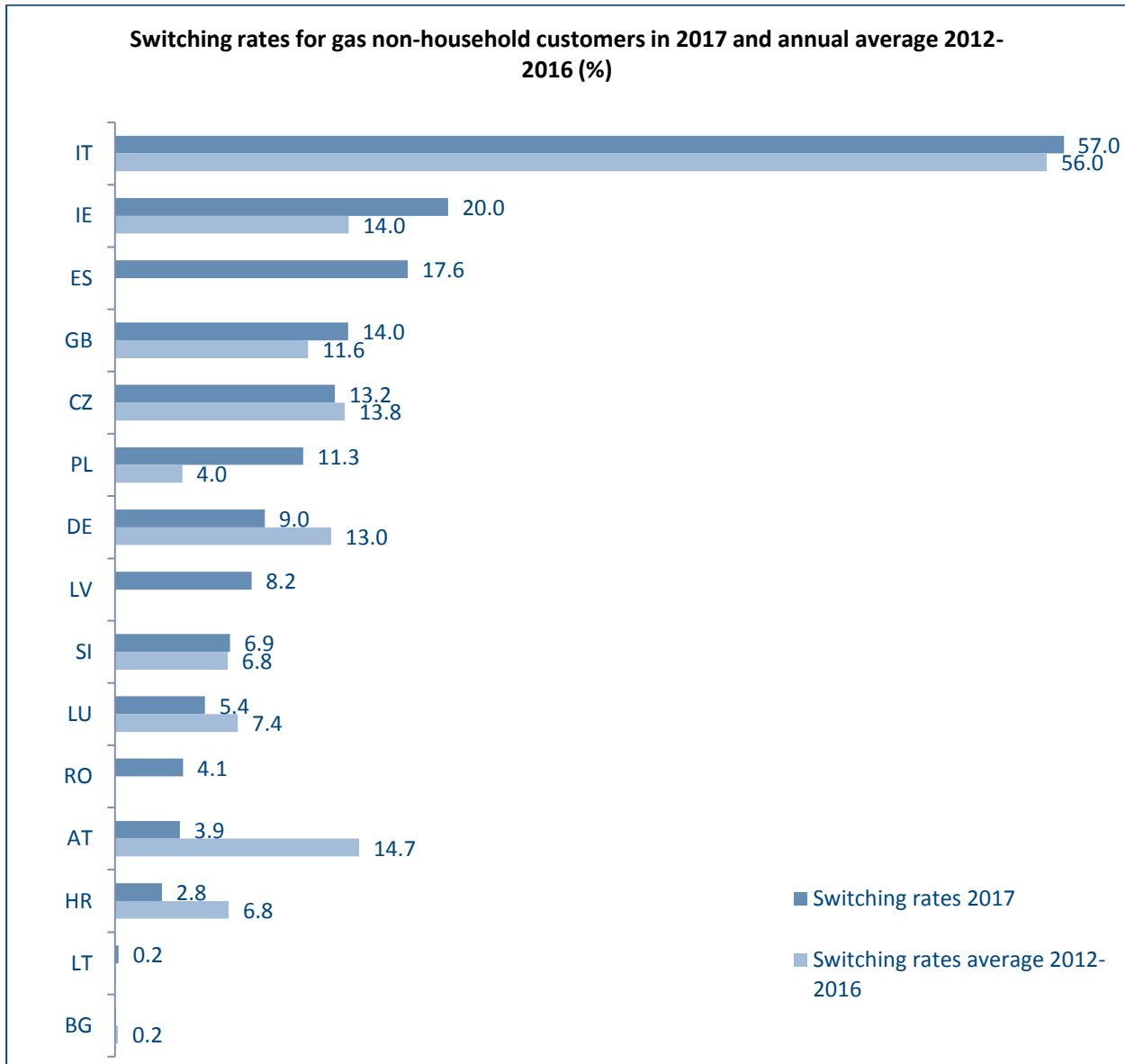


Figure 27: Switching rates for gas non-household customers in 2017 and annual average 2012-2016 for selected countries (%; by eligible volume)

Figure 27 shows the switching rates for gas non-household customers in 2017 and the annual average 2012-2016. Countries with a high switching rate in 2017 (at least 10%) are Italy, Ireland, Spain, Great Britain, the Czech Republic and Poland. Reporting countries with low switching rates (below 2%) are Lithuania and Bulgaria.

As in the household segment, switching rates for non-household customers differ significantly between MS. The comparison of the year 2017 with the years from 2012 to 2016 does not show a clear trend, neither for gas nor for electricity.

With the assumption of a higher price sensitivity of non-household customers, these customers tend to have a higher willingness to switch than household customers.



Case Study: Supplier structure on the retail electricity market for households in Germany – a decade of continuous change

The structure of the German retail electricity market is characterised by a very high number of suppliers compared to other European countries. In 2017, Germany counted approximately 1,400 suppliers of which 1,250 serve household customers. Despite the large number of suppliers, this does not automatically translate into a high level of competition since many of these suppliers only operate at a regional level.

Thus, long-term changes of the supplier structure in Germany can only be analysed by looking at different indicators besides the number of suppliers. This case study describes switching rates, changes in the contract structure and developments of the regional scope of supply activity for household customers for the last decade.

Background

The high number of suppliers in Germany goes back to the time before liberalisation, some 20 years ago, when regions or cities were responsible for the provision of local public services. Only with the implementation of the 1st energy package in Germany did customers obtain the right to choose their supplier. The structure of the local suppliers remained, however, as the German Regulator's Monitoring Report for the year 2009 states: "The development of the market for household customers towards a supra-regional market remains static..."⁴⁰

With the 2nd and the 3rd Energy Packages, further amendments regarding the facilitation of the supplier switching process were added. The 3rd Energy Package of 2009 includes the right to change suppliers without extra charges, to receive information on energy consumption and to quickly and cheaply resolve disputes.

Looking at the data of the last ten years – roughly coinciding with the adoption of the last energy package – gives an idea about the dynamics of supplier switching within the German retail electricity market and reveals a slow but continuous process of change.

⁴⁰ Monitoringbericht 2009, BNetzA, p. 89.

https://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Sachgebiete/Energie/Unternehmen_Institutionen/DatenaustauschUndMonitoring/Monitoring/Monitoringbericht2009.pdf?__blob=publicationFile&v=2

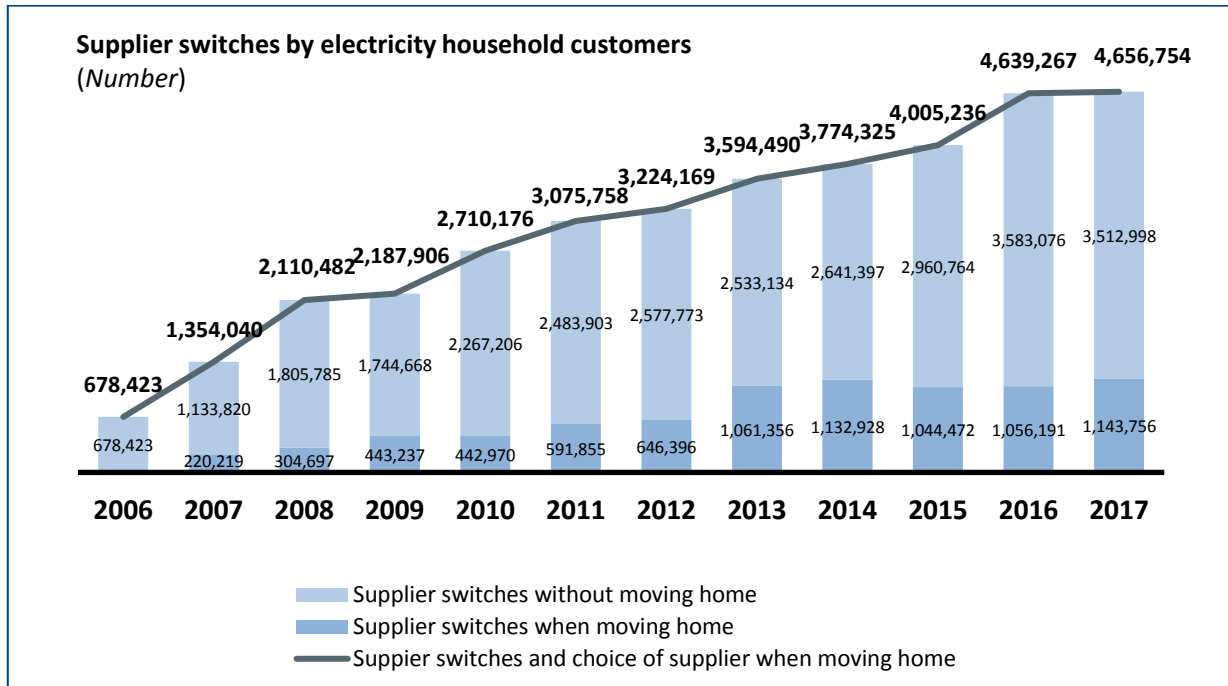


Figure 28: Supplier switching from 2007 to 2017
Source: Energy Monitoring Bundesnetzagentur

As Figure 28 shows, the number of household customers switching suppliers has increased significantly since 2007. In 2007 this number was at 1.34 million and has increased continuously since then. In 2017, the number of switches reached a new high of about 4.66 million. These customers represent approximately 9.3% of all customers.

The switching rate has increased over the last decade because switching processes have become easier and more flexible with the implementation of the 3rd Energy Package in Germany. Along with other factors like the automation of processes and the possibility of using online price comparison tools this has entailed a constantly growing switching rate and consequently a decreasing percentage of household customers supplied by their regional default supplier.

