



Obstacles to supplier switching in the electricity retail market

Guidelines of Good Practice and Status Review

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1. Introduction

All customers shall be able to switch electricity supplier. Since 1 July 2007, all customers in both the gas and electricity markets of the EU are eligible to take part in the free market, switch supplier or renegotiate the terms and conditions with their existing supplier. This is a significant reform. However, declaring that all customers have full market access is not enough. In addition, the organisation of the market must be such that customers have easily accessible information about suppliers and their offers. A switch of supplier must be simple to carry out for both for customers and suppliers and DSOs must act as market facilitators, not market actors. In this report, we will focus on supplier switching in the electricity market.

Based on previous ERGEG reports on supplier switching and market organisation and a survey in a majority of the EU Member States, this ERGEG report examines the status of market opening in the EU electricity market with a particular focus on obstacles to supplier switching.

Even though some EU countries have a longer history of market liberalisation than others, all countries can learn from the market opening process and the market organisation of other countries in the European market. This is also the main purpose of this report.

This report is based mainly on the responses to a questionnaire issued to ERGEG members and observers in June 2007. The following national regulators replied to the questionnaire: Austria, Belgium (Flanders only) Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and United Kingdom. Norway with the status of ERGEG observer, replied as well.

Following the executive summary, Chapter 3 gives a brief status report on market opening in the EU. Chapter 4 provides guidelines of good practice regarding the removal of obstacles to supplier switching. Chapter 5 presents a status review on obstacles to supplier switching in EU countries based on the questionnaire responses. Finally, Chapter 6 gives some concluding remarks and recommendations.

2. Executive summary

All consumers in the EU have the right to choose their supplier since the 1 July 2007, both in the electricity and gas markets. This affects the EU Member States in different ways; some countries have had a free electricity market for years while others may be implementing this for the first time and have not yet organised meter operations and meter values. This report focuses on the obstacles for switching one's electricity supplier. Reducing such obstacles is one of the single most important issues for achieving a well-functioning end-user market.

That being said, there are other crucial prerequisites which must be in place in order to achieve a well-functioning electricity retail market; namely a well-functioning wholesale market and restricted or no use of price regulation.

The switching process may be divided into three stages:

1. Information gathering

In the first stage, the customer searches for information on prices, products, contracts and suppliers. The customer also checks out the contract conditions with the present supplier and collects data that is required to perform the switch of supplier.

2. The supplier switching procedure

The second stage lasts from when the customer signs a new contract and the customer or the new supplier have collected all the required data until the agreed date where the switch is going to take place. Meter reading should be registered on the switching day itself by automatic meter reading, but can also be handled in different ways by manual meter reading. The second stage can be referred to as the theoretical duration of the switch.

3. Execution of the switch, delay or cancellation

The third stage takes into account the cases where there is an error, a delay or maybe the cancellation of the switch by the customer or the DSO, thereby prolonging the real duration of the switch. The third stage ends when the customer receives a confirmation letter from the new supplier and/or the first bill and additionally when the account with the former supplier has been settled.

Guidelines of Good Practice

In this report, we offer some Guidelines of Good Practice, taking into account regulators' varying degrees of influence over the 3 stages: 1) regulators have significant influence; 2) regulators control the regulation involved and 3) regulators have less influence. However, as the customer experiences all 3 stages, these guidelines cover the full process.

It is important to ensure all consumers have easy access to information on the switching procedure, supply prices and products. To make the first stage more efficient and convenient for the customer, we recommend that each of the national regulatory agencies (NRAs) requires the creation of a website providing information of suppliers, products, prices, etc. The regulators must also supervise this website to ensure it is maintained and updated in a dynamic market. Also relevant customer information, like metering point identification, etc., must be made easily available to the customer and/or supplier.

Switching should be quick and easy for the customer. Regarding the second stage, we strongly recommend that regulators try to achieve a duration of less than 1 month with an absolute requirement of no more than 2 months. Within a few years it should probably be limited to maximum 14 days. The regulators must also have requirements for standardised switching procedures and standardised exchanges of data between the DSO and new and old suppliers. The balancing settlement¹ should be organised in such a way that it supports continuously supplier switching and does not restrict it to e.g. the first day of the month.

Status review

The duration of the switching process differs significantly between EU countries. In July 2007, we sent out a questionnaire to NRAs asking, among other things, for both the theoretical and typical duration of stage 2. Of the 28 regulators approached, 21 responded to the questionnaire. Over one-third of the respondents indicated a theoretical switching process of less than 1 month while the rest indicated 1-2 months. The typical duration of the switching process (stage 2) is between 1-2 months for many. Only 4 respondents reported that they are not satisfied with the current process and data exchanges, but nevertheless 12 regulators stated that improvement of the process is underway.

This report has been prepared by the ERGEG Retail Market Functioning Task Force within the ERGEG Customer Focus Group.

¹ Balancing settlement refers to the market mechanism for charging or compensating market players for their individual imbalances between electricity supplied (sales and own consumption) and electricity procured (purchases and own generation).

3. Market opening in the EU

Since 1 July 2007, the final date for the full opening of the electricity and gas markets, all EU citizens have been able to choose their electricity and gas supplier. ERGEG published a Status Review on End-user Price Regulations on 14 June 2007². Together with the national reports, this gives a comprehensive overview of the opening of the electricity markets in the EU.

Regulated prices are perhaps the largest obstacle to supplier switching. The status review on end-user price regulation revealed some unflattering facts about the EU electricity market. At the time of the Status Review, in 17 countries, regulated prices co-exist with market prices. In most of these countries the majority of customers are still on regulated prices. From the survey, it seems evident that many of the customer protection schemes are not limited to “certain specific circumstances, for instance in the transition period towards effective competition.”³ As a rule, the regulated prices are not confined to small customers. Since regulated prices are in almost all cases set lower than market prices, customers have no incentive to switch.

The scope of regulated end-user prices is mainly a political question. Reduction of obstacles to supplier switching will be of little consequence, however, if end users are offered regulated prices. In addition, in some countries it is irreversible to leave regulated prices, thereby making the situation worse since this locks the customer to the incumbent supplier.

In theory, however, the EU market is becoming more open, even for household and small business customers. As Table 12 in the Appendix shows, most countries responding to this survey have met the requirement of full market opening by 1 July 2007. That being said, for many countries it is still more correct to talk of a market opening in principle rather than in practice.

Nevertheless, there are some success stories when it comes to market opening. Between May 2006 and April 2007 402 000 domestic customers, on average, in the UK changed electricity supplier each month.⁴ And in Sweden during the period April 2005 to March 2006, there were on average about 30 000 supplier switches per month. In total about 7% of Sweden's 5.2 million subscribers changed supplier during that period. Of these, household agreements accounted for 82%.⁵

² E07-CPR-08-04

³ Communication from the European Commission 10 January 2007

⁴ UK's National Report 2007, page 37

⁵ Sweden's National Report 2006, page 28

4. Guidelines of Good Practice

Removing obstacles to supplier switching can lead to an improved retail market for electricity, competitive prices and better terms for all customers. One can therefore state that supplier switching, along with widespread competition, is a basic requirement for a well-functioning retail market. These Guidelines of Good Practice aim to provide a clear framework for removing obstacles to switching, with a view to empowering consumers and improving retail market functioning.

The following numbered guidelines (1–17) are based on previous ERGEG Best Practice Propositions (BPP) from 21 July 2006 concerning the “Supplier Switching Process”, “Transparency of Prices” and “Customer Protection”⁶. This report presents some supplementary proposals.

ERGEG defines switching supplier as the action through which a customer changes supplier; for instance, a switch is essentially seen as the freedom (by choice) to change supplier for a specific supply or metering point and the volume of energy associated with it.

A number of general principles should be taken into account when considering supplier switching:

In order to promote switching, customers must be confident of the benefits of switching supplier. This means that the customer must be able to obtain a more preferable contract and that he/she must perceive that it is in fact beneficial to make the switch. Although customers are not charged for switching, there are both real and perceived costs related to switching, including fees, search costs, psychological costs and more. These costs make it less attractive to switch supplier. In cases where regulated prices are set lower than market prices, the customer has no incentive to switch. Thus, a market with regulated prices hinders the development of the retail market as there is no real competition between electricity suppliers.

Customer confidence can be improved by providing easy access to relevant information. It is therefore important that customers have access to essential information on prices, supplier contracts and other information that is necessary for the customer to switch electricity supplier.

DSO neutrality should be enforced. The DSO is required to be non-discriminatory and offer the same quality of services and grid operations to all customers regardless of which supplier they use. However, fear of lower quality in the electricity service and supply may still reduce customers’ confidence. Legislation alone may not be enough to improve customers’ confidence in this matter.

We may divide the switching process into three stages (see Figure 1), the first one being the stage where the customer searches for information on prices, contracts and suppliers. The second stage lasts from when the customer has collected all required data and signs a new contract with the new supplier until the agreed date where the switch is going to take place. We

⁶ Best Practice Proposition (BPP) on Supplier Switching Process (E05-CFG-03-05); on Transparency of Prices (E05-CFG-03-04); and on Customer Protection (E05-CFG-0306)

may define the second stage as the theoretical duration of the switch.⁷ We may also refer to a third stage, taking into account the cases where there is a delay or the switch is perhaps cancelled by the customer or the DSO, thereby prolonging the real duration of the switch.

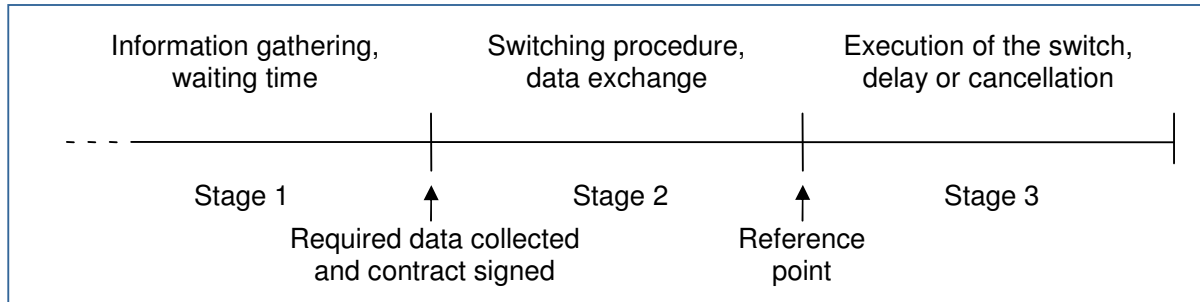


Figure 1: Stages of the switching process⁸

A quick and easy switching process promotes market efficiency. The aim of all EU regulators should be to minimise the duration of the first two stages by ensuring easy access to information and making the switching process quick and easy from the customers' point of view. Furthermore, regulators should try to remove the third stage completely by not letting the DSO or the old supplier object to the switch when the customer has provided all necessary information to execute the switch. Even when the customer is in debt to the old supplier or bound by a fixed term contract, he should not be hindered from switching supplier. In cases of binding fixed term contracts, a dispute should be settled according to standard contract law. The DSO may reject the switch under certain circumstances, for instance if there is an error in or lack of meter value, meter identification number, etc.

