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EU4ENERGY PHASE II

Retail Market Monitoring and Consumer Protection in the context of the implementation of the Green Deal and RePowerEU

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Presentation overview

1. Introduction - Basics
2. Development of European energy legislation
3. Excursion: Supplier switching - PCT
4. Changing energy markets
5. Impact of the crisis and RePowerEU (2022)
6. Proposals made for the EMD (ongoing)



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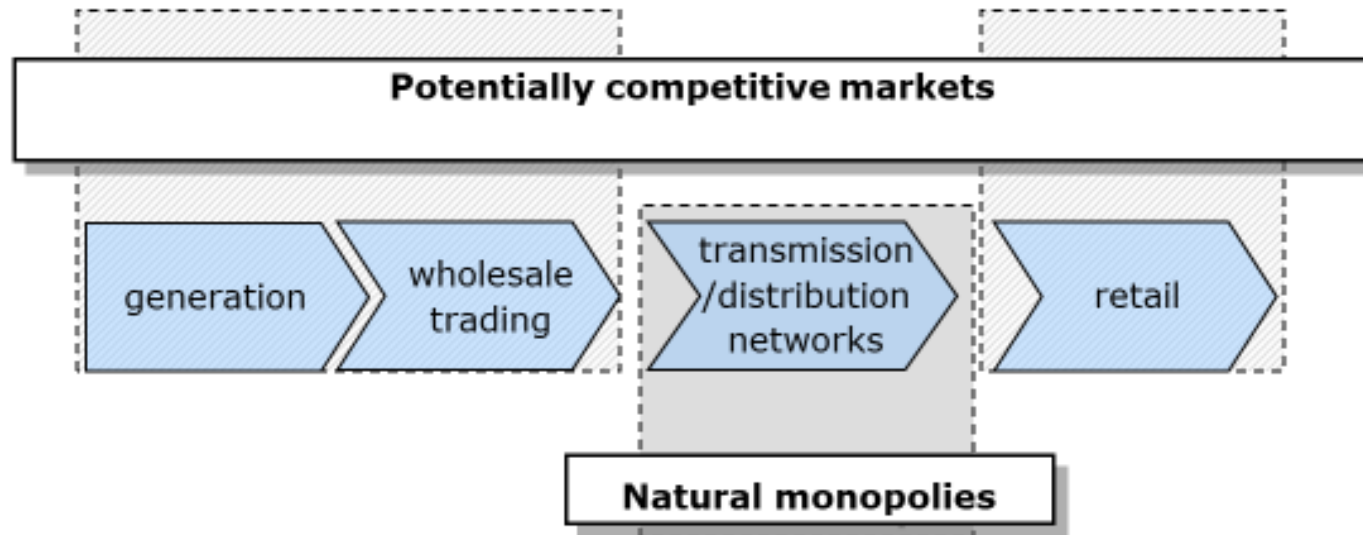
1. Introduction: Energy markets





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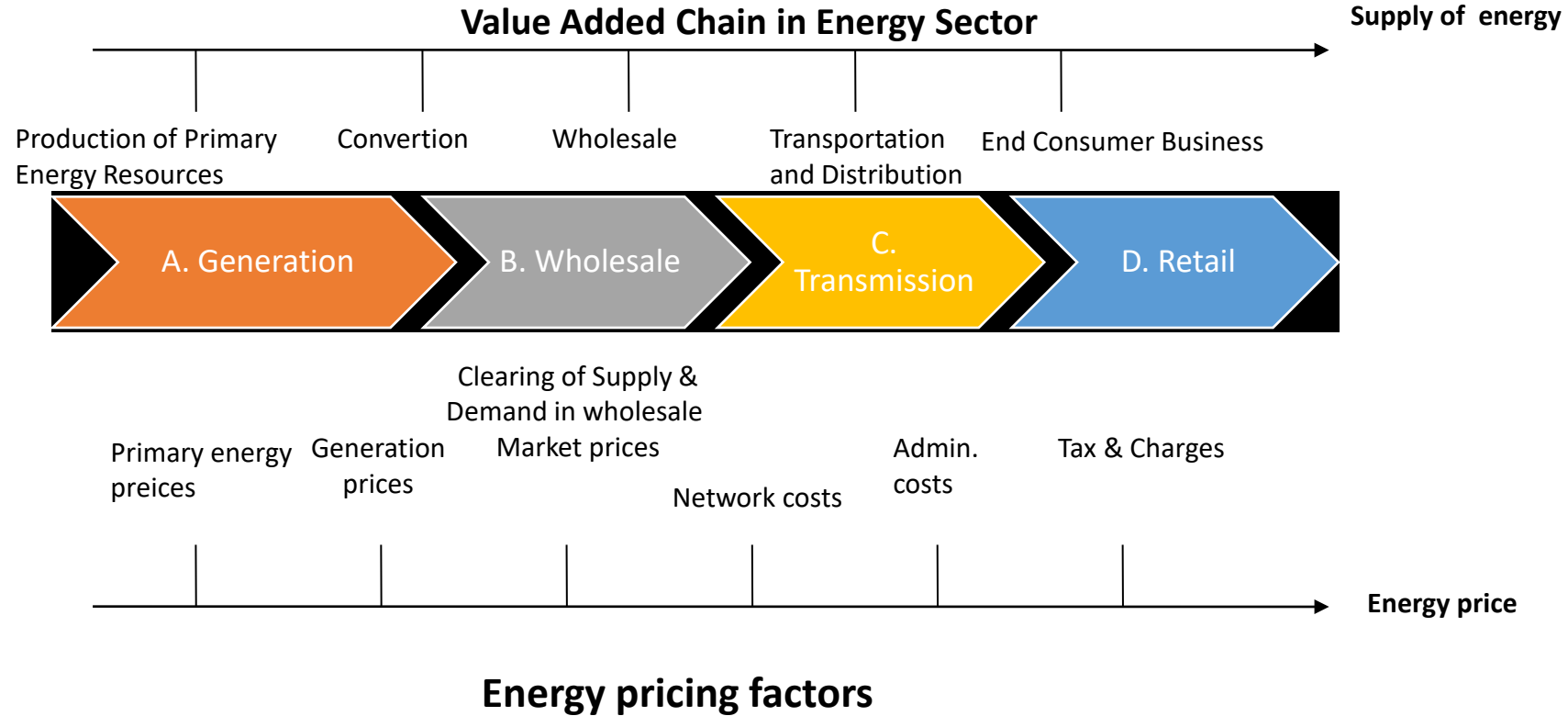
Structure of energy markets





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Added value and energy prices