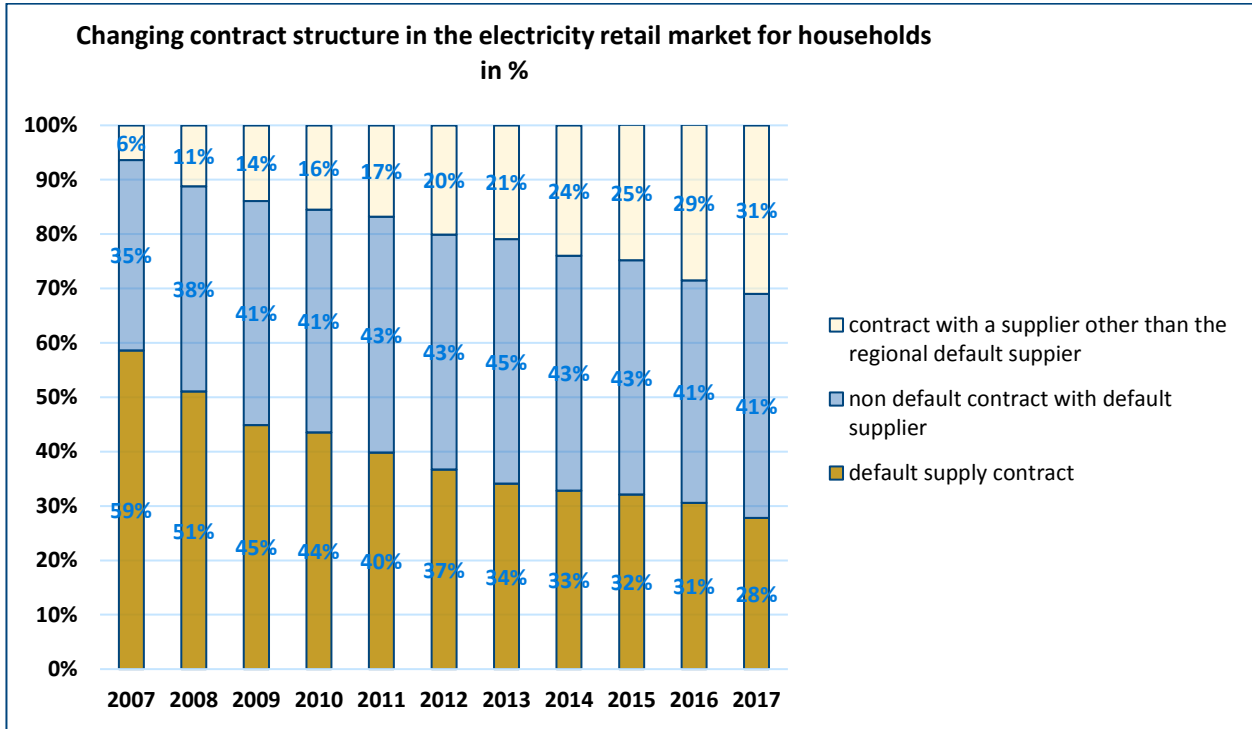


Figure 29: Contract structure of household customers: 2007 and 2017
Source: Energy Monitoring Bundesnetzagentur

In 2007, the absolute majority of household customers were subscribed to a contract with the default supplier. The amount supplied by the regional default supplier made up 93.63% of the total consumption of household customers. Only 6.37% of the electricity consumed was contracted with a supplier other than the regional default supplier. This relation has changed over the last 10 years, but electricity purchased from the default supplier still accounts for 69% of the total amount consumed. The share of household customers on a default contract has however decreased significantly to 27.8% whereas the share of households supplied by a supplier other than the regional default supplier now stands at 31%, with the remainder served by a non-default contract with the default supplier. Thus, the strong position held by default suppliers in their respective service areas has weakened over the past decade but is still strong.

Regional scope of supply activity

The regional scope of supply activities can be seen as an indicator for the development of the retail market towards a supra-regional market. German regulator *Bundesnetzagentur* (BNetzA) started to evaluate this indicator in 2009 for the year of 2008.



2008 and 2017: Number and percentage of suppliers that supply customers in the number of network areas shown

(not taking account of company affiliations)

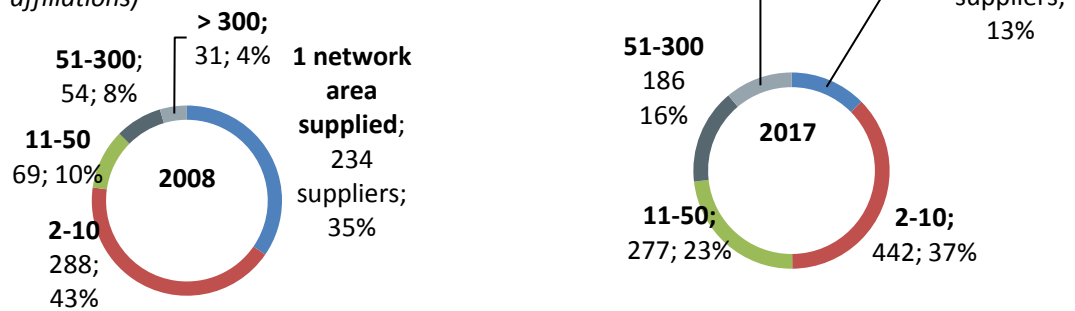


Figure 30: Number and percentage of suppliers that supply customers in network areas, 2008 and 2017
Source: Energy Monitoring Bundesnetzagentur

As shown in the figure above, in 2017, still half of the suppliers only operate regionally: 50% of suppliers serve a maximum of 10 network areas, with 13% of suppliers serving only one network area. In 2008 this figure was significantly higher at 35%. The number of suppliers present in a larger number of network areas (>300) has increased from a total of 31 to 132 suppliers over the last 9 years.

Conclusions

The development of the indicators presented shows that the process of switching in Germany has been slow but continuous. Even though the number of suppliers is constantly growing in Germany, the majority of them still operate on a regional level. Switching processes have become easier which has entailed a constantly growing switching rate and a decreasing percentage of household customers supplied by their regional default supplier.



2.3 Offers

The main feature that makes the electricity and gas retail markets unique is that both commodities are homogenous products. This means that customers can easily compare standard offers. However, there are still numerous opportunities for energy suppliers to differentiate their offers and provide consumers with choice.

The basic forms of product differentiation in retail energy markets are pricing and billing options related to the retail energy component and the network tariffs that, excluding taxes, make up the customers' bills. For example, in terms of electricity, a supplier can offer customers a variety of pricing options such as a) dynamic wholesale-based pricing, potentially exposing the consumer to hourly price fluctuations; b) variable price, set by the supplier and adjusted at regular monthly intervals; or c) fixed-price, which fixes the price of energy over any number of years. Various billing options may also be offered, for example advance payment, partial advance payment or post-meter reading payments only. In addition, some suppliers give consumers the choice between online and offline customer accounts in order to make their offers more attractive. The online option can include the possibility for the consumer to track in real-time the consumption levels and bills.

Some suppliers also offer bundled products⁴¹ and offers of value added services, including guaranteeing the source of energy, home-generation, improved customer service or additional products supplied as part of the offer.

While additional services and differentiated pricing/billing options should be a sign of healthy innovation in the market, they may also create market segmentation and increase the risk for price discrimination. By splitting consumers into different segments (for example, based on the type of contract), suppliers could charge different consumers with different prices with no justifiable reason. While this might be optimal from an economic efficiency perspective, this might lead to cross-subsidies between different consumer groups. In addition, an excessively high number of offers and lack of transparency can add complexity to the market and lead to a reduction in consumer engagement.

Independent of the regulatory regime in the analysed electricity markets, we observe that consumers in 23 MSs have five or more options⁴² other than fixed and social tariffs. While customers in GB have the choice between 13 different types of offers and in Norway customers can choose between 12, there are still a few European countries where consumers have no choice at all.

Compared to electricity consumers, gas consumers have, in general, fewer choice in products: While consumers in GB can choose among 13 and French consumers among 10 different types of offers, there are again a few European countries where the only choice is the standard fixed tariff.

⁴¹ See the CEER "Public Consultation Paper - Draft Guide on Bundled Products", CEER, September 2018, Ref. C18-CRM-PEER-07-06. <https://www.ceer.eu/ceer-public-consultation-on-the-draft-guide-on-bundled-products>

⁴² The NRAs have been asked on the availability of 14 offers in total which are:

Variable, Fixed, Mixed, Variable spot based, Variable wholesale price based, Capped, Indexed variable, Green, Online, Social, Guaranteed origin of energy (any energy source other than green or country-specific), With monetary gains, With additional services, other. The option "origin of energy" has been excluded in the gas survey.