4.1. Information gathering – Stage 1

The first stage could be shortened by making all essential information readily available to customers. It is also important that this information be neutral. This is most easily done by publishing it on, for example, the regulator's website. Making the switching procedure quick and easy will also improve customers' confidence and reduce the perceived costs and total (or real) duration of the switching process. In countries where customers are prohibited from leaving fixed term contracts at this stage, the switching costs may be high due to the waiting time. Consumers' confidence could also be improved by preventing vertically integrated DSOs from creating confusion over their separate activities in their communication or branding practices. Furthermore, NRAs should monitor and ensure DSOs' neutral conduct towards all electricity suppliers, in order to promote competition and thus the possibilities to switch suppliers.

In order to make the first stage more efficient and convenient for the customer, we recommend that each NRA requires the creation of a website providing information on suppliers, products, prices, etc. Also, relevant customer information like metering point identification, etc. must be made easily available to the customer and/or supplier. The regulators must also supervise this website to ensure they are maintained and updated in a dynamic market. For instance, the

⁷ See the discussion on the duration of the switching process in section 5.1.

⁸ In this figure, waiting time refers to cases where customers have to wait for a contract to expire before it is possible to switch supplier.

objectivity of these websites could be ensured with accreditations given to those who commit to abide by a confidence code (e.g. the Energywatch confidence code).

It should also be noted that the Commission's Third Package proposes additional consumer rights measures, designed to guarantee that consumers have access to information on their actual energy consumption and costs more frequently, that consumers are given the right to switch supplier at any time and that energy companies are required to settle bills within a month after a consumer switches supplier.

Concerning the first stage of the switching process, the following guidelines of good practice are appropriate for addressing the obstacles related to access to information and improving customers' confidence:

1. To create conditions for customers to make an informed choice, three issues are of major significance: i) the ability of customers to get comparable price information has to be ensured; ii) relevant and applicable price information has to be publicly available and iii) customers should be able to compare new price offers with their existing contract.⁹

2. The customer shall not be charged for switching supplier.¹⁰ The costs related to enabling an efficient market, including an efficient switching process, should be spread across all customers. In addition, if these costs were covered by the individual customer, this could prevent many customers from switching, thus preventing an efficient market. The proposition is that these costs are covered by the DSOs and subsequently spread across all network customers.¹¹

3. Customers need to have confidence in the market, the market participants and the switching process in order to have a well-functioning retail market. Information is important for customer confidence. There should be easy access for the customer to relevant and correct information prior to switching. For example, the customer should be informed about which suppliers he/she can choose from. The regulator or some other competent authority should ensure the availability of a list of alternative suppliers. DSOs should be obliged to provide relevant information to all customers.¹² Customers should also be confident that they will receive the same level of service and quality of supply from the DSO regardless of which supplier he/she chooses.

4. To ensure the availability of comparable price information, generally agreed principles are needed in the first instance at national level to define the way the prices are communicated to customers via marketing (promotional material like advertisements, commercials, etc.). The practice should be that suppliers quote their prices based on similar principles, in order to provide customers with truly comparable prices between suppliers.¹³

⁹ BPP Transparency of Prices, para. 24

¹⁰ Para. (e) Annex A of Directive (2003/54/EC)

¹¹ BPP Supplier Switching Process, para. 25

¹² BPP Supplier Switching Process, para. 26

¹³ BPP Transparency of Prices, para. 25

5. The electricity bill should be accurate, easy to understand and contain information on electricity prices, grid tariffs and consumption/load profile levels.¹⁴ It is also crucial that the bill information is transparent.

6. All customers must be informed of price changes well in advance. This enables the customer to foresee the increase in his/her electricity bill and to be prepared for it. On the other hand, the advance notification of upcoming price increases will allow the customer to be informed so as to seek alternative suppliers and their offers.¹⁵ If the duration of the switch is lengthy, the price change should be announced earlier.

7. There shall not be any fees for withdrawing from non-fixed term contracts. This is to ensure the smooth functioning of the market and to avoid the unnecessary capture of customers. In cases of fixed term contracts, a reasonable penalty may be requested. To increase customer transparency regarding the conditions for withdrawing from a contract, these conditions should be defined and properly communicated.¹⁶

8. Every metering point should have a unique identification number (e.g. based on the EAN standard Global Service Relation Number, GSRN) to facilitate data exchange and avoid misunderstandings. The identification number should be known to the customer, for example through the electricity/gas bill and on a label next to the meter.¹⁷ All information that is necessary to make the switch should be on the bill.

9. The customer should only need to be in direct contact with one party, preferably the new supplier, when initiating the switch. There should normally be a written contract between the customer and the supplier. Contracting should however be possible electronically, e.g. through the internet, in order to facilitate switching. There should be rules on the information needed to be able to switch, for instance name, address, date of birth, organisation (VAT) number, meter value and metering point identification number.¹⁸

4.2. The supplier switching procedure – Stage 2

Regulators should ensure standardised and efficient switching procedures for all suppliers operating within the relevant market to minimise the duration of the switching process. As retail customers become more exposed to market prices, it becomes more important to have a quick switching process. A long switching process is not very customer-friendly. It may also be assumed that efficient switching is positive for suppliers and DSOs (e.g. regarding balancing); possibly leading to reduced operational and risk costs. The duration of the switching procedure (stage 2, the time period from the customers has all required information for switching until the switch is supposed to be completed) should therefore be as short as possible. It should also be easy to implement, which suggests that electronic data exchange should be used to make the process more efficient and accurate. The procedure should also be standardised to ensure transparency and ease of use for all agents.

¹⁴ BPP Transparency of Prices, para. 36, 37

¹⁵ BPP Transparency of Prices, para. 41

¹⁶ BPP Transparency of Prices, para. 43

¹⁷ BPP Supplier Switching Process, para. 20

¹⁸ BPP Supplier Switching Process, para. 24

We strongly recommend that regulators try to achieve a duration of less than 1 month with an absolute requirement of no more than 2 months. Within a few years it should probably be limited to maximum 14 days. The regulators must also have requirements for standardised switching procedures and standardised exchanges of data between the DSO and new and old suppliers.

It is preferable that the meter is read in connection with the switch, as this is an important reference for settlement of the former contract. A load profiling system should be in place to ensure that the switch is implemented when actually reading the meter proves too costly. It may be assumed that introducing automatic meter reading will dramatically improve the time and efficiency of the switching procedure.

The balancing settlement should be organised in such a way that it supports continuously supplier switching and does not restrict it to e.g. the first day of the month. The functioning of the switching procedure is inherently determined by the balancing settlement. If the balancing settlement is executed at specific dates in the month, this restricts the possibility switching supplier at any time of the month. Improving the duration of the switching procedure means that one must improve the balancing settlement. This requires investing in more skilled personnel, customer support, IT infrastructure and other organisational utilities.

The following guidelines address the need to implement and improve the standardised supplier switching procedure (referred to as stage 2) in order to make switching easier from the customers' point of view:

10. The process of switching supplier has to be easy from the customer's point of view and the customer shall not pay any direct fees for changing supplier. This will ensure a well-functioning retail market. The process also has to be cost efficient and standardised for the suppliers and the DSOs.¹⁹

11. Clear roles and responsibilities among actors are of vital importance throughout the entire procedure. The proposition is that the DSO generally acts as a data information hub and a market facilitator given that the DSO in most cases has primary access to customer data. In some countries however, the metering activities are subject to competition. Consequently, parties other than the DSOs have primary access to the data needed in the switching process.²⁰

12. Advanced meters which are automatically read should not be a prerequisite for the customer's eligibility to switch. Metering should not be an obstacle to switching. In a dynamic retail market with high mobility, however, it is recommended that the meters are read upon switching. In most Member States, the DSO is responsible for meter reading. It is however possible for the customer or another party to read the meter and send the meter value to the DSO either through a web page, by SMS, telephone or ordinary mail. If the meter is not read due to certain circumstances, the meter value may be estimated by the DSO. When the DSO has read the meter, accepted or estimated the meter value, it is subsequently sent to the old and the new supplier for settlement issues. DSOs must document their estimation methodology.²¹

¹⁹ BPP Supplier Switching Process, para. 12

²⁰ BPP Supplier Switching Process, para. 13

²¹ BPP Supplier Switching Process, para. 16

13. A load profile system should be in place to manage settlement of customers who are not metered hourly (or more frequently than that, depending on the dissolution in the specific market). This could be either category profiles for various customer groups or area (distribution network) profiles which are the same for all profile-customers in that area.²² It is important that the profiling methodology is transparent and the same for all groups or areas.

14. Electronic data interchange is required to operate the switching process efficiently. The data exchange should be in a standardised electronic format between the DSO, the new and the old suppliers in order to obtain automatic, cost-efficient, timely and reliable data exchange. The standardisation could either be achieved based on voluntary agreement in the industry or through legal obligation.²³

15. It should not be possible for the DSOs to charge the suppliers for providing the necessary data as this may be an obstacle to switching.²⁴

16. The switching period should be as short as possible and the restrictions regarding the dates when a switch can take place, should be minimised. There should not be any unnecessary obstacles to switching from the customers' point of view. These may include the restrictions limiting the number of switches per year.²⁵ The switching period should last less than 1 month with an absolute requirement of no more than 2 months.

