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 Agency for the Cooperation  
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# **3<sup>rd</sup> ACER Gas Target Model Workshop**

**3<sup>rd</sup> ACER GTM workshop, Brussels, 15 May 2014**

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## **2. Gas retail market functioning**

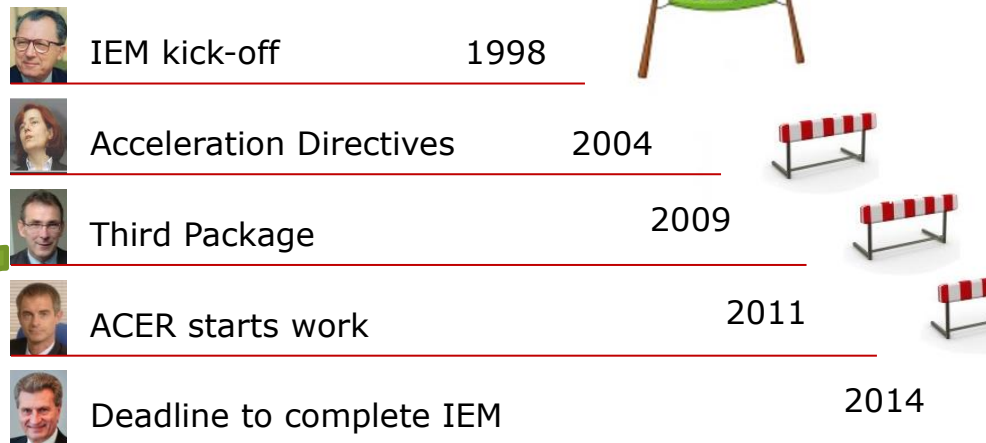
**Improving retail market competition in  
gas and gas specific retail aspects**

***Walter Boltz***

*ACER BoR Vice-Chair and ACER Gas Working Group Chair*

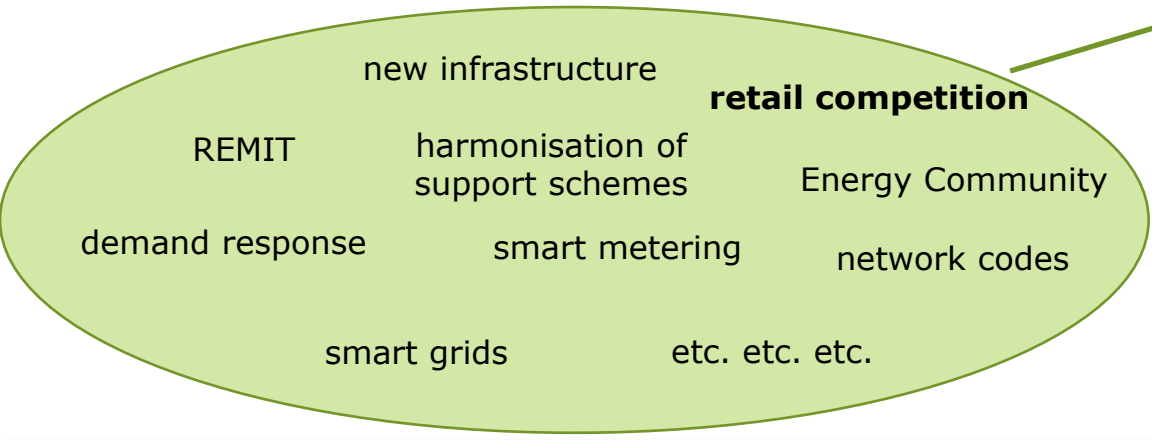
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# The IEM – half way through ?!?



- Still very different consumer price levels
- Increasing prices
- Increasing differences in price breakdowns
- Price regulation in a majority of Member States
- Low switching rates in most Member States
- No efforts towards harmonization of retail markets
- Low activities of suppliers across borders
- Cross border supply for household customers: no reality yet
- Vulnerability and energy poverty – big diversity

