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COMMISSION STAFF WORKING PAPER

The functioning of the retail electricity markets for consumers in the European Union

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BACKGROUND

A study of consumer conditions in the **retail electricity market** was carried out as follow-up to the second Consumer Markets Scoreboard[1], which identified electricity as one of the markets most likely to function poorly for consumers.

The 2007 Single Market Review called for a more evidence-based approach to policymaking and better monitoring of markets. In this context, the Commission developed a methodology to help monitor markets from a **consumer perspective** in two phases: a screening and an analysis phase. The screening of consumer markets to identify those with the highest risk of functioning badly for consumers is carried out through the Consumer Markets Scoreboard. The markets identified in the Scoreboard as potentially malfunctioning for consumers are analysed further through in-depth market studies which should reveal the underlying reasons and propose policy remedies.

Findings from satisfaction[2] and switching[3] surveys carried out in 2008 were the main indicators for selecting retail electricity for in-depth analysis. The surveys found that less than three in five (58 %) consumers were satisfied with their electricity supplier. Less than half of consumers (45 %) found it easy to compare offers from electricity suppliers, and less than half of those who were interested in switching found it easy to do so (49 %). Only 8 % of consumers had switched their electricity supplier in the previous two years. Finally, about 60 % of consumers reported price increases from their electricity supplier, while only 4 % saw prices fall. Similar surveying in 2009[4] showed that despite a higher overall interest in switching, consumers were finding it increasingly difficult to compare offers (only 34 % found it easy), and more than 3 in 5 of those who were interested in switching viewed the process as difficult. Although fewer consumers reported price increases in 2009 (39 %), 1 in 4 could not tell whether the price they pay for electricity had gone up or down.

This **study on the functioning of retail electricity markets for consumers in the European Union**[5] assesses the consumer situation in those markets. The specific issue is whether consumers can effectively benefit from a well-functioning market in terms of choice, price and quality and whether they are able to make informed, rational and empowered choices or, in other words, how easy or difficult it is for them to participate in the market and make the optimal choice. This covers aspects such as awareness and information, choice, prices,

1 COM (2008)31, COM(2009)25, SEC(2010)385, SEC (2010)1257 http://ec.europa.eu/consumers/strategy/facts_en.htm

2 IPSOS Consumer Satisfaction Surveys 2007 and 2009: http://ec.europa.eu/consumers/strategy/cons_satisfaction_en.htm

3 Flash Eurobarometer 243, 2008: http://ec.europa.eu/consumers/strategy/facts_eurobar_en.htm

4 Flash Eurobarometer 278, 2009: http://ec.europa.eu/consumers/strategy/facts_eurobar_en.htm

5 Study carried out by the European Consumer Markets Evaluation Consortium, 2010. The full study and methodologies for data collection and analysis are available on http://ec.europa.eu/consumers/strategy/facts_en.htm#Energy

transparency and comparability of offers, switching, billing, problems, complaints and dispute resolution mechanisms. The study did not provide an in-depth analysis of the liberalisation process and the competitiveness of markets, although these obviously play a major role in how markets function.

Evidence for the analysis was gathered in all Member States through general market research, in-depth consumer opinion surveys, collection of electricity tariffs, and a 'mystery shopping' exercise replicating consumers' experiences, such as trying to find the most advantageous offer or contacting customer services, to gauge the way the markets work in practice. The study also takes account of the views of stakeholders: consumer organisations, regulators, national authorities, enforcers and industry associations.

This Staff Working Document presents the main findings of the study. It focuses on the problems consumers face in making the right choice for them and looks at the instruments and tools that can help consumers participate more actively in the market. The proposals and recommendations complement the measures on consumer protection adopted by the European Parliament and the Council in 'the Third Energy Package'[6].

INTRODUCTION

Liberalisation has the potential to deliver the best prices, choice, innovation and service for consumers on condition that the opening of markets goes hand in hand with measures to protect consumers and to enable them to adapt to and make the most of liberalisation. If consumers are not in a position to maximise their welfare through informed choice, the efficiency benefits of liberalisation will not trickle down to consumers even in markets with strong competition.

In most Member States, retail electricity markets were not fully opened until July 2007, which means that we are only at the beginning of a process of developing a single European energy market.

Because benefits for consumers tend to feed through only at a later stage of the liberalisation process, it is of the utmost importance that appropriate measures for consumers are taken at an early stage, so that consumers can reap the benefits of market opening faster and actively stimulate competition. With increased choice comes increased complexity, so before consumers can make the best choices, they need to gain knowledge of a market that previously required little involvement. Policy measures should therefore empower consumers, provide information, raise awareness of opportunities, facilitate comparison and provide redress. They should also consider the most vulnerable consumers who are likely to have greater difficulties participating in the market and who could more easily become victims of unfair commercial practices that increased competition may generate.

The Third Energy Package already contains a number of consumer protection measures such as transparency regarding contractual terms and conditions, information and dispute settlement mechanisms, switching facilities, and adequate safeguards to protect vulnerable consumers.

6 Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity.

These measures now need to be put into practice. For the tools available to consumers to be effective, it is essential that they are as easy to use as possible and that consumers are made aware that they exist.

Member States whose retail electricity markets opened earlier have already implemented a number of useful measures for consumers which can serve as inspiration for other countries with less mature markets. In a recent study, the Swedish Consumer Agency concluded that today the electricity market is functioning properly for consumers but that it has taken 14 years to reach this stage and consumers have encountered many problems on the way. These could have been avoided by taking consumers' need for information, knowledge, independent advice and consumer protection into consideration earlier.

This paper looks at a number of best practices and proposes putting some in place across the EU. As well as improving the functioning of the market in terms of competitiveness and consumer welfare, such measures could play an important part in convincing European citizens of the merits of liberalisation in general.

CHOICE

A key driver of consumer satisfaction is whether prices are perceived as fair and reasonable. Generally, price competition would be expected to lower prices[7] and this could contribute to a perception of fairer and more reasonable prices. However, price competition does not only depend on structural market factors; it also depends on price transparency and comparability, and on consumer behaviour. Active consumers who search for the best offer tend to enhance competition. Furthermore, transparency would help consumers to make comparisons and be active market players.

Finding better offers

Across the EU, 62 % of all mystery shoppers have succeeded in finding a cheaper offer than their current tariff (Table 1)[8]. They could, on average, save about €100 annually if they were to switch to the cheapest offer. If replicated across the EU, consumers could save approximately €13 billion. The fact that so many people are not on an optimum tariff appears to confirm that consumer choice is poor.

More than 3 in 4 mystery shoppers are able to find cheaper offers in the Czech Republic, Ireland, Italy, Slovenia and the UK, while in Denmark as many as 86 % of mystery shoppers have been successful in finding a cheaper offer. There is large variation in the potential

[7] It should be noted that price competition does not necessarily lead to lower prices in absolute terms, as electricity prices are influenced by many other factors such as the price of fuel sources set at global markets. However, economic evidence indicates that all other factors remaining equal prices subject to competition tend to be lower than prices which are not subject to competition.

[8] Mystery shoppers were instructed to search for alternative and cheaper tariffs available to them.

savings from switching, with only a €20 saving for Polish mystery shoppers compared to a €274 saving for their German counterparts[9].

The number of cheaper offers found in the United Kingdom averaged 8.43, which is high compared to all other countries except Sweden (average of 6.64). Consumers in Slovakia, on average, found the lowest number of alternative offers (1.27). There is also considerable variation in the number of offers found by mystery shoppers within each Member State and most notably in Denmark, Finland, France, Ireland, Sweden and the United Kingdom.

On average, it takes about a day to get a cheaper offer (from the time mystery shoppers first started searching until they had the offer). Mystery shoppers in the United Kingdom have found / received cheaper offers more quickly than consumers in other countries, requiring only approximately three hours.

[9] The average saving for German mystery shoppers is very large and is driven by a few different mystery shoppers who would be able to save more than €1 000 annually if they switched to any of the offers they found. But even if outliers are removed, German consumers have the most to save.

Table 1: Finding and comparing cheaper offers							
Country	Received/ found a cheaper offer within 10 days	Number of offers found/received		Average time to get cheaper offers (in days)	Possible to compare offers based on annual consumption	Estimated average savings made on an annual base if switching (in €)	
		Average	Standard deviation			Lower bound	Upper bound
Austria	68%	1.77	0.86	1.50	88%	32.00	32.00
Belgium	55%	2.07	1.05	1.11	70%	188,21	188.21
Czech Republic	77%	1.73	1.52	1.08	86%	45.26	45.26
Denmark	86%	3.35	3.77	0.59	91%	44.03	44.03
Finland	55%	4.13	3.92	0.99	87%	59.98	59.98
France	65%	2.94	3.32	0.44	93%	66.52	66.52
Germany	62%	2.94	1.73	2.05	90%	200.09	273.68
Hungary	0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ireland	76%	2.28	3.23	0.24	78%	119.83	119.83
Italy	78%	3.08	1.51	1.15	74%	114.05	114.05
Luxembourg	26%	1.31	0.63	2.24	100%	53.91	53.91
Netherlands	69%	1.80	1.21	1.20	73%	156.20	193.52
Poland	36%	2.39	1.24	0.62	83%	20.29	20.29
Portugal	64%	1.38	0.49	:	84%	29.94	29.94
Slovakia	64%	1.27	0.52	1.72	60%	57.02	57.02
Slovenia	79%	1.95	1.01	1.05	64%	26.45	26.45
Spain	29%	1.57	0.51	:	43%	5.00	5.00
Sweden	66%	6.64	7.73	0.29	100%	88.80	88.80
United Kingdom	85%	8.43	6.32	0.13	87%	171.02	171.02
EU-27	62%	3.45	2.49	0.98	81%	106.58	121.58

Note: Mystery shopping exercise 1 was not undertaken for Bulgaria, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta and Romania because switching is limited in these countries. EU-27 average is a weighted average using population as weights. The potential estimated savings are calculated based only on responses from mystery shoppers who found a cheaper offer. The lower bound of the estimated savings from switching are estimated excluding savings of €1,000 or more. The upper bound is the average across all savings reported by mystery shoppers.

Source: ECME mystery shopping exercise 1

Choice and complexity

The total number of electricity suppliers per country varies widely with countries like Cyprus, Malta and Greece having only one supplier and a country like Germany more than 100. However, in countries where a large number of suppliers exist, these are often small local suppliers. The number of suppliers with a share of more than 5 % of the market is between 1 and 8 in all Member States. Finally, individual consumer choice is non-existent or limited also in Romania and Bulgaria where regional monopolies exist and in the Baltic States.

For the EU as a whole 866 standard tariffs available to medium consumption consumers were identified during the price collection exercise[10]. Usually the same tariff exists for low, medium and high consumption levels and in some countries prices are calculated separately for different power intensities. Belgium, Finland and Germany have the largest total number of tariffs on offer (about 100)[11]. The smallest numbers of alternative tariffs were found in Cyprus, Greece and Malta.

Most tariffs apply a fixed rate (60 %) rather than a variable one; more tariffs have a unique price (63 %) rather than peak and off-peak prices; and most contracts have an unspecified duration (58 %) rather than a fixed one-year (30 %) or two-year (12 %) period (Figure 1). Although at EU level there is a spread of tariff types across all the different categories, in several individual Member States the range of different tariffs on offer is quite limited and in a number of countries certain types of tariff are not found at all.

Where a wide variety of tariffs exist, it is important that consumers are fully aware of the conditions associated with their tariff. For example, in the case of a fixed duration consumers should be made aware of what happens after the expiry date. They should be given a notice period before price changes are implemented to give them time to reconsider their choice, and not be automatically rolled over to contracts with different conditions.

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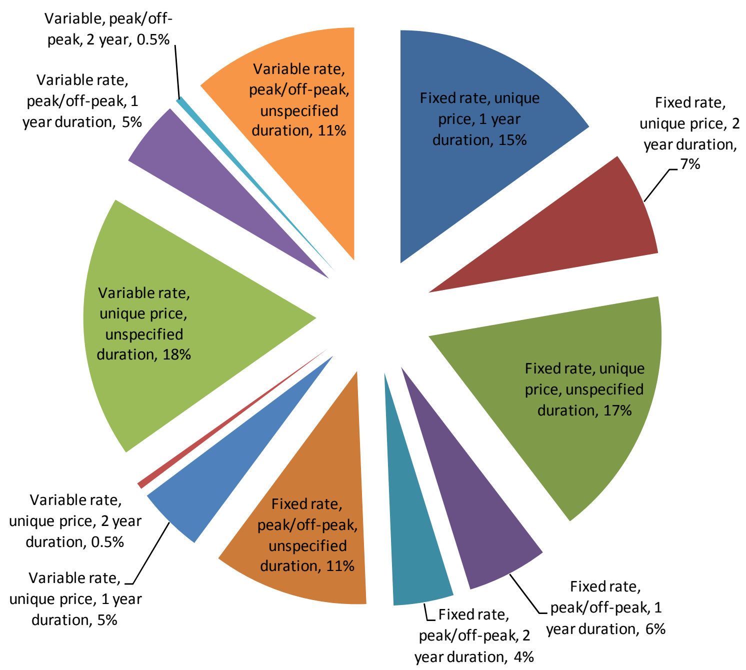
10 Prices were collected from suppliers covering at least 80 % of consumers. In order to allow for comparisons between Member States, prices were collected for three consumption levels (1 000kWh, 3 500kWh and 10 000kWh) and for different energy sources (green and non-green), contract durations (unspecified, 1 and 2-year duration) and tariff types (peak/off-peak tariffs, unique price tariffs, social tariffs, and fixed and variable price contracts).

