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Citizens' Energy Forum

Competitive energy markets

The Commission continues to encourage the opening of the EU's energy markets for the benefit of energy consumers and the EU's competitiveness. Building on the results of a comprehensive enquiry into the electricity and gas sectors over the period 2005-6, 2007 saw the Commission make ground-breaking proposals to further open up the markets, while at the same time stimulating energy efficiency, guaranteeing access to the energy market for small and medium-sized enterprises. These proposals became EU law in 2009.

Opening energy markets to competition benefits energy consumers, be they private households or companies. Before market opening consumers had to buy their energy from monopolies, which had little incentive to reduce prices or compete for customers by offering quick and reliable services. Market opening forces companies to compete for customers by offering attractive prices and good and reliable services. On the whole energy prices have declined following market opening although prices do fluctuate and can be affected by factors such as stricter environmental regulation.

Citizens' Energy Forum

Last year the Commission successfully launched the Citizens' Energy Forum. It is a regulatory forum intended to discuss and promote creation of competitive retail markets and protection of consumer interests. The first meeting of the Citizens' Energy Forum took place in October 2008. The second Citizens' Energy Forum took place on 29-30 September 2009 in London.

During the relatively short period since last October, regulators, consumer organisations, industry representatives and the Commission services have worked hard in order to deliver the outputs that were identified during the first Forum. The following topics were debated in details at the Forum this year:

- The changing role of the regulator and the increasing role of consumers in the new legislation. One specific example discussed - British retail market probe and results from this active market monitoring exercise.
- Recommendations by the Billing subgroup set-up at the last Forum – principles of good billing, suggested templates for bills and best practices;
- Review of vulnerable customers definitions;
- Recommendations on best practices on customer complaint handling;
- Smart Metering – implementation experience so far and preparation to implement it following the new obligations in the Third Energy Package. Two case studies of implementation in two Member States were presented;
- How to increase number of suppliers on the market and make supply market competitive. This requires that all the suppliers have the same conditions for their business - rules for impartiality and neutrality of Distribution system operators is of extreme importance.

Effective rights for energy consumers

Across nearly all Member States, retail energy markets were opened in July 2007. Effective consumer rights are essential for citizens if they are to exploit the potential offered by open energy markets. In addition to new legislation that sought to reinforce energy consumer rights, the Commission conducted a consultation on consumer rights. The results of this consultation showed the limited extent to which European citizens, and in some cases Member States, understood how European legislation protects their rights.

Given lack of information on the part of the consumer, there was strong support for the provision of accurate and practical information. This is why the Commission underlines and supports the need for answers about local or regional retail markets. This information will be provided by the Checklist, which became an obligation for Member States through the new legislation. It will be through concerted efforts at national level that the Checklist will be completed in a way that provides meaningful answers for consumers. Information for consumers is not enough to ensure their active participation in the market. The consumers must be put back in the driving seat with regard to the development of retail markets so that they are sufficiently empowered to make markets deliver concrete benefits.

Reinforced consumer rights in the third internal energy market package

The adoption of the package means a reinforced protection of consumers, together with better enforcement.

The role of regulators has considerably evolved. Regulators, with other relevant authorities, must ensure that consumer protection measures are enforced and that customers benefit through the efficient functioning of their national market. Regulators will be involved in active monitoring switching rates, complaints and the level of competition in the retail market.

Concerning the protection of consumers, a number of new provisions aim at its reinforcement:

- Member States must provide provision of single points of contact to provide consumers with all necessary information concerning their rights.
- Consumers have the right to access their consumption data.
- Consumers also have the right to a good standard of complaint handling by their energy service provider and must be informed of the appropriate procedures.
- Member States shall also ensure that an independent mechanism such as an energy ombudsman or a consumer body is in place for an efficient treatment of complaints and out-of-court dispute settlements.
- From now on, Member States will have to define vulnerable consumers and may refer to those suffering energy poverty. The definition may also refer to the prohibition of disconnection at critical times.

As to the operation of the retail market, the process of switching is to be improved with a three week limit on the amount of time that a switch should take and six week deadline for receipt of final bill after switch. Member States shall ensure that the roles and responsibilities of all relevant undertakings in the market are clearly defined. It was also deemed appropriate that consumers should have access to suppliers in other Member States and that licensing regimes should not impede the development of such trade.