4.3. Execution of the switch, delay or cancellation – Stage 3

The DSO or incumbent supplier should not be able to object to the implementation of the switch. The following guideline should ensure that the third stage is shortened to a minimum:

17. The type of contract should not prevent the customer from switching supplier (e.g. fixed price contracts). There could however be a reasonable fee for withdrawing from contracts with fixed terms.²⁶ However, the DSO may reject the switch under certain circumstances, for instance if there is an error in or lack of meter value, meter identification number etc.

²² BPP Supplier Switching Process, para. 17

²³ BPP Supplier Switching Process, para. 18

²⁴ BPP Supplier Switching Process, para. 19

²⁵ BPP Supplier Switching Process, para. 22

²⁶ BPP Supplier Switching Process, para. 23

5. Status review of supplier switching obstacles

The customer should need to contact as few parties as possible. A supplier switch involves complicated data exchanging processes between suppliers and the DSO. The customer should not be exposed to any of this, but experience the switch as a quick and easy process. In most of the countries participating in the survey, the customer only needs to contact the new supplier. One of the exceptions is Poland, but this is mainly due to the transfer of old integrated contracts to split contracts for distribution and supply.

New supplier only	Former and new supplier	New supplier and DSO	Former supplier, new supplier and DSO
Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Norway, Portugal, Slovenia, Spain, Sweden, United Kingdom	Czech Republic, Estonia, Romania, Slovak Republic	Ireland	Lithuania, Poland

Table 1: How many parties does a customer have to contact directly when switching?

Most of the countries responding to the questionnaire have a standardised supplier switching procedure. Without such a common procedure, stating the parties involved and the single steps of action, it is difficult to develop an efficient market. The model is most often developed either by the industry or by the regulator. In the latter case, the model is legally binding for all parties.

The switching procedure is developed by different parties in the countries responding to the questionnaire. In Finland and in Spain, the supplier switching procedure is developed by the industry and is not legally binding. This is also the case in France although the development of the model has been carried out under supervision of the regulator. In Ireland, the switching procedure was developed by industry and approved by the regulator. In Norway, the supplier switching model has been developed by the regulator in close co-operation with the industry and the consumer council. The model is legally binding for all parties. The national regulators have also approved the switching model in Portugal, Romania and Sweden. In Lithuania the provisions for the switching procedures are described in national laws. In Slovenia, the switching procedure is not defined very precisely. Therefore, the Slovenian regulatory authority has begun activities to define the whole set of business models for supplier switching in cooperation with the industry, using UML (XML)²⁷. Also, the central electronic system for electronic data exchange is being developed and shall be put in operation by the end of this year. The system will be optional, however.

5.1. Information for customers

It is vital for market functioning that customers have easy access to information about alternative suppliers, prices and the switching procedure. Information about alternative

²⁷ See Box 1.

suppliers should be given for each grid area. Some tariffs can only be obtained under special terms and conditions²⁸, and the customer should be informed about these.

Information distributed on the internet facilitates easy access and in most countries broad coverage. In a majority of EU countries, the regulator or another national authority publishes a database of alternative suppliers with relevant details like name, contract details, prices and terms and conditions. This type of information is also released by consumer or environmental organisations, private players, etc. This is for instance the case in Germany. In Table 2 we see that all responding countries report that the regulator or some other relevant national authority publishes lists of suppliers. Most of them also publish supplier prices/tariffs.

Country	Name	Prices/Tariffs	Terms & Conditions
Austria	Yes	Yes	No
Belgium	Yes	Yes	Yes
Czech Republic	Yes	Yes	No
Denmark	Yes	Yes	Yes
Estonia	Yes	Yes	No
Finland	Yes	Yes	Yes
France	Yes	No	No
Germany	Yes	No	No
Ireland	Yes	No	No
Italy	Yes	No	No
Lithuania	Yes	No	No
Luxembourg	Yes	Yes	No
Norway	Yes	Yes	Yes
Poland	Yes	Yes	No
Portugal	Yes	Yes	Yes
Romania	Yes	No	Yes
Slovak Republic	Yes	No	No
Slovenia	Yes	Yes	No
Spain	Yes	No	No
Sweden	Yes	Yes	Yes
United Kingdom	Yes	Yes	Yes

Table 2: Database of alternative suppliers details held and published by regulator or other relevant national authority (e.g. government)

However, not all information is meant to encourage the customer to switch. In France, “all consumer organisations have informed customers that the “best choice” is to keep their contracts

²⁸ For instance, all communication with the supplier is web-based including billing.

with their incumbent suppliers (at a regulated tariff) and, when they move, to subscribe to a contract at a regulated tariff with the incumbent supplier.” If regulated tariffs are lower than market prices, this is in the short term the best advice for customers, but it does not support market opening.

In all countries which have replied to the survey, the consumer can find information about what steps to take when switching supplier and that they should not be charged for switching. For the most part, it is not only the regulator that informs the customers, but also consumer and environmental organisations, suppliers and DSOs (see Table 3). Nevertheless, not all actors are interested in providing information. Austria comments that “not all suppliers (particularly the incumbents) provide information concerning how to change supplier. Their main aim is to make it as difficult as possible in order to implicitly increase search costs for customers.”

Country	Information available on the website of regulator or other relevant national authority (e.g. government)	Information made available by consumers, energy, environmental organisations or private players (e.g. websites)	Information provided by suppliers	Information provided by DSOs	Other
Austria	Yes	Yes	Yes	No	No
Belgium	Yes	Yes	Yes	Yes	No
Czech Republic	Yes	Yes	Yes	No	No
Denmark	Yes	Yes	Yes	Yes	---
Estonia	Yes	No	Yes	Yes	No
Finland	Yes	Yes	Yes	No	Yes
France	Yes	Yes	Yes	No	No
Germany	Yes	Yes	Yes	Yes	Yes
Ireland	Yes	No	Yes	Yes	No
Italy	Yes	---	---	---	---
Lithuania	Yes	No	Yes	Yes	---
Luxembourg	---	---	---	---	---
Norway	Yes	Yes	Yes	Yes	Yes
Poland	Yes	No	Yes	Yes	---
Portugal	Yes	Yes	---	Yes	---
Romania	Yes	No	No	No	No
Slovak Republic	Yes	No	Yes	No	No
Slovenia	Yes	---	---	---	---
Spain	Yes	Yes	Yes	No	---
Sweden	Yes	Yes	Yes	Yes	Yes
United Kingdom	Yes	Yes	Yes	Yes	---

Table 3: Where can customers find information about what steps they need to take in order to change supplier?

5.2. Required information

The more information a customer needs to provide in order to switch supplier, the more demanding the process will be. On the other hand, if insufficient personal data is provided, the risk of fraud increases. Table 4 shows what kind of information is generally required during the switching process (not necessarily from the customer).

Country	Delivery point identification	Number of the meter	Name of the customer	Birth date or organisation number	Address of the customer	Other
Austria	No	No	Yes	---	Yes	---
Belgium	Yes	No	Yes	Yes	Yes	No
Czech Republic	Yes	Yes	Yes	Yes	Yes	---
Denmark	Yes	Yes	Yes	Yes	Yes	---
Estonia	Yes	Yes	Yes	Yes	Yes	No
Finland	Yes	Yes	Yes	Yes	Yes	Yes
France	Yes	---	Yes	---	Yes	---
Germany ²⁹	Yes	Yes	Yes	Org.no.	Yes	Yes
Ireland	Yes	Yes	Yes	---	Yes	---
Italy	Yes	---	Yes	Yes	Yes	---
Lithuania	Yes	No	Yes	No	Yes	No
Luxembourg	Yes	---	---	---	---	---
Norway	Yes	No	No	Yes	No	Yes
Poland	Yes	Yes	Yes	Yes	Yes	Yes
Portugal	Yes	No	Yes	No	No	Yes
Romania	Yes	Yes	Yes	Yes	Yes	Yes
Slovak Republic	Yes	Yes	Yes	Yes	Yes	Yes
Slovenia	Yes	No	Yes	Yes	Yes	No
Spain	Yes	No	Yes	---	Yes	Yes
Sweden	Yes	Yes	Yes	Yes	Yes	Yes
United Kingdom	No	No	Yes	No	Yes	No

Table 4: What kind of information is generally required during the switching process?

In all but 2 countries, Austria and UK, the delivery point identification must be included in the notification of the switch. Austria and the UK have the least extensive requirements. Only name and address of the customer is needed, although the supplier could also include other information

²⁹ In Germany, either the meter ID or the meter number is required.

(e.g. metering point ID). The most extensive requirements are found in Romania where all four mentioned information categories are included as well as debts, customer code at supplier, customer code of DSO, meter type and consumption forecast.

5.3. Cancelling the contract

The customer should have the right to cancel the new contract. This will ensure customer protection and mobility in the open retail market. Table 5 shows that in 14 out of 21 countries the customer has a cancellation right after the signing of a new contract. In Slovenia, the cancellation is possible only if the supplier agrees to the cancellation or if stated in the contract.

Furthermore, it is important to ensure that the former supplier is unable to hinder the switching procedure. There could however be a reasonable fee for withdrawing from contracts with fixed terms (e.g. fixed price contracts). However, in 10 out of 21 countries the former supplier is still able to object to the implementation of the switch.

Country	Cancellation right for the customer after signing the new contract	Can the former supplier object to the implementation of the switch?
Austria	Yes (in case of remote selling or door to door)	Yes
Belgium	Yes	No
Czech Republic	No	Yes
Denmark	Yes (in case of remote selling)	No
Estonia	Yes	No
Finland	Yes (in case of remote selling or door to door)	Yes (If the customer already has a valid fixed-time contract)
France	Yes (in case of remote selling or door to door)	No
Germany	Yes (in case of remote selling or door to door)	Yes (If the customer already has a valid fixed-time contract)
Ireland	Yes	Yes (in case of error)
Italy	Yes (in case of remote selling or door to door)	No
Lithuania	Yes	No
Luxembourg	Yes	Yes
Norway	Yes	No
Poland	No	No
Portugal	Yes (in case of remote selling or door to door)	Yes (in case of customer debt to the former supplier, if it is a last resort supplier)
Romania	---	Yes (in case of customer debt to the former supplier)
Slovak Republic	No	Yes
Slovenia	---	No

Country	Cancellation right for the customer after signing the new contract	Can the former supplier object to the implementation of the switch?
Spain	Yes	Yes (in case of error or customer debt to the former supplier)
Sweden	Yes (if the contract was signed over the telephone or Internet)	No

Table 5: Customer cancellation right and the former supplier's ability to object to the implementation of the switch

5.4. Duration of the switch

In the surveyed countries, the theoretical duration of a switching process is either less than 1 month or between 1 and 2 months. In practice, the process can sometimes take more time. Romania reveals that a switch typically takes more than 2 months. In some countries, the possibility of switching is limited to the first day of the month (France, Sweden, Austria, Germany), whereas in other countries a customer can switch on any day (Finland, Norway). These differences in practice between countries relate largely to how the balancing settlement is organised.³⁰ This of course will affect the duration of the switch. In this report, we divide the switching process into three stages of:

1. information gathering (stage 1)
2. the formal switching procedure (stage 2, referred to as the theoretical duration), and
3. a last stage after the contracted date of the switch (stage 3, referring to delays or cancellations).³¹

The duration of the whole switching process, often referred to as the real or typical duration of the switch, is affected by several factors. The first stage of information gathering is affected by the terms of notice and commitment periods, which may force the customer to wait a longer period before he/she may switch supplier.

