CEER

Council of European Energy Regulators

Fostering energy markets, empowering **consumers**.

What Regulators Stood for in the Second Half of 2022

European Policy Unit

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The introductory part of this review is dedicated to CEER's main messages for the energy sector in the second half of 2022. These messages are in line with our overall strategy, which guides CEER deliverables and activities throughout the defined period of the strategy.

Our main messages for the second half of 2022!

CUSTOMERS AND RETAIL MARKETS

- It is important that Comparison Tools (CTs) are independent from energy supply companies, that they are accurate and that they are - and are felt as being - reliable for customers. Customers need clear, comprehensive and comprehensible information, and CTs should help them understand and use this information.
- Retail energy prices started an upward trend at the end of 2021, these price increases are expected to continue during 2022 and into 2023.
- Electricity and gas price increases will put a greater number of consumers at risk of energy poverty.
- Supplier bankruptcies have resulted in less choice in the market for energy consumers.
- Consumers have demonstrated a preference for fixed price contracts. However, suppliers will struggle to offer such contracts at competitive prices in 2022 and likely into 2023.
- The smart meter rollout is continuing across the EU but varies across Member States. Smart meters are essential to enable the active participation on the part of energy consumers. A significant barrier for energy consumers to participate actively is the lack of information. Average penetration across the EU was 51% in 2022.
- NRAs should perform an assessment of the effectiveness of the Supplier of Last Resort (SOLR) mechanism in their markets to identify areas of improvement in the process following a significant utilisation of the mechanism in 2021.

GAS

- Current production of renewable and low carbon gases is modest relative to future policy expectations, but production goals have been accelerated as a result of the supply diversification efforts due to the Russian invasion of Ukraine in 2022.
- Numerous challenges are being identified that may hinder the expansion of decarbonised gases and hydrogen production, including the need for:
  - improving infrastructure interconnections,
  - developing greater end-use demand,
  - new infrastructure investments; and
  - Energy regulators see the need to clarify the regulatory, financial and technical aspects in time to ensure gas sector decarbonisation and clean hydrogen sector development.

CROSS-SECTORAL

- Most countries decreased or at least maintained their system sustainability and the number of interruptions per customer from the beginning to the end of the observed period for electricity. The assessment also shows that interruptions in gas, while much less common than those in electricity, can lead to a higher risk of safety, resulting in greater efforts by regulators to avoid them.

1 CEER proposals on customers

In the second half of 2022, CEER published **2 documents** that relate to customer issues.

CEER Guidelines of Good Practice on Future-Proof Comparison Tools for the Energy Sector[1]

With these guidelines, CEER presents the second updated and expanded guidelines. Although the 2012 and 2017 Guidelines of Good Practice (GGPs) on Comparison Tools remain essentially valid, the present revision introduces some novel aspects that are derived from the experience of the past five years, technological and market evolution, and stakeholder consultation.

These updated GGPs should be considered as a list of best market practices. They are not intended to provide a set of minimum requirements for ensuring the reliability of energy price Comparison Tools (CTs).

As dynamic electricity price offers must be included in Comparison Tools, the level of quality of the comparison should be at least the same as for conventional offers. Moreover, there needs to be more detailed information about dynamic electricity price contracts, given that the consumer may not have enough experience with the pros and cons of these offers.

Whilst the emergence of innovative business models and digital information tools can help to empower consumers to engage with the energy market, it must also be ensured that they provide an accurate, reliable and accessible service. These developments increase the necessity of providing guidance for CT operators to enable consumers to actively participate in the energy market by providing useful information. However, CTs should also protect the consumer by supporting their choice with trustworthy, independent and transparent information on the comparison of energy supply contracts.

<u>New recommendations:</u>

- When offering new services like automated switching, CTs must ensure that such business models are in line with existing consumer rights. Moreover, these new services imply a higher need for transparency, as the service provider has more information than the consumer, and the relevant contractual relationships with suppliers need to be clear for consumers.
- It must be transparent for consumers which personal data are used by the CT to provide its services and which data are shared with third-party companies. The access to data should be limited to necessary data that will ensure the smooth operation of the CT. Consumers must have the final choice of sharing their data with the CT and/or third parties.
- As dynamic electricity price offers must be included in CTs, the level of quality of the comparison should be at least the same as for conventional offers.

[1] CEER Guidelines of Good Practice on Future-Proof Comparison Tools for the Energy

Moreover, there needs to be more detailed information about dynamic electricity price contracts, given that the consumer may not have enough experience with the pros and cons of these offers.