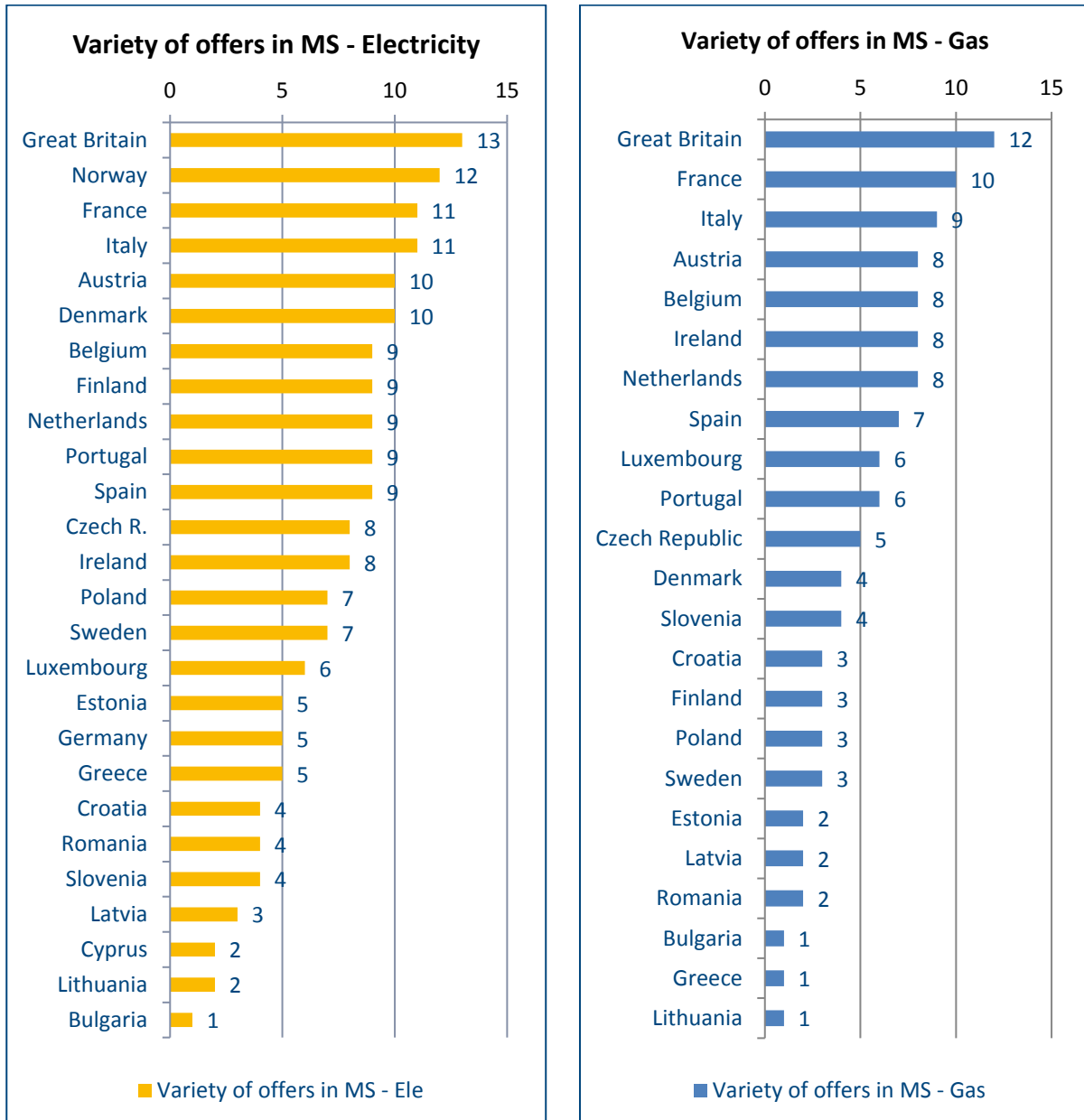


Figure 31: Variety of offers in MS

If one looks at the variety of offers, it will be obvious that the most common offer in MSs is fixed pricing (in 25 MSs). The fixed offer is followed in number by offers including variable pricing schemes (price paid per unit of electricity used that can change at any time) in 22 MSs and ‘green’ offers based on renewable generation resources like hydro, solar, wind, biomass etc. in 20 MS. The latter development clearly indicates the increasing awareness, and hence, the demand of European consumers for clean energy generation.

We observe that in gas retail markets the variety of offers in MS is less compared to electricity markets, which could be explained by a relatively late opening of many gas markets to competition. For the gas market, the most common offers after fixed tariffs refer to variable and online pricing/billing options.

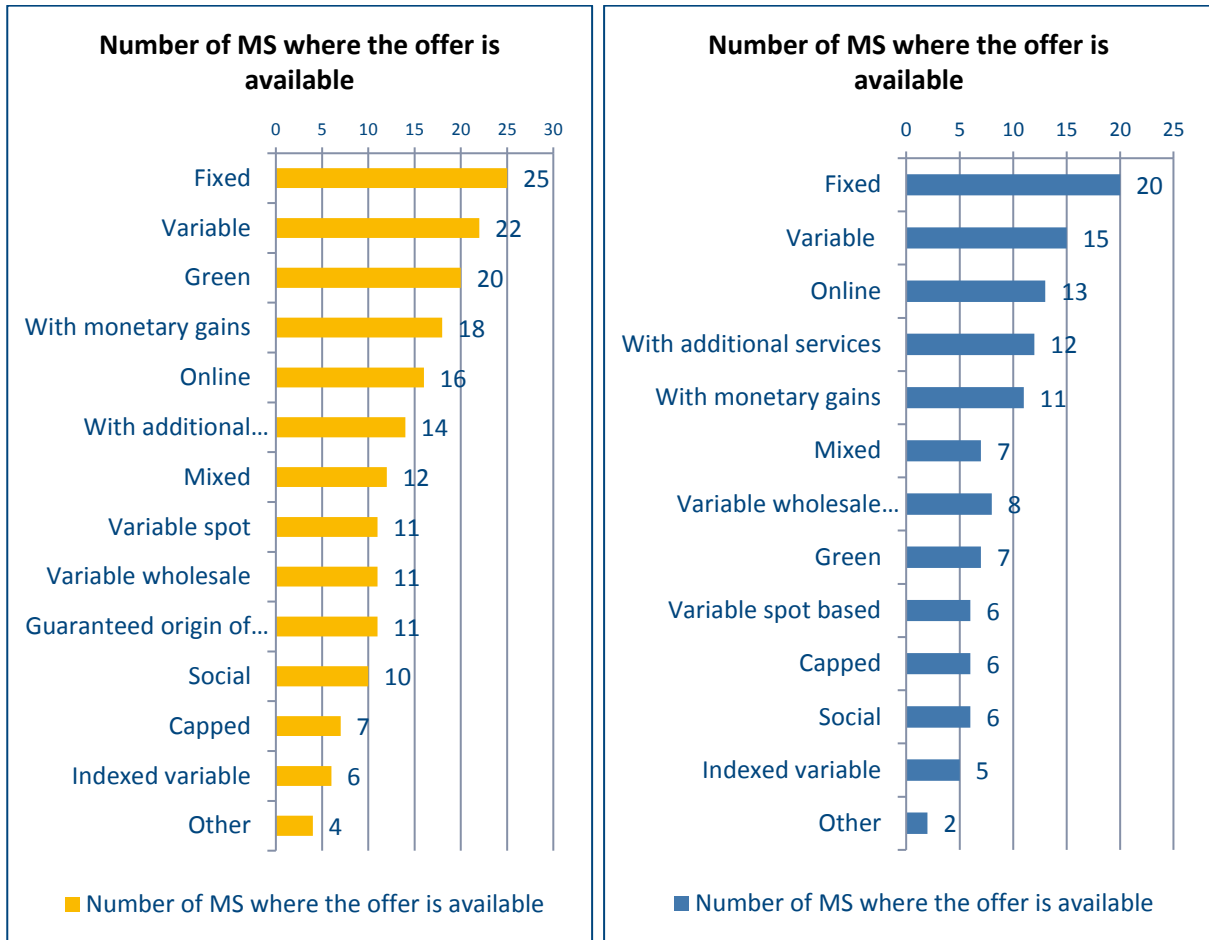


Figure 32: Number of MS where the offer is available

Note: The offers are defined as follows:

- Variable pricing: Price paid per unit of electricity used can change at any time
- Fixed pricing: An offer that guarantees that the price paid per unit of electricity used will not change for a given period of time
- Mixed pricing: i.e. based on both fixed and variable components
- Variable spot-based offers: Variable price based on the wholesale market spot price
- Variable wholesale price-based offer: Settled against monthly/weekly average wholesale price
- Capped offer: The offer guarantees that the price paid per kWh for electricity will not rise beyond a set level for a given period of time, but may go down – usually for this certainty customers pay a small premium
- Indexed variable: Similar to spot-based, which is linked to wholesale, but linked for example to standard incumbent offer with guaranteed discount of x% or to RPI
- Green offers: Based on renewable generation resources like hydro, solar, wind, biomass etc.
- Online offer: With savings/discount for managing accounts online, online billing
- Social tariffs e.g. offers for vulnerable consumers
- Guaranteed origin of energy (any energy source other than green or country-specific)
- With monetary gains (e.g. discount, supermarket vouchers, etc.)
- With additional services (e.g. energy efficiency, boiler maintenance etc.)
- Other: special offers for electrical vehicles or dual fuels



3 Intervention in price setting and price regulation

3.1 General overview

This chapter focuses on the different forms of intervention in retail price setting or in energy price regulation. One can observe that MS have chosen different paths in terms of liberalisation.

Some countries have retained various forms of intervention for a majority of consumers or at least for vulnerable consumers, whilst other countries managed to move from 100% regulated prices to a completely liberalised market.

In this report, when talking about regulation, we consider the end-user price (the energy component) only, which is a price subject to regulation or controlled by a public authority like a government, an NRA, etc.

In 2017, seven countries (out of 28 answering) reported a change in price setting or price regulation as compared to 2016, regarding electricity or gas: Cyprus⁴³, Denmark, Romania and Sweden for electricity and Latvia and Poland for gas, Great Britain for both electricity and gas.

Nine countries reported an intervention in the retail price setting mechanism, which applies to electricity and gas markets and to household and non-household segments.