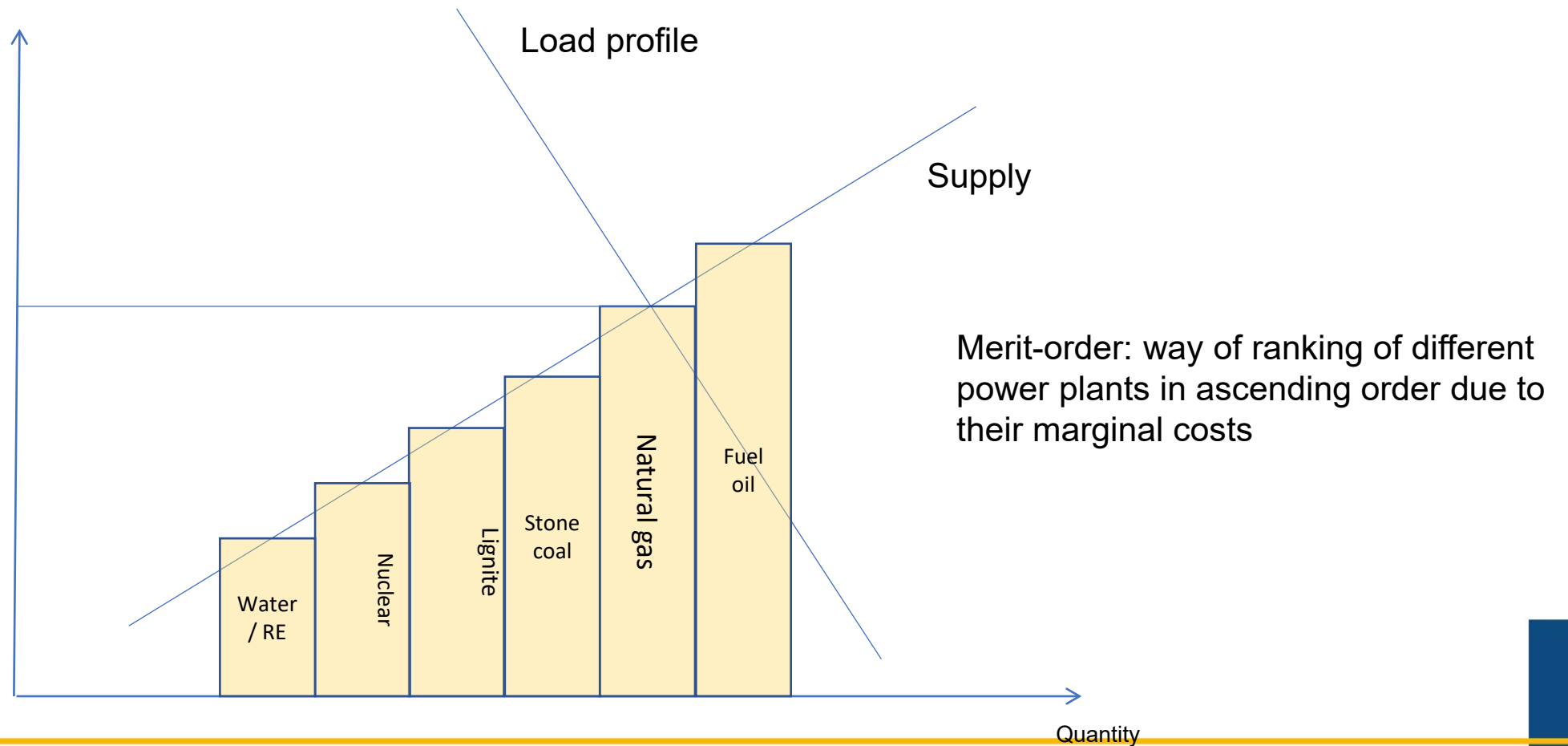




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Short run
marginal costs

A. Generation: Merit order in the energy markets

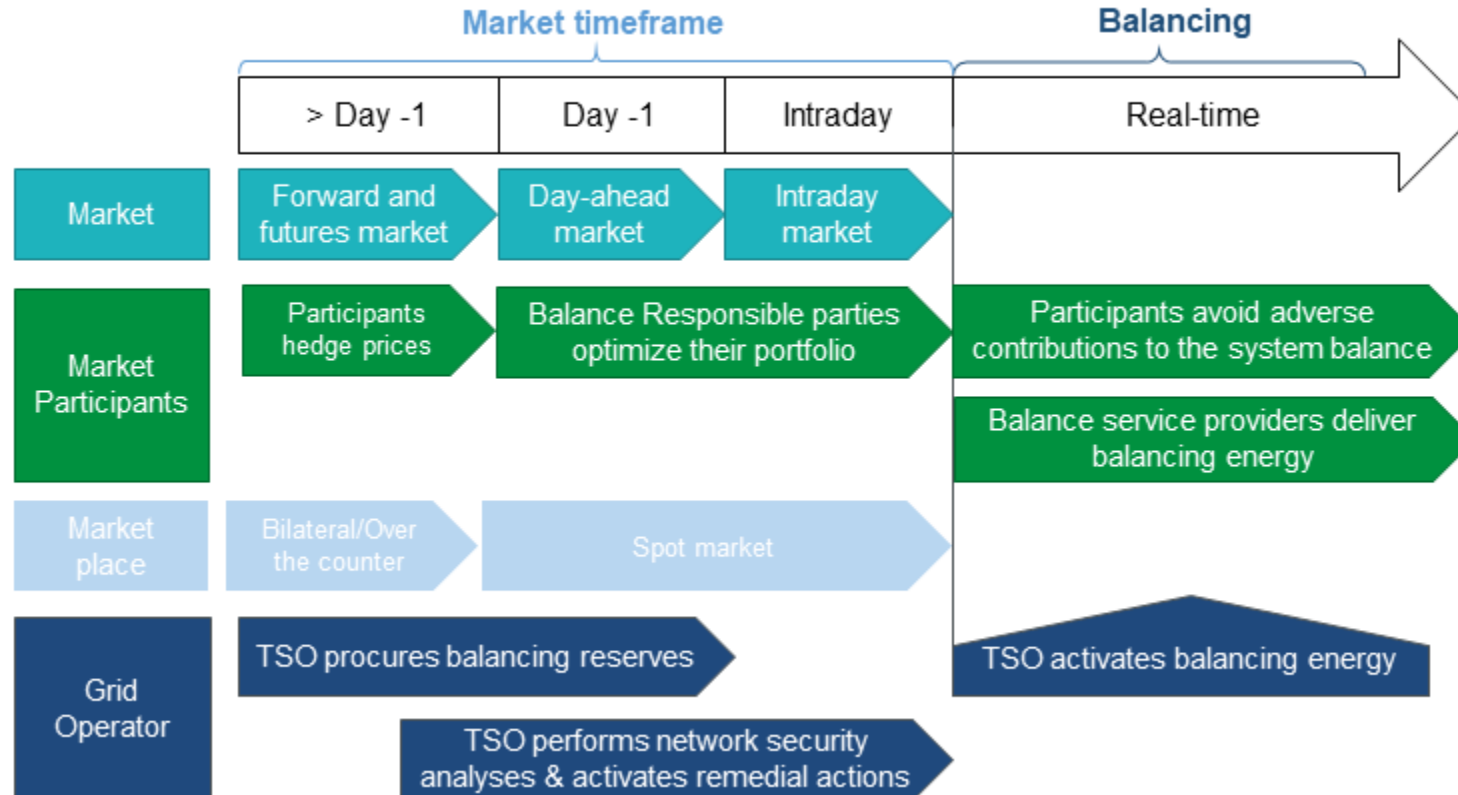




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B. Wholesale Markets

The forward futures, day-ahead and intraday market are all types of wholesale markets that differ in timeframe and products.