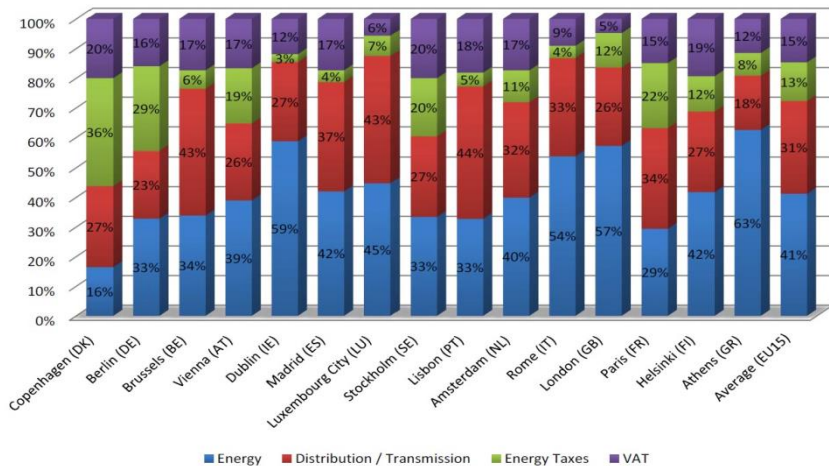
Every European consumer has the right to benefit from a well-functioning retail market