The intervention in retail price setting mechanisms can take different forms depending on the country and its current situation. This form of intervention can be the existence of regulated prices, like in France⁴⁴, in some countries dedicated to vulnerable customers (in Greece and Latvia in electricity for instance; and Great Britain for electricity and gas), the existence of social tariffs (for electricity, in Belgium, Cyprus, France, Greece, Malta, Portugal, Romania and Spain; for gas, in Belgium, Bulgaria, France and Portugal). In Portugal the NRA established access tariffs and transitory end user prices for last resort suppliers in the context of the removal of regulated end user prices. In Lithuania, network price caps are set.

In the Netherlands, in 2017, ACM intervened in the price setting of one supplier for two of their products with variable tariffs. ACM deemed these tariffs to be unreasonable and imposed maximum tariffs (retroactively) for these products for the period of 1 January 2017 until 30 June 2017. The maximum tariffs were imposed for single fuel electricity products (no price intervention occurred for gas tariffs in 2017).

Until 2017, each supplier active in Belgium had to communicate any price increase to the Belgian regulator CREG, which had the ability to intervene.

⁴³ On 19 June 2015 Cypriot NRA CERA published the Regulatory Decision 02/2015, by which CERA revised the Regulatory Practice Statement and Electricity Tariffs Methodology. The purpose of the revision was to align with the best practices in Europe, and to achieve a more rational method of calculating the allowable revenue and therefore the electricity market tariffs. Tariffs should meet the cost-orientation principle, i.e. reflect the actual cost of the service/product at the time it is consumed. In this context CERA, applying Regulatory Decision No. 02/2015, approved by its Decision No. 97/2017, the new electricity tariffs for the year 2017.

⁴⁴ See the Case Study: Switching activities of household customers under regulated end-user prices in France, page 38.



3.2 Household segment

3.2.1 Existence and types of price regulation

The figure below shows that 14 countries in electricity or in gas (13 in electricity and 12 in gas) have a kind of price regulation for consumers, stating that they have price regulation⁴⁵ for the household market, 11 of which have it in place for electricity and in gas. In 2016, there were 11 countries for electricity and 12 countries for gas in this situation.

If the report shows a different number of countries with price regulation in 2017 compared to 2016, these differences are due to changes in some countries (see section 4.3 'Roadmaps for removal of regulated retail prices') and to a more complete way of taking price regulation into account. As explained in the following developments, all types of price regulation have been taken into account: ex-ante, ex-post and social. If countries have regulated prices for specific consumers' categories (especially vulnerable consumers), they have been taken into account in the calculation and will appear on the following graphs with a specific mention (see relevant footnotes).

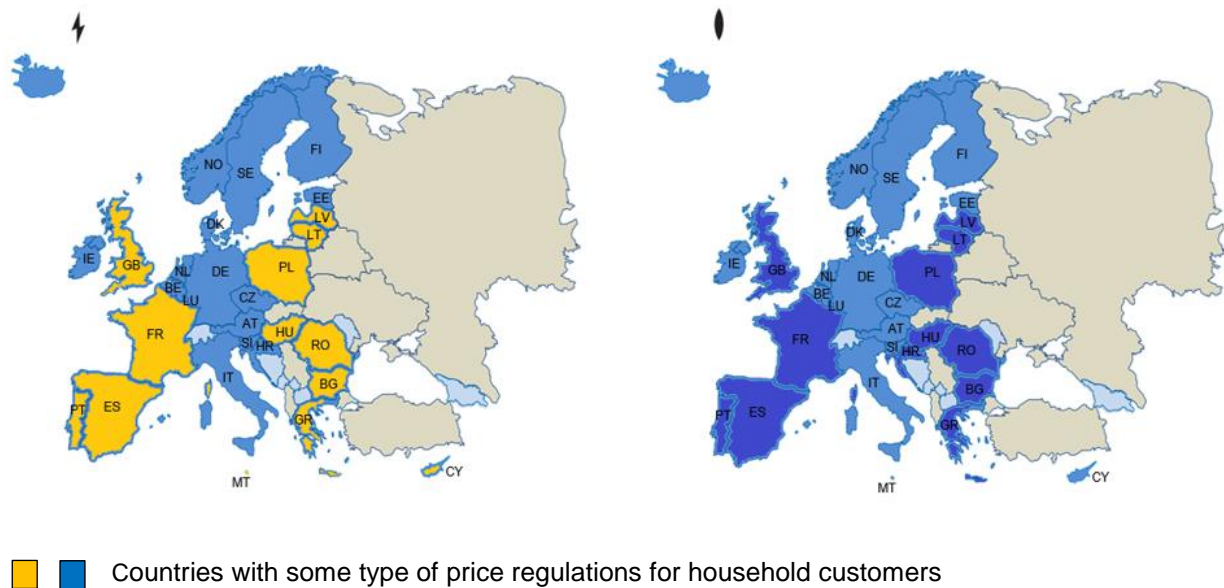


Figure 33: Existence of price regulation in electricity and gas in 2017

Note: In the case of Portugal, transitory prices are taken into account. Northern Ireland's regulator regulates end-user prices of the dominant former incumbent suppliers.

The type of end-user price regulation can take different forms, namely ex-ante, ex-post, social or other forms⁴⁶. Almost all of the countries with price regulation have a single ex-ante type of end-user price regulation or a mix of ex-ante and of a social type of end-user price regulation (except Cyprus which has a mix of ex-ante, ex-post and social type of end-user price regulation and Spain).

⁴⁵ The existence of price regulation is only for vulnerable customers (i) in Great Britain, Greece and in Latvia in electricity;(ii) in Great Britain in gas.

⁴⁶ While entering into this level of detail, these concepts require improved definition in the future.



In these countries, it is in most cases the NRA then the government that sets the regulated prices. All types of criteria are used by these countries to set regulated prices: discretionary, rate of return (except for gas), price cap and other types of caps.

3.2.2 Number of household customers under regulated end-user prices

In 2017, in eight out of 13 countries in electricity with end-user price regulation for household customers (Bulgaria, Cyprus, France, Hungary, Lithuania, Malta, Portugal and Romania) the incumbent supplier offers regulated prices. In Greece and in Great Britain, every supplier can offer regulated prices⁴⁷. In Latvia, Poland and Spain, default suppliers or reference suppliers offer regulated prices.

In gas, in half of the countries with regulated prices (Bulgaria, Croatia, France, Hungary, Portugal and Latvia), incumbent suppliers offer regulated prices and in almost half of the countries (Lithuania, Poland, Romania and in Great Britain) every supplier can offer regulated prices⁴⁸. In Spain, last resort suppliers offer regulated prices.⁴⁹

Compared to the total number of households, three countries, Poland, Bulgaria and Romania have the highest percentage of households supplied under regulated prices with a percentage between 88% and 97% in electricity, whereas in Hungary, Cyprus, Lithuania and in Malta the market seems to be completely closed, as 100% of the households are supplied under regulated prices. France has also a high number of households (82% in 2017) supplied under regulated prices, while for the other countries this figure is below 50%, such as in Spain (41%), in Portugal (21%) and in Latvia (8%). In 2017, 14% of British household consumers are under regulated end-user prices. Since 2016 the share of household consumers under regulated prices has been decreasing in Spain, Romania, Portugal, France and Bulgaria.

⁴⁷ The existence of price regulation is only for vulnerable customers in Great Britain, Greece and in Latvia in electricity.

⁴⁸ The existence of price regulation is only for vulnerable customers in Great Britain in gas.

⁴⁹ No data available for Greece.