The formal switching procedure lasts from the moment when the contract between the customer and the supplier is signed and all required information provided until the scheduled date of the switch. This procedure consists of both the interaction between supplier and customer and of the more technical procedures, such as messaging and data exchange between suppliers and DSOs. Due to differences in these procedures and the balancing settlement, the theoretical duration of the switching process differs between just a few days to more than 2 months in the surveyed countries.

In Italy, to be switched on the first day of month M, the switching request has to be registered by the supplier and the DSO before the end of the month M-2. However, in Italy the terms of notice are 1 month for domestic clients and 3 months for small business (1 month when a small business switches from the regulated service to the free market).

In France, switching is takes effect every first day of each month. To implement the switch on the first day of month M, the switching request has to be registered by the supplier with the DSO before the 10th of the month M-1. Since a customer can cancel a contract 7 days after it has been signed, suppliers usually wait for 7 days before registering their switching demands. Therefore, the switching process duration is usually between $20 + 7 = 27$ days and $50 + 7 = 57$ days. Sometimes, the switching request is rejected (e.g. fraud, wrong data, double demand) and the duration can be longer.

In Spain, it is legally possible to carry out the switch on any day, but it is expensive because “on request” metering is expensive, so switching tends to take place according to the reading cycle (there is a bi-monthly reading and billing cycle in Spain). Because of this, the real duration of the

³⁰ See section 4.2 for a discussion on the impact of the balancing settlement on the formal switching process.

³¹ See section 4 for a discussion on the different stages of the supplier switching process.

switch may extend to 1 or 2 months. In Spain, the customer is also committed to remaining with the chosen contract for at least a year whenever entering or leaving the regulated price. High voltage customers cannot return after leaving regulated tariffs.

In Romania, 30 days are needed to notify the incumbent supplier during the switching process. Customers cannot return to regulated prices more than two times.

In Sweden and Norway, the commitment period, terms of notice, types of contracts, etc., does not affect the real duration of a switch. The DSO has no right to object to the implementation of the switch, regardless of any debt to the incumbent supplier or period of commitment (e.g. in case of a fixed price contract). In cases of contract breach, the customer must usually pay damages to the incumbent supplier.

In Austria, contracts for households are signed for an indefinite time. Many suppliers have a commitment period of 1 year and it is forbidden by law to commit a customer for more than 1 year. The term of notice is 4, 6 or 8 weeks. In the case of a price increase, a customer can change supplier at any time, even if he is still committed to a supplier.

Table 6 summarises the status of theoretical and typical duration of the switching process. We see that the typical duration is less than 1 month in 6 countries, while it is longer than 2 months in only 1 surveyed country.

Countries	Theoretical duration of switching process	Typical duration of switching process
Austria	1 –2 months	1 –2 months
Belgium	1 month	2 months
Czech Republic	less than 1 month	less than 1 month
Denmark	1 –2 months	1 –2 months
Estonia	less than 1 month	less than 1 month
Finland	less than 1 month	less than 1 month
France	1 –2 months	1 –2 months
Germany	1 –2 months	1 –2 months
Ireland	1 –2 months	1 –2 months
Italy	1 –2 months	1 –2 months
Lithuania	1 month	1 month
Luxembourg	1 –2 months	1 –2 months
Norway	less than 1 month	less than 1 month
Poland	1 –2 months	---
Portugal	less than 1 month	---
Romania	1 –2 months	more than 2 months
Slovak Republic	1-2 months	1-2 months

Countries	Theoretical duration of switching process	Typical duration of switching process
Slovenia	1 –2 months	1 –2 months
Spain	less than 1 month	1 –2 months
Sweden	less than 1 month	less than 1 month
United Kingdom	less than 1 month	less than 1 month

Table 6: Theoretical and typical duration of a switching process

5.5. Data format

A quick switching procedure requires efficient messaging between suppliers and DSOs. With market opening, the flow of information between the suppliers and DSOs increases significantly. With 300 000 switches per month in the UK, automatic processes are of vital importance. Without a single legally binding data format used throughout the market, it would be hard to achieve efficient business transfers. Most countries replied that electronic data exchange is used. However, the interpretation of electronic data exchange differs widely between the respondents. Mail, telephone or fax cannot be said to facilitate any automatic data exchange within the power market. In the following summary of replies (Table 7), we see that only nine of the respondents have a legally binding format. There are however some countries that have introduced a common data format without making its use legally binding.

Country	Legally binding data format	Data format ³²	Other means of dealing with the switching process
Austria	Yes	Office-based	---
Belgium	Yes	EDIFACT	Web-based application
Czech Republic	Yes	XML	Mailing
Estonia	No	---	Email
Denmark	No	EDIFACT	---
Finland	No	EDIFACT	By telephone, fax and email
France	No	XML used by the main DSO	Mailing, telephone or fax
Germany	Yes	EDIFACT	Bilateral agreements are also possible
Ireland	Yes	XML	---
Italy	No	---	---
Lithuania	Yes	Oracle	By telephone, fax, mailing, e-mail

³² See Box 1 in the appendix for a description of EDIFACT and XML.

Country	Legally binding data format	Data format ³²	Other means of dealing with the switching process
Luxembourg	Yes	EDIFACT	Fax, mail
Norway	Yes	EDIFACT	---
Poland	---	---	---
Portugal	---	XML	Always electronic
Romania	No	---	Telephone, fax, mailing, e-mail
Slovak Republic	Yes	XML	Mail
Slovenia	No	---	Mail or email
Spain	No	XML	---
Sweden	Yes	EDIFACT	---
United Kingdom	Yes	Other	Always electronic

Table 7: Is a single legally/regulatory binding data format used throughout the market?

In Slovenia, conventional mail is still used. However, this is temporary and will be replaced when a central information system is available. Data exchange will then be electronic and the format will be standardised.

In France, the main DSO EdF, which holds 95% of the electricity sites, uses XML, but the data format is not legally binding. The 5% remaining sites are managed by about 160 small DSOs, only 6 of them having more than 100 000 customers. The situation is radically different for most of these DSOs, only a few of them having settled with an electronic data exchange. The very few electronic data exchanges settled are not compatible with the data exchange format of the main DSO. Therefore, there is almost no alternative supplier for the mass market available in the area of these 160 small DSOs.

There is no legally binding data format in Spain, but the newly deployed XML format is recommended by the regulator. In Finland, the use of EDIFACT is not legally binding, but is an industry standard followed by most of the market participants. In cases where EDIFACT is not used, market parties may use all the mentioned means: telephone, fax and emails.

5.6. Meter reading

Meter reading ensures that the customer is aware of his level of consumption and that the settlement of old contracts is correct. In most Member States, the DSO is responsible for meter reading and for the quality of the meter value data. In France and Portugal, it is common to use an estimate of previous readings instead of reading the meter. In France, there has been some risk of dispute between the involved parties, but this problem is expected to fade since the main DSO has now published its estimation methodology. Austria reports that the customers sometimes have high supplementary payments due to the estimation of the meter value.

Metering should not be an obstacle to switching. If there are settlement disputes between the involved parties due to poor meter value data, the switching costs will be high and deter consumers from switching. The meter should therefore be read as a part of the switching process

in order to promote effective supplier switching. As we can see in Table 8., all respondents except Austria read the meter when switching suppliers, and this is most commonly done by the DSO.

Country	Meter reading by the metering operator	Meter reading by the customer	Estimate based on previous readings	Responsible agent for the quality of the meter value data	Meter read in conjunction with switching
Austria	Possible	Possible	Possible	DSO	No
Belgium	Possible	Most common	Possible	DSO	Yes (DSO or customer)
Czech Republic	Most common	Possible	Possible	DSO	Yes (DSO)
Denmark	Possible	Most common	Possible	DSO	Yes (DSO)
Estonia	Possible	Most common	Possible	DSO	Yes (DSO)
Finland	Most common	Possible	Possible	DSO	Yes (DSO or customer)
France	Possible	Most common	Most common	DSO	Yes (DSO or customer)
Germany	Most common	Possible	Possible	Meter operator (normally DSO)	Yes (Meter operator)
Ireland	Most common	Possible	Possible	DSO	Yes, (DSO or customer)
Italy	Most common	Not possible	Possible	DSO	Yes (DSO)
Lithuania	Most Common	Possible	Possible	Meter operator (normally DSO)	Yes DSO)
Luxembourg	Most common	Possible	Possible	DSO	Yes (DSO)
Norway	Possible	Most common	Possible	DSO	Yes (customer)
Poland	Most common	Possible	Possible	DSO	Yes (DSO)
Portugal	Most common	Possible	Most common	DSO	Yes (DSO)
Romania	Most common	Possible	Possible	Meter operator (normally DSO)	Yes (Meter operator)
Slovak Republic	Most common	Possible	Possible	DSO	Yes (DSO)
Slovenia	Most common	Possible	Possible	DSO	Yes (DSO)
Spain	Most common	Possible	Possible	DSO	Yes (DSO)
Sweden	Possible	Most common	Possible	DSO	Yes (DSO)
United Kingdom	Possible	Most common	Possible	Supplier	Yes (customer)

Table 8: Meter reading methods and responsible agent for the meter value quality

Considering that one may use automatic meter reading, there is significant potential for improving the supplier switching procedure in many countries. In Sweden, there will be automatic reading of the meters on a monthly basis from 2009, thus making it unnecessary to estimate the meter value. The legal requirement for monthly metering from 2009 has led to a big

rollout of smart meters by the industry already, meaning that many retail customers now have automatic meter reading on a monthly basis in Sweden. Introduction of automatic reading is being considered in several other countries as well.