Graphic: Tennet



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B. Definitions of wholesale market types

- **Forward and Futures Market:** On the forward and futures market, electricity is traded between four years and one month before delivery. Forwards and futures are financial products, which are settled against spot market prices of future delivery periods. While futures are standardized contracts on power exchanges, forwards are traded bilaterally (over the counter) and are not standardized.
- **Day-Ahead Market :** On the day-ahead market, participants can sell and buy electricity in a pan-European auction for the 24h of the next day in (hourly) blocks. The day-ahead market is cleared at 12:00 o'clock noon each day of the year. At this time, the intersection of demand and quantity offered determines the electricity price and volume for each hour. This price is then either paid or received by all market participants who were successful in the auction.
- **Intraday markets:** After the day-ahead market is cleared, the intraday market opens. Through the intraday market, buyers and sellers can adjust their order volumes in line with better demand or renewable feed-in forecasts or unexpected power plant outages. On the intraday market it is possible to trade power continuously in quarter-hourly, one hour or even longer intervals. As soon as a buy bid matches a sell bid a trade is concluded. A deal needs to be completed at least 5 minutes before delivery.





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C: Network operation and regulation

- Cost Plus Regulation
 - markup on average costs
 - difficult to determine the appropriate markup
 - incentive to increase costs
- Rate of Return Regulation
 - predefined rate of return on capital
 - difficult to determine the appropriate rate of return
 - incentive to use too much capital
- Incentive Regulation (price cap or revenue cap)
 - Fixing revenues for more than one year (regulatory period)
 - Account for individual efficiency and general efficiency
 - Information asymmetry is reduced



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D. Retail markets: Competitive segment

- Retail markets for gas and electricity are subject to competition among suppliers however consumer rights are ensured by legislations

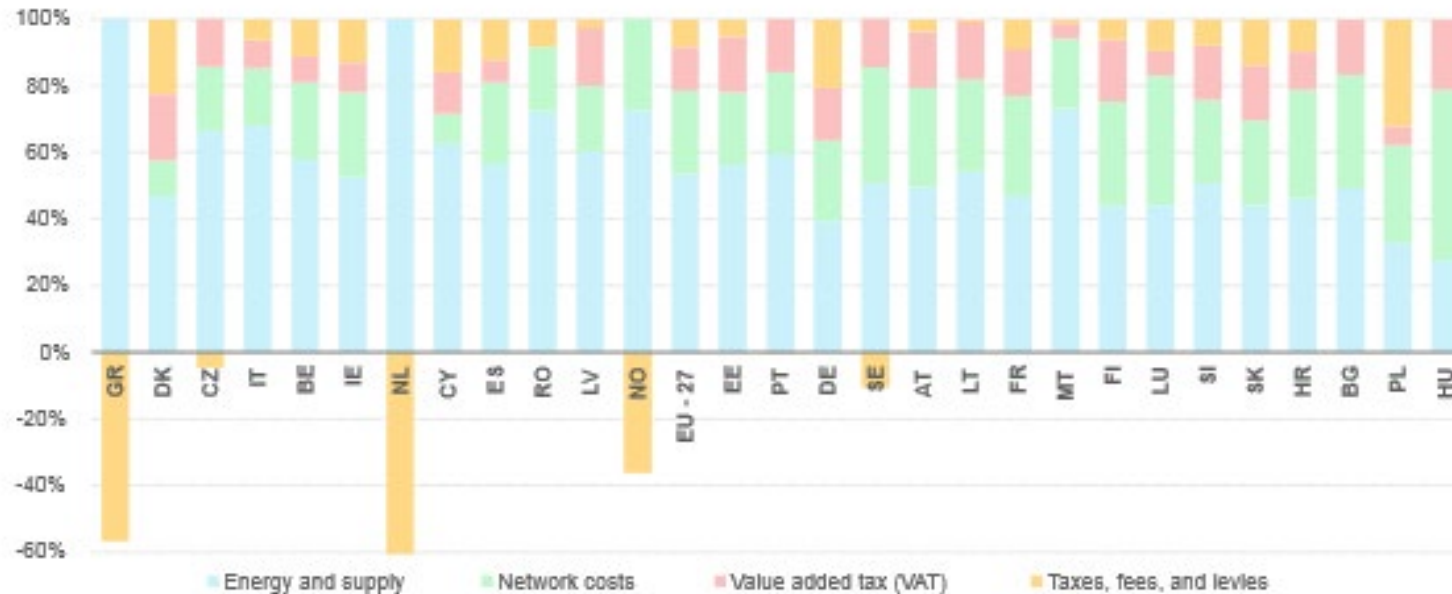
Examples to visualize the
competition: Price
comparison tools as
[Check24.de](https://www.check24.de)
[Verivox.de](https://www.verivox.de)



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Result: Energy Bill!