- In addition to providing a fair and reliable comparison, CTs should inform consumers about any additional services, such as energy efficiency equipment support, social care, or technical assistance, that are promoted by service providers, to the extent possible.

Annual Monitoring Report on Energy Retail and Consumer Protection[2]

This Volume outlines retail energy market developments across Europe during 2021. In addition, it also contains select 2022 information, given the significance of the current energy crisis Europe is facing.

While switching rates vary across the Member States, rates increased in most markets across the EU indicating that consumers became more aware of options in their markets.

- During the Covid-19 pandemic, electricity prices had been relatively stable until the start of the energy crisis in 2021. Since then, prices have soared dramatically. The increase was even more significant at the start of 2022, when the Russian invasion of Ukraine led to additional volatility in the market and record high end-user prices.
- The most significant decrease during this period was in the energy taxes component. The reason behind this decrease was the temporary support measures implemented in most European markets.
- The level of supplier bankruptcy and thus market exit increased in 2021 following wholesale price increases.
- A limited number of NRAs monitor the uptake of offers in their market. NRAs that do monitor the uptake of offers show that the majority of consumers have a fixed price contract with their energy supplier.
- As existing contracts reach their end, suppliers will face significant increases in the cost of procuring on the spot and forward markets. This will result in a likely unprecedented increase in retail energy prices during 2022 and likely into 2023.
- Some NRAs have comprehensive, or a variety of roles and tasks related to energy poverty – leading to different levels of engagement with the problem of energy poverty. Energy poverty has been defined only in eight Member States.
- Billing requirements are failing to meet the criteria as set out in the Electricity Directive in nearly all Member States.
- In 2021, Supplier of Last Resort (SOLR) mechanisms and procedures had to be widely utilised to dampen the effects of supplier failures on millions of European consumers. While SOLR processes have worked in practice, affected consumers often faced (significantly) higher SOLR prices subsequently – especially in 2021 with increasing prices.
- While switching rates vary across the Member States, rates increased in most markets across the EU indicating that consumers became more aware of options in their markets.

[2] Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2021 Energy Retail and Consumer Protection Volume

- Electricity prices for EU consumers increased in 2021 for household and industrial consumers. Since 2010, prices have increased on average by 39.3% in nominal terms.
- Gas prices increased in 2021 in comparison to 2020 for both household and industrial consumers.

2 CEER proposals on gas decarbonisation issues

During the second half of 2022, CEER published **2 documents** related to decarbonisation of the gas sector.

Annual Report on Gas Wholesale Markets in 2021[3]

CEER and ACER present the 11th edition of the annual Market Monitoring Report, produced in cooperation with the Energy Community Secretariat. This Volume provides an overview of the status of the European Gas Wholesale markets in 2021 and the first half of 2022.

While gas prices have hit record highs and sources of gas to the EU shift, it is important to note that the interconnected EU gas system has ensured that gas continues to flow to EU consumers in response to price signals.

Main findings:

- Gas prices have surged and reached the highest levels ever observed in the EU at the end of 2021.
- Significant supply changes occurred across 2021 and intensified in the first half of 2022. This resulted in increasing supply volumes of LNG to Europe to address the reduction of Russian supply.
- LNG imports are reaching record highs in 2022, with LNG deliveries from the United States leading the rise.
- While gas prices have hit record highs and sources of gas to the EU shift, it is important to note that the interconnected EU gas system has ensured that gas continues to flow to EU consumers in response to price signals.
- The significance and structure of long-term gas supply contracts going forward is an important issue being reconsidered. Despite the fact that long-term contracts have declined in recent years and will likely continue to do so, such historical contracts still account for 80% of EU gas demand (around 40% of long-term contracts are signed with Gazprom).
- Gas hubs should maintain their central role in gas trading and gas price discovery.
- An aspect that warrants also specific attention is addressing the barriers to cross-border gas flows that are related to differences in odorisation/gas quality standards in some EU gas transmission systems.

[3] ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2021 - Gas Wholesale Markets Volume

Annual Report on Decarbonised Gases and Hydrogen in 2021[4]

Massive and accelerated financial efforts are needed to develop the new production and transport infrastructures that would make aimed volumes available.

In this volume ACER and CEER describe the current state of EU decarbonised gases and hydrogen as well as examine the regulatory provisions and market context that may drive their evolution in the mid-term.