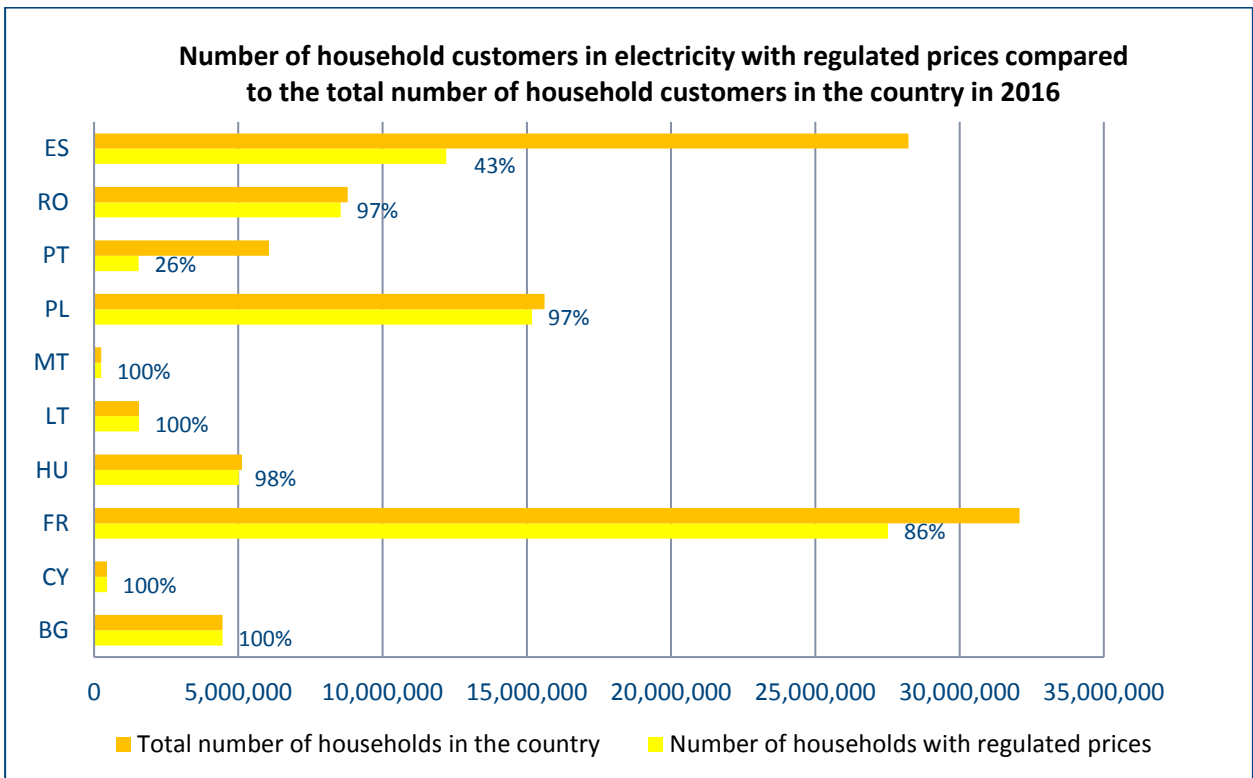
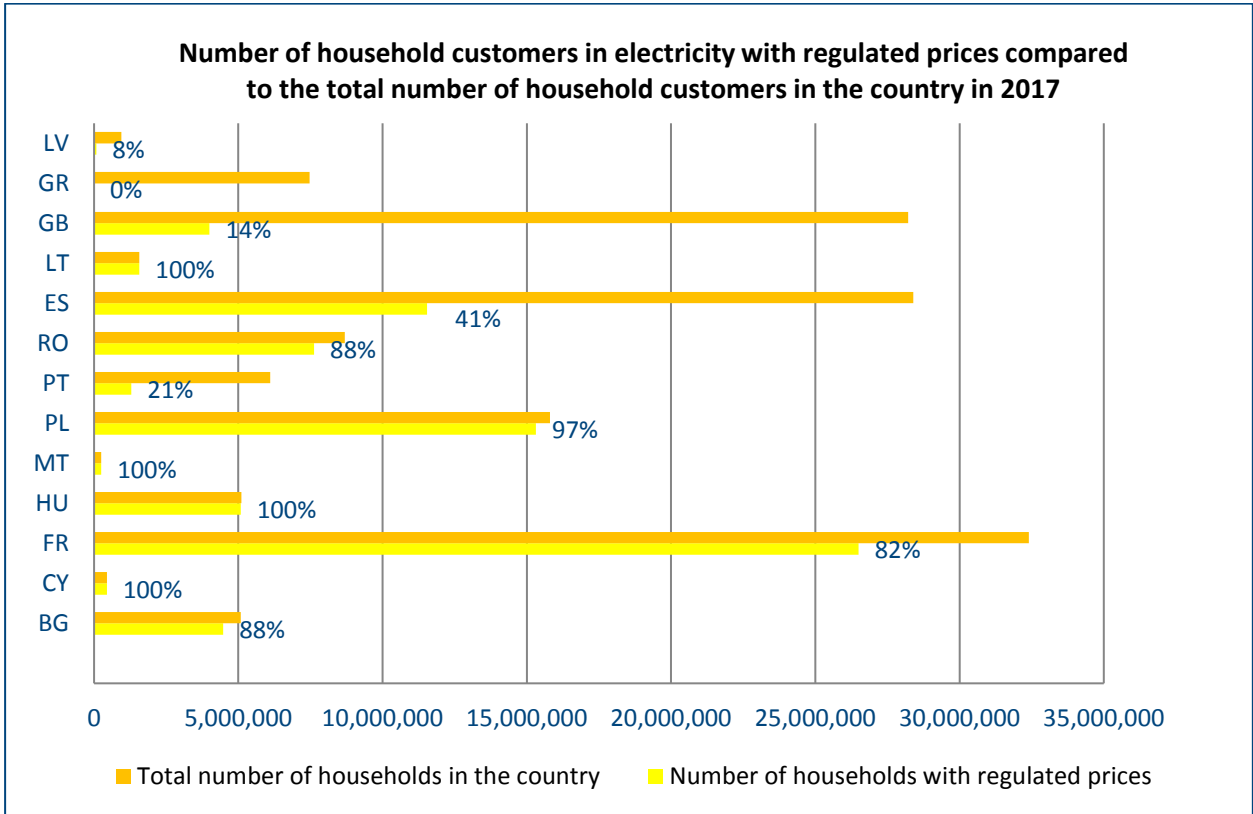
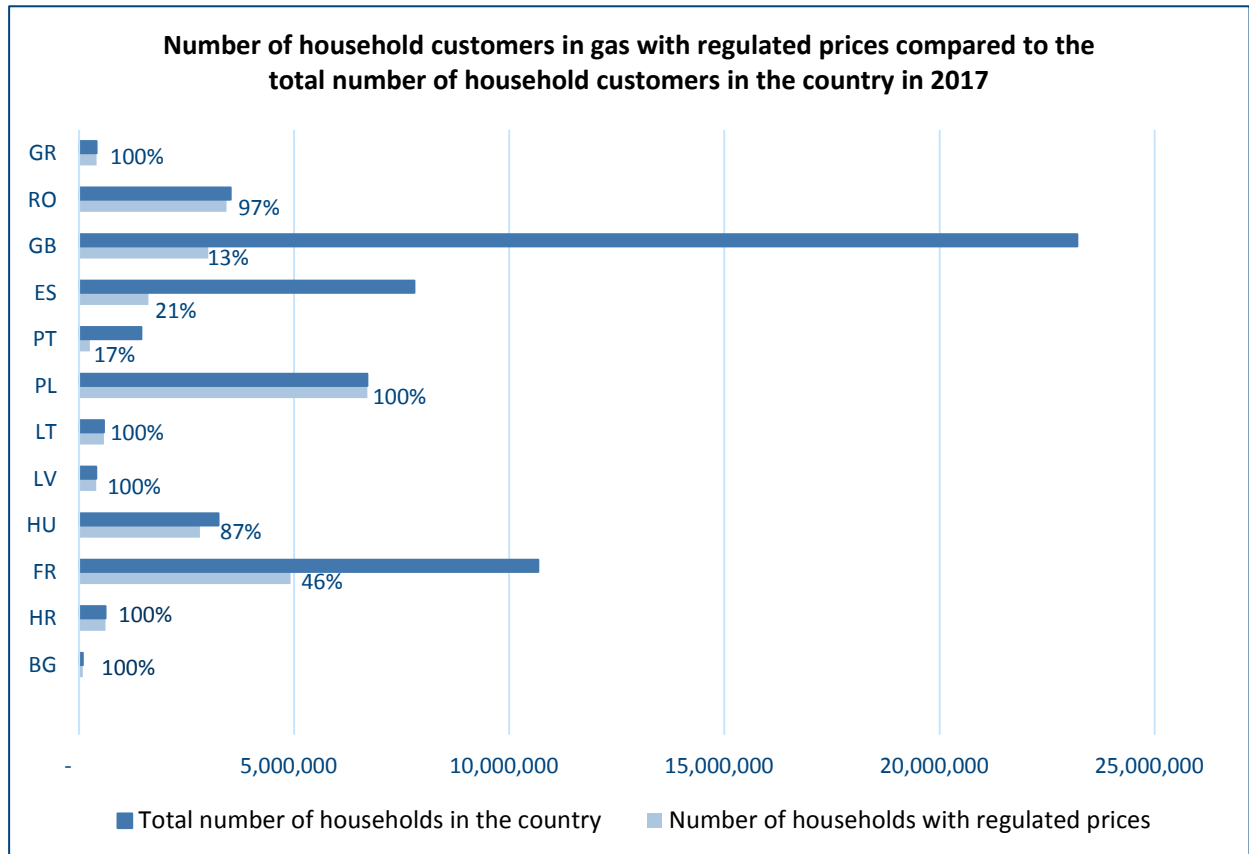


Figure 34: Number of household customers in electricity with regulated prices compared to the total number of household customers in the country in 2016 and 2017
 Note: In the case of Portugal, transitory prices are taken into account. In Greece, in 2017, 12% of household consumers benefit from social tariffs.



Regarding the gas market, the number of customers supplied with regulated prices is 100% in six countries out of 12 with regulated prices. In these six countries (Bulgaria, Croatia, Greece, Latvia, Lithuania, Poland), there has been no change between 2016 and 2017. In Romania, the number of household consumers supplied with regulated prices is 97%, this percentage showing a decrease since 2016. In the other countries (Spain, Portugal, Hungary, France), this number varies between 13% and 87%, with the lowest percentage in Great Britain and the highest in Hungary. In Spain, Portugal, France and Hungary, the share of household consumers under regulated prices has been progressively decreasing between 2016 and 2017.