- Breakdown of the electricity price for households (%100), ACER/CEER 2023





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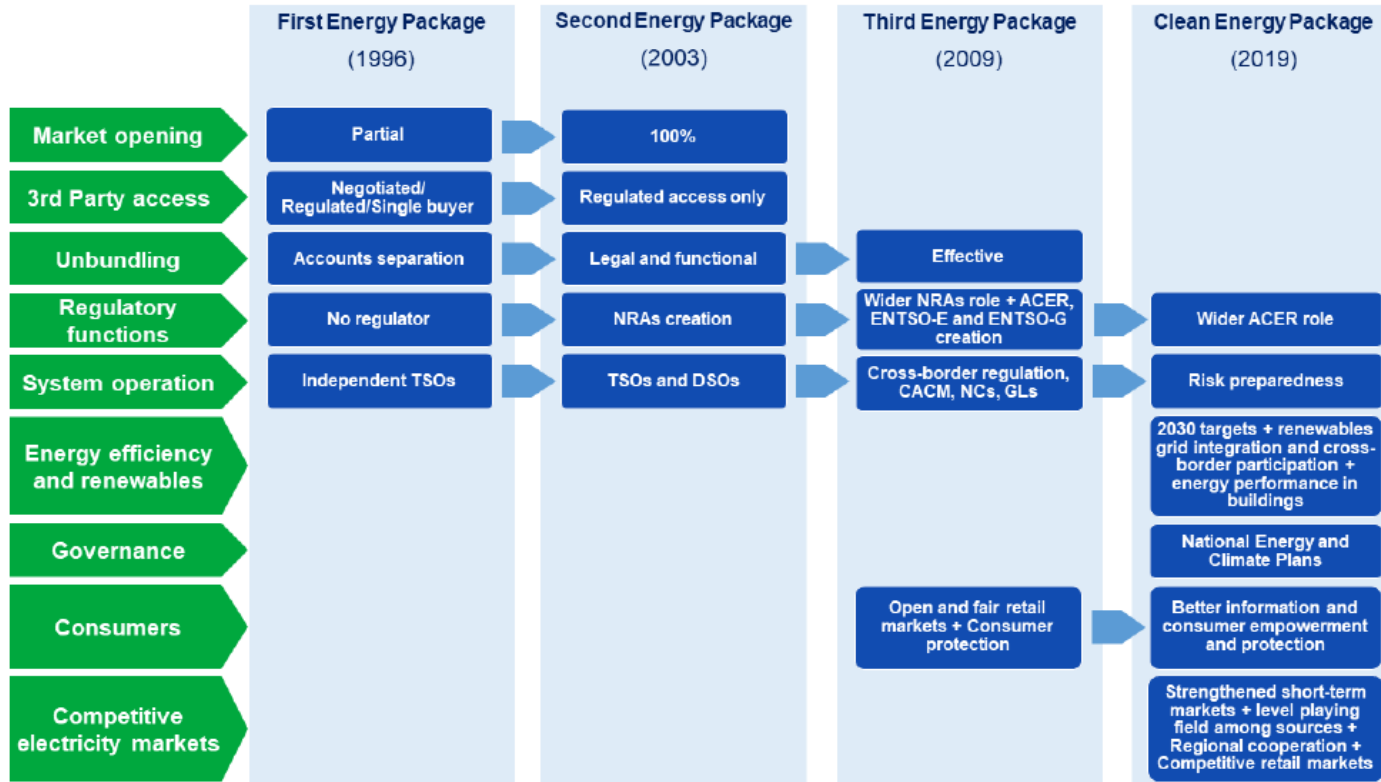
2. Development of European energy policy





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Development of EU Energy legislation



RePowerEU / EMD (2022-...)

Source: ACER elaboration.





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Key 3rd Energy Package provisions

Unbundling energy suppliers from network operators

Strengthening the independence of regulators

Establishment of the Agency for the Cooperation of Energy Regulators (ACER)

Cross-border cooperation between transmission system operators and the creation of European Networks for Transmission System Operators

Increased transparency in retail markets to benefit consumers



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EU consumer rights framework

- 2009 3rd Package of EU energy liberalisation laws **reinforced energy consumers' rights** and the responsibilities of public authorities
- EU also has **rules on general consumer issues**, including unfair commercial practices, distance or doorstep selling and contract transparency.
- **Clean Energy for all Europeans** Package fosters and amends the 3rd Energy Package



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3. Excursion: Supplier switching and using a price comparison tool





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Your energy rights

1. Universal service
2. Customer information requirements
3. Supplier switching
4. Complaint handling and out-of-court dispute settlement
5. Protection of vulnerable customers
6. Fair commercial practices and general consumer rights

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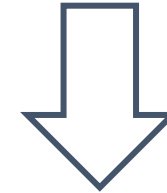
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Supplier switching

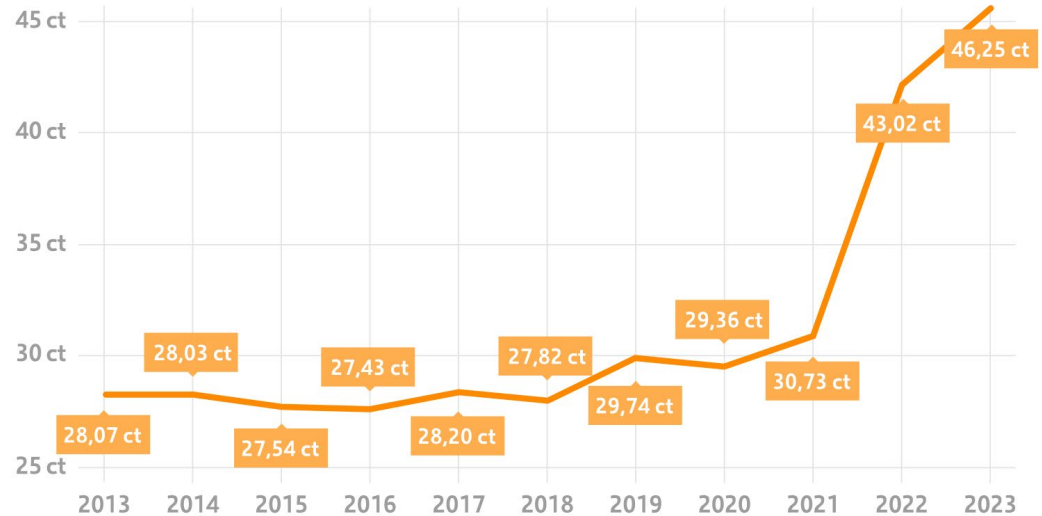
- The possibility to switch supplier is obligatory under EU legislation
- One of the key enablers of a well-functioning retail energy market in Europe



Quelle: RND

Strompreisentwicklung 2013 – 2023

Ø-Strompreis in ct/kWh bei einem Verbrauch von 4.000 kWh/Jahr



Quelle: verivox.de

verivox

16.06.23



Alexander Lir AND GAS MARKETS" -GERMAN - TURKISH ENERGY PARTNERSHIP



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Council of European Energy Regulators



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Comparison Tools

- *Art. 14 Directive EU 2019/944:*

Member States shall ensure that **at least household customers**, and microenterprises with an expected yearly consumption of below 100 000 kWh, have access, **free of charge**, to **at least one** tool comparing the offers of suppliers, including offers for dynamic electricity price contracts. Customers shall **be informed** of the availability of such tools in or together with their bills or by other means.

- PCT should be easily found and accessed (e.g. on the bill)
- Independent from market participants
- Coverage of the whole market – clear statement if not
- Disclosure of owner and financing
- Bases on clear and objective criteria
- Accurate and up to date information - continuously update the price and contract information to correctly reflect prices available on the market
- If an automated switching tool is offered, it must be ensured that this service is in line with existing consumer rights
- *Certification by an authority, if PCTs are privately owned*