In Italy, meter reading in conjunction with a switch will be required for all consumers from 2008. At the moment it is only consumers with hourly metering whose meters are read in conjunction with supplier switching (metering rules say that hourly meter data are collected monthly, at the end of the month, from each hourly metered withdrawal point).

5.7. Improving the switching process

Following market opening, there has been an increased interest in improving the switching process. For some countries, it is probably a necessity in order to handle the increase in market transactions. Most countries write that the switching process has either recently been improved or is being improved. In July 2006, the ERGEG published a best practice proposition on supplier switching processes.³³ Most likely this has been an inspiration for many countries. The switching processes in Europe are converging with more similar flows of messages and increased use of standard data exchange (EDIFACT or XML).

Table 9 depicts the respondents' views on the status and development of data exchange. Several countries state that an improvement of the process is underway.

Country	Current process and data exchange is satisfying	Improvement of process is underway	Improvement has recently been implemented
Austria	No	No	No
Belgium	No	Yes	No
Czech Republic	Yes	No	Yes
Denmark	Yes	Yes	No
Estonia	Yes	No	No
Finland	No	Yes	Yes
France	Yes	Yes	Yes
Germany	Yes	Yes	Yes
Ireland	Yes	No	Yes
Italy	---	Yes	---
Lithuania	Yes	No	No
Luxembourg	Yes	Yes	Yes
Norway	Yes	No	Yes
Poland	---	---	---
Portugal	Yes	Yes	Yes

³³ ERGEG report, Supplier Switching Process Best Practice Proposition, E05-CFG-03-05

Country	Current process and data exchange is satisfying	Improvement of process is underway	Improvement has recently been implemented
Romania	---	Yes	No
Slovak Republic	Yes	No	Yes
Slovenia	No	Yes	No
Spain	---	Yes	---
Sweden	Yes	Yes	No
United Kingdom	Yes	---	Yes

Table 9: Does the regulator consider the supplier switching procedures and data exchange satisfying?

Standardised data exchange is also the main focus in Italy. In spring 2007, the Italian regulator published a public consultation aimed at implementing simpler, clearer and more effective switching procedures. In particular, the revision proposal considers the introduction of communication protocol standards among parties involved in the switching process and the use of standard data format.

Norway has recently improved and revised its supplier switching model. In the new model, the supplier will have the possibility to play a more active role, the processing time is reduced, the possibility to use estimated meter values is limited to some special cases and a new web-based service for customer data – especially metering point ID – will be introduced. The switching model will also be used when customers move. The suppliers will then send a notification to the DSO about the new customer moving into (or within) the grid area.

In Romania, only hourly metered customers have been able to change suppliers so far. However, with the introduction of system load profiles, customers with manual meters will be able to take part in the market. Load profiles will be ready some time in 2008, thus opening the market for retail customers.

5.8. Discrimination

It is important to ensure that the DSOs do not create obstacles to switching. Most DSOs are either vertically integrated with a supplier or within the same corporation as a supplier. The DSO then has an incentive to discriminate against other suppliers within their grid area. Without clear regulation making such conduct illegal, the consequences for the market could be severe.

In Austria, the regulator has recorded no direct cases of discrimination. Sometimes the switching process fails, but the regulator has no indication that this is due to discrimination by the DSO. In many cases, it is the result of mistakes made by the new suppliers. In Germany, DSOs delay supplier switches by not accepting the cancellation of old contracts.

The Italian regulator has no examples of straightforward discrimination by the DSO in the switching process. However, some suppliers have complained about reduced services like communication protocol standards during the switching procedure and lower frequency of meter reading and lower accuracy of consumption estimates after the switch.

In Norway, despite clear regulation on neutrality, there have been some cases of discrimination. A few years ago a DSO cancelled switching orders made by customers that were bound by a contract with the integrated supplier but not for others, thus discriminating against all other

suppliers in the grid area. To eliminate such cases, the regulator carries out numerous inspections of DSOs.

5.9. Other obstacles

In France, a few other obstacles to switching have been identified: Residential customers are anxious about switching due to a lack of confidence in new suppliers' offers, difficulties in comparing prices, a lack of information about the switching process, the irreversibility of leaving regulated tariffs and the example of industrial customers that have left regulated tariffs for market prices. The obstacles identified by France are also applicable in the Romanian market, together with the lack of appropriate metering devices.

In Sweden, there is a need for an easy and reliable way to compare prices, types of contracts and terms of contracts. All suppliers which act on the Swedish retail market have to report information about prices and contracts to the Swedish regulator from January 2007. The Swedish regulator opened a website in January 2008 where the price of the most common contract types, including terms of contract, are displayed. The customer can then find the contract most suitable for him/her.

In Spain, distributors must reply to requests from the new supplier within five working days, notifying them of whether it is appropriate to deal with the request or if there are any objections preventing it. DSOs sometimes exceed the five day limit for making objections to the switch. Furthermore, distributors have more information about their customers than other suppliers, so it can be used for customised offers to their clients.

In Austria, not only supply-side but also demand-side factors increase switching costs and thereby market entry barriers. A lack of information and transparency is an important reason for the rigidity of customers even if the potential savings are high (e.g. in Austria € 70/year on average). Such in-transparent market information includes, e.g.: In-transparent billing, confusing information by incumbents (e.g. about responsibilities of DSO and suppliers) and in-transparent price information (e.g. all-inclusive pricing, which is no longer permitted).

In Poland, the lack of liquidity in the wholesale market due to binding long term historical contracts is perceived as a main obstacle to switching and competition.

Slovenia has identified the lack of common understanding of the procedure as an obstacle to switching. Another problem is the lack of a central information system and standardised data formats which sometimes results in overload of manual data processing at the DSO, thus delaying the switch.

5.10. Competition and supplier switching

Competitive electricity prices promote market efficiency. Switching activity will be influenced by the share of electricity cost in a household's total budget (relative impact on household economy) and price difference between suppliers (possibility to save). Looking at annual consumption and annual total cost, 2 countries are very atypical: Norway and Sweden - with a much higher annual consumption than any other country (approximately 20 000 and 15 000 kWh/year respectively). These 2 countries have also some of the highest switching rates in Europe. Figure 2 shows the level of annual electricity consumption and total cost in the surveyed countries (except the Slovak Republic).

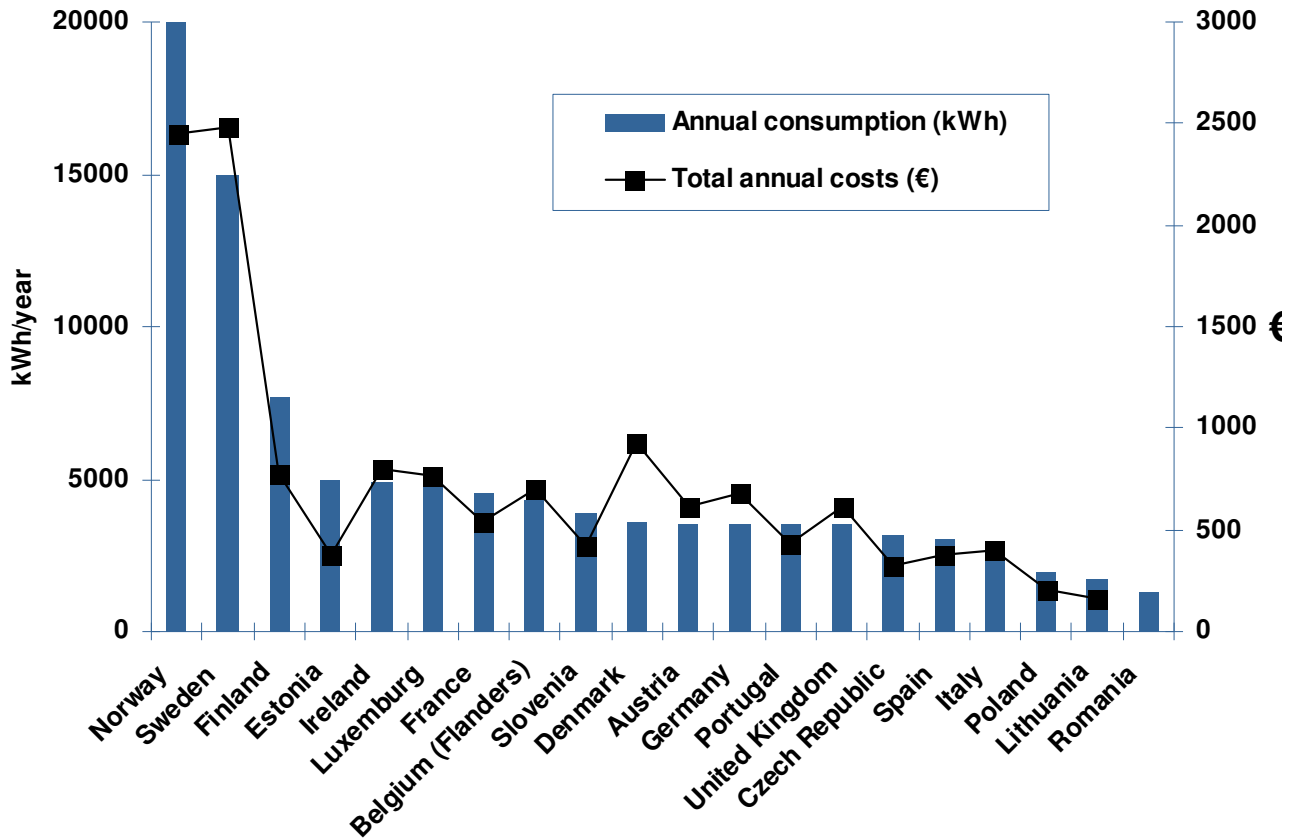


Figure 2: Average annual household consumption and total annual cost (No data available for the Slovak Republic)

When switching, total cost is not the figure customers should consider, but electricity cost. Total cost will also include grid tariffs, VAT, renewable surcharges etc. and these are not affected by a switch. Figure 3 depicts how these different components are distributed as shares of the total electricity costs. Looking at these statistics, the UK stands out with highest share of costs for energy prices in the household’s total electricity costs. The UK is also a country with a high switching rate.