11 The total is given by counting separately tariffs from different suppliers which differ in terms of: fixed or variable prices; 1-year, 2-year or unspecified duration; unique or peak/off-peak prices; whether the electricity is produced from green or grey sources; and whether the tariff is available to customers consuming 1 000kWh, 3 500kWh or 10 000kWh.

Figure 1: Tariff types available across the EU



Note: Including green and grey tariffs and all consumption bands. A green tariff is defined as one for which at least 50% of electricity production is from green sources. If less than 50% of electricity production is from green sources then the tariff is classified as grey. Excluding social tariffs.
If consumers are on a fixed price tariff with unspecified price duration, this does not mean that the price is fixed for an indefinite period of time but that that the period for which the price is fixed depends on the suppliers' terms and conditions.
Source: ECME Consortium analysis of data from price collection exercise.

Market liberalisation may be expected to lead to a greater number of tariffs on offer, since new market entrants should increase the choice available and since liberalisation is generally considered to encourage innovation (for example in terms of new tariff types). Overall there is some evidence of this pattern among the Member States and, on average, an extra year of liberalisation leads to five more tariffs (although the relationship does not hold in some countries, especially Belgium, where parts of the household market were not fully liberalised until 2007[12]).

Higher market concentration seems to be linked to a smaller number of tariffs on offer. In countries where the combined market share of the main suppliers is higher, the number of tariffs on offer is typically lower. On average, if the combined market shares of the main suppliers increase by 10 percentage points then the number of tariffs on offer decreases by 12. However, certain countries show a different pattern, especially Belgium and the Netherlands, which both have high shares for the main suppliers and large numbers of tariffs available.

Finally, in countries where prices are regulated there are typically fewer different tariffs on offer. The average number of tariffs found per country for those with regulated prices is 18 compared with 56 calculated over countries without regulated prices.

[12] The household market was liberalised in 2003 in Flanders and in 2007 in Brussels and Wallonia.

These findings demonstrate how competition widens the choice of electricity tariffs for consumers but may also make choosing more complex, and hence may call for tools to help consumers make the optimal choices.

Price ranges within countries

The range of prices available to consumers in different consumption bands provides a further indication of the level of choice and diversity in the market and the possible savings that could be made if consumers switched to the lowest tariff[13].

The dispersion of prices within a country is measured as the coefficient of variation of the different tariffs found in that Member State, across all different types of tariffs on offer (excluding social tariffs, whose availability is subject to certain eligibility criteria) (Figure 2).

The range of prices available is especially wide across all consumption bands in Finland, Belgium and Italy. Other countries have particularly large price ranges for certain consumption bands, namely Latvia and the United Kingdom for low consumption, Hungary and Estonia for mid-level consumption, and Slovakia for high consumption. Conversely, the range of prices is very narrow in other countries, especially the Czech Republic, Lithuania and Romania.

[13] It should be borne in mind that the range of prices is assessed on a country level whereas not all suppliers operate nationally.

Figure 2: Tariff dispersion within countries by consumption band															
	Low consumption					Medium consumption					High consumption				
	Count[1]	Average[2]	Coeff. of variation	Maximum	Minimum	Count[1]	Average[2]	Coeff. of variation	Maximum	Minimum	Count[1]	Average[2]	Coeff. of variation	Maximum	Minimum
AT	23	0.24	0.08	0.30	0.22	23	0.18	0.09	0.21	0.16	23	0.17	0.10	0.20	0.14
BE	104	0.27	0.12	0.32	0.16	104	0.21	0.10	0.24	0.10	104	0.19	0.11	0.22	0.08
BG	6	0.08	0.11	0.09	0.07	6	0.08	0.11	0.09	0.07	6	0.08	0.11	0.09	0.07
CY	2	0.18	0.00	0.18	0.18	2	0.17	0.09	0.19	0.16	2	0.17	0.12	0.19	0.16
CZ	3	0.22	0.03	0.22	0.21	3	0.14	0.02	0.15	0.14	3	0.12	0.02	0.12	0.12
DK	45	0.36	0.08	0.43	0.29	44	0.28	0.06	0.30	0.24	45	0.25	0.06	0.28	0.22
EE	24	0.10	0.07	0.11	0.08	27	0.11	0.19	0.15	0.08	17	0.09	0.11	0.11	0.07
FI	97	0.26	0.31	0.45	0.08	97	0.15	0.17	0.21	0.09	96	0.12	0.12	0.16	0.09
FR	38	0.19	0.09	0.24	0.15	38	0.13	0.09	0.18	0.10	38	0.13	0.09	0.17	0.10
DE	101	0.29	0.10	0.37	0.21	98	0.23	0.07	0.30	0.18	99	0.21	0.08	0.28	0.17
EL	2	0.11	0.07	0.11	0.10	2	0.10	0.09	0.11	0.10	2	0.14	0.06	0.14	0.13
HU	15	0.13	0.21	0.17	0.10	15	0.13	0.22	0.17	0.10	14	0.14	0.22	0.17	0.10
IE	8	0.26	0.03	0.27	0.25	8	0.17	0.07	0.19	0.16	8	0.15	0.11	0.17	0.13
IT	68	0.23	0.31	0.34	0.14	66	0.22	0.14	0.33	0.17	65	0.26	0.10	0.41	0.20
LV	3	0.08	0.35	0.10	0.05	3	0.06	0.11	0.07	0.05	3	0.05	0.02	0.06	0.05
LT	4	0.13	0.03	0.13	0.12	4	0.13	0.03	0.13	0.12	4	0.13	0.03	0.13	0.12
LU	34	0.28	0.08	0.32	0.23	34	0.20	0.08	0.24	0.18	34	0.18	0.11	0.24	0.16
MT	2	0.25	0.13	0.27	0.23	2	0.22	0.12	0.23	0.20	1	0.23	-	0.23	0.23
NL	98	0.44	0.03	0.50	0.42	98	0.28	0.03	0.31	0.26	98	0.24	0.04	0.27	0.21
PL	28	0.14	0.07	0.16	0.12	28	0.13	0.09	0.15	0.11	28	0.12	0.09	0.14	0.10
PT	18	0.33	0.15	0.40	0.26	18	0.18	0.10	0.21	0.15	18	0.15	0.08	0.16	0.13
RO	7	0.11	0.00	0.11	0.11	7	0.10	0.00	0.10	0.10	14	0.10	0.03	0.10	0.09
SK	3	0.21	0.16	0.25	0.19	3	0.17	0.06	0.18	0.16	3	0.23	0.43	0.30	0.12
SL	20	0.12	0.12	0.16	0.10	20	0.12	0.14	0.16	0.10	18	0.16	0.18	0.20	0.11
ES	30	0.24	0.06	0.27	0.22	29	0.16	0.08	0.19	0.15	29	0.14	0.09	0.17	0.13
SE	52	0.27	0.07	0.30	0.18	51	0.19	0.03	0.20	0.17	50	0.17	0.03	0.18	0.16
UK	36	0.18	0.23	0.29	0.12	36	0.14	0.14	0.18	0.12	36	0.14	0.14	0.18	0.11

Note: Averages, maximums and minimums are in Euro/kWh. Coefficient of variation is given by the standard deviation over the mean. Low consumption profile consumers use 1000kWh/year, medium consumption profile consumers use 3500kWh/year, high consumption profile consumers use 10000kWh/year.
1. Count refers to the total number of tariffs found on offer to consumers with the relevant consumption profile. This is given by counting separately tariffs from different suppliers which differ in terms of: fixed or variable prices; 1-year, 2-year or unspecified duration; unique or peak/off-peak prices; and whether the electricity is produced from green or grey sources.
2. Average is the mean price in Euro/kWh of all tariffs found on offer to consumers with the relevant consumption profile.
Source: ECME Consortium analysis of data from price collection exercise

Consumer attitudes towards choice

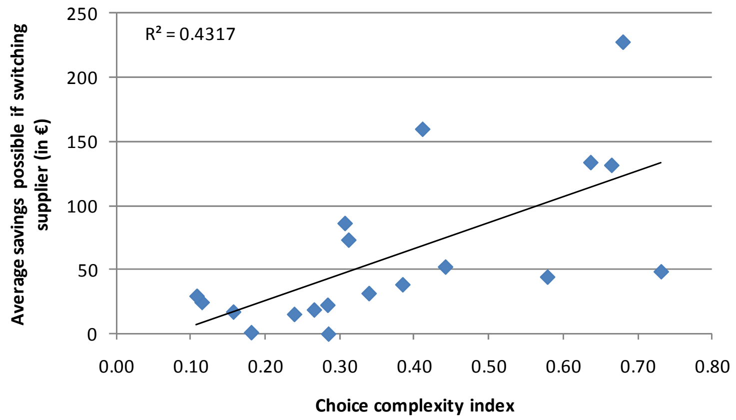
The results of the consumer survey[14] indicate that consumers like to have a choice of tariffs and suppliers, even though they often fail to exploit the opportunities offered by increased choice. However, if the choice becomes too complex, it may be difficult for consumers to choose the best alternative. The indications are that the average possible saving associated with switching of supplier increases with the complexity of the market (Figure 3)[15]. Despite having a lot of choice, consumers in fully liberalised markets such as Denmark, Germany and the UK often do not benefit from the cheapest tariff. Hence there are large potential benefits associated with switching which are not currently being used.

One explanation might be that consumers are falsely reassured by the high perceived level of competition in fully liberalised markets and so expect that prices are low in general regardless of the supplier selected. Consumers in these markets may assume that there is thus no need to search for alternative offers and switch tariff or supplier. The fact that there is a positive correlation between the average possible savings from switching and the extent to which consumers, on average, believe that their prices are competitive, tends to support this explanation. The fact that higher average savings from switching are encountered in countries where consumers think that prices offered by their supplier are competitive appears to confirm that consumer real choices can be sub-optimal even in competitive markets.

There may also be behavioural explanations for consumers' inertia such as a lack of motivation or interest. However, survey results show increased interest in switching, but at the same time that a significant number of consumers are still unaware of the opportunities or view the switching process as difficult.

[14] A general survey of 500 consumers in each Member State collected consumers’ views on awareness and information, experiences and expectations, quality, choice and comparability, prices and tariffs, switching, affordability, complaints and redress.
[15] There is also a positive link between the complexity of the market (measured by the choice complexity index) and price dispersion measured by the range of prices collected in the price collection exercise.

Figure 3: Choice complexity index vs. average possible savings if switching supplier



Note: The choice complexity index is a relative index which is based on 1) the average number of alternative suppliers found by mystery shoppers; 2) the average number of tariffs found per consumption level, power intensity and supplier in the price collection exercise; and 3) the number of different contract types found during the price collection exercise. Each of the three variables was rescaled by the maximum in any country for that variable. Finally, to construct the index an average of the rescaled values was taken. The estimate of average possible savings if switching supplier is based on the mystery shopping exercise.

Source: ECME Consortium analysis of data from mystery shopping exercises and price collection

Comparing suppliers and tariffs

Even if mystery shoppers could find better offers relatively easily, consumers often do not try to find better deals. Across the EU 41% of consumers do not know whether they are on the cheapest tariff and in Hungary, Slovakia, Poland and the Czech Republic, more than half of consumers fall into this category. Many consumers may be deterred from trying to find a better deal because they think it is quite difficult.

According to the consumer survey, 10% or less of consumers in Romania, Portugal, Estonia, Hungary and Poland have tried to compare offers from different suppliers (Figure 4)[16]. In comparison, more than 50% of consumers in Ireland, the United Kingdom, Germany and Sweden have tried to do so.

Consumers have more experience comparing different offers from their current supplier than from other suppliers. A possible explanation could be that consumers are more willing to explore offers with the same supplier because the perceived cost and inconvenience linked to switching electricity providers deters them from considering offers from other suppliers. In Germany, 70% of consumers have compared offers from their current supplier while only 59% have compared offers from other suppliers. However, in some cases (for example in Sweden, Ireland and the United Kingdom) slightly more consumers have compared offers from other suppliers as opposed to offers from their current supplier. Less than 20% of consumers in Malta, Latvia, Cyprus, Bulgaria, Hungary and Greece have compared offers from their current supplier. Interestingly, these are also (with the exception of Hungary) countries with a limited number of suppliers. Finally, very few consumers (less than 19%) in all Member States have received assistance or advice in order to choose the tariff they are on.