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Link





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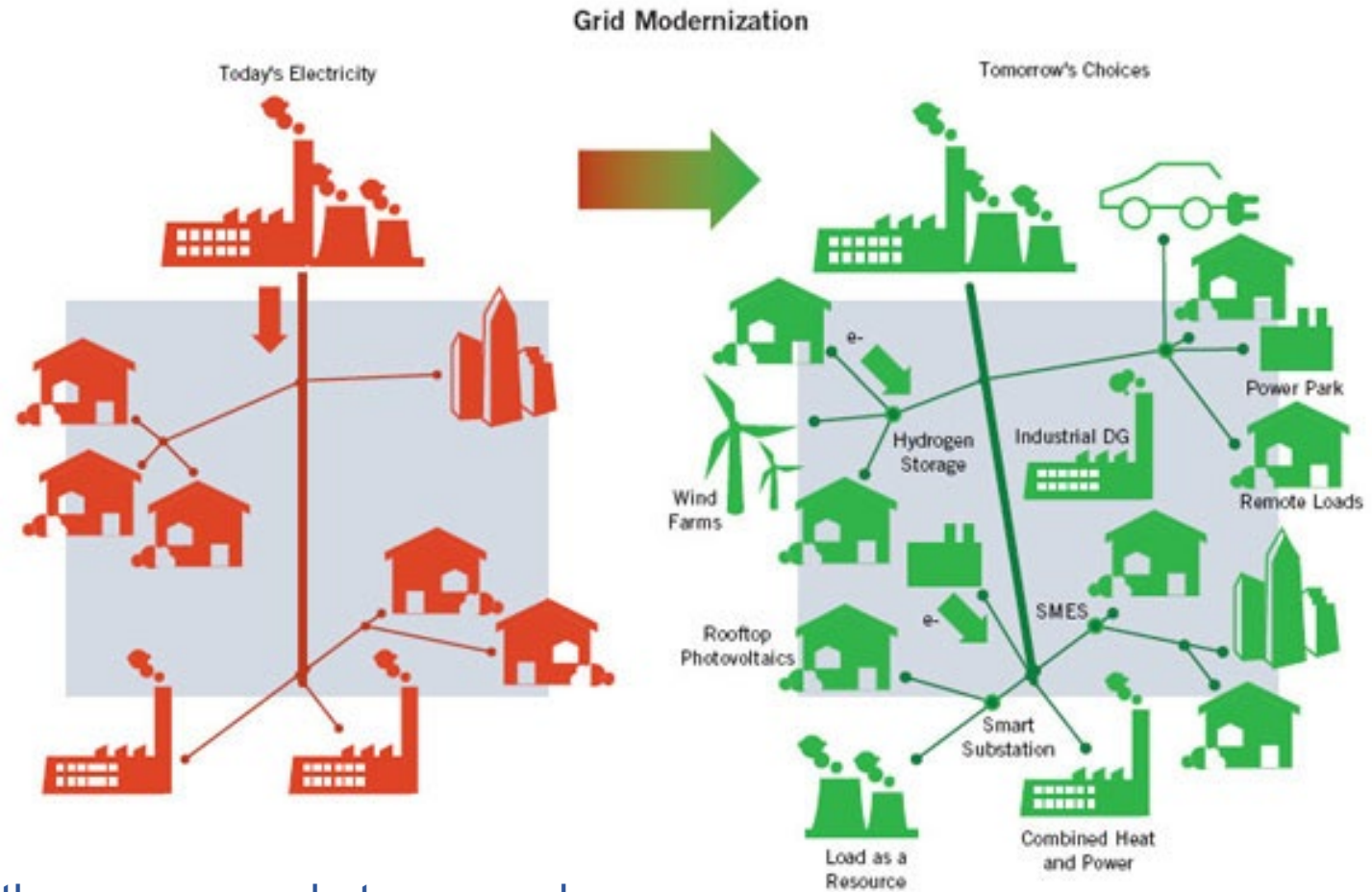
4. Changing energy markets





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The energy markets: a changing world

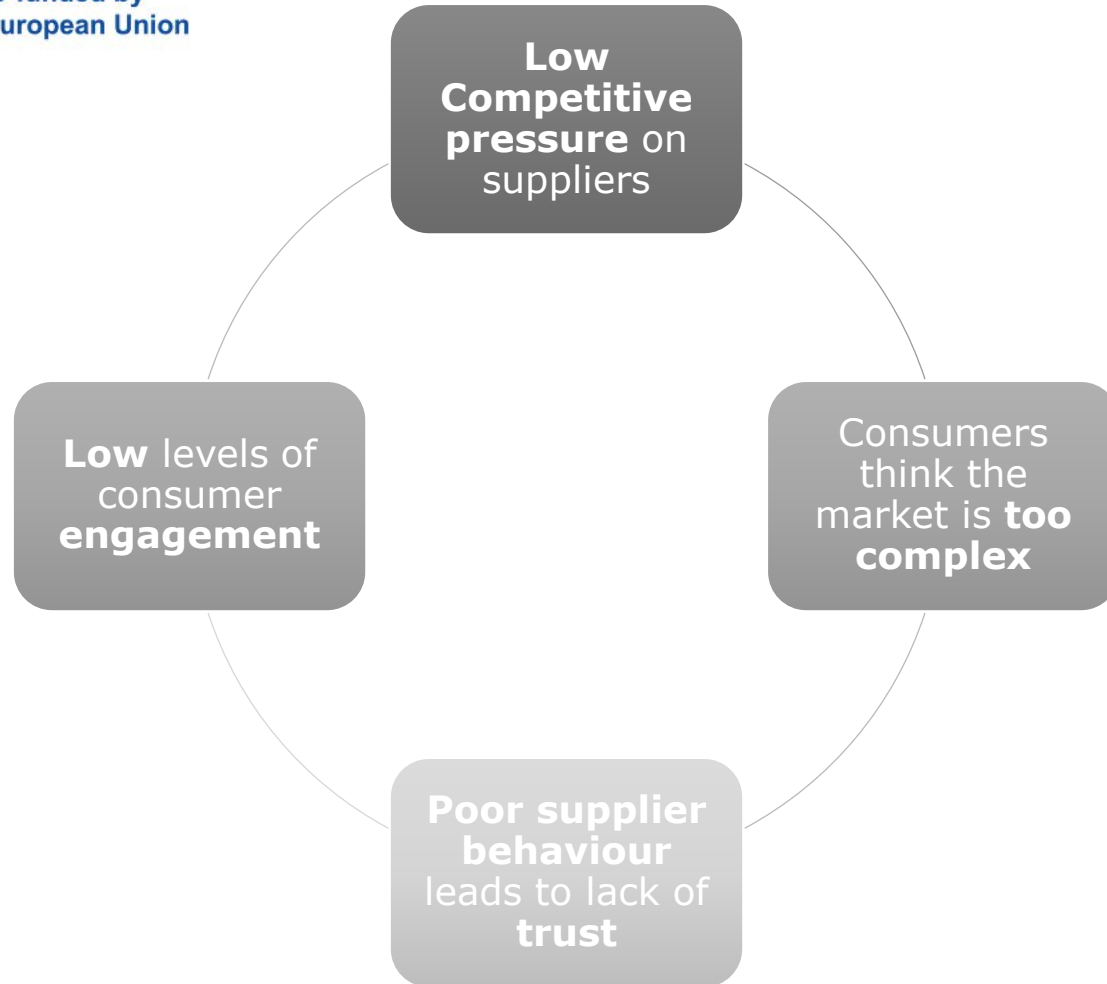


- Consumers perceive the energy market as complex
- Important to: reduce complexity, inform, educate, and engage consumers



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The energy market challenge



- Engaging with consumers
- Explaining energy as a commercial product
- Ensuring energy companies receive adequate rate of return
- Promoting simple and non-discriminatory practices by market players



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Role of National Regulatory Authority

Article 36 Electricity Directive/Article 40 Gas Directive - Objectives of NRAs:

- 1(a) - market opening for all customers
- 1(g) - ensuring that customers benefit through the efficient functioning of their national market, promoting effective competition and helping to ensure consumer protection;

Article 37 Electricity Directive/Article 41 Gas Directive - Duties of NRAs:

- 1(j) - monitoring the level and effectiveness of market opening and competition at wholesale and retail levels,...
- 1(n) - helping to ensure, together with other relevant authorities, that the consumer protection measures, including those set out in Annex I, are effective and enforced;
- 1(p) - ensuring access to customer consumption data....