IEM completed

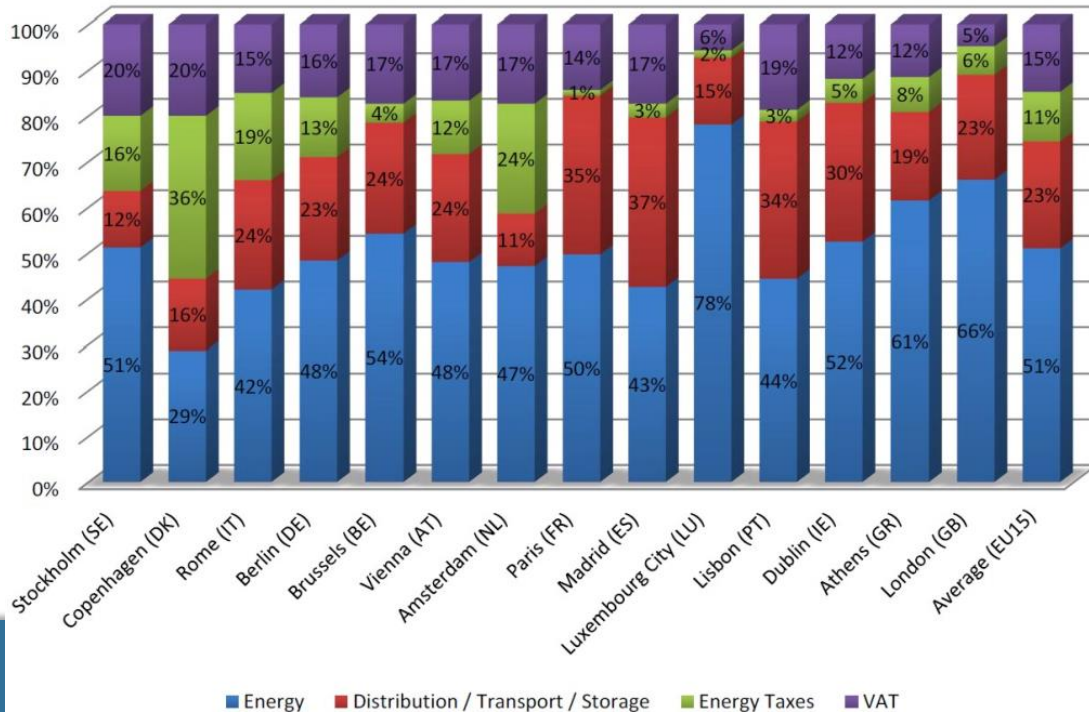
# Differences in price breakdowns

**Residential Electricity Price Breakdown**



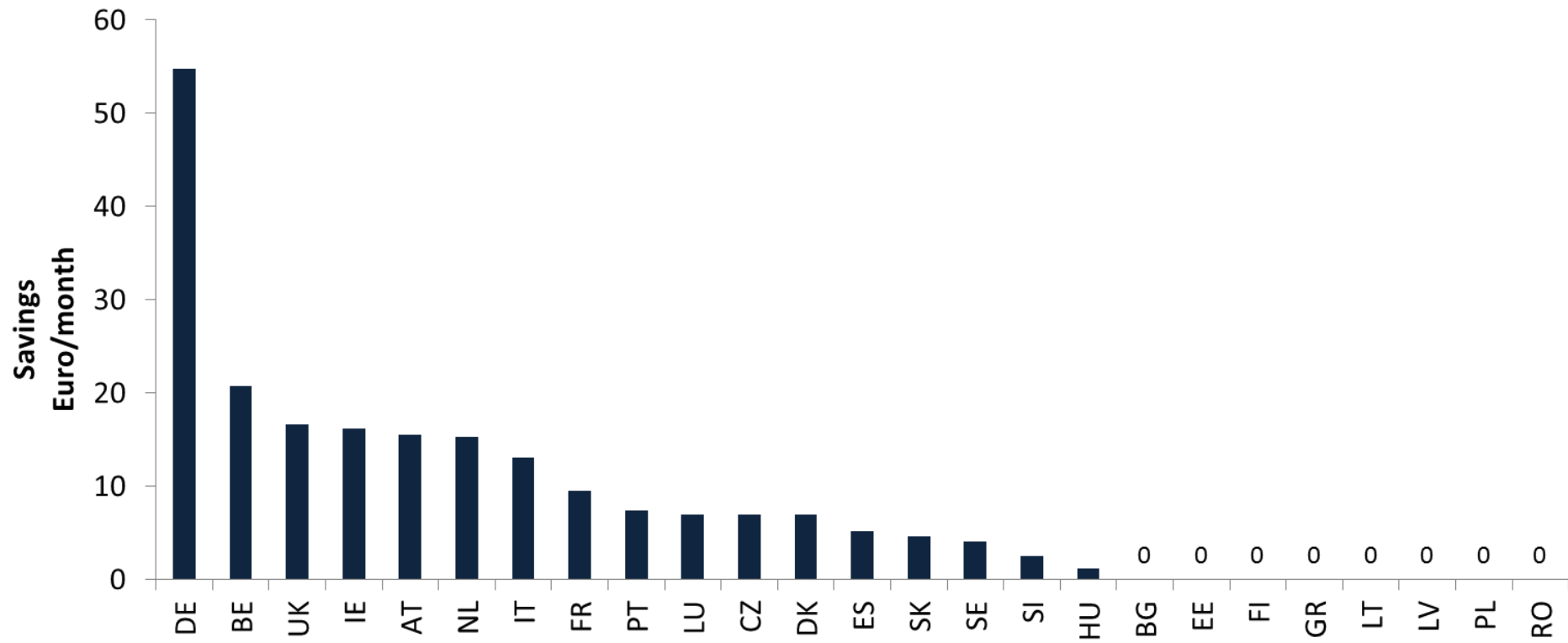
Energy prices differ between countries enormously depending on where the customer lives

**Residential Gas Price Breakdown**



## Retail price competition will only be effective if consumers can obtain relevant savings

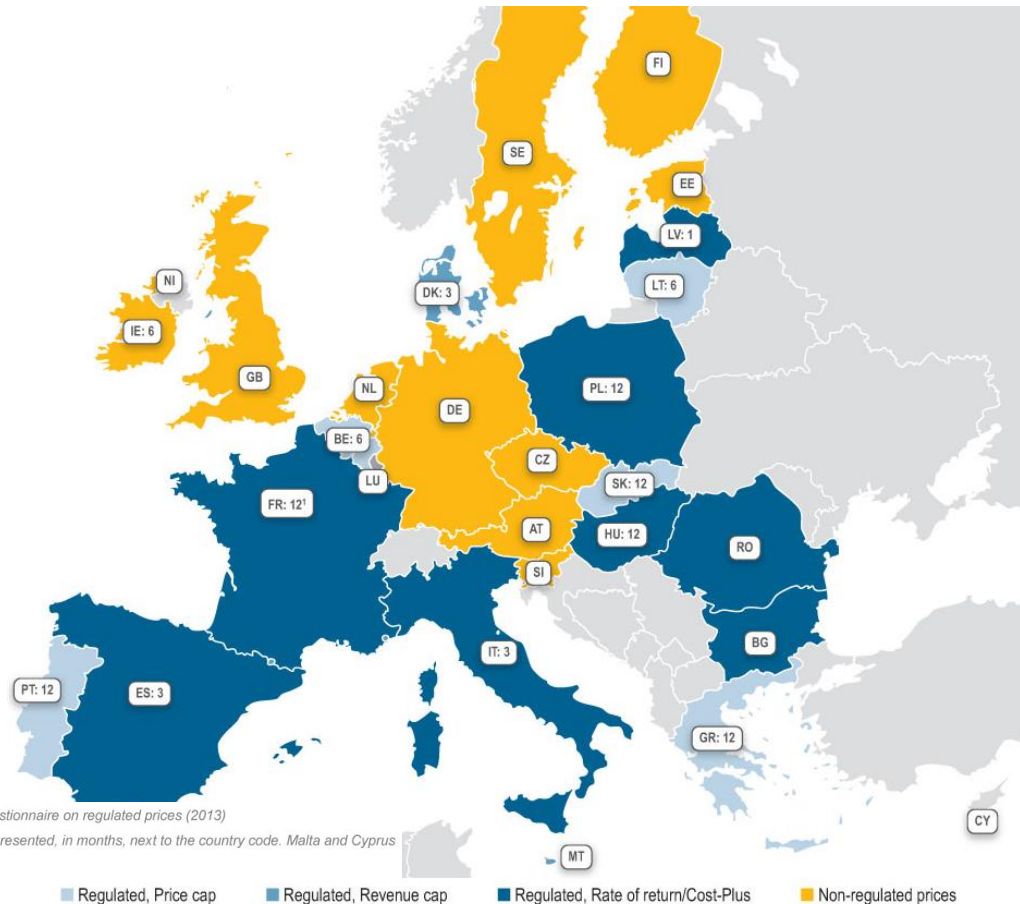
Average monthly potential savings from switching - 2012 (incumbent standard->Lowest price offer)