Furthermore, consumers must be properly informed of actual electricity consumption and costs frequently enough to enable them to regulate their own electricity consumption. Smart Metering, in electricity at least 80% of those consumers which have been assessed positively has to be equipped with intelligent metering systems by 2020. In the case no economic assessment of the long-term costs and benefits is made, at least 80% of all consumers have to be equipped with intelligent metering systems by 2020.

Good Practice in Energy Billing

Why billing matters to consumers?

An electricity or gas bill can and should be a simple and clear source of information for consumers, and the basic tool helping them to **understand how much energy they are using** as well as the **actual cost** of the energy which they have used, to **consume less** if possible, and to **compare offers** available for them on the market.

On the liberalised European market and at a time when sustainable consumption becomes of central concern, the energy bill is much **more than just an invoice**.

But energy bills are currently a major source of consumer complaints. In many countries, consumers are confronted with **unreadable bills**. Some suppliers **confuse more information with better information**. Many consumers find bills **complicated and unclear** and therefore difficult to understand. **Pricing** is not always clear. **Accuracy** in bills and (lack of different) **payment** methods for bills are also mentioned as problems for consumers. In some countries, **comparing offers** and finding out **how to switch supplier** are also problematic for consumers.

This has a major knock-on effect on consumers. Those who are confused about their bills are less likely to play a role in the liberalised energy markets by exercising their choice and looking for better offers.

How is the energy market currently performing for consumers?

The European Commission uses a dedicated monitoring tool, the **Consumer Markets Scoreboard**, to assess how specific markets are performing for consumers. The key parameters used in the Scoreboard to assess market health are price levels, consumer satisfaction, consumer complaints, switching rates and safety (see [MEMO/09/44](#)).

The latest Scoreboard Report (published in February 2009) singled out the retail energy market as one that is at high risk of **underperforming for consumers** (see [IP/09/202](#)). Below are some of the key findings:

- Electricity and gas supply services score particularly badly in terms of reported **price increases**. About 60% of consumers reported price increases from their energy supplier, while only 3-4% saw price decreases.
- Electricity and gas supply also score particularly **badly in terms of the comparability of offers and the ease of switching**.
- Energy is the sector where consumers are **least likely to switch suppliers**: only 7% switched gas supplier, and 8% electricity (compared, for example with 25% for car insurance or 22% for the internet).
- Of the three sectors identified as causing most problems for consumers (energy, banking and transport), energy is the one on which **consumers spend most** (5.7% of their household budget). Within energy, electricity takes up the highest part of consumer spending (2.1% of household spending).

As a result of these findings, the European Commission has selected the retail electricity market as a target for an in-depth follow-up study in 2010.

What has been done so far at EU level to help consumers?

In July 2007, the EU retail electricity and gas markets were opened to competition. This has vastly improved the opportunities for consumers but also increased the need for high-quality information for them, including the need for simple, clear and user-friendly energy bills.

The **Third Energy Legislative Package** seeks to improve consumer rights across the EU with provisions on billing, consumption data, the role of regulators and vulnerable consumers.

To respond to the increased need to approach the liberalised energy market from the consumers' perspective, the European Commission launched the **Citizens' Energy Forum**, bringing together consumer representatives, the energy industry and national energy regulators.

As one of the first concrete outcomes, the first Citizens' Energy Forum (London, 27-28 October 2008) mandated the European Commission to set up a working group on billing tasked with **developing recommendations for consumer-friendly energy bills**.

The recommendations will be presented for endorsement to the Second Forum, convening in London on 29-30 September 2009.

What are the main recommendations on user-friendly bills?