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New Roles of National Regulatory Authority (CEP)

Article 11 Electricity Directive (Dynamic Price)

Member States shall ensure that the national regulatory framework enables suppliers to offer dynamic electricity price contracts. Regulatory authorities shall monitor the market developments and assess the risks that the new products and services may entail and deal with abusive practices.

Article 12 Electricity Directive (Switching and Fees)

the permissibility of contract termination fees shall be monitored by the regulatory authority, or by an other competent national authority.

Article 16 Electricity Directive (Energy Communities)

Member States shall provide an enabling regulatory framework for citizen energy communities

Article 17 Electricity Directive (Demand Response)

Member States shall ensure that their relevant regulatory framework allows demand response

+ Smart Meter Roll-Out & Dispute Settlement





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The regulatory challenge

- Balancing interests of all energy sector actors - ensuring value for money and reliable energy supply

e.g. general mission of an NRA (Spain):

“Secure, preserve and promote the functioning, transparency and the existence of effective competition in all markets and sectors, **for the benefit of consumers and users**”

How?

- Monitoring – requesting info from TSO, DSO, suppliers; running surveys on specific issues
- Promoting transparency – managing a price comparison service
- Enforcing – issuing binding decisions and sanctions for proven bad practice
- Communicating – engaging with consumers, providing neutral & reliable information



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Energy sector trends (I)

Consumer concerns:

- **Rising energy price** remains a major concern: in household budgets and for companies' competitiveness
- The increasing share of intermittent renewables requires **grid investments** i.e. fixed costs become higher
- Households and industry can save energy and money by improving their **energy efficiency** and be involved in **demand response**



Simple and clear information is needed to encourage consumer to take up innovative products and services



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Energy sector trends (II)

Enabling demand response:

- **Larger consumers** have already provided load management services to system operators for many years
- **Smaller consumers** are increasingly equipped i.e. the relationship between consumer and system operators will change considerably
- **Demand response-enabling technologies** will increasingly allow all types of consumers to contribute to system optimisation (e.g. time-of-use pricing, demand-response contracts, load limiters, demand reduction contracts, ...)



Consumer engagement will be increasingly important to ensure that new relationships are understood and that demand response matches consumer needs (habits, load flexibility, size, etc.)



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Regulatory impacts (I)

An appropriate framework for energy customers:

- **Vision for Europe's energy customers** remains valid. Any regulatory framework must anchor itself to those principles
- A market in which:
 - consumers can expect the **reliability** of the physical supply of energy, and the commercial systems
 - charges are clear and kept to fair and reasonable levels (**Affordability**)
 - information provided such that it is easy for consumers to understand their bill and better manage their energy consumption (**Simplicity**)
 - consumers are protected from unfair commercial practices and have the possibility to participate actively in the market (**Protection and Empowerment**)

Improving consumer experience through e.g.
24-hour switching





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Regulatory impacts (II)

Removing barriers in Europe's retail markets:

- Suppliers in one country should be able to compete in the retail market in another i.e. **enhancing competition at retail level to the benefit of consumers**

Enabling a market in demand response:

- Need for a framework which:
 - Covers **commercial, regulatory and standardisation** aspects to allow the introduction of new services and technologies which permit greater demand-side involvement in the energy market
 - Explores the **new relationships between service providers and consumers** and seek to facilitate consumer involvement whenever possible
- Need for **appropriate protection for participating consumers**, requirements for information, data, cyber-security
- Need to identify areas where **standardisation** is required e.g. content, format and exchange of customer metering data





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5. Impact of the crisis on consumers and RePowerEU (2022)





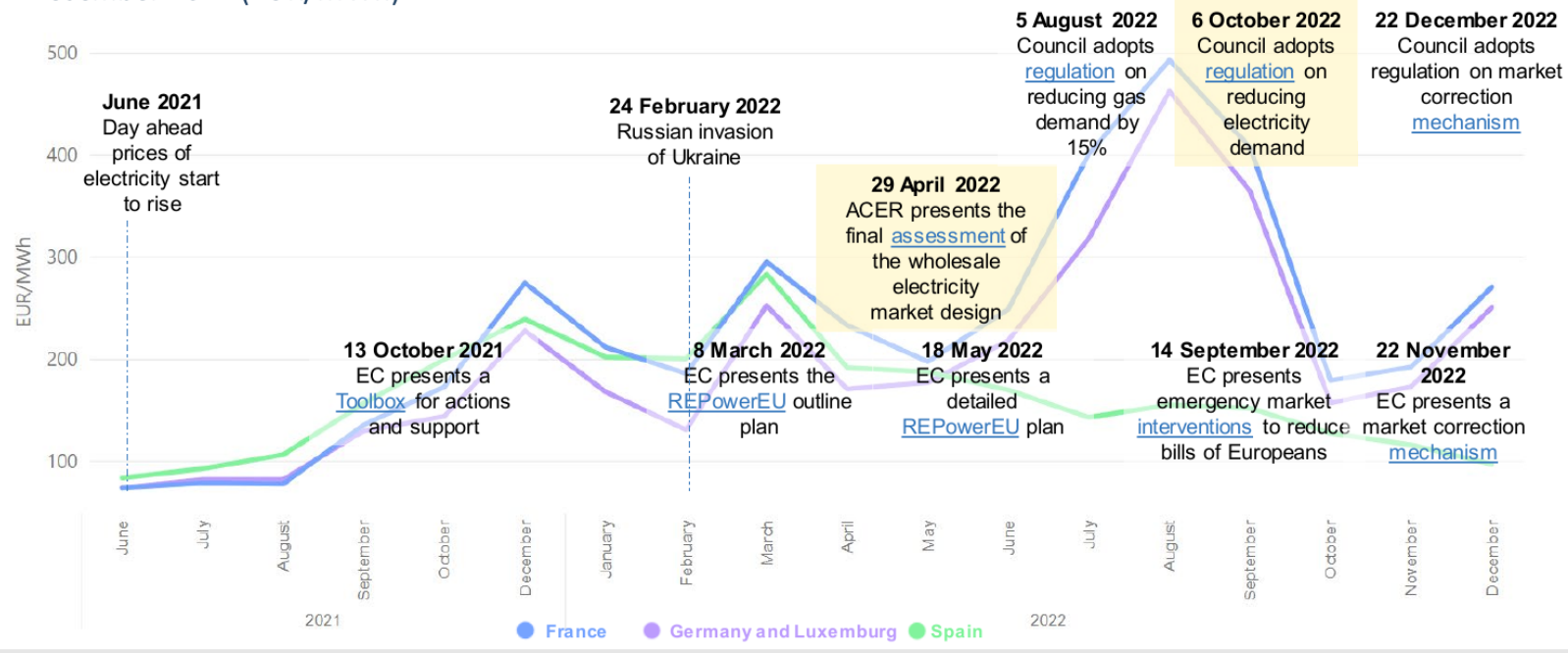
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Overview on the impact of the crisis