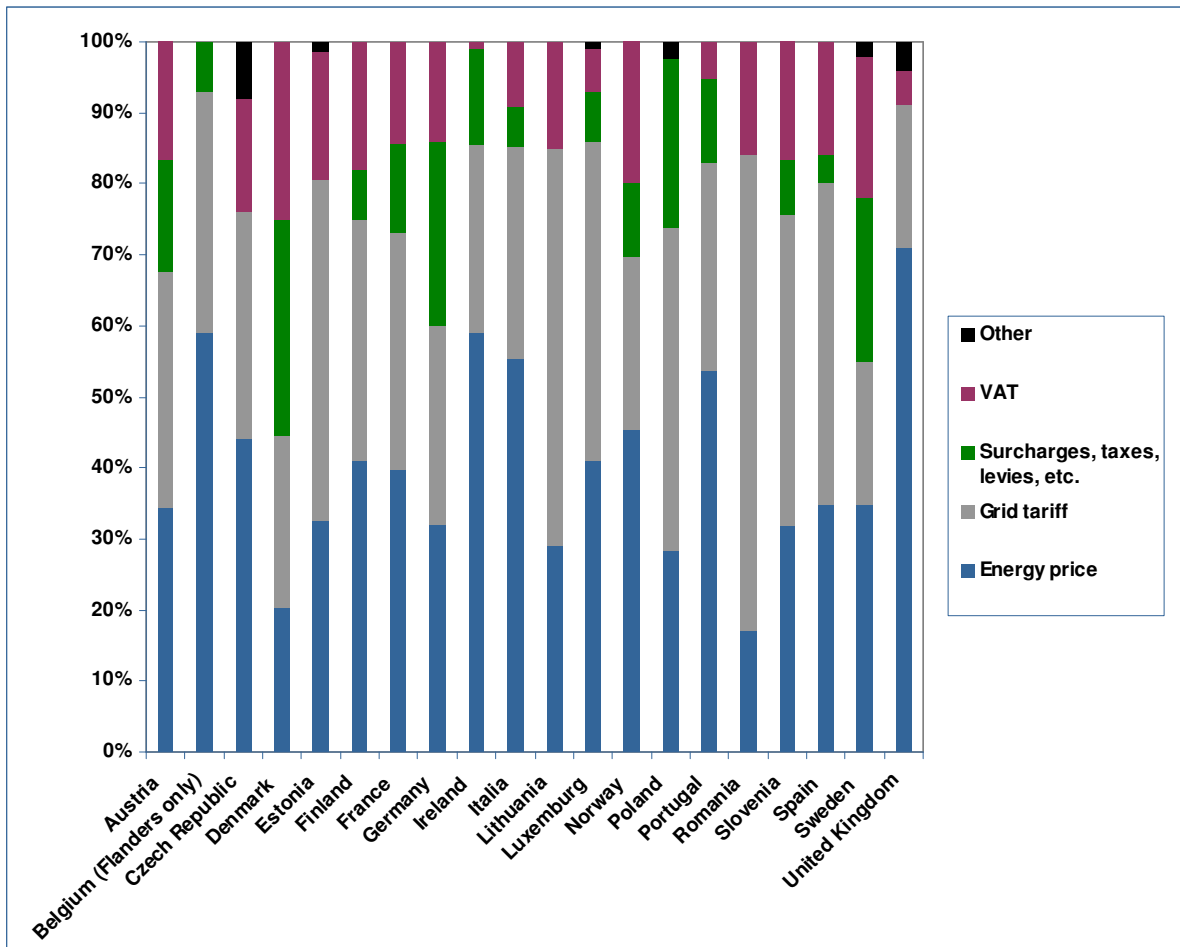


Figure 3: Composition of total electricity costs 2006 (No data available for the Slovak Republic)

But the main question a household will ask is how much can I actually save. In all countries except Austria, Belgium, Germany, Norway, Sweden, and the UK the answer is less than € 50 per annum for both total cost and electricity supply. The statistics on consumption may partly explain the high switching rates in Norway and Sweden. Table 10 summarises the responding countries' total level of costs and the possible savings a customer can make by switching from the incumbent supplier to the cheapest competitor.

Alternatives to the incumbent supplier are also a prerequisite for switching. With some exceptions, the number of suppliers is satisfactory both in the household and the non-household markets (see Figure 4). There is however a caveat with these numbers; the alternative suppliers could be incumbent suppliers within a grid area and may not be very aggressive outside their home market.³⁴

³⁴ See Box 3 in the appendix for a description of competition in Austria.

Country	Total annual cost (share of GDP per capita ³⁵)	Savings from average consumption		Savings with 3500 kWh consumption	
		Total bill	Electricity supply	Total bill	Electricity supply
Austria	612 € (2,1%)	Between € 50 and € 100	Between € 50 and € 100	Between € 50 and € 100	Between € 50 and € 100
Belgium	601 € ---	More than 100 €	---	More than 100 €	---
Czech Republic	321 € (1,7%)	Less than € 50	Less than € 50	Less than € 50	Less than € 50
Denmark	930 € (3,2 %)	Less than 50 Euro	Less than 50 Euro	Less than 50 Euro	Less than 50 Euro
Estonia	380 € (2,4%)	---	---	---	---
Finland	780 € (2,8%)	Less than € 50	Less than € 50	Less than € 50	Less than € 50
France	537 € (2,1%)	Less than € 50	Less than € 50	Less than € 50	Less than € 50
Germany	684 € (2,7%)	More than € 100	---	More than € 100	---
Ireland	---	---	---	---	---
Italy	400 € (1,6 %)	---	---	---	---
Lithuania	166 € (1,3 %)	---	---	---	---
Luxembourg	762 € (1,2%)	Less than € 50	Less than € 50	Less than € 50	Less than € 50
Norway	2453 € (6,9%)	More than € 100	More than € 100	Less than € 50	Less than € 50
Poland	210 € (1,7%)	---	---	---	---
Portugal	437 € (2,4%)	---	---	---	---
Romania	---	---	---	---	---
Slovak Republic	---	---	---	---	---
Slovenia	426 € (2,2%)	---	---	---	---
Spain	380 € (1,7%)	Less than € 50	Less than € 50	Less than € 50	Less than € 50
Sweden	2479 € (9,0%)	More than € 100	More than € 100	Between € 50 and € 100	Between € 50 and € 100
United Kingdom	611 € (2,2%)	More than € 100	More than € 100	More than € 100	More than € 100

Table 10: Total annual electricity cost and household savings by switching from incumbent supplier to the cheapest supplier

³⁵ Share of Electricity expenditure to gross domestic product based on purchasing power parity (PPP), GDP per capita. Source: International Monetary Fund (IMF)

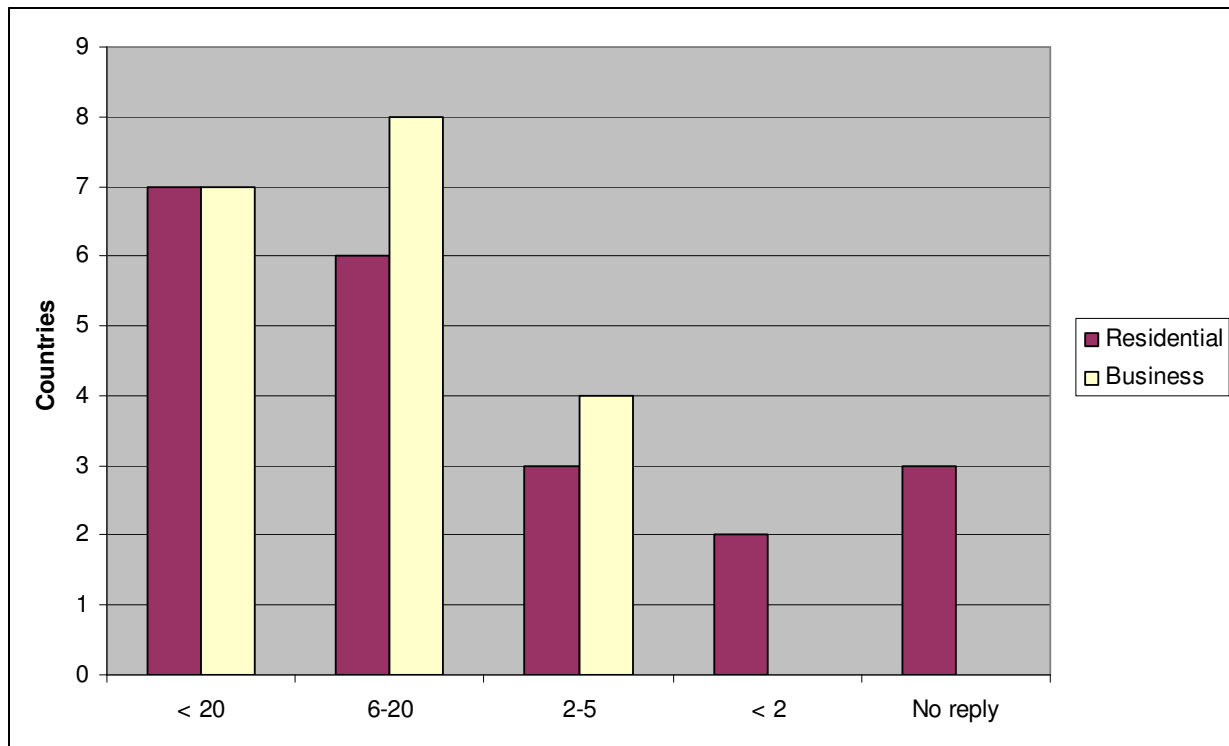


Figure 4: Number of alternative suppliers (No data available for the Slovak Republic)

5.11. Third party access

Without third party access there will be no supplier switching. Third party access supports competition by enabling competitors (i.e. "third parties") to access essential infrastructure which cannot be duplicated due to economic considerations. This access should be regulated with universal access rights at transparent prices and conditions. There have been examples of negotiated third party access (e.g. in Germany) which have not been a success and have been replaced by a regulated system.