Main findings:

- Biogas and biomethane accounted for approximately 18 bcm in 2021. This figure represents 4.5% of EU gas consumption in 2021, even if less than 15% of this combined total production was upgraded and injected into the network (i.e. biomethane).
- EU hydrogen consumption was estimated at 320 TWh in 2020, which is equivalent to less than 10% of the EU's natural gas demand.
- Massive and accelerated financial efforts are needed to develop the new production and transport infrastructures that would make aimed volumes available.
- To achieve the production targets, improving the price competitiveness of the decarbonised gases and hydrogen technologies is crucial.
- Technological developments, economy of scale and a favourable evolution of renewable electricity generation costs could considerably enhance the future price competitiveness of renewable hydrogen.
- The current gas network, as well as most end-use appliances, can accommodate biomethane without significant upgrades.
- However, the readiness of the current gas network to integrate hydrogen admixtures is under discussion, as blending hydrogen could significantly affect the operation of the gas system and certain consumers.

[4] ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2021 - Decarbonised Gases and Hydrogen Volume

3 CEER proposals on cross-sectoral issues

Since July 2022, CEER also published **3 documents** that are cross-sectoral. The documents are developed from different perspectives and do not target only one specific sector.

CEER Paper on Digitalisation as a driver for better Retail Market functioning – key challenges and actions[5]

The paper presents CEER's views on digitalisation challenges facing retail markets, putting forward recommendations on how to overcome them. The paper also provides supporting case studies to provide empirical examples.

It is important to recognise that digitalisation is an ongoing process and individual Member states will have advanced at different stages. Equally, although digitalisation presents many opportunities, certain changes and developments in the market, both external and those arising as a result of digitalisation, may hinder successful the realisation of benefits, or even harm consumers.

At the same time, the paper seeks to identify opportunities, challenges and risks of digitalisation. The paper is divided into six thematic chapters which correspond to the six Vision principles: affordability, simplicity, protection, inclusiveness, reliability and empowerment.

Actions regulators can take:

- Identify and remove barriers to entry for innovators and investors to drive down the costs of new products and services.
- Set network/distribution charges in a way that passes savings through the value chain to the end consumer.
- Establish regulatory guidelines for the submission of supplier data.
- Ensure that all market participants apply cybersecurity standards and measures and have a defined cybersecurity strategy.
- Ensure operators comply with the Directive on Security of Network and Information Systems (NISD).
- Engage with industry on strategies to promote an effective use of smart meters.
- Work with industry and consumer advocacy groups to foster inclusive design for new digital products and services – for example, by promoting sharing of best practice, or setting minimum accessibility standards.
- Require regulated energy companies to develop and publish their data strategies.
- Use historical consumption data to define cost-reflective tariff schemes.
- Consider better use of data to create up-to-date databases of metering points.
- Provide a suitable regulatory framework for the rollout of smart metering and associated infrastructure.
- Support innovative business models, e.g. through sandbox service.
- Promote a level playing field, e.g. by setting interoperability standards.

[5] CEER Paper on Digitalisation as a driver for better Retail Market functioning – key challenges and actions

7th CEER-ECRB Benchmarking report on the quality of Electricity and Gas supply[6]

Having accurate billing based on the actual, measured consumption is becoming more and more important both for customers and system operators.

This CEER-ECRB Report covers the quality of electricity and gas supply for most of Europe, which enables easier benchmarking. The report addresses three major aspects of the quality of supply. For electricity, these are its availability including incentives used to improve it, in addition to technical characteristics of grids (continuity of supply (CoS)), technical properties of supplied electricity (voltage quality (VQ)) and the speed and accuracy with which customer requests are handled (commercial quality (CQ)). For gas, these are its availability and technical characteristics of the grid (technical operational quality), its chemical composition (natural gas quality) and the speed and accuracy of handling customer requests (CQ).

Main findings:

Continuity of Supply

- Excluding exceptional events, the majority of countries decreased or at least maintained their unplanned minutes lost and the number of interruptions per customer from the beginning to the end of the observed period.
- Variations are large for planned interruptions, with the System Average Interruption Duration Index (SAIDI) ranging from 0.23 to 5,144 minutes per customer and the System Average Interruption Frequency Index (SAIFI) from 0.00 to 45.47 interruptions per customer.
- System level incentive-based schemes are in place in 19 responding countries. These schemes are implemented to improve the CoS or at least maintain it at a good level. The majority are applied in distribution but there are also incentive schemes in transmission.
- Individual compensation to customers is in place in two thirds of responding countries. Automatic compensation is offered in 14 countries.
- To facilitate easier benchmarking, CEER and ECRB recommend harmonising the methodology to calculate the CoS indicators.