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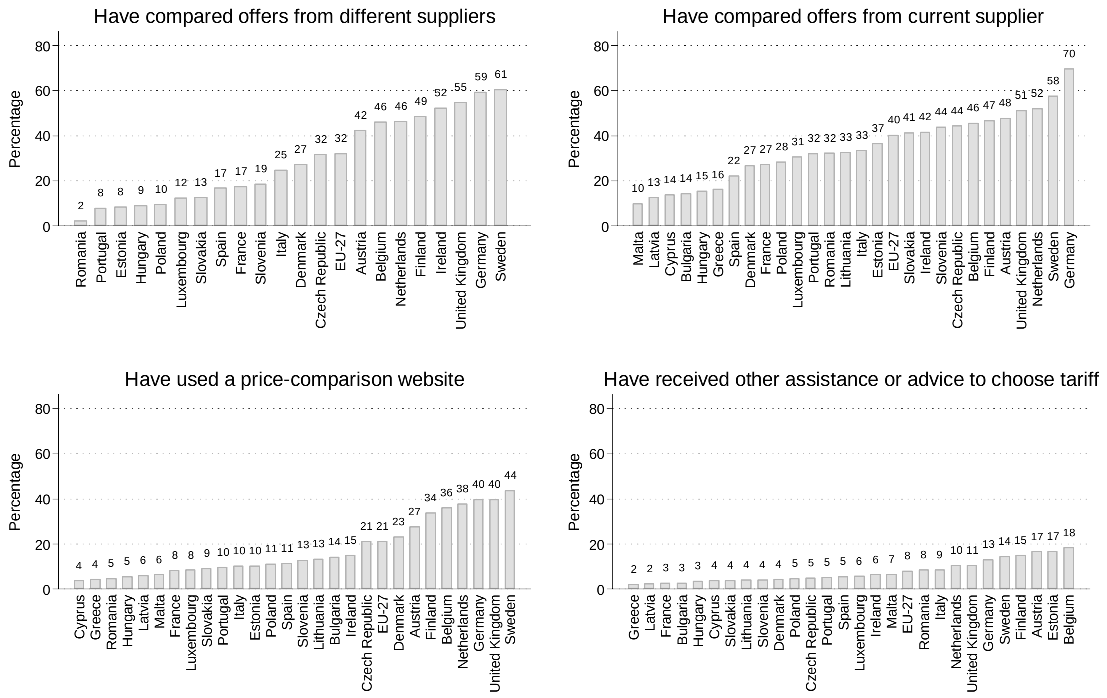
16 In these countries the ability of (some) consumers to switch supplier is limited, either because of regional monopolies or because some consumers have no local alternatives.

Figure 4: Experience with comparison of offers and suppliers

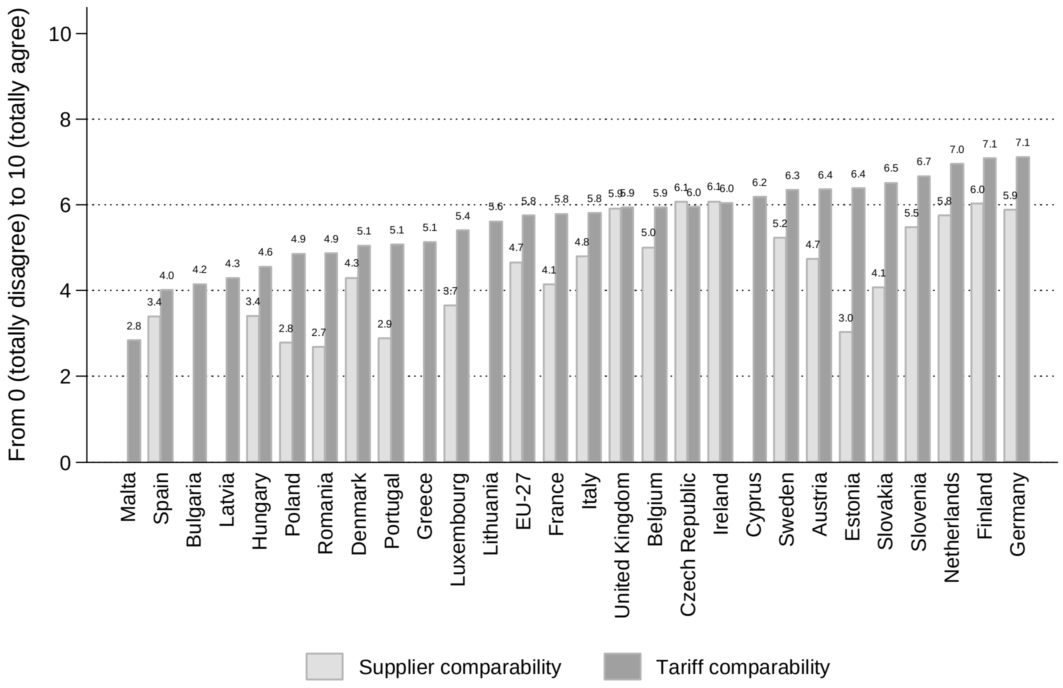


Note: Based on Q14. Percentage who said 'yes' to the following questions: 'I have compared offers from different suppliers', 'I have compared tariffs from my supplier', 'I have used a price comparison website to compare suppliers and/or tariffs' and 'I have received any other assistance or advice to choose my tariff (regulator, public advisory bureau, consumers organisation, private advice, etc.)'
Source: ECME Consortium general consumer survey

Consumers generally find it easier to compare tariffs from their current supplier than offers from different suppliers. Consumers in Germany, Finland and the Netherlands are most confident when comparing alternative tariffs from their current supplier, while consumers in Malta, Spain and Bulgaria are least confident (Figure 5). In particular, on a scale from 0 to 10 where 10 indicates that it is easy to compare different tariffs offered by their current supplier, consumers in Germany rate the comparability of tariffs at 7.2. At the other extreme consumers in Malta rate comparability of tariffs with the current supplier at 2.8. Ratings for comparing offers from different suppliers range from 2.7 in Romania to 6.1 in the Czech Republic and Ireland.

The extent of the price divergence between offers available and the fact that the majority of consumers are not on the best tariff provide a clear signal that consumer choice is sub-optimal and that the benefits that competition can bring to consumers are not fully realised. The fact that consumers can save even more in more competitive markets suggests that as liberalisation progresses, there is greater need to facilitate consumer choice. There is also a clear indication that consumers are reluctant to switch to alternative suppliers and find it relatively difficult to compare offers from different suppliers as well as different tariffs from their current supplier. Since this may constitute a significant barrier to switching and competition, regulators need to work to improve the comparability of tariffs and offers. Another challenge is linked to empowering consumers by increasing their knowledge and skills to benefit from the best offers available on the market.

Figure 5: Comparability of suppliers and tariffs



Note: Based on Q11.2 and Q11.4: Agreement with statements: 'It is easy to compare offers from different electricity suppliers' and 'it is easy to compare different tariffs offered by (name of supplier)'. Consumers in Malta, Bulgaria, Latvia, Greece, Lithuania and Cyprus were not asked questions about supplier comparability because switching is not possible. EU-27 average calculated based on weighted average using population as weights.

Source: ECME Consortium general consumer survey

Price comparison tools

Price comparison tools can help greatly to overcome these obstacles. However, across the EU, less than 50 % of consumers in all Member States have used a price comparison website.

A large proportion of mystery shoppers found an online price comparison tool in the United Kingdom, Germany and Sweden, countries where many consumers have also compared offers. This suggests that online price comparison tools make it easier to compare offers from different suppliers. This link between the proportion of consumers who have compared offers from different suppliers and those who have used a price comparison tool is demonstrated in Figure 6. The main outlier in the graph is Ireland, where only 15 % of consumers have used a price comparison tool but 52 % have compared offers from different suppliers[17].

However, consumers do not necessarily use a price comparison tool even if it exists and is easy to find (i.e. if a large number of mystery shoppers have found one). For example, in Denmark all the mystery shoppers found a price comparison tool but only 27 % of consumers have tried to compare offers from different suppliers.

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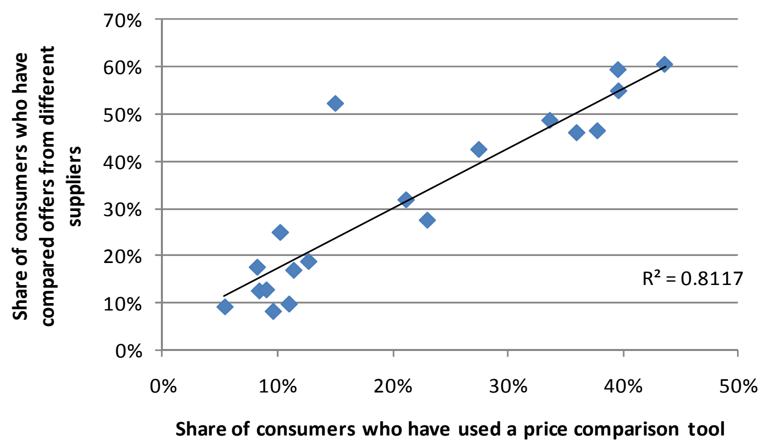
[17] This could be because suppliers generally advertise their prices as the percentage discount compared to the incumbent supplier.

There may be several reasons why consumers do not fully exploit the potential of price comparison websites in retail electricity. Firstly, consumers may not be aware that price comparison tools exist or that they can be used for retail electricity. Secondly, consumers may not trust price comparison sites, either because they are commercial websites which they may suspect of favouring providers' rather than consumers' interests, or because it is not clear who operates them. Thirdly, competing price comparison sites sometimes give different outcomes as to the cheapest offers, which leads to obfuscation rather than transparency and, again, impacts on trust. Finally, the quality and usefulness of price comparison websites may be limited because the offers covered are incomplete or insufficiently updated.

Figure 6: Relationship between use of price comparison tool and share of consumers who have compared offers from different suppliers



Note: Based on Q14. Percentage who said 'yes' to the following questions: 'I have compared offers from different suppliers', and 'I have used a price comparison website to compare suppliers and/or tariffs'.
Source: ECME Consortium general consumer survey

As agreed in the third Citizens' Energy Forum, the regulators will develop guidelines of good practice to facilitate price comparison.

Guidelines for price comparison tools will improve the availability and usefulness of such tools for consumers. Such guidelines could be developed based on best practices existing in Member States. A price comparison tool would ideally be available in all Member States. If the market does not make provision for such a tool, it could be set up by e.g. the regulator, national authorities or consumer organisations.

Another way could be to encourage suppliers to provide updated and comprehensive information on tariffs and offers.

Consumers' understanding of their consumption and the market

One of the reasons why consumers may struggle to make the right choice is that they have limited knowledge of the market.

Consumers across the 27 Member States lack awareness of many aspects of retail electricity – consumption, electricity products and prices, the energy source, contract terms, and consumer rights and consumer protection bodies. Moreover, many feel very poorly informed about the retail electricity market. This knowledge gap may cause significant problems of informational asymmetry where suppliers are in a position to exploit it to their benefit.

Consumers reported that they are generally well aware of the amount they spend on electricity but are much less aware of how much electricity they consume in kWh (Box 1). Across the EU, 7 in 10 consumers know how much they pay but only 47% know how much they consume in kWh. People who are aware of the amount they pay for electricity are not necessarily equally well aware of their consumption. For example, consumers in Luxembourg are among those who are most aware of how much they pay but least aware of how much they consume. It does however seem to be the case that generally consumers who are aware of how much they consume are also aware of how much they pay. The clearest examples are Latvia and Lithuania, and this may be related to the fact that consumers are very involved in the metering and billing process.

On the other hand, the use of estimated consumption – in the majority of Member States estimated consumption is the dominant method although simple means exist for consumers and businesses to be billed according to their actual consumption – clearly reduces consumers' awareness of the volume of electricity consumed. This is worrying since such awareness is essential to reducing energy consumption to reach climate objectives and because lack of it hampers informed consumer choice.

Actual consumption data would considerably improve consumers' awareness of their consumption and promote more efficient use of electricity. New technologies such as smart meters could provide this information and contribute to the objective of reduced energy consumption on condition that the meters are consumer-oriented and user-friendly. This may, for example, require savings to be displayed not only in KwH but also in euro. In addition, smart meters may speed up the switching process because there will be no more need to wait for meter readings.