All countries in the survey have public and transparent grid tariffs. The tariffs are published and the method of calculation is standardised and controllable. It should be noted, however, that the method of calculation in Spain should become clearer and more objective (some measures have already been taken: a great percentage of the energy bought by DSOs for customers with regulated tariffs is already bought in previous auctions). Thus, with regard to grid tariffs and third party access, the situation seems to be satisfactory.

The level of unbundling can affect third party access even though it is both regulated and transparent. Integrated DSOs can be more interested in maintaining the market share of their incumbent supplier, than in facilitating the market. As the system operation subsidiaries of the integrated companies have no separate brand identity (same name, in some cases the same staff members, and joint corporate communications), they are not differentiated from the other areas of activities in which the groups compete in the marketplace. Companies with common branding and marketing activities make it harder still for consumers to distinguish between the functions of system operators and retailers (e. g. regarding responsibility for security of supply). Since

consumers are in any case ill informed, these practices add to their confusion. The more nervous consumers are about transferring, the less willing they will be to switch, and the higher the switching costs will be that another supplier must compensate for by charging lower electricity prices. The need to offset switching costs by offering lower energy prices reduces the profit margins of the alternative suppliers, and thus the attractiveness of entering retail markets. In addition, the retail subsidiaries of integrated companies (and balancing groups managed by the latter) may have information from the affiliated system operators on the current load conditions on the network, the load flows at system interconnection points and injection. The withholding of this information from other suppliers and balancing group representatives would be clearly discriminatory, and would expose non-integrated suppliers to greater imbalance risks. The retail subsidiaries of integrated companies may also receive preferential treatment in that the system operators do not pass on information on such matters such as new customer connections to all suppliers at the same time.

6. Concluding remarks

Considering that the survey for this report was done just a few months after market opening, one may conclude that obstacles to supplier switching are being reduced. There is however room for improvement on a wide range of issues. These challenges are also being addressed by ERGEG members and observers.

A supplier switch should be as quick as possible within technical and organisational limitations and taking into account customer protection. Several of the ERGEG members need less than a month to process a switch, implying that there should be room for shortening the process in other countries as well.

As the number of market transfers multiply, the need to automate the exchange of information increases. An increasing number of countries are introducing standard data formats. The most common are EDIFACT and XML. Concluding whether EU members should choose one or the other is beyond the scope of this report. However, efforts should be made to harmonise the data transfer across Europe, both by regulators and by the industry itself.

It is also encouraging to see that most of the respondents have either improved the switching process recently or are about to improve the switching process.

Meter reading is another issue where practices differ from one country to another. In most Member States, the DSO is responsible for meter reading and for the quality of the meter value data. It is also most common that the meter operator reads the meter. The issue of metering in general could be interesting for ERGEG to look into further, especially as automatic metering is being developed across Europe.

One obvious obstacle to supplier switching, however, is a lack of economic incentive. There could be two reasons behind this. One reason is that for many small customers there is just not enough possibility to save from switching supplier. Even when there are no direct economic costs, searching for an alternative supplier has a cost (search for the right supplier and offer). In cases of regulated prices, there will also be no incentive to switch since these prices are predominantly

lower than market prices. In those countries where leaving regulated prices is irreversible, customers are locked to the incumbent supplier.

The latter obstacle is more severe. Regulated end-user prices are still offered to a large share of customers in many EU countries. In its position paper of 18 July 2007³⁶ the ERGEG took a clear position in relation to regulated end user prices: “It is ERGEG’s view that fully open markets with well functioning competition cannot in the long term coexist with regulated end-user prices. End-user price regulation in electricity and gas markets distorts the functioning of the market and jeopardises both security of supply and the efforts to fight climate change. Therefore end-user price regulation should be abolished, or where appropriate, brought into line with market conditions.”

In a free market, access to information is crucial to making the right decisions. It is therefore reassuring that all countries publish a database of alternative suppliers, either from the regulator itself or a customer or environmental organisation.

All countries have public and transparent access to the grid. Concerning unbundling, the situation is less satisfactory, with only a few countries practicing full ownership unbundling for DSOs and even some for TSOs as well. This, however, is an ongoing issue in the EU and will not be discussed further here.

Even though there are still many challenges ahead, this report reveals that the EU is taking important steps towards a more liberalised retail market with reduced obstacles to supplier switching.

³⁶ ERGEG Position Paper on End-user Price Regulation, E07-CPR-10-03

7. Appendix

The following table gives the response status of the ERGEG members or observers.

Country	Response
Austria	Yes
Belgium (Flanders only)	Yes
Bulgaria	No
Croatia	No
Cyprus	No
Czech Republic	Yes
Denmark	Yes
Estonia	Yes
Finland	Yes
France	Yes
Germany	Yes
Greece	No
Hungary	No
Iceland	No
Ireland	Yes
Italy	Yes
Latvia	No
Lithuania	Yes
Luxembourg	Yes
Malta	No
Norway	Yes
Poland	Yes
Portugal	Yes
Romania	Yes
Slovak Republic	Yes
Slovenia	Yes
Spain	Yes
Sweden	Yes
The Netherlands	No
United Kingdom	Yes

Table 11: Respondents to the questionnaire

Country	Eligibility threshold since 1999 (volume GWh)	Eligibility threshold since 1999 (consumer's type)	Market opening since 1999 (volume %)	Market opening since 1999 (sites %)
Austria	40 GWh in (1999) 0 GWh in (2001)	Industrial in 1999 Residential in 2001	28 % in 1999 100 % in 2001	100% in 2001
Czech Republic	40 GWh in (2002) 9 GWh in (2003) 0 GWh in (2004)	Industrial in 2002 Business in 2005 Residential in 2006	18 % in 2002 30 % in 2003 47 % in 2004 72 % in 2005 100 % in 2006	0,0015 % in 2002 0,0095 % in 2003 0,05 % in 2004 14,3 % in 2005 100 % in 2006
Estonia ³⁷	40 GWh in 1999 1,2 GWh in 2010	Industrial in 1999	10 % in 1999 12 % in 2002 13 % in 2006 35 % in 2010	---
Finland	0 GWh in 1999	Residential in 1999	100 % in 1999	100 % in 1999
France	100 GWh in 1999 16 GWh in 2000 7 GWh in 2003 0 GWh in 2004	Industrial in 1999 Business in 2004 Residential in 2007	20 % in 1999 30 % in 2000 37 % in 2003 69 % in 2004 100 % in 2007	0,0006 % in 1999 0,004 % in 2000 0,01 % in 2003 14,24 % in 2004 100 % in 2007
Germany	0 GWh in 1999	Residential in 1999	100 % in 1999	100 % in 1999
Italy ³⁸	30 GWh in 1999 20 GWh in 2000 9 GWh in 2002 0,1 GWh in 2003 0 GWh in 2004	Industrial in 1999 Business in 2004 Residential in 2007	33 % in 1999 47 % in 2001 70 % in 2003 80 % in 2005 100 % in 2007	22 % in 2004 22,1 % in 2005 21,7 % in 2006 100 % in 2007
Luxembourg	0 GWh in 2007	Residential in 2007	100 % in 2007	100 % in 2007
Norway	0 GWh in 1999	Residential in 1999	100 % in 1999	100 % in 1999

³⁷ On 1st May 2004, Estonia joined the EU. Together with its adhesion, an exemption in connection with market opening was applied to Estonia. According to the exemption, 35 per cent of the market shall be opened by 2009, while by 2013 the market shall be opened for all customers.

³⁸ In 1999, the status of "eligible site" was also extended to customers who had an individual consumption above 2 GWh and were members of a consortium with total consumption above 30 GWh. In 2000 and 2002, the status of "eligible site" was also extended to customers who had an individual consumption above 1 GWh and were members of a consortium with total consumption above, in each year, 20 and than 9 GWh respectively. Since 1st July 2004, all non-household users have been free to choose their supplier and all households obtained this right on 1st July 2007.

Country	Eligibility threshold since 1999 (volume GWh)	Eligibility threshold since 1999 (consumer's type)	Market opening since 1999 (volume %)	Market opening since 1999 (sites %)
Poland	100 GWh in 1999 40 GWh in 2001 10 GWh in 2003 0 GWh in 2005	Industrial in 1999 Business in 2005 Residential in 2007	22 % in 1999 30 % in 2001 37 % in 2003 80 % in 2005 100 % in 2007	10,76 % in 2005 ³⁹ 100 % in 2007
Portugal ⁴⁰	9 GWh in 1999 0 GWh in 2002	---	25,2 % in 1999 24,4 % in 2001 45,8 % in 2002 53,8 % in 2004 100 % in 2006	0,4 % in 2002 0,9 % in 2004 100 % in 2006
Romania	100 GWh in 2000 40 GWh in 2001 20 GWh in 2003 1 GWh in 2004 0 GWh in 2005	Industrial in 2000 Business in 2005 Residential in 2007	15 % in 2000 25 % in 2001 33 % in 2002 40 % in 2003 55 % in 2004 83,5 % in 2005 100 % in 2007	---
Slovenia	---	Industrial in 1999 Business in 2001 Residential in 2007	65 % in 2001 67 % in 2002 68 % in 2003 77 % in 2004 75 % in 2005 100 % in 2007	0,07 % in 2001 0,08 % in 2002 0,09 % in 2003 1,08 % in 2004 1,11 % in 2005 100 % in 2007
Spain	1 GWh in 1999 0 GWh in 2003	Industrial in 1999 Business in 2000 Residential in 2004	45 % in 1999 55 % in 2000 100 % in 2003	0,00036 % in 1999 0,0032 % in 2000 100 % in 2003
Sweden	0 GWh in 1999	Residential in 1999	100 % in 1999	100 % in 1999
United Kingdom	0 GWh in 1999	Residential in 1999	100 % in 1999	100 % in 1999

Table 12: Eligibility thresholds and market opening since 1999⁴¹

³⁹ Based on number of customers, not sites

⁴⁰ In 2002-03, medium voltage customers were eligible, while in 2004-05 low-voltage customers with more than 41,4 kW were eligible. Eligibility was not based on customer type.

⁴¹ Belgium (Flanders only), Denmark, Ireland, Lithuania, Poland and the Slovak Republic did not provide data on eligibility thresholds and market opening.