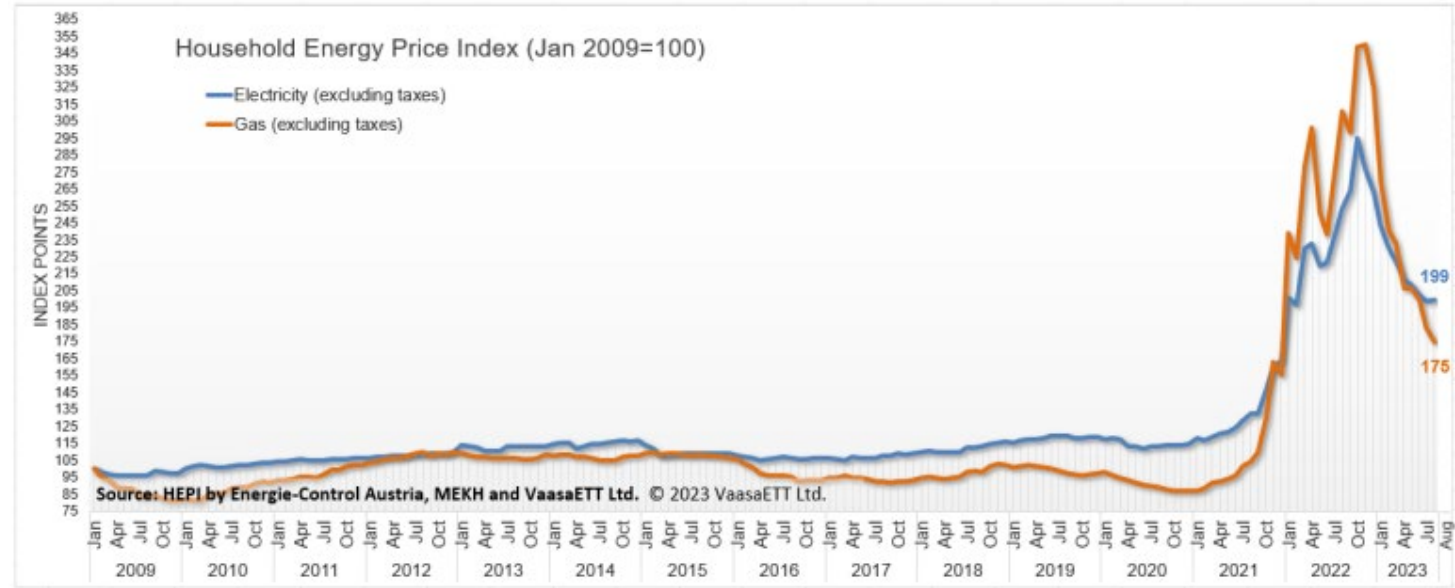
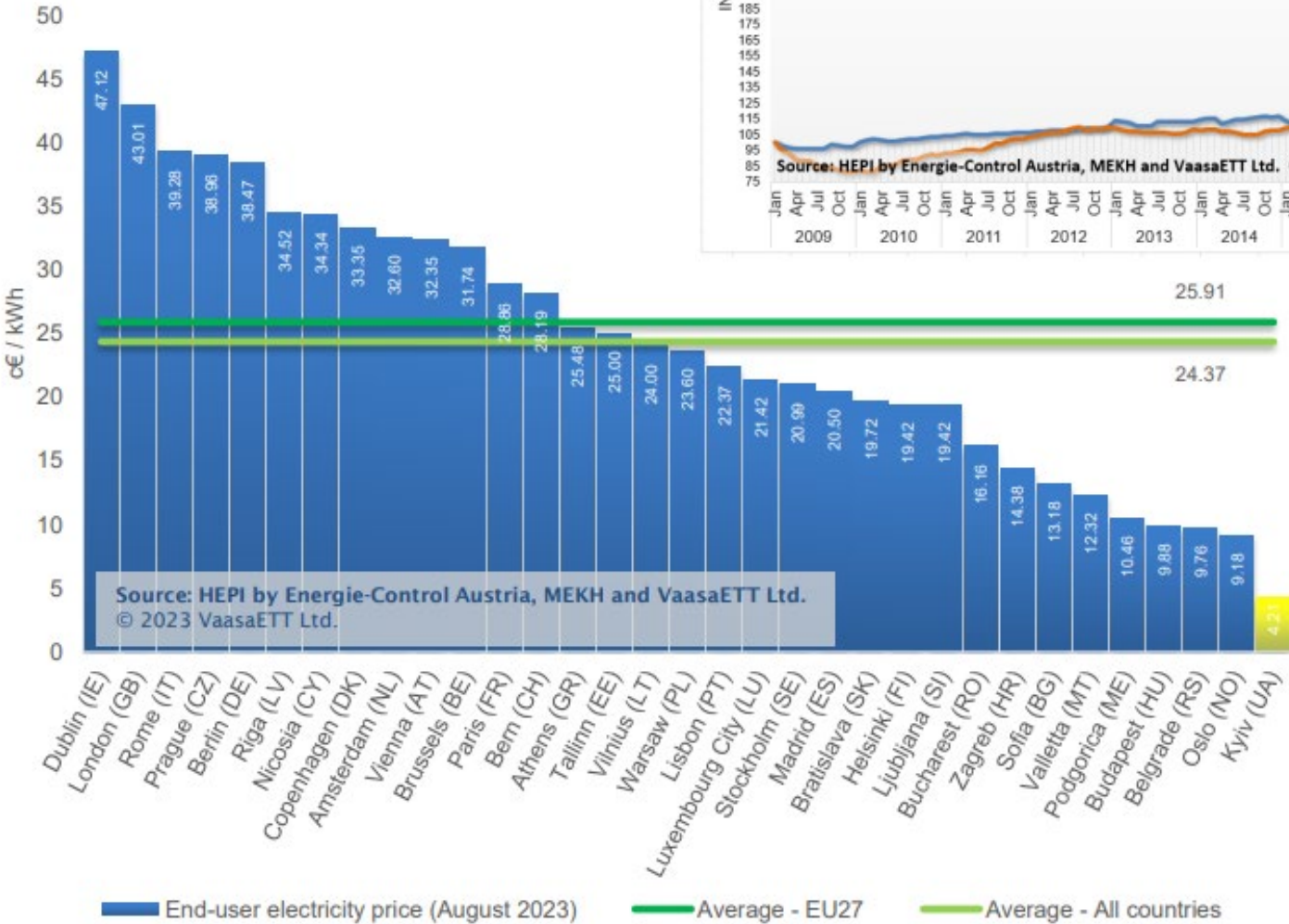
• Source: ACER, 2023