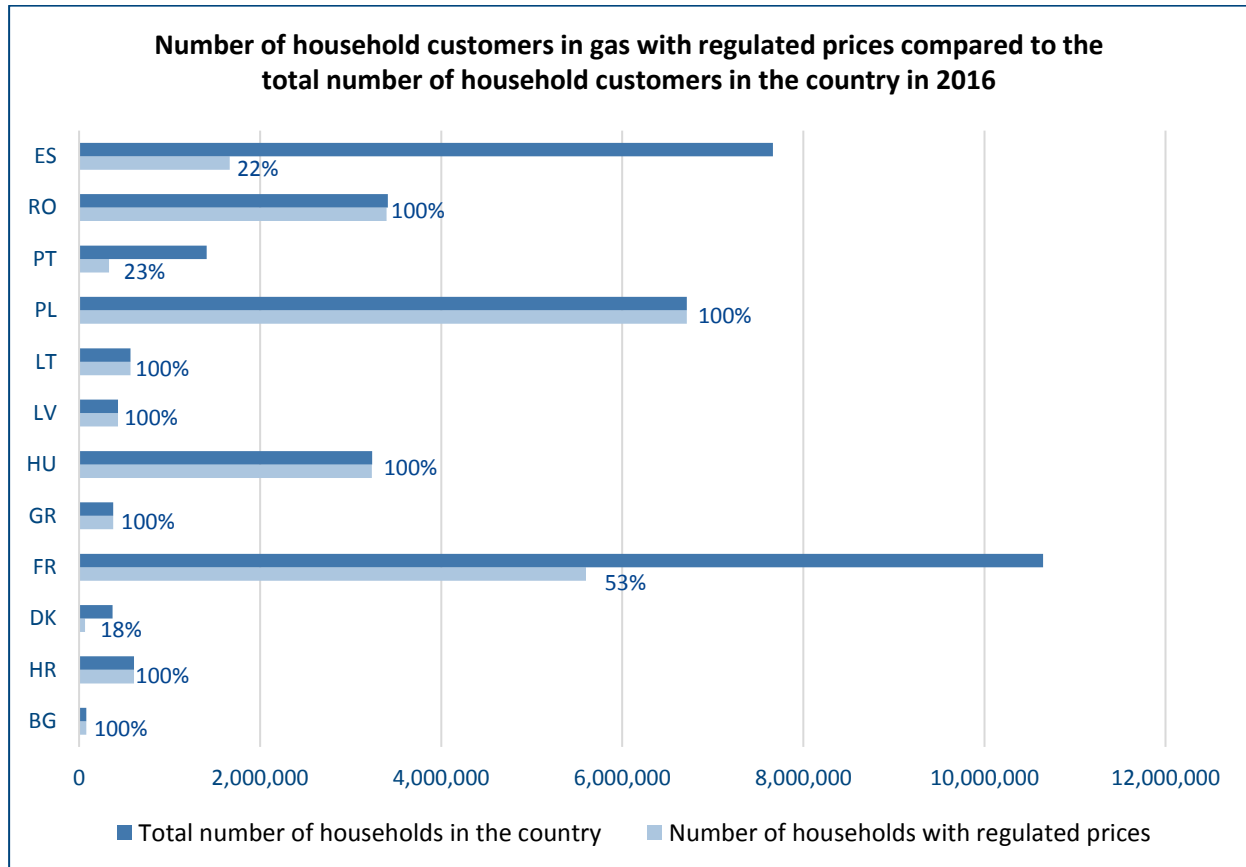


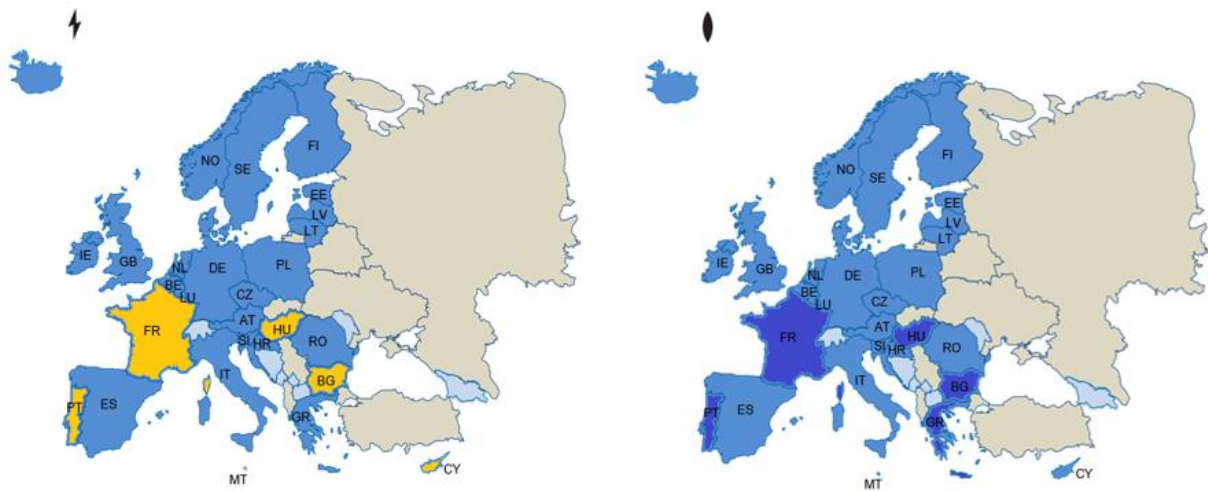
Figure 35: Number of household customers in gas with regulated prices compared to the total number of household customers in the country in 2016 and 2017
Note: In the case of Portugal, transitory prices are taken into account.

3.3 Non-household segment

This section focuses on the different forms of price intervention or regulation for the non-household segment. As for household customers, MSs choose different paths on the way to liberalisation. Whereas some countries moved from 100% regulated prices to a completely liberalised market, other still keep some form of price intervention.

3.3.1 Existence of regulated prices

Figure 36 illustrates that in 2017, in six countries in electricity and five in gas, out of 28 MSs answering for electricity and for gas, there is an application of end-user price regulation for non-household customers. In 2016, there were seven countries in this situation for electricity and eight for gas.



■ ■ Countries with regulated prices for non-household customers

Figure 36: Existence of price regulation in electricity and in gas in 2017 (non-household)

Note: In the case of Portugal, transitory prices are taken into account. In Greece, all non-household consumers had unregulated prices in gas in 2017 except those with a consumption under 2,2 GWh/year.

3.3.2 Number of non-household customers under regulated end-user prices

In 2017, 6 countries offer regulated prices to non-household customers in electricity⁵⁰.

Compared to the total number of electricity non-households, Bulgaria and France have the highest percentage of non-households supplied under regulated prices, whereas in Cyprus and in Malta the market seems to be completely closed, as 100% of the non-households are supplied under regulated prices. In the other countries, there is a range of almost 5% to 46% of non-households supplied under regulated end-user prices. The lowest percentage were reported by Portugal, where there is 5% of non-household customers that are supplied under end-user regulated prices. The trend for all countries is the decrease of the share of non-household customers under regulated prices.

⁵⁰ In Lithuania, the prices for non-households in electricity and natural gas are not regulated. In the electricity market, the specificity is that if the non-household consumer does not choose an independent supplier, the electricity is supplied under the price of guaranteed electricity supply which is calculated by applying a coefficient of 1.25 to the electricity purchase price set for the public supplier.