Voltage Quality

- In nearly three quarters of responding countries, the national regulatory authority (NRA), either acting alone or working with other competent authorities, possesses powers and duties to define the voltage quality (VQ) regulation.
- All countries that answered the relevant question apply the European technical standard CENELEC EN 50160 for VQ or their requirements for VQ are based on this European standard.
- In some countries, end-users are subject to compensation or a lower tariff if the standard for VQ is not met.
- Since approximately 42% of the countries do not have regulations that limit the emissions from end-users, CEER and ECRB recommend considering

[6] CEER-ECRB Benchmarking report on the quality of Electricity and Gas supply

responsibility sharing between the DSO/TSO and end-users in the national regulations.
- With distributed generation and smart meter penetration growing at a fast pace, it is recommended to perform more investigations on the use of smart meters for VQ monitoring.

Gas Technical Operational Quality

- In 28 responding countries, DSOs have some obligations regarding gas odorisation, which gives an improved level of safety.
- Gas storage facilities are used in 19 responding countries and regulated in ten.
- Liquefied natural gas (LNG) infrastructure is used in 12 countries and regulated in ten.

Natural Gas Quality

- Out of 28 participants in the Natural Gas Quality chapter, most countries monitor gross calorific value (24 countries), water/hydro dew point (22 countries) and Wobbe Index (22 countries). On the other hand, organo halides and radioactivity are monitored in only one country.
- Any attempt to harmonise gas quality should first clarify the problem, then consider the impact of making the standard binding and avoid having any unintended consequences on security of supply.

Electricity and Gas Commercial Quality

- Findings of chapters on electricity and gas CQ are similar and show that there is an increased focus on the quality of services provided to customers.
  According to CEER/ECRB analysis, 21 different indicators are used in electricity, while 14 are used in gas.
- NRAs should set the CQ regulations while considering their national, political, cultural and economic specificities.
- The analysis of the results confirms that there is a general trend over time to move toward Guaranteed Indicators (GIs) for which customers must receive compensation (subject to certain exemptions) if the required service level is not provided.
- CQ in electricity is mainly focused on residential customers connected to a low voltage (LV) network because they represent the largest group and because small domestic customers often need more protection. In gas, the same is true for customers on low-pressure (LP) level.
- CEER and ECRB recommend evaluating customer priorities before creating new regulatory frameworks.
- Having accurate billing based on the actual, measured consumption is becoming more and more important both for customers and system operators.

Guide for Investing in Renewable Energy in Eastern Partnership Countries[7]

The Guide for Investing in Renewable Energy in Eastern Partnership Countries was developed under the framework of the EU4Energy Programme "Promoting the Clean Energy Transition in the Eastern Partnership Countries: EU4Energy Phase II" of which CEER is an implementing partner. The Guide was presented at the First Renewable Energy Investment Conference held from 26-28 October 2022 in Tbilisi, Georgia. The guide provides detailed information, statistical data and practical steps to help investors understand the renewable energy potential of Armenia, Azerbaijan, Georgia, Republic of Moldova and Ukraine.

[7] Guide for Investing in Renewable Energy in Eastern Partnership Countries

About CEER

The Council of European Energy Regulators (CEER) is the voice of Europe's national energy regulators. CEER's members and observers comprise 39 national energy regulatory authorities (NRAs) from across Europe.

CEER is legally established as a not-for-profit association under Belgian law, with a small Secretariat based in Brussels to assist the organisation.

CEER supports its NRA members/observers in their responsibilities, sharing experience and developing regulatory capacity and best practices. It does so by facilitating expert working group meetings, hosting workshops and events, supporting the development and publication of regulatory papers, and through an in-house Training Academy. Through CEER, European NRAs cooperate and develop common position papers, advice and forward-thinking recommendations to improve the electricity and gas markets for the benefit of consumers and businesses.

In terms of policy, CEER actively promotes an investment friendly, harmonised regulatory environment and the consistent application of existing EU legislation. A key objective of CEER is to facilitate the creation of a single, competitive, efficient and sustainable Internal Energy Market in Europe that works in the consumer interest.

Specifically, CEER deals with a range of energy regulatory issues including wholesale and retail markets; consumer issues; distribution networks; smart grids; flexibility; sustainability; and international cooperation.

More information is available at www.ceer.eu.

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