Country	Switching rate ⁴²	Rate calculation	Source
Austria	7,6 % (Large industry) 1,6 % (Medium-sized industry) 0,9 % (Small and household)	Number of sites	Report to the European Commission (DG TREN), 2007
Belgium	5.02% (Flemish region) 3% (Walloon region)	Volume	Report to the European Commission (DG TREN), 2007
Czech Republic	4 % (Large industry) 2 % (Medium-sized industry) 0,2 % (Small and household)	Number of sites	Report to the European Commission (DG TREN), 2007
Denmark	11,5 % (hourly metered) 1,2 % (not hourly metered)	Number of sites	Report to the European Commission (DG TREN), 2007
Finland	8 % (Large customers) 3 % (small customers)	Number of sites	Report to the European Commission (DG TREN), 2007
Germany	14,2 % (Large industry) 9,3 % (Medium-sized industry) 2,6 % (Small and household)	Volume	Report to the European Commission (DG TREN), 2007
Greece*	18 % (Large industry) 0,5 % (Medium-sized industry) 0 % (Small and household)	Volume	Report to the European Commission (DG TREN), 2006
Hungary*	9,6 % (Large industry) 1 % (Medium-sized industry) 0,2 % (Small industry)	Volume	Report to the European Commission (DG TREN), 2006
Ireland	Not available		
Italy	6,13 %	Number of sites	Report to the European Commission (DG TREN), 2007
Lithuania	0 %	Volume	Report to the European Commission (DG TREN), 2007
Luxembourg	10,9 % (Large industry) 0,7 % (Medium-sized industry) 0 % (Small and household)	Volume	Report to the European Commission (DG TREN), 2007
Netherlands***	7 %	Number of sites	Report to the European Commission (DG TREN), 2007
Norway	8,2 % (business) 11,9 % (households)	Number of sites	Report to the European Commission (DG TREN), 2007

⁴² Note that this data is not directly comparable. It has previously not been agreed whether the calculation rate should be based on the number of meter points, the number of customers or on the traded volume. Furthermore, it is uncertain whether consumers that switch twice are counted both times, or if migrating between grid areas constitutes a switch. Furthermore, some numbers are sector-specific while others are aggregate based on the whole population or on small businesses and households.

Country	Switching rate ⁴²	Rate calculation	Source
Poland	15,8 % (Large industry) 0,01 % (Medium-sized industry) 0 % (Small and household)	Number of sites	Report to the European Commission (DG TREN), 2007
Slovak Republic	2 % (Large industry) 0 % (Medium-sized industry) 0 % (Small and household)	Number of sites	Report to the European Commission (DG TREN), 2007
Slovenia	2 %	Number of sites	Report to the European Commission (DG TREN), 2007
Spain***	17 % (Large industry) 8 % (Medium-sized industry) 3 % (Small and household)	Number of sites	Report to the European Commission (DG TREN), 2007
Sweden	7,8 % (Household) 8 % (Non-household)	Number of sites	Report to the European Commission (DG TREN), 2007
United Kingdom**	18,1 %	Number of sites	Report to the European Commission (DG TREN), 2007

Table 13: Switching rates in 2006.

* Data is from 2005. ** Data is taken from the period from May 2006 to April 2007. *** Data is taken from the period from July 2006 to June 2007

	Number of independent suppliers that are ownership unbundled of any electricity network business	No companies >= 5% market share in retail	Market share of three largest companies in large industry	Market share of three largest companies in medium industry	Market share of three largest companies in small industry and households
Austria	3	7	About 50 %		
Belgium	15 (active suppliers)	3	94 %	Flanders 88,44% (telemetered customers); Walloon 91,5 % (AMR customers)	Flanders 94,37% (non-telemetered) ; Walloon 98,2% (MMR customers) - 91,8% (low voltage)
Cyprus	0	1	100 %	100 %	100 %
Czech Republic	285	3	96 %	98 %	99 %
Denmark	5	8	About 40 %		
Estonia	3	1	100 %	92 %	92 %
Finland	5	4	NA	35-40 %	
France	17	1	93,7 %	98,2 %	95,6 %
Germany	NA	3	48,49 %	36,07 %	47,04 %
Greece	24	1	97,5 %	98,5 %	100 %
Hungary	11	4	71,05 %	99,43 %	100 %
Ireland		0	56%	65%	30% (Excluding households)
Italy	213	4	48,7 %	33,7 %	91,3 %
Lithuania	18 (licensed, 5 – active of them)	1	100 %	100 %	100 %
Luxembourg	2	4	92 %	96 %	97 %
Norway	5	5	NA	NA	NA
Poland	21	6	47,5 %	51,5 %	48,2 %
Portugal	3	3	100 %	98,6 %	98,61 %
Romania	140	5	44 %	41 %	59 %
Slovak Republic	140	3	14 %	1 %	20 %
Slovenia	8	6	88 %	80 %	75 %
Spain	12	5	85 %	84 %	82 %
Sweden	10	3	43 %	43 %	43 %
The Netherlands	20	4	NA	NA	80
United Kingdom	16	6	55 %	56 %	58 %

Table 14: Number of independent suppliers in 2006.
 * Data is from 2005

Box 1: XML or EDIFACT?

While most countries that use a standard data format use EDIFACT, 2 countries use XML. What are the pros and cons of these two data formats?

Electronic Data Interchange For Administration, Commerce, and Transport (UN/EDIFACT) is the international EDI standard developed under the United Nations. The work of maintenance and further development of this standard is done through the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT).

The Extensible Markup Language (XML) is a general-purpose markup language. It is classified as an extensible language because it allows its users to define their own tags. Its primary purpose is to facilitate the sharing of structured data across different information systems, particularly via the Internet.

An equivalent XML message has a larger file size than an EDIFACT message, but it is easier for users to read (although this is not necessary because the contents is created to be read by computers). Another possible explanation is that compatibility is being favoured over performance, since more tools exist to work with XML data than with EDIFACT. EDIFACT-messages can be up to ten times smaller than XML-messages, and are not recommended for large message contents.

An advantage of EDIFACT is the availability of agreed message-contents, which XML must leverage to develop its own similar agreed contents.

Source: Wikipedia

Box 2: Competition in Austria

Small margins for new suppliers due to high entry barriers

Customers perceive that collecting the information necessary to feel comfortable about switching from one supplier to another requires a lot of time and effort. A lack of transparency causes high switching costs.

Market entry barriers result in smaller margins for new suppliers. As figure 5 shows, the compensation of switching efforts of customers, additional risk costs and supply costs lead to a decrease in margins for new entrants.

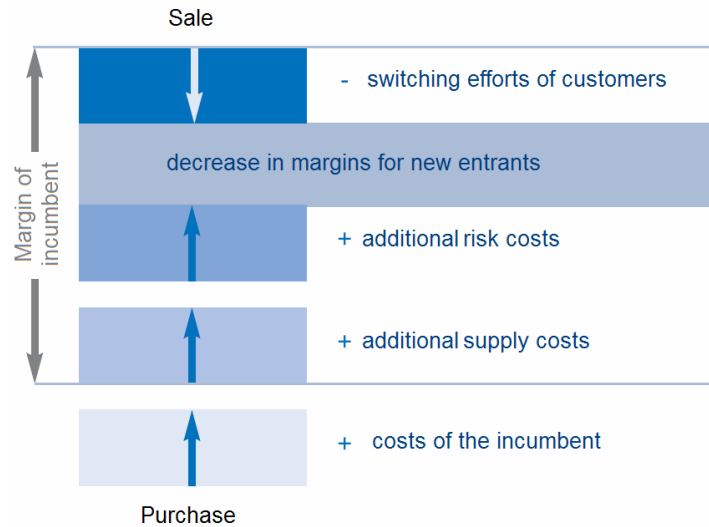


Figure 5: Margins of incumbents vs. new suppliers. Source: E-Control

In some countries, the savings potential when switching from the local player to the cheapest supplier is high (e.g. Austria, Germany). Nevertheless, switching rates are low. Low switching rates in combination with a high savings potential can be indicators of market entry barriers (see also OFT-Report on switching costs)⁴³.

Defining switching costs

The term “switching costs“ refers to all the expenses incurred when changing suppliers. It is not confined to switching charges which do not exist in Austria for electricity transfers. Switching is associated with costs for consumers because they have to find out who is operating on their market, make price comparisons, in some cases change direct debit accounts, cancel contracts and sign new ones. The term thus extends far beyond any fees and apart from the aforementioned transaction and search costs also encompasses penalties for premature contract termination or the loss of loyalty bonuses. The concept of switching costs also includes uncertainties and so-called “psychological costs”. Factors such as lack of confidence in new suppliers, anticipated problems in connection with the transfer or worries that security of supply could be affected come under this heading.⁴⁴

⁴³ Office of Fair Trading (OFT); Switching costs, Economic Discussion Paper 5, Part one: Economic models and policy implications, (page 16f), April 2003

⁴⁴ In reality, the main responsibility for security of supply lies with the system operator and generator, and the supplier cannot influence it. However the marketing activities of vertically integrated electricity companies – all of which have their own networks – lead consumers to believe that suppliers are responsible for supply security.

Search Costs

Search costs arise whenever a customer has to invest a certain time and/or effort to develop a comparison between price and quality of a specific product or get information about product characteristics. This type of cost may act as a barrier to switching. In many European countries, the comparison of prices in the electricity market is made difficult by the absence of a so-called tariff-calculator which allows customers to easily compare all suppliers' prices in their grid area.

Marketing Costs

The trend in overall advertising expenditure by Austrian electricity companies shows a decline after the immediate post-liberalisation period. Spending remained at about the same level in the following 2 years. Not only the overall advertising spent but also the number of companies advertising has shrunk since the initial post-liberalisation period. Advertising by new entrants (new suppliers and provincial utilities' sales companies) has been waning since late 2002, and has now virtually dried up. The decline in advertising expenditure, especially by new suppliers, points to a reduction in competitive intensity, since it was precisely the entrants that stimulated competition at the outset of liberalisation, leading to a marked drop in energy prices.

In Austria, large companies primarily run image campaigns. These strategic activities result in increased barriers to entry, lower demand elasticity and reduced competitive intensity.

If not successfully entering a market and developing a customer base, marketing costs may also represent sunk costs. To create successful branding and establish a product profitably, enormous expenses for marketing activities are necessary. If these investments become sunk costs, new suppliers are deterred from entering the market, because a failure in entering results in losses. So, the higher the sunk costs, the fewer suppliers that can be found in a market and the higher is the degree of concentration.