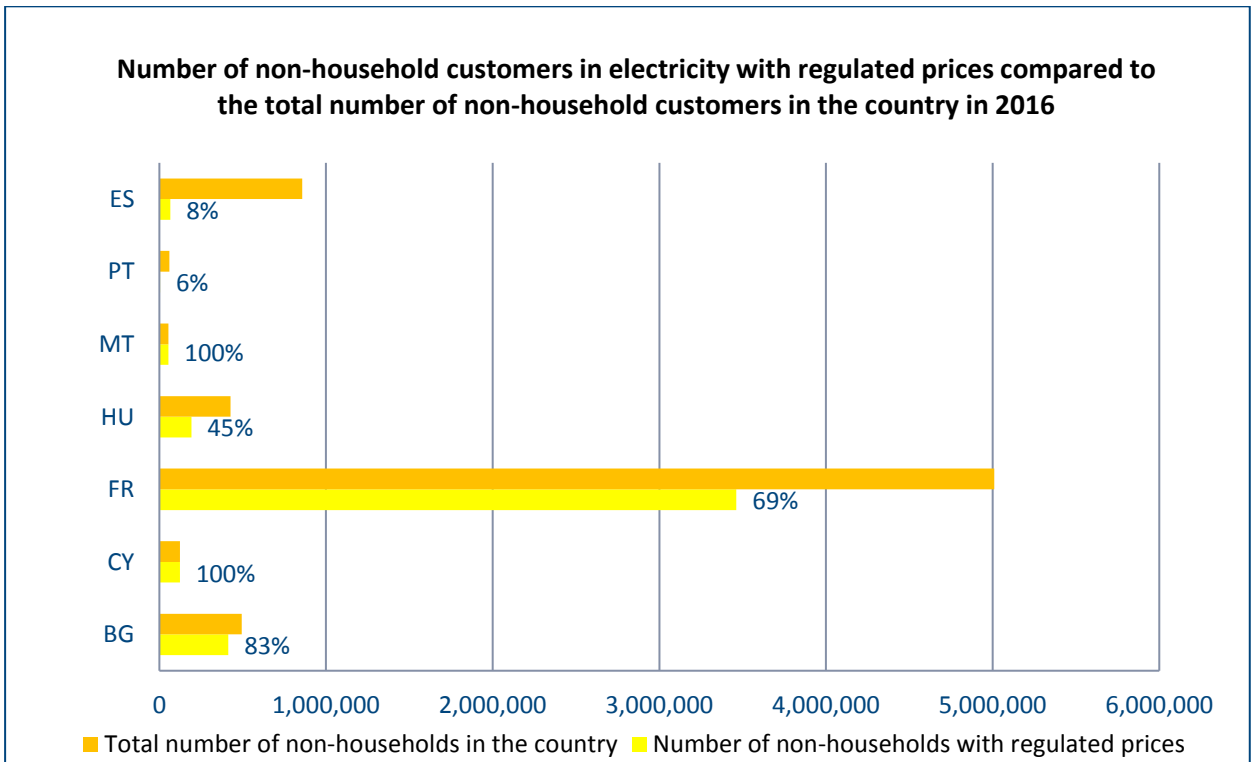
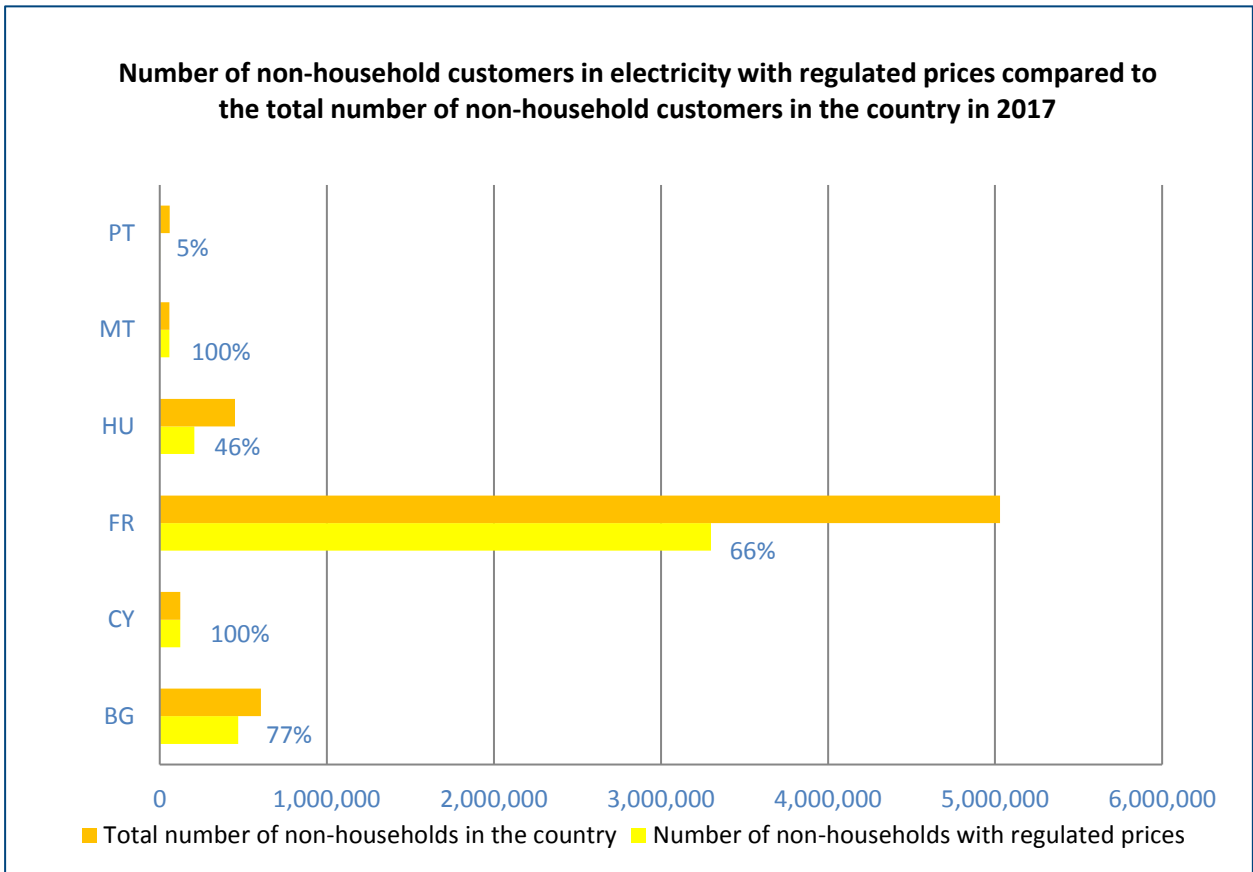


Figure 37: Number of non-household customers in electricity with regulated prices compared to the total number of non-household customers in the country in 2016 and 2017

Note: In the case of Portugal, transitory prices are taken into account.



Regarding the gas market, in two countries out of 5 in total with regulated prices, the number of customers with regulated prices is high and ranges between 72% in Hungary and 99% in Bulgaria. In two countries, Portugal and France, these figures are lower with 9% and 11% respectively.

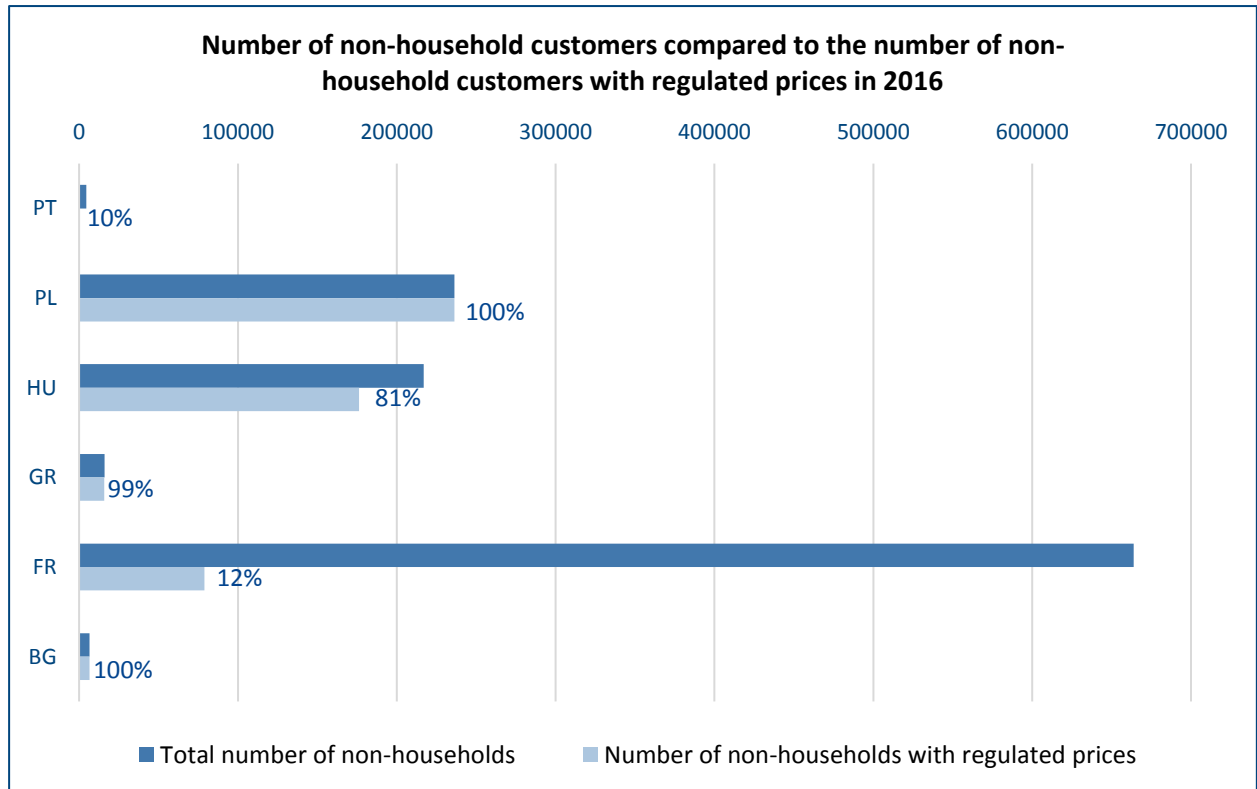
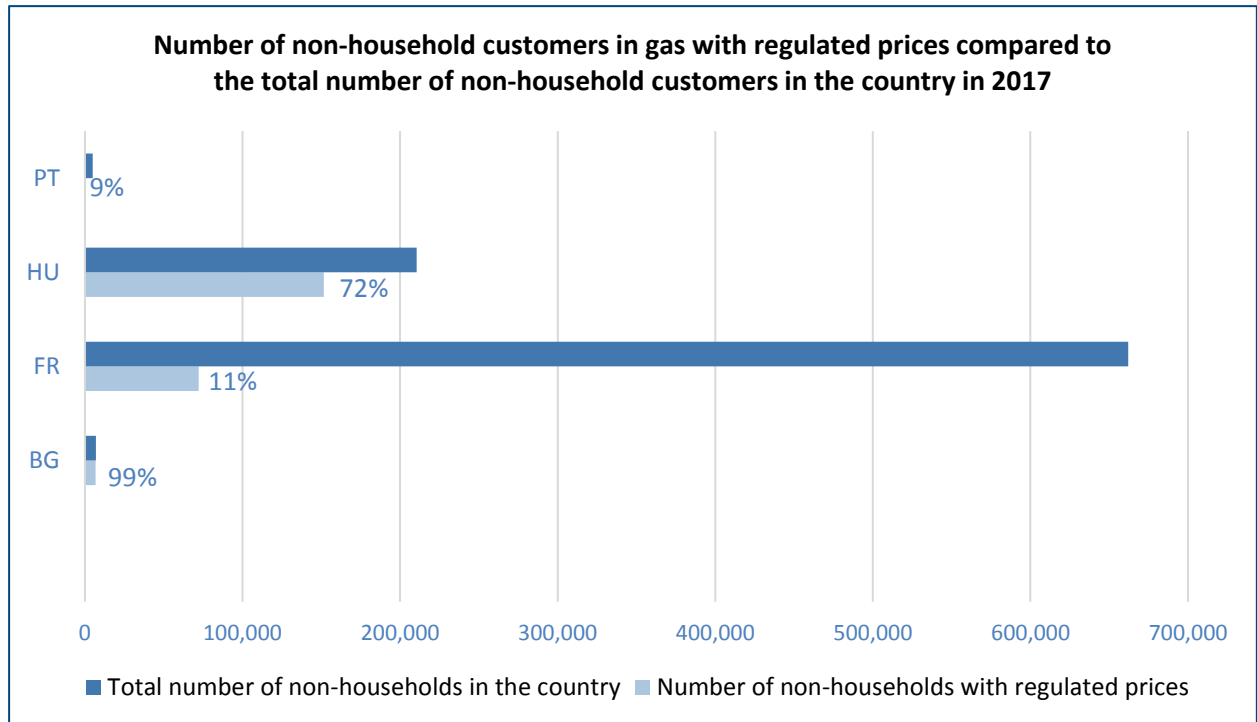


Figure 38: Number of non-household customers in gas with regulated prices compared to the total number of non-household customers in the country in 2016 and 2017

Note: In the case of Portugal, transitory prices are taken into account. In Greece, no data is available for 2017.