Smart phones and mobile phones may serve equally well in better informing consumers. Techniques exist whereby mobile telephones can be used to allow consumers to input monthly utility meter readings and receive monthly bills based on real consumption. This has the potential to deliver substantial savings directly to the consumer. Moreover such techniques – which are already in operation in some Member States[18] *– could be rolled out quickly, e.g. by the end of 2011- on a consumer opt-in basis. Subsequent 'smart meter' rollout would be facilitated as this incremental opt-in approach will overcome many of the business model, privacy and data and meter ownership that have hampered rollout to date.*

Consumers are also not well aware of alternative tariffs available either with their current supplier or through alternative suppliers. The Netherlands if the only country where more than half of respondents are aware of different tariffs; in 9 countries less than 1 in 4 respondents is aware of different tariffs.

[18] British gas "Energy-smart"http://www.britishgas.co.uk/products-and-services/energy/our-products/energysmart.html

Box 1: Indicators of consumer awareness

	Percentage of consumers who are aware of their consumption	Percentage of consumers who are aware of the amount they pay	Percentage of consumers who are aware of different traiffs	Consumers can name another provider they can switch to	Consumers have read their terms and conditions	Consumers know the advance period to end their contract	Consumers can name an organisation to for advice or help
Austria	0.00	0.71	0.26	0.64	0.65	0.47	0.70
Belgium	0.50	0.74	0.44	0.82	0.64	0.61	0.57
Bulgaria	0.45	0.70	0.25	////////////////	0.41	0.32	0.45
Cyprus	0.40	0.84	0.37	////////////////	0.29	0.30	0.49
Czech Republic	0.58	0.80	0.23	0.65	0.73	0.29	0.66
Denmark	0.52	0.58	0.17	0.60	0.46	0.27	0.47
Estonia	0.61	0.80	0.28	0.07	0.80	0.48	0.71
Germany	0.54	0.70	0.36	0.80	0.78	0.71	0.60
Greece	0.47	0.79	0.37	0.10	0.32	0.20	0.44
Finland	0.53	0.69	0.38	0.63	0.69	0.66	0.70
France	0.46	0.78	0.17	0.40	0.51	0.31	0.55
Hungary	0.59	0.73	0.12	0.23	0.66	0.24	0.41
Ireland	0.31	0.64	0.36	0.91	0.47	0.47	0.55
Italy	0.42	0.66	0.29	0.62	0.57	0.34	0.46
Latvia	0.77	0.89	0.45	////////////////	0.71	0.70	0.60
Lithuania	0.84	0.89	0.31	////////////////	0.61	0.28	0.59
Luxembourg	0.31	0.75	0.19	0.26	0.47	0.33	0.67
Malta	0.40	0.52	0.38	////////////////	0.41	0.30	0.53
Netherlands	0.37	0.50	0.63	0.92	0.60	0.63	0.46
Poland	0.52	0.84	0.19	0.20	0.69	0.39	0.42
Portugal	0.36	0.63	0.19	0.18	0.59	0.38	0.69
Romania	0.66	0.80	0.27	0.06	0.78	0.59	0.53
Slovakia	0.57	0.83	0.40	0.26	0.75	0.28	0.62
Slovenia	0.51	0.83	0.40	0.57	0.47	0.26	0.56
Spain	0.39	0.60	0.21	0.71	0.48	0.27	0.70
Sweden	0.55	0.61	0.26	0.88	0.74	0.67	0.46
United Kingdom	0.36	0.65	0.31	0.91	0.58	0.54	0.53

Note: Darker blue shadings are associated with lower levels of information. /// indicates that the indicator is not applicable. All indicators have been normalised to a scale from 0 to 1, where 1 indicates the highest possible level of information. From left to right, the columns of the table refer to:

1. Percentage of consumers giving a rating of 8-10 for the statement: "I know how much electricity I use (per month, year or any other frequency) in kWh".
2. Percentage of consumers giving a rating of 8-10 for the statement: "I know how much I pay for electricity (per month, year or any other frequency)".
3. Percentage of consumers giving a rating of 8-10 for the statement: "I am aware of the different tariffs offered by my current supplier and by other electricity supply suppliers"
4. The percentage who said yes to the statement: "I can name another supplier I could switch to for electricity supply".
5. The percentage who said yes to the statement: "I have read the terms and conditions of my contract".
6. The percentage who said yes to the statement: "I know the advance notice period in case I want to terminate my contract with my electricity supplier".
7. The percentage who said yes to the statement: "I can name an organisation (regulator, ombudsman, consumer protection body) that I could turn to for advice or help about my electricity bill".

Source: ECME Consortium analysis of data from general consumer survey and billing and payment survey

Information on bills

Although consumers generally feel relatively poorly informed, information from suppliers and third parties is available. However, suppliers rely more on passive (website) than on active provision of information to consumers. This may in itself be an indicator of poor market functioning. In a well-functioning market one would expect to see suppliers compete actively and market low tariffs for consumers. The study suggests that it is rare for consumers to receive better offers. Consumers should therefore be encouraged to actively seek information about the market. The information provided by suppliers on websites, in contract terms and on electricity bills could also be clearer and more useful.

The electricity bill is a regular means for the supplier to actively provide its customers with information and is particularly important as one of the few opportunities for consumers to consider their consumption, tariff or payment. In most Member States, billing is regulated with the aim of making the bill more transparent and understandable. In some cases, regulation is very prescriptive in terms of what information the bill must provide. The Second Citizens' Energy Forum[19] endorsed a number of recommendations on billing which were developed on the basis of good practices already existing in some EU countries, and which contain a specific list of items to be included in bills. The elements of a bill which are key to comparing offers could be included in a Comparability Box, featuring prominently on the bill.

In order to provide insights into the information available on electricity bills, respondents to the billing and payment survey[20] were asked to assess how easy it is for them to find and understand specific pieces of information on their bill. The level and clarity of information provided by suppliers varies considerably between Member States. On average across 28 pieces of information (reflecting billing information recommended by the London Forum), just over half of European consumers consider it easy or fairly easy to find and understand information. Ireland, Germany and France stand out as the Member States where the largest share of survey respondents could easily find and understand information whereas in 11 Member States less than 50 % of survey respondents stated that this was the case (Figure 7).

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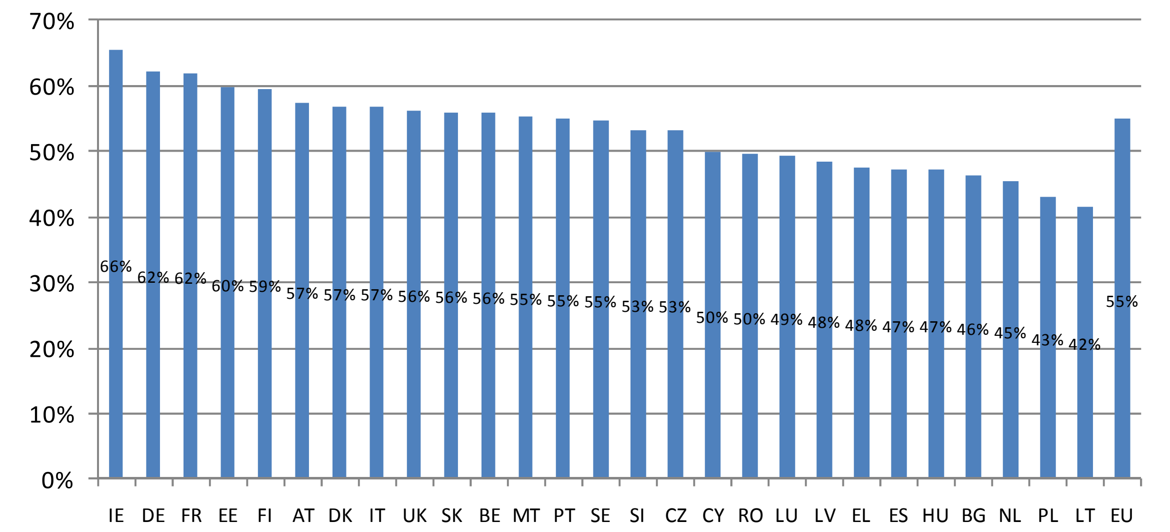
[19] The Citizens' Energy Forum is a regulatory Forum chaired by the Commission and designed to improve the functioning of energy retail markets and to enforce consumer rights in the energy market across the European Union

[20] The billing and payments survey collected information from 200 consumers in each Member State on billing and payment methods, the availability of information on regular bills and on reconciliation bills, consumers' understanding of the available information, and problems and complaints related to billing and payments.

Figure 7: Average share across all information items of survey respondents who found it easy to find and understand information on the bill (share of total number of survey respondents)



Note: EU average weighted using Eurostat 2010 population figures as weights.

Source: ECME consortium consumer and billing & payment survey

The analysis also shows that basic billing information such as the name of supplier, supplier contact details, and the billed amount can very easily be found and understood by consumers but that other types of information which are not directly related to billing are much harder to find. Less than 25% of survey respondents found it easy to identify and understand information relating to energy saving, the contract duration, the name of a third party to contact in case of problems, special offers, the notice period if switching and switching information.

With regard to information on the reconciliation bill[21], consumers were unsure whether their regular instalments would be recalculated and, in eight Member States, at least 50% of consumers failed to find any such information. This is important because consumers who do not know whether the amount they have to pay for their electricity consumption changes after receiving a reconciliation bill are also less aware of the amount of electricity they consume and the overall amount they have to pay. Most consumers are also unable to find information about the evolution of electricity consumption through the year or longer-term.

In addition to billing information, it is important that consumers have access to their personal account details because this will provide them with the essential information they need to calculate potential savings from switching. Consumers' ability to access information about their personal account varies considerably. In Malta none of the mystery shoppers[22] were able to access information about their account via a phone service or the supplier's website and in

[21] It should be noted that there were no responses from either Latvia or Lithuania, in regard to questions on reconciliation bills. This is due to the different billing system that exists in those Member States and as such there is no need for reconciliation bills.

[22] Mystery shoppers were instructed to check if their supplier applies standard basic practices and in particular whether they can access their personal account via phone or internet.

Austria, Belgium and Luxembourg less than 50% were able to access their account online or through a phone service. This contrasts with the Czech Republic and Latvia, where all mystery shoppers were able to access information about their account. Suppliers in some Member States appear to rely mostly on telephone services whereas in others mystery shoppers were only able to access information about their account through their supplier's website. This means that although the information is in principle available, it may not be accessible to all consumers and in particular those without internet access.

Many consumers still struggle to find and understand several vital pieces of information on their electricity bills and in some countries consumers have limited access to their personal account.

There is room for suppliers to improve the availability and clarity of information for consumers, in line with the recommendations on billing made by the London Forum. Suppliers can also do more to give consumers access to their personal account. Access to personal account can be helpful in providing consumers with the information they need if they wish to switch suppliers, review their consumption and payment history, or verify other information.

Reconciliation bills should be phased out and replaced with real consumption bills. This would make consumers better informed and could encourage them to be more active and reduce consumption.

SWITCHING

The percentage of consumers who have switched tariff with their current supplier or switched supplier within the last two years varies considerably across Member States, with relatively high switching rates in countries such as Ireland (28%), the United Kingdom (22%), Sweden (18%) and Germany (16%), and low switching rates in Estonia, Hungary, France, Luxembourg, Portugal, Slovakia, Slovenia and Spain (all below or equal to 5%). The overall low switching rates are consistent with the earlier conclusions that consumers are not particularly active in terms of searching the market, and further support the conclusion that the actual level of competitive pressure exercised by consumers in the market may be limited.

Supplier switching rates increase with the maturity of the market, possibly because switching procedures become easier with time and consumers become more familiar with switching and the possibility of switching. The analysis also shows that consumers who have switched supplier in the past are also less loyal to their current supplier.

There is, however, evidence that switching is still not as easy as it could be in some Member States. In only 9 out of 21 countries was switching to another supplier easy for 50% or more of consumers who recently switched or tried to switch (Box 2). Consumers in Luxembourg, Denmark and Ireland are most likely to indicate that supplier switching is quite easy, even if, despite this observation, consumers in Luxembourg[23] and Denmark rarely switch. On the other hand, in Poland, Portugal and Spain, about half of consumers attempting a switch to another supplier found it difficult.

[23] It should be noted that very few (less than 10) respondents had tried to switch supplier in Luxembourg in the last 2 years.

Unsurprisingly, it is easier for consumers to switch tariff with their current supplier than to switch to alternative suppliers. In most countries, the majority of consumers who have switched tariff with their current supplier found it easy to do so. Furthermore, all the consumers who have switched in Austria, Ireland and Luxembourg found it easy to do so. However, in Hungary, 40 % of consumers trying to switch tariff found it difficult and 44 % of those trying to switch in Latvia could not find a better alternative tariff.