Evolution of monthly average day-ahead electricity wholesale prices in France, Germany and Spain – June 2021 to December 2022 (EUR/MWh)





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Key EU energy goals are more renewables & increased efficiency

- As part of the European Green Deal, the Commission proposed in September 2020 to raise the 2030 green house gas emission reduction target to at least 55% compared to 1990.
- To achieve higher climate goals, as part of the REPowerEU* plan, the Commission is proposing to increase the current targets for renewable energy and energy efficiency (32% and 32.5% respectively by 2030):
 - A share of **renewables of 45%** in the EU energy mix;
 - An increase of the binding EU **energy efficiency target** from 9 % to **13 % when compared to the 2020 Reference Scenario.**





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6. Proposals made for the EMD (ongoing)





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EMD Review _ Consumer aspects 1

- **Offers/contracts to better protect consumers against volatile prices**
 - Suppliers with more than 200 000 customers obliged to offer fixed-price contract for 1 year, and at least one fixed price contract need to be available in all MS = mirrors existing obligation for large suppliers to offer dynamic price contracts
 - Suppliers free to determine the price but not be allowed to unilaterally modify the terms and conditions before such contract expires
 - Offers to be designed to incentivise final customers to save electricity and clearly communicated to consumers prior signing the contract
 - Irrespective of the type of contract = provided with clear pre-contractual information in a simple and consumer-friendly format.
- **Risk management**
 - oblige all suppliers' responsibility to have in place appropriate hedging strategies in order to limit the risk of changes in wholesale electricity to the economic viability of their contracts with customers.
 - MS (NRAs) to assess those strategies.
 - An appropriate strategy = take into account the supplier's access to its own generation and capitalisation of the supplier as well as its exposure to changes in wholesale market prices.
 - + also depend on their size and business model.
 - MS to endeavour to ensure accessibility of hedging products such as PPAs for energy communities.

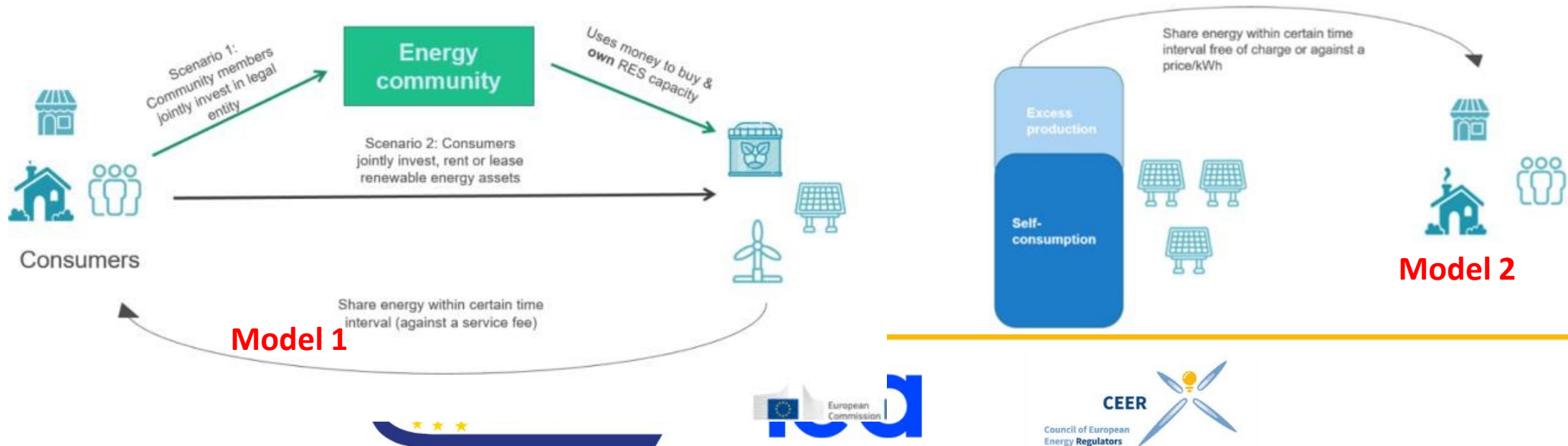




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EMD review _ Consumer aspects 2

- **Energy sharing**
- Instrument to empower consumers that do not have available space, technical capacity and/or financial means to **become prosumers. 2 Models:**
 - **Model 1** this group of consumers can: access renewable energy by leasing, renting or investing in a RE generation or storage facility and sharing the generated electricity among themselves
 - **Model 2** a single prosumer can empower other consumers, including low-income families by sharing with them excess production. Allow for individuals to share excess electricity with neighbors; larger companies sharing excess electricity with families and companies (e.g. Spain, Greece)





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EMD Review _ Consumer aspects 3

- **Facilitating demand response and increasing choice of contract through sub-metering**
 - Only over 50% of EU electricity consumers have access to a smart meter in EU
 - Clarify that customers wishing the right to have more than one meter (i.e. a sub-meter) installed in their premises + for such sub-metered consumption to be separately billed and deducted from the main metering and billing
 - allow consumers to conclude a contract with more than one supplier at their premises.
 - allow consumers with heat pumps; electric vehicles, using dedicated sub-meters, to contract with different electricity suppliers and benefit from innovative electricity offers
 - Where smart meters not available = alternative tools such as **dedicated metering devices** that are connected to or embedded within appliances that have flexible loads, can be used
 - Avoid possible barriers = requirement for a separate grid connection for supply or restrictive rules on sub-meters
- **Increased protection from electricity disconnection for vulnerable customers and energy poor**
 - NRAs to monitor disconnections: BUT disconnection rates due to non-payment among household customers are currently only reported by a minority of NRAs!
 - MS to take all appropriate steps to ensure that the most vulnerable of EU citizens are adequately protected from disconnection at least at “critical times”
 - period to be defined according to national circumstances





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EMD Review _ Consumer aspects 4

- **Right to access energy through Suppliers of Last Resort**
- **oblige MS** to transparently appoint suppliers of last resort
- **improve the overall concept** of supplier of last resort:
 - especially clarifying the role of the SOLR
 - strengthening the information about the process when customers are switched onto the supplier of last resort
- **Price regulation as an emergency measure**
- COMI will put in place a **special derogation** procedure where MS can at times of emergency apply for **price intervention for households and SMEs**:
 - below cost,
 - for a limited volume of electricity consumption, and
 - for a limited period of time.
- COM will be responsible for determining the **emergency situation** based on pre-set **3 criteria**.
- COM monitors closely developments on energy markets
- COM restricts **regulated prices to 80% of the median consumption for households and to 70% of historical consumption for SMEs**. This will give the opportunity to keep incentive for demand reduction.





Thanks for your attention!