Source: ACER database based on information from suppliers.

## Retail price regulation prevails in Europe and in many circumstances doesn't allow for price differentiation


Price regulation method and frequency of energy component updates in Europe – 2012 (Months)



Sources: CEER National Indicators database (2013) and ACER questionnaire on regulated prices (2013)

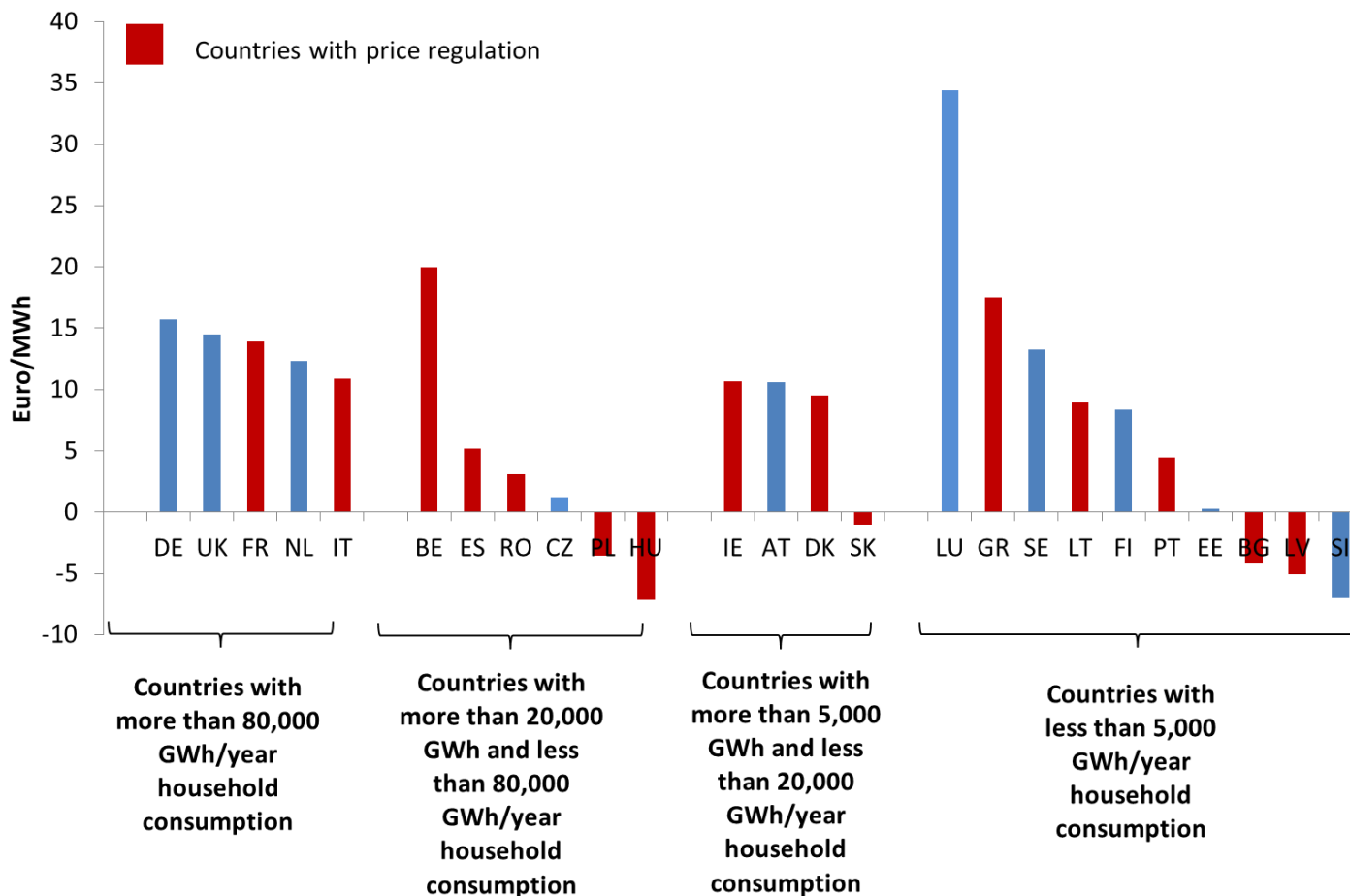
Notes: The frequency according to which the MS updates prices is presented, in months, next to the country code. Malta and Cyprus have no commercial gas sector.