Reasons for (not) switching

There are various reasons why consumers try to switch suppliers. In the majority of countries, many consumers attempting a switch do so because they think they could get a better deal elsewhere. However, there are a handful of exceptions. In some countries the main reason for trying to switch is poor customer service, the environmental friendliness of the supplier or moving house. Approximately a quarter of those trying to switch supplier in Denmark, Poland and Slovakia have done so because they were advised to switch.

12% of respondents who did not switch stated that they the reason for not switching was that they had no local alternative.

Another reason for consumers not to switch may be that they are generally happy with their current supplier and therefore uninterested in switching supplier. However, the data suggest that satisfaction with suppliers is not a statistically significant variable explaining supplier switching.

Lack of awareness and limited access to information may also hamper switching. To enable consumers to make decisions about switching, it is not only important that there are alternative suppliers and tariffs and that consumers have the contractual right to switch, they must also be aware of the alternatives and how they can switch to another supplier. Awareness of alternative suppliers that consumers can switch to appears to be the most important driver of supplier switching. The Netherlands, the UK and Ireland are the countries where the highest percentage of consumers (more than 9 in 10) are able to name an alternative supplier they could switch to. There is a large variation in the extent to which consumers are able to name alternative suppliers and the fact that switching is limited in a number of countries is reflected in the responses. However, the share of consumers who can mention an alternative supplier is below 50 % even in countries like France and Luxembourg where switching is possible.

Furthermore, the evidence shows that there is a positive link between awareness of the notice period that consumers must give when terminating their contract and switching rates. In particular, there is a positive correlation between the share of consumers who know the notice period of their contract and the share of consumers who have switched tariff with the same supplier or switched supplier within the last two years There is large variation in the extent to which consumers are familiar with the terms and conditions of their contract. 80 % of consumers in Estonia say that they have read the terms and conditions in their electricity supply contract against only 29 % of consumers in Cyprus. Consumers who have read their terms and conditions may not necessarily know the details of the contractual arrangements such as the notice period for termination of the contract. This may either be because the contract does not contain information about the notice period or because the information is difficult to understand (Box 1).

Low switching rates may also be due to consumers underestimating potential savings and believing that the financial incentives to switch are too small compared to the costs. However, the mystery shopping exercise showed that there appears to be the potential for large gains from switching.

Finally, a significant number of consumers do not switch suppliers because they find it too cumbersome or difficult. This may have important implications and suggests that perhaps attention should be given to reasons why the switching process is not as easy for consumers as it could be.

Switching could be facilitated through improved switching arrangements, better information, and increased consumers' awareness of the availability of interesting deals on the market and the benefits of switching.

As agreed in the third Citizens' Energy Forum, the regulators will update the guidelines of good practice on supplier switching.

Price comparison websites could have features that help consumers initiate the switch directly. Consumers should also be in a position to obtain a notice period before price changes are implemented to have time to reconsider their choice.

However, measures to facilitate the switching process for the consumer should not open the door to unfair commercial practices such as misleading advertisements, pressure selling, or 'slamming'.

Box 2: Indicators of switching

	Percentage tried to switch supplier in the last 2 years	Percentage who switched supplier in the last 2 years	Percentage who found it difficult to switch supplier	Percentage tried to switch tariff with current supplier in the last 2 years	Percentage who switched tariff in the last 2 years	Percentage who found it difficult to switch tariff	Percentage who found the savings from switching tariff large
Austria	0.12	0.06	0.20	0.08	0.05	0.15	0.26
Belgium	0.09	0.05	0.36	0.12	0.10	0.11	0.27
Bulgaria	///	///	///	0.03	0.01	0.38	0.33
Cyprus	///	///	///	0.03	0.02	0.25	0.33
Czech Republic	0.08	0.05	0.29	0.08	0.05	0.13	0.42
Denmark	0.08	0.06	0.11	0.07	0.07	0.11	0.18
Estonia	0.01	0.01	0.67	0.07	0.06	0.17	0.10
Germany	0.16	0.10	0.20	0.23	0.19	0.10	0.24
Greece	///	///	///	0.03	0.02	0.53	0.38
Finland	0.20	0.13	0.11	0.10	0.06	0.14	0.38
France	0.04	0.02	0.40	0.09	0.05	0.11	0.30
Hungary	0.01	0.00	0.40	0.01	0.01	0.40	0.20
Ireland	0.29	0.28	0.06	0.03	0.02	0.07	0.36
Italy	0.08	0.04	0.29	0.13	0.08	0.25	0.00
Latvia	///	///	///	0.02	0.01	0.22	0.00
Lithuania	///	///	///	0.07	0.04	0.36	0.15
Luxembourg	0.00	0.00	0.00	0.08	0.06	0.13	0.39
Malta	///	///	///	0.02	0.01	0.50	0.60
Netherlands	0.15	0.10	0.25	0.13	0.11	0.11	0.30
Poland	0.01	0.00	0.50	0.05	0.04	0.19	0.20
Portugal	0.02	0.00	0.55	0.13	0.09	0.21	0.34
Romania	0.01	0.00	0.20	0.11	0.07	0.25	0.08
Slovakia	0.02	0.01	0.42	0.07	0.04	0.11	0.23
Slovenia	0.04	0.01	0.39	0.06	0.04	0.29	0.24
Spain	0.05	0.01	0.50	0.08	0.04	0.32	0.14
Sweden	0.19	0.14	0.13	0.19	0.15	0.11	0.32
United Kingdom	0.23	0.18	0.23	0.13	0.10	0.14	0.26
EU-27	0.10	0.06	0.31	0.12	0.09	0.18	0.22

Note: Darker blue shadings are associated with lower levels of switching or larger barriers to switching. /// indicates that the indicator is not applicable. All indicators have been normalised to a scale from 0 to 1, where 1 indicates the highest possible level of switching or low barriers to switching. From left to right, the columns of the table refer to:

1. Percentage of consumers who have tried to switch electricity supplier in the last 2 years.
2. Percentage of consumers who have switched electricity supplier in the last 2 years.
3. Percentage of consumers who found it difficult to switch supplier including both those who switched and those who did not switch supplier.
4. Percentage of consumers who have tried to switch tariff while staying with the same electricity supplier in the last 2 years.
5. Percentage of consumers who switched tariff while staying with the same electricity supplier in the last 2 years.6.. Percentage of consumers who found it difficult to switch tariff with the same supplier including both those who switched and those who did not switch tariff with the same supplier.
7. Percentage of consumers who said the saving made by switching tariff were 'very large' or 'fairly large'.

Source: ECME Consortium general consumer survey.

Getting a better deal from your current supplier

Another potential reason for not switching suppliers could be that consumers who contact their current supplier are offered a better deal[24]. When contacting suppliers to get clarification about termination policies, 22% of mystery shoppers were spontaneously offered a cheaper deal by their current supplier, and 13% were offered a cheaper deal by their current supplier after calling/emailing back (Table 2). The fact that more than 1 in 3 mystery shoppers who

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24 Mystery shoppers were instructed to contact their supplier to get clarification about termination policies. If they were not spontaneously offered a better deal, they were instructed to call back or email back and ask whether they could get a better deal.

contacted their supplier were offered a better deal shows, again, that considerable unexploited opportunities for consumers exist.

Mystery shoppers in the United Kingdom and the Netherlands were most likely to receive a spontaneous better deal (44% and 36% respectively), while those in Slovenia and Spain were most likely to receive a cheaper deal if they called/emailed their current supplier back (31% each respectively).

Table 2: Cheaper deals by supplier in response to questions about termination policy

Country	Spontaneously offered a cheaper deal by current provider	Offered a cheaper deal by the current provider after asking or calling/emailing back
Austria	24%	16%
Belgium	20%	12%
Czech Republic	28%	14%
Denmark	4%	13%
Finland	12%	4%
France	8%	9%
Germany	24%	0%
Hungary	6%	2%
Ireland	8%	2%
Italy	22%	13%
Luxembourg	8%	4%
Netherlands	36%	9%
Poland	22%	21%
Portugal	4%	4%
Slovakia	8%	4%
Slovenia	13%	31%
Spain	22%	31%
Sweden	12%	14%
United Kingdom	44%	23%
EU-27	22%	13%

Note: Approximately 50 mystery shopping exercises were undertaken per Member State. EU-27 average calculated as a weighted average using 2010 Eurostat figures as weights. This mystery shopping exercise was not undertaken in Estonia, Latvia, Lithuania, Bulgaria, Cyprus, Greece, and Romania.

Source: ECME Consortium analysis of data from mystery shopping exercises.

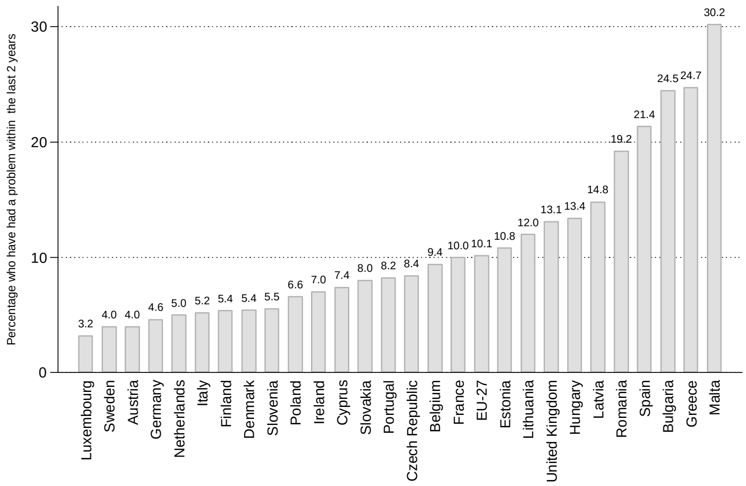
PROBLEMS, COMPLAINTS AND COMPLAINT HANDLING

For consumer conditions to improve and for the market to function better, it is important that problems consumers have are solved swiftly to their satisfaction. Consumers can play an active role in making sure recurring problems are tackled by complaining to suppliers or third parties and seeking redress.

Problems consumers have with retail electricity

One in ten consumers across the EU has had one or more problems with their supplier in the last two years (Figure 8). In Spain, Bulgaria, Greece and Malta more than 20% of consumers have experienced problems with their supplier. In contrast, 5% or less of consumers had experienced a problem with their supplier in Denmark, Finland, Italy, the Netherlands, Germany, Austria, Sweden and Luxembourg. Consumers who have experienced one or more problems with their electricity supplier in the last two years perceive the overall quality of services as lower than consumers who have not experienced a problem. This conclusion holds in all Member States.

Figure 8: Incidence of problems with suppliers



Note: Based on Q16: 'Have you experienced any problems with (name of supplier) in the past 2 years?' EU-27 average calculated as a weighted average using 2010 Eurostat figures as weights.

Source: ECME Consortium analysis of data from consumer survey

Overall, the two most commonly reported problems are power interruptions and problems related to prices (including bills), experienced by 24% and 19% (of consumers who had a problem) respectively at EU level. Although power interruptions were described as the most serious problem for the largest or second largest share of consumers in 21 Member States, only a very small number of consumers in Finland, Belgium and Austria had a problem with power interruptions and no consumers in Germany or the Netherlands reported power interruptions as the most serious problem they had experienced in the last two years. As can be expected there is a clear negative association between the share of consumers who have experienced a serious problem with power interruptions and consumers' perception of the reliability of service.

Problems with electricity prices (for example too high, not indicated or wrongly advertised) are also relatively common, particularly in Germany, where 52% of the consumers who had experienced a problem in the last two years indicated that the most serious problem was price-related. Problems with prices also cause the most concern to 41%, 36% and 20% respectively of consumers in Sweden, Slovenia and Cyprus. There is a clear tendency for prices to be perceived as fairer in Member States where a relatively low share of consumers have experienced pricing problems.

Another problem reported in consumer responses concerned customer service. Furthermore, the largest share of consumers in Belgium, Italy and Luxembourg saw inaccurate estimates of consumption as their most serious problem. In Austria, infrequent meter readings was mentioned as the second biggest problem for consumers, while in Denmark and the Netherlands, 11% and 12% of consumers respectively indicated that the most serious problem was related to the terms and conditions of their contract.

It should be noted that in many countries stakeholders and consumers have divergent views about the seriousness of problems. There may be a number of reasons for this: consumers may over- or underestimate the seriousness of certain problems or stakeholders may view issues that are more adequately dealt with by suppliers as being not as serious as other matters. The mystery shopping exercise[25] shows that consumers may underestimate the seriousness of certain problems. While very few consumers (2.5 % across the EU) experienced pressure selling, mystery shoppers experienced more misleading practices (for example unfair arguments) involving existing or alternative suppliers. More than 10 % of mystery shoppers in Denmark, Ireland, the Netherlands, Poland, Spain and Sweden experienced misleading selling attitudes from alternative suppliers and more than 10 % of mystery shoppers in the Czech Republic Hungary, Poland and Sweden experienced misleading selling practices on the part of their existing supplier. In a few Member States, stakeholders also indicated that unfair commercial practices, such as pressure selling, were common.