3.4 Roadmaps for removal of regulated retail prices

This section analyses the steps in the path towards the removal of price regulation (where data permits it and, where applicable to countries).

In Denmark, the supplier centric model (SCM) has been in force since the 1 April 2016. Prior to the implementation of the SCM, electricity suppliers could be licensed as the default supplier of a certain network area. The universal service obligation entailed that the default suppliers were obligated to supply electricity to all consumers, within their licensed area, who did not exercise the right to choose a supplier. The licensed default supplier provided the inactive consumers with electricity at regulated prices.

Following the implementation of the SCM, the licensed default supplier mechanism is no longer in force and the universal service obligation has been substituted by a supply obligation. The main rule is now that consumers must actively choose their electricity supplier. Correspondingly, all suppliers are obligated to provide electricity to consumers – within the network area where the supplier operates – upon request and payment by the consumer.

On the 16 May 2017 the license of the last default suppliers expired. As a consequence, supply of electricity at regulated prices from licensed default suppliers no longer exists.

In Greece, complete liberalisation of the gas market has been in place since the 1 January 2018.

In Latvia, since 3 April 2017, the natural gas market has been opened to free competition. As for household users, JSC Latvijas Gaze as a public trader will supply natural gas on a regulated price basis until the 1 of January 2019 (pursuant to Article 107 paragraph 3 of the Latvian Energy Law).

Regarding the electricity sector, in 2017 no household electricity consumption had been regulated in terms of pricing with the exception of protected users. Pursuant to Article 1(2) and 331 of the Latvian Electricity Market Law, those are: low-income family (persons); a large family or a family (persons) which takes care of a child with disability; a person with the group I disability who uses electricity in his or her household for his or her own needs (for final consumption). The Regulation of Cabinet of Ministers No. 459 states that: (Point 2) the service for a low-income person or low-income family, a family (person) caring for a disabled child or a person with a group I disability is the sale of electricity of no more than 100 kilowatt-hours at a price of 0.0131 euro per kilowatt-hour in each billing period (calendar month); (Point 3) the service for a large family is the sale of electricity for a maximum of 300 kilowatt-hours at a price of 0.0131 euro per kilowatt-hour in each billing period (in calendar month); (Point 4) for protected users who use distribution system services for which more than one hundred thousand users are connected, the service provider shall increase the electricity trading price referred to in paragraphs 2 and 3 of these rules by EUR 0.02448 per kilowatt-hour. 169,294 households were eligible for such status, while approximately 47,00% of the eligible consumer pool had applied for a state support program in 2017. In 2016, 82,387 from 122,805 eligible users applied for a state support program.

In Lithuania, price regulation still exists for households in the electricity and gas sectors. In the revised National Energy Independence Strategy, approved by the Parliament of the Republic of Lithuania on the 21 June 2018, it is projected to gradually remove the regulated end-user prices for households in the electricity sector.

In Poland, since 1 October 2017, the prices for non-household customers regarding the gas market have been deregulated.



Since 1 January 2017, the obligation to submit the wholesale gas tariffs for approval by the President of (Polish regulator) URE has expired. The obligation to submit for approval the tariffs applied for final customers who buy gas at virtual point, in a form of liquefied natural gas (LNG) or compressed natural gas (CNG), during tenders, auctions or public procurement expired on that date as well. Since 1 October 2017, the prices of gas sold to remaining groups of final customers have been released, with the exception of household customers, for who a tariff approval obligation will exist until the end of 2023. However, it should be pointed out that, in accordance with gas tariff regulation, the tariff prices of gaseous fuels are maximum prices and gas supplier may apply lower prices, provided non-discriminatory treatment of customers in each tariff group. Tariffs are set by suppliers and submitted for approval by the President of URE, who approves the tariff or refuses to do so. Generally, tariffs must cover justified costs of conducting licensed activity and a profit margin (up to 3%). Moreover, customers' interest protection against unjustified level of prices and fee rates must be taken into account.

In Portugal, end-user regulated prices for all electricity and gas customers (including households) were legally abolished as of 1 January 2013. Phasing out of regulated prices was done in several stages:

In the electricity sector the process started in January 2011 for the non-household customers, in July 2012 for the household customers with highest contracted power and in January 2013 for the remaining electricity household customers;

In the gas sector the process started in June 2011 for the non-household customers, in July 2012 for the household customers with highest annual consumption and in January 2013 for the remaining gas household customers.

For the phase-out process a transitory period was defined by the Portuguese government in order to enable customers supplied under regulated end-user prices to choose a new market supplier and move to the liberalised market. During this period, the NRA (ERSE) sets a tariff (called the 'transitory tariff'), which may include an additional value, whose objective is to promote customers to switch to a market tariff.

The transitory period was initially set for three years. However, the government extended this period and actually the transitory period is defined until 31 December 2020 for all gas and electricity customers. This extension is expected to facilitate the emergence of new entrants in the market, and therefore lead to a higher level of competition (since, during a shorter phase-out period, customers would probably move from the transitory tariff to a market tariff offered by the incumbent).

Returning to the transitory tariff is not possible, unless for customers under last resort conditions (supplier bankruptcy or no offers available) and for those customers under the social tariff regime.

In Romania, in line with Romania's obligations in relation to the IMF, the World Bank and the European Commission, a roadmap for phasing out regulated electricity prices was approved. From 1 January 2014, according to this roadmap, the energy price component of the electricity price for non-household customers who did not exercise their eligibility right is no more a regulated price, being 100% market-based. According to the same roadmap, in the period 2013-2017, the percentage of electricity purchase from the competitive market for household customers who did not exercise their eligibility right was increased by 10-20% each year. From the 1 January 2018, the energy price component for household customers who did not exercise their eligibility right is also a market-based price, meaning that all customers are supplied under non-regulated prices.



Regulated prices for non-household gas customers were abolished on 1 January 2015, taking into account the provisions of Law No.123/2012, with subsequent amendments, which in Art. 179 (2) (a) states that activities related to the regulated market include the supply of natural gas at a regulated price on the basis of framework contracts until 31 December 2014 for non-household customers, unless there is a significant difference between the price of domestic gas production and the European import price, which could jeopardise market stability.⁵¹ For household consumers who did not exercise their eligibility right, regulated prices are still applicable until the 30 June 2021, according to the provisions of article 179 (2) (b) from the Law No.123/2012, with subsequent amendments. It should be mentioned that from April 2017 onward, the domestic price for gas was no longer established through a government decision, its value being close to the value of the import gas. So, in the later months of 2017, the gas price was calculated established based on the prices of market transactions.

However, in Great Britain, with effect from 1 April 2017, the prices for household customers with Prepayment Meters (PPM) are regulated by means of a temporary upper limit cap. Price cap for PPM customers is a temporary measure running until December 2020, when the roll-out of smart meters is expected to be completed.

⁵¹ Extended until 31 December 2015



Annex 1 – List of country abbreviations

Abbreviation	Full country name
AT	Austria
BE	Belgium
BG	Bulgaria
HR	Croatia
CZ	Czech Republic
DK	Denmark
EE	Estonia
FI	Finland
FR	France
DE	Germany
GB	Great Britain (GB is used for Great Britain: England, Scotland and Wales)
EL	Greece
HU	Hungary
IE	Ireland
IT	Italy
LV	Latvia
LT	Lithuania
LU	Luxemburg
MT	Malta
NL	The Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
ES	Spain
SE	Sweden



Annex 2 – About CEER

The Council of European Energy Regulators (CEER) is the voice of Europe's national energy regulators. CEER's Members and Observers comprise 37 national energy regulatory authorities (NRAs) from across Europe.

CEER is legally established as a not-for-profit association under Belgian law, with a small Secretariat based in Brussels to assist the organisation.

CEER supports its NRA Members/Observers in their responsibilities, sharing experience and developing regulatory capacity and best practices. It does so by facilitating expert working group meetings, hosting workshops and events, supporting the development and publication of regulatory papers, and through an in-house Training Academy. Through CEER, European NRAs cooperate and develop common position papers, advice and forward-thinking recommendations to improve the electricity and gas markets for the benefit of consumers and businesses.

In terms of policy, CEER actively promotes an investment friendly, harmonised regulatory environment and the consistent application of existing EU legislation. A key objective of CEER is to facilitate the creation of a single, competitive, efficient and sustainable Internal Energy Market in Europe that works in the consumer interest.

Specifically, CEER deals with a range of energy regulatory issues including wholesale and retail markets; consumer issues; distribution networks; smart grids; flexibility; sustainability; and international cooperation.

CEER wishes to thank in particular the following regulatory experts for their work in preparing this report: Maud Brassart, Deniz Erdem, Lucía Ibáñez Luzón, Linda Neubauer and Silke Paizoni.

More information at www.ceer.eu.