## From mezzanine solutions to limit price regulation impact on competition to full range solutions

- 
- Safety net regulation
    - As a transition measure for a fully liberalised market?
  - Full retail price liberalization in all market segments
    - Can competition law ensure adequate levels of competition?
    - Are there structural factors that facilitate tacit collusion?
  - Real time pricing?
    - Can it be applicable in gas retail?

## Retail mark-ups reflect the impact of price regulation but also different levels of competition

Incumbent standard offer retail markups – Dec. 2012 – Capital city - Household markets



Source: ACER based on ACER retail database (2012), Comext database revised by ACER (2013), ICIS Herren (2013), Eurostat (2013).



Barriers to entry as the main obstacle to retail competition were discussed in the ACER/CEER Annual Monitoring Report 2012. These can be summarised as:

- illiquid or concentrated wholesale markets;
- consumer switching behaviour;
- retail price regulation;
- the regulatory framework;
- roles of market actors (including distribution system operators, energy suppliers, energy service companies and consumers) are not harmonised, which is a barrier to cross-border entry.

- Genuine choice between alternative suppliers of energy
- A minimum service and supply standard
- A price level for the energy part of the bill that is linked to wholesale prices
- Protection of vulnerable customers
- Fair distribution of necessary costs

- What is the relevant retail market?
- What do we mean when we talk about a “functioning retail market”? Cross-sectoral:
  - » well-functioning upstream wholesale markets;
  - » the absence of regulated end-user prices;
  - » market concentration levels below the critical HHI level of 1,800;
  - » wholesale and retail price convergence;
  - » annual switching rates above a certain level;
  - » service level standards;
  - » protection mechanisms for vulnerable customers;
  - » effective DSO unbundling;
  - » straightforward market processes;
  - » correspondence of national rules on switching, billing, balancing etc. with CEER recommendations;
  - » market transparency
  - » etc.

What do we mean when we talk about a “functioning retail market”? Gas specific:

- » It is possible to hedge price risks for the period usual for retail market contracts to (half year, year);
- » There are no additional unexpected costs arising (e.g. through storage obligations);
- » Supply standard certification and licensing requirements are not discriminating small suppliers;
- » No dominant market player (incumbent) is distorting the competition and no discrimination by the transmission system operator occurs;
- » Gas is reliably available at the market, in a flexible manner.

- Where we find that retail markets are not functioning well, what can be done to improve the situation?
  - » A wide range of measures is conceivable; for instance, where market concentration is too high, options could be to encourage entry by new players, to split up the incumbent and/or to enlarge the market (including across borders).
- In which retail market aspects could harmonisation of the rules across all European countries eliminate entry barriers and facilitate competition?
  - » For instance, would it encourage market entry if the licensing or registration requirements for suppliers were the same in all Member States?


- The retail price regime
  - » Phase out retail price regulation
- Network charges that create context costs and may deter cross border entry
  - » The differences in network charges, arguably resulting not only from different underlying costs but also from different methodologies in use by NRAs at TSO and/or DSO level (asset eligibility, asset valuation and asset remuneration)
  - » Is there room for efficiency benchmarking?
- Levels of retail price transparency and comparability
  - » Comparison instruments (Standardised fact sheets, TCR,...)
  - » Collective switching platforms
- Wholesale markets liquidity
  - » Critical to facilitate entry
- Access to Balancing Markets
  - » Reduce the economies of scale necessary to effectively use BM
- Supplier Centric Model
  - » The discussion has to continue with a view of a working cross-border competition on retail level

European energy regulators will address the above questions in the frame of the „Energy regulation - A Bridge to 2025“ document and further in their respective activities.

## **Stakeholders are invited to answer the following questions:**

- Do stakeholders agree that we identified the right issues and raise the right questions ?
- Are there any other gas relevant retail market issues we do not cover?
- What is your view on the specific questions (above)?

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**Thank you for  
your attention !**