Consumer complaints

Consumers who experience a problem may submit a complaint either to the supplier or to a third party. In the majority of Member States regulation related to complaint handling is in place.

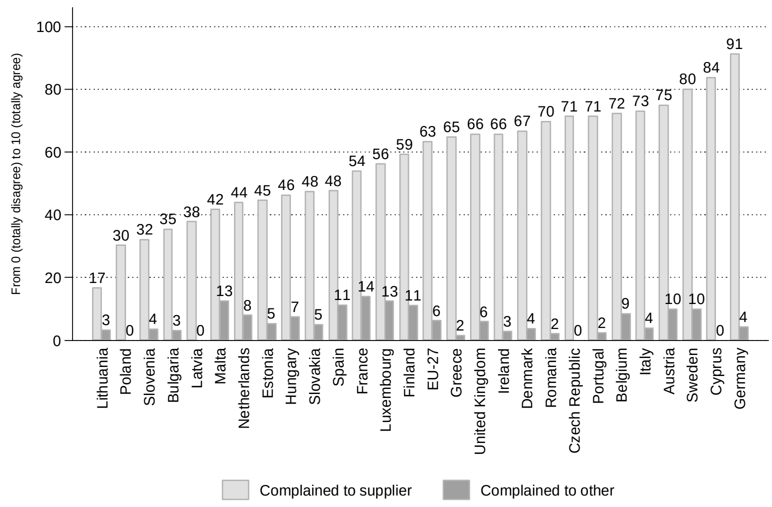
The level of complaints across the different Member States[26] varies greatly (Figure 9), with the majority of consumers who complain doing so to their supplier directly. Across the EU, 63 % of consumers who had a problem complained to their supplier and 6 % complained to a third party. In Germany and Cyprus, 91 % and 84 % respectively of consumers who had a problem complained to their supplier. However, in 11 Member States less than half of consumers who had a problem complained to their supplier and in Lithuania only 17 % did so.

France, Luxembourg and Malta have the highest proportion of consumers with problems who complain to a third-party organisation (14 %, 13 % and 13 % respectively), but this is still a small share compared to those complaining to their supplier directly.

[25] Mystery shoppers were instructed to contact their current supplier and another supplier suggesting that they consider switching. They had to report back on whether they experienced misleading selling attitudes such as call backs or unfair arguments.

[26] Analysis at Member State level of complaints and complaint handling is based on small sample sizes and should be interpreted accordingly.

Figure 9: Percentage of those with a problem who complained and to whom



Note: Based on Q18: 'And did you make a complaint about the problem you had? 1) Yes to the electricity supplier, 2) Yes to a third party (such as a consumer organisation, a regulator, a public authority or an ombudsman).' Multiple answers possible. EU-27 average calculated as a weighted average using 2010 Eurostat figures as weights.
Source: ECME Consortium consumer survey

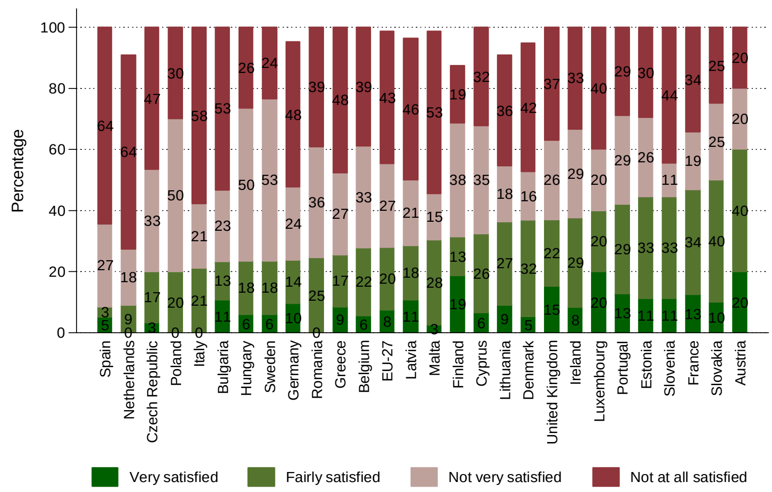
Overall, consumers are more likely to complain about problems related to billing, meter readings and payments than about problems related to the speed of connection and absence of notification for power interruptions. This is not surprising because the first group of problems may have a tangible cost to the consumers. In comparison the fact that consumers complain less frequently about problems related to power interruptions and connections may be because they feel that there is less to achieve by complaining. In the case of power interruptions in large areas, consumers may also assume that others have already complained and made the supplier aware of the problem.

It is also worth noting that respondents with difficulty paying bills complain less frequently about their problems. This may be because consumers find it intimidating to admit to having such problems and, in addition, may think that there is little to gain from complaining.

Complaint handling

Only 28 % of consumers across the EU were satisfied with the way their complaint was dealt with and in all Member States except Austria (60 %) and Slovakia (50 %) less than half of the consumers making a complaint were satisfied with the way it was handled (Figure 10). Satisfaction levels were lowest in Spain and the Netherlands, with 8 % and 9 % respectively being satisfied with the way their complaint was handled.

Figure 10: Satisfaction with how complaint was dealt with (percentage of consumers who made a complaint)



Note: Based on Q20: 'In general, how satisfied were you with the way your complaint was dealt with?' EU-27 average calculated as a weighted average using 2010 Eurostat figures as weights. Respondents were also given a 'don't know' response option.
Source: ECME Consortium analysis of data from general consumer survey

There is a tendency for the level of dissatisfaction with complaint handling to be positively associated with the average time taken to deal with the complaint. The time taken to deal with a complaint, from first reporting the problem through to a decision being taken, varies widely across the EU with complaints in Lithuania and Poland taking on average 1.8 weeks to be resolved, as compared to 12.3 weeks in Spain.

Reasons for not complaining

Across the EU more than one in three consumers who have a problem do not make a complaint. This may be for several reasons: they don't know how or where to complain, they think that they are unlikely to get a satisfactory solution, they think that the sums involved are too small, or that complaining would be too difficult.

The reason that was listed least by consumers as preventing them from complaining was that the sums involved were too small, whilst the most common reason for not complaining was that consumers felt they were unlikely to receive a satisfactory solution. However, the reasons vary greatly from Member State to Member State. For example, in the survey about half of Belgian and German consumers responded that their reason for not making a complaint was that they did not know how or where to complain. However, in Austria, Ireland and Sweden, not a single person reported this as a reason why they did not make a complaint. In Luxembourg, Italy and Sweden, 50 %, 57 % and 67 % of consumers respectively said that they had not complained because they thought that it would be too difficult.

Complaints to third parties

Even when consumers are dissatisfied with the solution offered by suppliers, they very rarely complain to other organisations such as ombudsmen, courts, consumer associations, regulators or consumer protection agencies. This may be due to limited awareness of bodies that consumers can turn to for help and advice and there seems to be considerable scope for improving awareness in this area and hence improving consumer satisfaction. In Hungary, Poland, Greece, Bulgaria, the Netherlands, Italy, Sweden, Denmark and Cyprus, less than 50 % of consumers can name an organisation they can turn to for advice or help when something goes wrong.

The assessment of billing information as well as website checks to test whether suppliers apply standard basic practices[27] confirm that contact details of energy mediators or other third-party organisations that can assist consumers who have electricity-related questions or problems are often unavailable. This is despite the fact that some countries have well-developed institutions in place to assist consumers.

The analysis of problems, complaints and complaint handling shows that there is considerable scope for improving complaint handling in the retail electricity sector. While only 28 % of consumers across the EU are satisfied with the way their electricity complaint is dealt with, several recent EU surveys have found that across all sectors of the economy about half of consumers who made a complaint were satisfied with the way it was handled.

Moreover, although consumers generally know where and how to complain and do not find complaint procedures too difficult, the positive link between the share of consumers who complain and the share of consumers who do not find complaining too difficult suggests that, by improving complaint handling procedures, complaint levels may be increased.

Complaint handling procedures by suppliers could be improved in terms of timeliness and effectiveness and through the implementation of the guidelines for complaint handling developed by the energy regulators. Suppliers should be encouraged to provide contact details of third party organisations consumers can turn to for help or advice on their websites and bills.

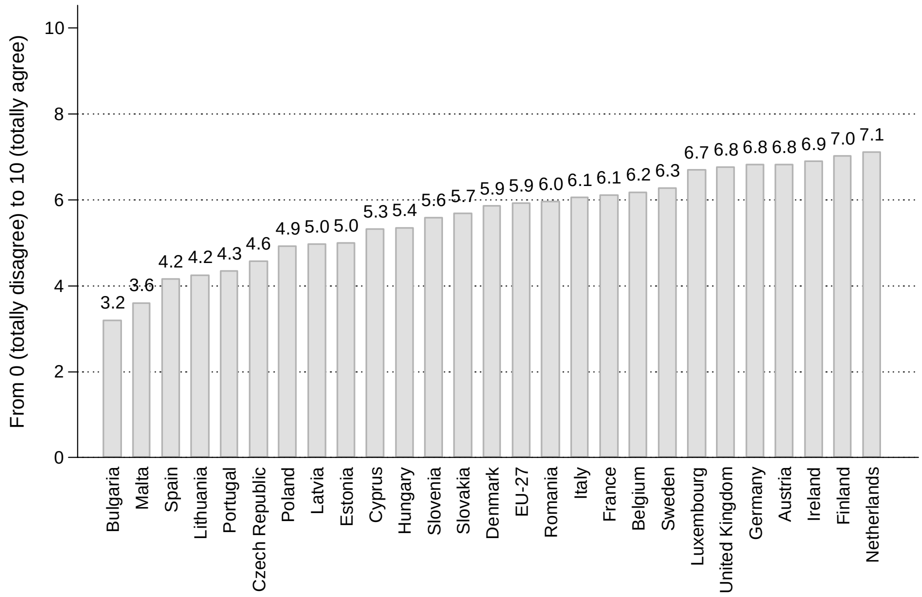
Problem solving can be facilitated through out-of-court dispute settlement. The Commission will set up a multi-stakeholder working group to identify best practices in alternative dispute resolution in energy, in line with the third energy package and the forthcoming legislative initiative on alternative dispute resolution which aims at improving existing ADR and promoting new ADR.

FAIR AND AFFORDABLE PRICES, ESPECIALLY FOR ECONOMICALLY VULNERABLE CONSUMERS

Fair prices make satisfied consumers

[27] The tests were carried out by mystery shoppers and one test was undertaken for each of the main suppliers. This means that the figures resulting from the tests reflect the ability of ‘consumers’ to find information.

Figure 11: Consumers' views on whether prices are fair and reasonable



Note: Average rating from respondents for the statement "your current supplier offers fair and reasonable prices", from 1 (low) to 10 (high). **Source: ECME general consumer survey.**

The feeling that prices are fair and reasonable does not seem to be related to the average price in Purchasing Power Standards. However, whether consumers think that prices are fair and reasonable is very closely linked to whether they believe the prices from their supplier are competitive. At Member State level and for individual respondents, there is a close relationship between the average ratings given to these two aspects by respondents to the consumer survey. Moreover, on average, consumers think that prices are more fair and reasonable in Member States where household retail prices are not regulated. Excluding Ireland, 80% of Member States without regulated prices have higher average ratings on fair and reasonable prices than any Member State with regulated prices. Ireland is an exception, since the average rating on fair and reasonable prices is the third highest of any Member State and regulated prices exist[28].

Unsurprisingly, the overall level of consumer satisfaction with electricity services is higher where consumers believe prices are fair and reasonable.

Key to improving the electricity retail market for consumers is to make sure that they do not feel that they are being overcharged by suppliers. More information and greater transparency about prices in general, and about lower offers and savings consumers can make from choosing the best tariff, would address this problem.

Consumers should be given an appropriate notice period before price increases take effect.

28 This may be because in Ireland the regulated price of the incumbent is sufficiently high to allow new entrants to enter the market with competitive prices.

Price levels in Member States

Total retail electricity prices charged to consumer are made up of several components: commodity price, transport cost, distribution cost, supply cost, and taxes and levies.

In the second half of 2009, average prices in euro were highest and above the EU-27 average in 10 of the EU-15 Member States. Prices were particularly high in Denmark and Germany. Conversely, prices were lowest in several EU-12 Member States, namely Bulgaria, Estonia, Lithuania and Romania (Figure 12)[29]. It should be noted that without taxes, prices in euro are no longer highest in Denmark and Germany, whereas Member States with low taxes on household electricity such as the UK and Malta move up the scale.

However, in order to fully ascertain the magnitude of differences in retail electricity prices across the EU, it is important to take account of differences in general price levels and the cost of living. Therefore, prices are measured in purchasing power standards (PPS)[30]. The ranking of Member States in terms of the level of retail electricity prices changes markedly when prices are measured in PPS. Prices are highest in several of the EU-12 Member States, especially Hungary, Slovakia and Poland. They are lowest in Finland, France and Greece.