The Working Group on Billing made a series of key recommendations on how to improve energy bills. Below is a summary of the recommendations:

1. Bills must be accurate, transparent, readable, thus **easily understandable**.
2. Bills should allow consumers to **compare offers** and **help consumers decide to switch supplier** when appropriate.
3. Consumers should be **free to choose their billing and payment options** (concerning the frequency, level of detail, method of delivery). But a certain minimum **quality** of billing information should be guaranteed. In line with national law, alternative arrangements should be available for consumers with particular **disabilities** (e.g. large print on request).
4. All bills should contain information about **payment options**. Where payment is overdue, reminder bills should inform consumers how to deal with payment difficulties and encourage them to contact their supplier. Suppliers should have procedures in place to find out why a bill has not been paid.
5. Suppliers are free to determine the design of bills. But best European practices in **bill design** can help to improve bills to the benefit of consumers. Visual information can improve consumer understanding.
6. The information which is essential for **understanding the price** which consumers pay for the service should be prominent on the bill, clear and easy to read. One idea is to present it in a **standard "comparability box"** that should feature prominently on the bill and should include **all the key information that consumers need to compare offers and switch suppliers**.
7. Governments, regulators, industry and consumer associations are invited to take **awareness-raising action**, to improve consumers' understanding of energy bills. One example is the use of online energy price calculators managed by independent bodies.

8. Keeping in mind the diverse national laws and traditions, and differences between national energy markets in Europe, there is **no one-size-fits-all solution** as to how to translate the recommendations into concrete deliverables for consumers. Options include: (1) a voluntary code of conduct, (2) setting up a bill validation process (3) new national legislation.
9. There needs to be an authority at the national level which is competent to **lead a billing review process**.
10. Governments, regulators, industry, consumer associations and other specialist groups are urged to **work together** to ensure the full implementation of the recommendations on the ground.

Progress in implementing these recommendations will be reviewed in the Citizens' Energy Forum. A first progress report will be presented to the 4th Citizens' Energy Forum.

What should consumers find on a good gas or electricity bill?

The Working Group on Billing has developed recommended templates for regular and annual bills.

Below is an overview of the main bill items which are included in the templates.

The items highlighted in the box below are part of a **Comparability Box**, which could feature prominently on the bill and should contain **all the key information which consumers need to compare offers**.

The European Commission has also developed examples of good bills which are visual representations of the templates (see the examples at: http://ec.europa.eu/consumers/citizen/my_rights/energy_en.htm)

1. Regular bills

- The supplier's name and their contact details (including their helpline and emergency number);
- The duration of the contract and the deadline for informing the supplier if the consumer to switch to another supplier;
- The tariff name and a reference to clear price breakdown for your tariff (base price plus all other charges and taxes);
- The base price of one energy unit (kWh) under the tariff selected;
- The switching code (needed to switch suppliers);

- The **amount** to be paid, for which **billing period, by when** and **how**;
- Clear information on **how this amount has been calculated**: is it based on an **actual** meter reading or **estimated** only?
- For calculations based on actual consumption: **meter readings** and **consumption** during the billing period (in kWh).
- Information on where the energy comes from, how it is generated, how environment friendly it is ("**the fuel mix**")?
- Information on how to get **tips on saving energy** (e.g. a link to a website with tips or the number to call to request a brochure);
- Information on how to obtain the bill in alternative formats (e.g. in large print) for consumers with **disabilities**

2. (Annual) reconciliation bills.

All of the items under (1) above plus:

- Clear indication that this is a **reconciliation bill** (i.e. the annual statement showing consumption and payment history);
- **Total amount paid** so far during the year and the history of payments;
- **The debit/credit** balance;
- Clear information on whether the regular (e.g. monthly) instalments need to be recalculated and, if so, **how to change the amount** which is paid regularly in instalments;
- Actual **meter reading details**: history of meter readings during the year;
- A clear visual presentation of how the annual consumption **compares to previous years**;
- A clear visual presentation of how the use of energy has **evolved during the year**.

What options exist for implementing the recommendations?

The recommendations are based on a voluntary approach.

In order to respect the diverse national laws and traditions, and differences between national energy markets in Europe, there are several options as to how to translate the recommendations into concrete deliverables for consumers. The options include:

- **A code of conduct.** The energy industry could subscribe to a voluntary code of conduct, committing themselves to improving their bills. This could be combined with awareness actions in partnership with consumer organisations and regulators. Good examples of such code of conduct and awareness actions come from the United Kingdom and Spain.
- **Bill validation.** National energy regulators or other competent bodies could work with industry and consumer representatives to help ensure that the bills which consumers receive are clear and helpful. The Irish model is a good example of this approach.
- **Legislation.** New national legislation is also an option. For example, Italy has done so by defining bill templates, and a consultations are currently underway on further improvements.