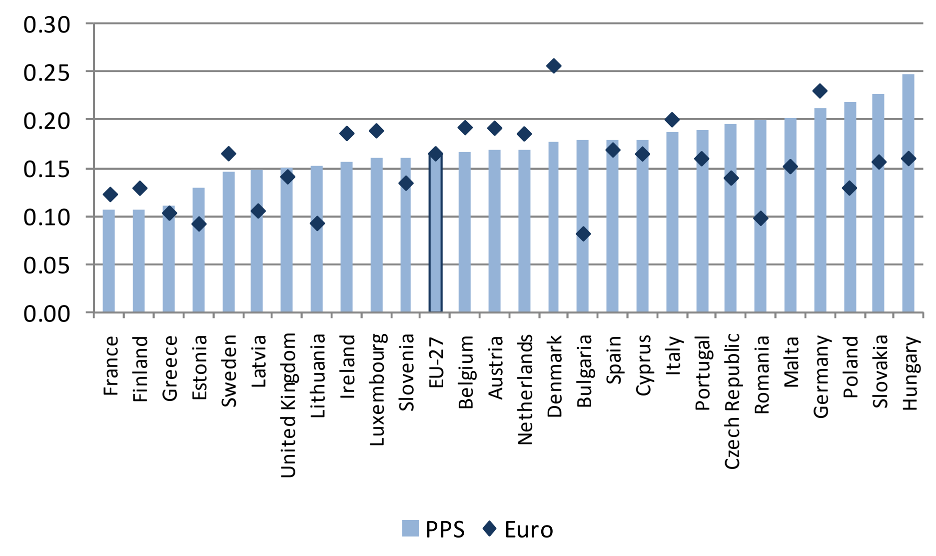
The dispersion of average prices across the EU is high (underlining the absence of an internal market in retail electricity). For the second half of 2009, average prices in euros in Denmark were more than three times higher than in Bulgaria. Although dispersion is lower when prices are compared in PPS (as expected), the level of dispersion is still significant, with the highest prices 2.3 times greater than the lowest.[31]

[29] Eurostat publish average prices for households in several different consumption bands. The analysis refers to average prices for households in the middle band of between 2 500 and 5 000kWh per year.

[30] The purchasing power standard PPS is an artificial reference currency unit that eliminates price level differences between Member States. One PPS buys the same volume of goods and services in all Member States.

[31] In PPS, the highest average prices are 2.3 times greater than the lowest. The standard deviation of prices in euros is 4.2 whereas the standard deviation of prices in PPS is 3.5.

Figure 12: Household electricity prices including all taxes for 2nd semester 2009 (per kWh)



Note: Prices for households with annual consumption of 2,500 to 5,000kWh per year. Data for Belgium refers to 2009semester 1.
Source: Eurostat

Low consumption, high prices

Unit prices charged to households with low overall consumption are of particular interest from the viewpoint of economically vulnerable consumers, as low-income households typically use lower amounts of electricity.

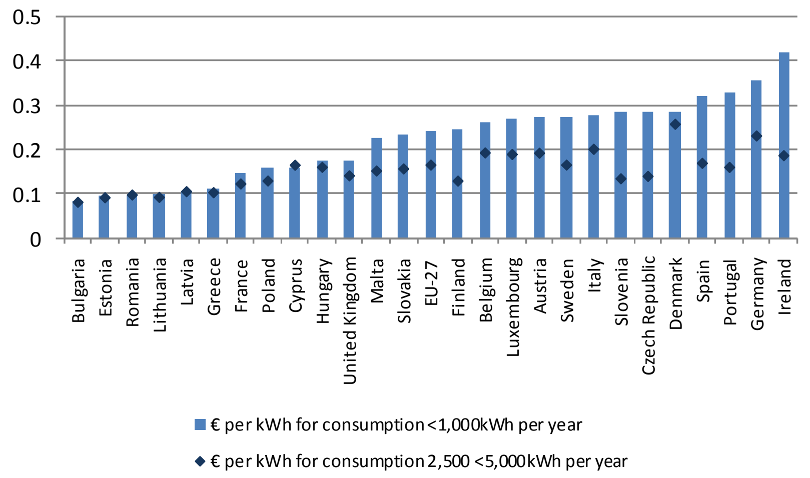
In most Member States, households in lower consumption bands pay higher total amounts per unit than those who consume more electricity[32], and in some cases the amount per unit is significantly higher (Figure 13). In the Czech Republic, Ireland, Portugal and Slovenia the total amount paid per unit for those who consume less than 1 000kWh per year is more than double that charged to households that use between 2 500 and 5 000kWh.

That average prices per kWh are generally higher for consumers with lower consumption levels is unfortunate for two reasons. Firstly, it means that low-consumption consumers pay a disproportionately high share of the costs of the electricity supply chain. If consumers with low electricity consumption are also on a low income, this has unfortunate distributional and affordability consequences. Secondly, it may be an incitation to consume more electricity instead of promoting reductions in electricity use and hence contrary to the objectives of the EU 2020 strategy.

There appears to be considerable scope for making electricity more affordable for the most disadvantaged consumers and for enhancing price incentives to reduce consumption if the significant structural price inequalities could be eliminated.

[32] In Italy, Portugal and Spain, prices also vary according to the intensity of the power supplied to the consumer. In these countries, lower prices (per kWh) are available to consumers who have lower power intensity and this may be a way to recognise low consumption levels.

Figure 13: Prices for low consumption households (compared to prices for medium consumption households)



Note: Prices in euros including taxes. Data for 2009 semester 2, except Belgium (2009 semester 1). No figure is given for the Netherlands for households with consumption of less than 1 000kWh.
Source: Eurostat.

Reducing energy consumption for lower bills and better energy efficiency

According to the survey, more than 60 % of consumers had actively tried to reduce energy consumption in the last year and, on average, a larger proportion of consumers tried to reduce consumption in countries where the total price of electricity (including taxes) was higher.

The proportion of consumers who have received advice from their supplier on how to reduce their electricity consumption is also quite high. In 19 Member States at least half of consumers have received such advice at some point. However, there is a lot of variation between Member States, with the share of consumers who have received this type of advice ranging from 81 % in Malta to 13 % in Bulgaria. Consumers who were not given advice on reducing their energy consumption said that they would like their supplier to do so.

Measures to help and convince consumers to reduce their energy consumption are of major importance, not only because this will reduce their bill, but also for environmental reasons. It is recommended that measures to help consumers reduce consumption be stepped up and that financial assistance be linked to low (or reduced) consumption.

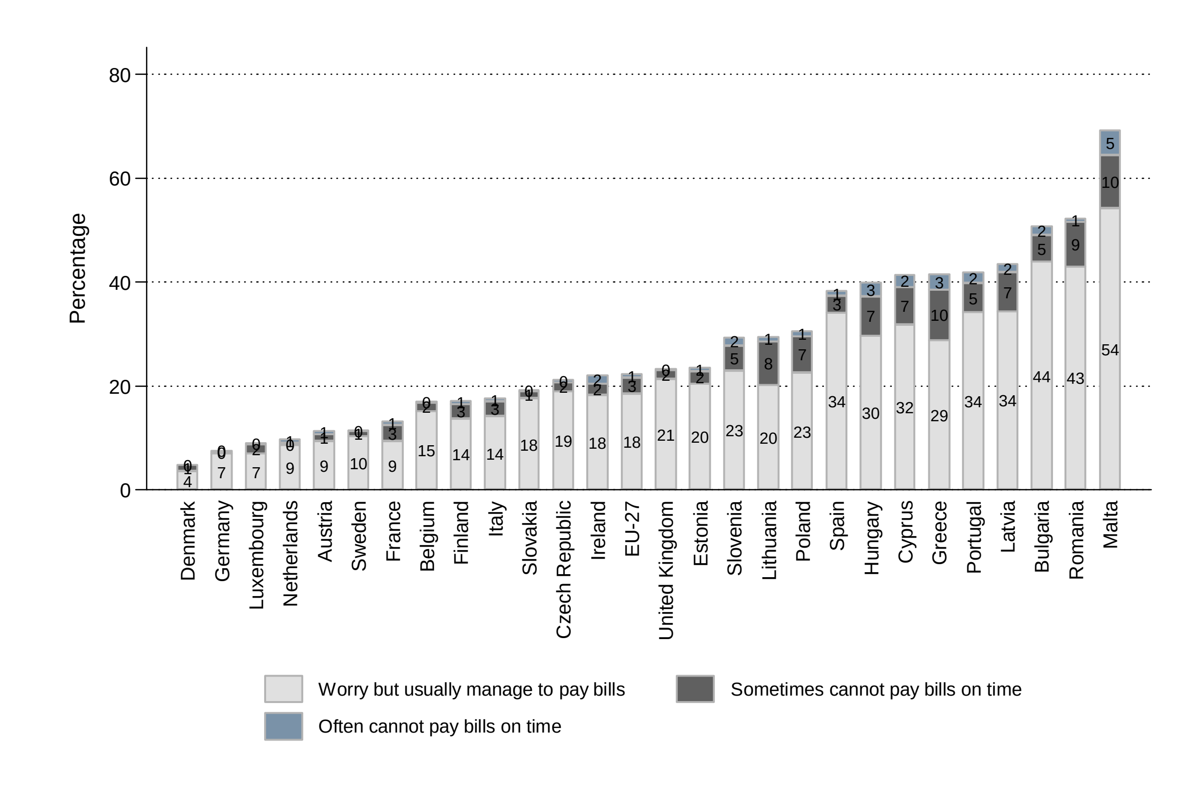
Affordable electricity bills

Although consumers may feel that electricity prices are fair, they may still find it difficult to afford their electricity bill. An 'affordability' indicator has been constructed, defining consumers as having affordability issues with electricity bills if they report that: a) they worry about paying their electricity bills but usually manage to do so, or b) they sometimes cannot pay their electricity bills on time, or c) they often cannot pay their electricity bills on time (Figure 14). It is important to note that this indicator represents the share of consumers who have had affordability issues with electricity bills at some point, not the proportion of consumers in arrears, which is a lower figure[33].

According to the survey data, there are large differences between Member States in terms of the proportion of consumers who have affordability problems with electricity bills. The average share of consumers with such problems across all EU Member States is 22%. However, more than half of consumers have had difficulty affording their bill in Bulgaria, Malta and Romania (the three highest), whereas less than 7% of consumers have experienced such difficulties across Denmark, Germany and Luxembourg (the three lowest).

When considering only the consumers who say they often or sometimes cannot pay their bill on time, the EU average drops to 4%. However in four countries – Malta, Romania, Greece and Hungary – 10% or more of consumers fall into this category. However it appears that in some of these countries assistance to vulnerable consumers is amongst the highest.

Figure 14: Proportion of consumers who had affordability problems with electricty bills



Note: Based on Q13: Which of the following situations usually applies to you? EU-27 average weighted using population figures from Eurostat for 2010.
Source: ECME Consortium general consumer survey

Measures for consumers with problems paying energy bills

Economic measures to help consumers who have difficulty paying their bills generally focus on ensuring that prices are affordable – for example, specific prices offered to certain groups,

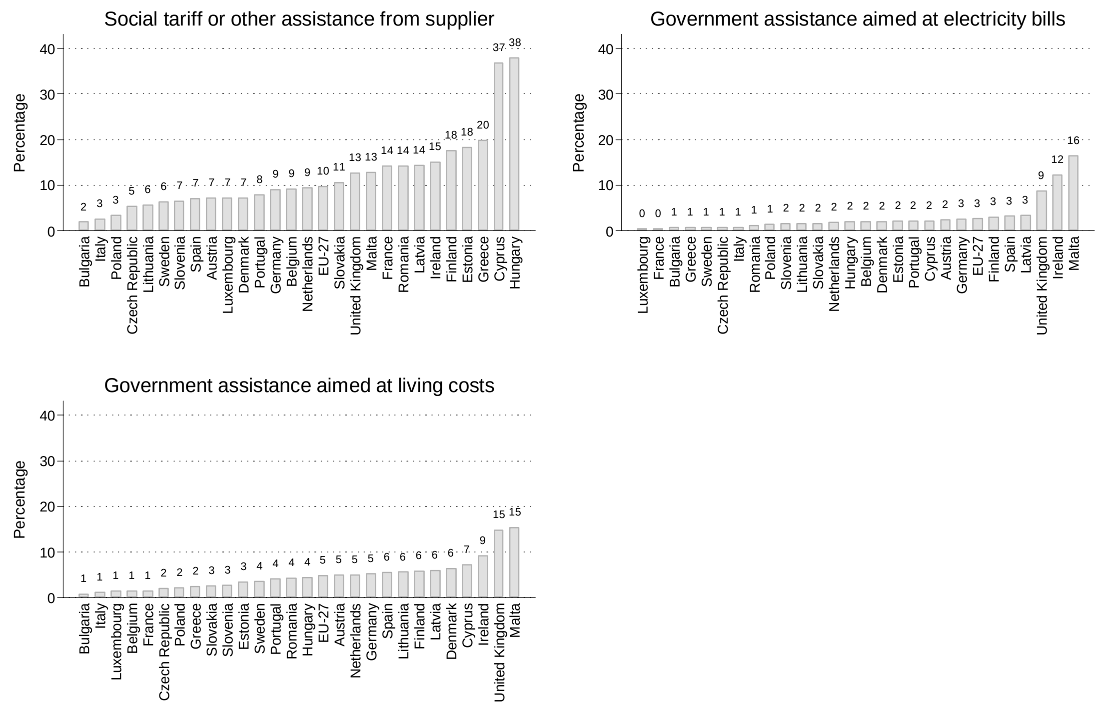
33 Organisations from three Member States reported that they collect information on the share of consumers who are in arrears: the Belgian regulator reported that the share of electricity consumers in arrears is 3.2%, and electricity associations from France and Cyprus reported that the share is 8.9% and 16% respectively.

grants to improve energy efficiency, boosting incomes, deferred payment – or specifically target those in arrears. Non-economic measures include regulation of connection and disconnection, the process for dealing with arrears, contractual terms and conditions of contract. The majority of Member States have regulation in place that provides for such measures.

It is important that measures and regulation do not hamper the well-functioning of markets and act as barriers to entry for new suppliers. It is equally important that that they solve the problem at the root and that they contribute to the objectives related to energy efficiency in the EU 2020 strategy.

An estimate of the share of the entire population of consumers who have, at some point, benefited from financial measures shows that the most common measures to help consumers are, in fact, provided by suppliers (Figure 15). These measures include assistance imposed by national authorities, social tariffs and other forms of assistance such as staggered payment plans. More than 10 % of consumers have benefited from such measures in 12 Member States. The second most common form of financial help is government assistance aimed at living costs in general (not specific to payment for electricity). In 12 Member States, at least 5 % of consumers have benefited from such measures.

Figure 15: Percentage benefiting from financial measures



Note: Based on Q14. Percentage that said 'yes' to the following statements: 'I benefit from a social tariff or other assistance (for example a staggered payment plan) from my supplier', 'I benefit from financial assistance (subsidies, grants, tax credits, etc.) from the government aimed at helping me with my electricity bill', and 'I benefit from financial assistance (subsidies, grants, tax credits, etc.) from the government aimed at helping me with my general living costs'. EU-27 average is weighted using 2010 Eurostat population figures as weights.

Source: ECME Consortium general consumer survey

Share of household spending on electricity

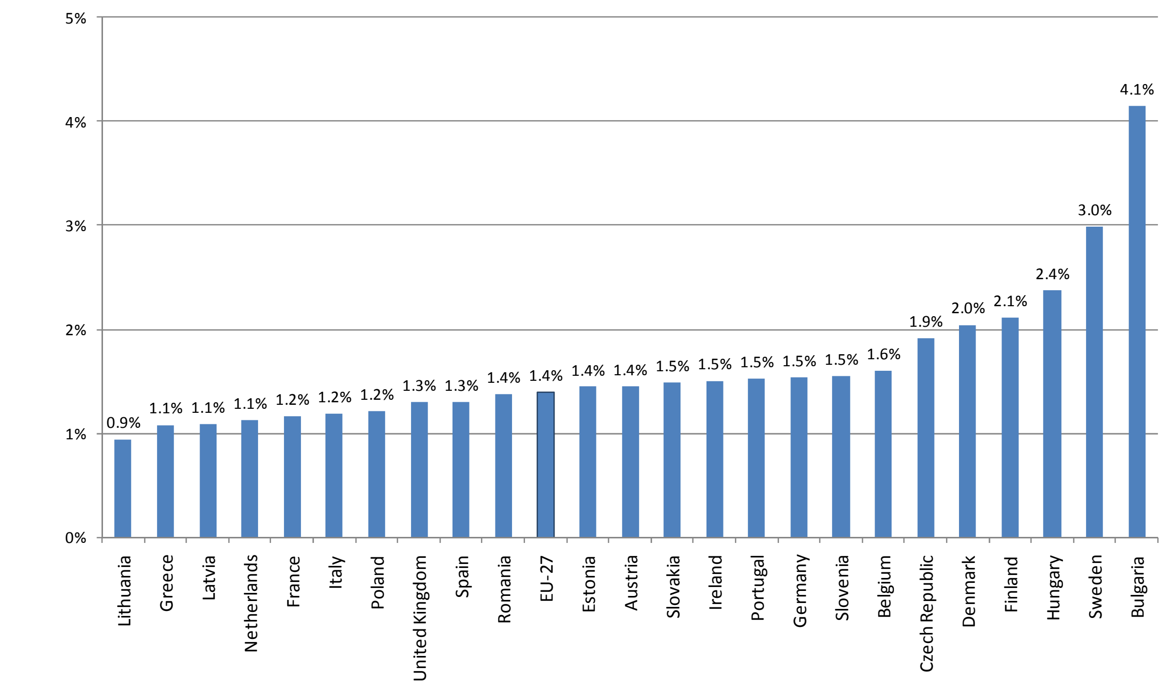
The EU average household spending on electricity as a percentage of disposable income is 1.4%. There are, however, big differences between Member States: the share of household spending on electricity is highest in Bulgaria, Sweden and Hungary, and lowest in Lithuania, Greece and Latvia (calculated in PPS using the latest figures which refer to 2008) (Figure 16).

The factors that determine the share of income which is used to pay for electricity are:

- consumption level: higher consumption means a greater share spent on electricity;
- price level: higher prices mean a greater share spent on electricity; and
- income level: higher income means a lower share spent on electricity.

For each of these factors, the difference relative to the EU-27 level for each Member State is presented below. These figures illustrate why the share of income spent on electricity is especially high or low in certain Member States[34]. For example, the share of income spent on electricity is high in Bulgaria because income is lower (71% less than for the EU-27), whereas the share is also high in Sweden because consumption per capita is much higher (158% more than for the EU-27).

Figure 16: Household spending on electricity as a percentage of gross disposable income in PPS and difference relative to EU-27 in terms of income, consumption and price (2008)



Difference relative to the EU-27 level:*

	Lithuania	Greece	Latvia	Netherlands	France	Italy	Poland	United Kingdom	Spain	Romania	EU-27	Estonia	Austria	Slovakia	Ireland	Portugal	Germany	Slovenia	Belgium	Czech Republic	Denmark	Finland	Hungary	Sweden	Bulgaria
Income	-38%	-7%	-44%	14%	17%	4%	-42%	17%	0%	-63%	0%	-42%	19%	-35%	6%	-21%	19%	-24%	11%	-29%	-1%	4%	-40%	8%	-71%
Consumption	-51%	-2%	-46%	-8%	48%	-30%	-57%	17%	-3%	-71%	0%	-16%	24%	-49%	18%	-23%	3%	-4%	14%	-14%	23%	143%	-31%	158%	-20%
Price in PPS	-14%	-27%	-20%	0%	-34%	27%	17%	-8%	-3%	23%	0%	-28%	0%	36%	-3%	12%	27%	-12%	12%	12%	18%	-35%	46%	-10%	9%

Note: Insufficient data are available for Cyprus, Luxembourg and Malta. * The difference relative to the EU-27 level for income per capita, consumption per capita and prices in PPS is equal to: (Member State level – EU-27 level)/EU-27 level.

34 These figures are calculated in PPS.

Source: ECME consortium calculations using Eurostat data.

CONCLUSIONS

This study of the retail electricity market focused on consumer decision-making and the issue of whether consumers are able to make the right choices. It has shown that opportunities for better deals are widely available, at least in the majority of Member States: 62% of mystery shoppers found a cheaper offer on the market and 35% were offered a better deal by their current supplier simply by asking for it. At the same time liberalisation has not succeeded in turning consumers into active participants – also because in a number of Member States regulated prices still exist and hamper entry into the market and in others switching for (some) consumers is still limited: in only seven Member States are switching rates above 10%. However, with 22% of consumers across the EU having difficulty affording their bills, with prices likely to go up, and because of increased attention to energy efficiency, consumers are likely to become more involved. It is therefore vital to put in place the appropriate mechanisms to make participation as easy as possible, to stimulate competition, and to enable consumers to take more sustainable consumption decisions. It is also essential to protect consumers, especially the most vulnerable ones.

Information, or lack of it, appears to be a big problem in retail electricity markets across the EU. Consumers generally do not feel well-informed about the choices available and this reduces their ability to make informed, rational and empowered decisions. Consumer **awareness and knowledge** about consumption, alternative suppliers and possible benefits from switching need to be raised. Information could be provided to consumers more proactively and better tailored to personal circumstances and usage patterns. Moreover, information could be provided by various means so that it reaches all consumers. New technologies such as **smart meters** should also help in raising consumer awareness, especially about their consumption, provided that the metering systems display the information in a **consumer-oriented and user-friendly** way. In addition they may speed up the switching process because there will be no more need to wait for meter readings. Smart phones and mobile phones may also serve in better informing consumers. Improved information provision should address the fact that, even though a lot of information is available, consumers seem often unable to take advantage of that information. The proliferation of further information without attempts to make it useful risks worsening the situation.

With regard to **billing information** in particular, there is room for suppliers to improve the availability and clarity of information for consumers, in line with the recommendations on billing made by the London Forum. Suppliers can also do more to give consumers **access to their personal account.** Access to personal account can be helpful in providing consumers with the information they need if they wish to switch suppliers, review their consumption and payment history, or verify other information.

Consumer choice of retail electricity products could be further improved through making green tariffs and peak/off-peak tariffs available to all consumers. At the same time consumers should be given more help to enable them to choose wisely. It has been shown that price comparison tools may help consumers compare offers. It has also been found that in many Member States these tools are available but are not known to or used by most consumers. It is important that price comparison tools are as easy to use, as complete and as accurate as possible, and consumers should know and trust them. **Guidelines for price comparison tools** in the field of retail electricity based on best practices in the Member States could contribute to improving the availability and usefulness of such tools for consumers. To facilitate price comparison, the regulators will develop **guidelines of good practice**. In addition, there is room for improvement when it comes to providing more updated and understandable information on tariffs and offers by suppliers.

For many consumers switching supplier and tariff is too difficult: one in three consumers find it difficult to switch suppliers and one in five find it difficult to switch tariffs with their current supplier. To facilitate the switching process, the regulators will develop **guidelines of good practice.** Price comparison websites could have features that help consumers **initiate the switch directly.** Consumers should also be in a position to obtain a **notice period** before price changes are implemented to have time to reconsider their choice. However, measures to facilitate the switching process for the consumer should not open the door to unfair commercial practices such as misleading advertisements, pressure selling, or 'slamming'.

Many consumers are dissatisfied with complaint handling and may be more willing to complain if the process were easier. Consumer empowerment could therefore be enhanced by **improving and simplifying complaint handling**. Complaint handling procedures by suppliers could be improved in terms of timeliness and effectiveness and through the implementation of the guidelines for complaint handling developed by the energy regulators. As agreed in the third Citizens Energy Forum the regulators and independent ombudsman will continue to work with the Commission to ensure the fullest possible use of the harmonised methodology for classifying and reporting consumer complaints and enquiries. The Commission will set up a multi-stakeholder working group to identify best practices in **alternative dispute resolution in energy**, in line with the third energy package and the forthcoming initiative on alternative dispute resolution which aims at improving existing ADR and promoting new ADR. Finally, consumers' **awareness of third-party organisations** that can assist them with dispute resolution should be improved, for example through a hotline and dedicated website for complaints.

The retail electricity pricing structure has some negative aspects. Consumers with lower electricity usage pay higher per unit prices as a result of the fixed fees charged by suppliers. This is unfortunate both in terms of encouraging reductions in electricity consumption and in terms of the possible distributional consequences if low-consumption consumers are also on a low income. There appears to be considerable scope for making electricity more affordable for the most disadvantaged consumers and for enhancing price incentives to reduce consumption if the **significant structural price inequalities** could be eliminated. Furthermore, **action to help consumers reduce consumption** should be stepped up and financial assistance should be linked to low (or reduced) consumption.

There are some signs that consumers are willing to play a more active role in the retail electricity market, and we are already seeing opportunistic behaviour by a small group of consumers who are prepared to switch regularly. The measures set out in this document should help more consumers to get the best deal for them and stimulate competition in the market. However, the more consumers become involved the more it will be necessary to adapt to new challenges. Therefore, **European energy bodies and fora should have a strong mandate to deal with consumer issues** and to facilitate coordination and sharing of best practices between stakeholders.