Progress in improving billing at the national level will be examined in the Citizens' Energy Forum.

What are the concrete examples of good national practice?

The Working Group on Billing examined several billing examples as good national practices. Examples from Austria, Italy, Norway, Sweden and the UK are presented below.

AUSTRIA

The Austrian energy regulatory authority, E-Control, has legal powers to ensure that electricity and gas bills meet **minimum legal requirements**. These include the principle that energy bills should be transparent, understandable and user-friendly.

To give a positive example on what user-friendly energy bills could look like, the regulator has also created **model electricity and gas bills** (see the full text of the recommendations for more details). The model bills have been tested with energy consumers in a comparative benchmark test together with three currently used energy bills. 79 % of the test participants liked the model bill *quite* or *very much*. 62 % of all consumers asked would prefer the new model bill to those currently used, and about 90 % thought that the model bill was *quite* or *very easy* to understand.

Next, a **tool book for energy companies** has been compiled. This tool book contains advice on bill design gathered in the benchmark tests.

ITALY

In 2006, national regulator (AEEG) issued a new regulation on the transparency of billing documents for electricity. It aims to make it easier for consumers to read and understand their bills and improve the comparability of commercial offers.

Suppliers must use standardised terminology fixed in standard model bills. The standard bills list primary and secondary items which the bills must contain.

A new consultation process is now under way. It aims to define a single model for both electricity and gas bills.

NORWAY

Norway has a relatively high average consumption as households use electricity for all domestic activities including heating. Households are divided in two consumption classes (high and low). This division also affects **billing frequency**. Customers can also choose between: one combined bill (from the local network operator and the supplier) or two bills: one from their operator and one from their supplier.

The main focus of the **regulation on billing items** is on the bill from the local network operator. The operator must submit billing information according to the specifications. If a consumer selects a combined bill, it is then covered by the same requirements.

Low-consumption households (less than 8000 kWh/year) have one obligatory meter reading per year, but can send **extra meter readings** at any time. The readings are used to adjust quarterly bills. There is also the option for receiving bills every second month.

As a minimum, high-consumption households (more than 8000 kWh/year) receive a quarterly reconciliation bill based on **actual meter readings**. Yet bimonthly bills are quite common.

In general, it is common in Norway for individual consumers to **provide their own meter readings** to their suppliers.

SWEDEN

Swedenergy, a non-profit organisation of the energy industry, has launched the Customer Offensive as a **response to consumer dissatisfaction**. The initiative has covered user-friendly billing (the "Standardised Invoice Information" project carried out in 2004).

The goal of the billing project was to make sure that consumers get clear and bills thanks to **standardised basic data, simplified information and standardised industry-wide terminology**. Valuable information has been provided by the Norwegian and Danish industry organisations, which have conducted similar projects.

THE UNITED KINGDOM

The statutory energy consumer body in Great Britain, Energywatch (predecessor to Consumer Focus) lodged a super-complaint on energy billing in 2005. As a result, the energy industry regulator, Ofgem, prompted industry to **self-regulate or face formal regulatory action**. The Energy Retail Association (ERA), the trade association of the six major UK energy suppliers developed **a voluntary Code of Practice for Accurate Bills**. The code has been adopted by five of the six major suppliers.

The Billing Code promotes good billing practice and offers consumer protection which is over and above the legal requirements. The Code defines **what bills must include** (e.g. details of price changes, supplier contact details). Other requirements are designed to avoid consumers being confronted with expensive settlements in case estimates prove inaccurate. Suppliers need to show they have done all they could to gain **accurate meter readings**. Consumers must not be back-billed beyond 12 months if the supplier is at fault. Suppliers are invited to regularly test their bill designs with consumers to ensure that they are user-friendly.

In January 2009, OFGEM tested consumer understanding of bills. According to the test, consumers tend to understand the amount owed best, but have difficulties in understanding tiered tariffs and how they are billed. Furthermore, some terms such as “calorific value” pose problems. Visual illustrations have proven to improve consumer understanding.