



Electricity and Gas Markets in the Energy Community Status Review 2015

- Part on gas and electricity retail markets –

April 2016

Content

I. INTRODUCTION	5
1. About the ECRB.....	5
2. Background	5
3. Scope of the report	5
4. Methodology.....	6
II. ELECTRICITY MARKETS.....	7
1. Retail market characteristics.....	7
2. Switching behavior	13
3. End- user electricity prices.....	16
4. Regulation of end-user prices	23
5. Summary and conclusions.....	26
III. GAS MARKETS	29
1. Retail market characteristics.....	29
2. Switching behavior	34
3. End-user gas prices	36
4. End- user price regulation.....	39
6. Summary and conclusions.....	42
IV. CONSUMER PROTECTION AND EMPOWERMENT	45
1. Supplier of last resort and disconnections	46
2. Vulnerable customers	50
3. Customer information.....	53
4. Customer complaints	57
5. Summary and conclusions.....	59

List of Tables

Table 1 Number of active suppliers in retail electricity markets in 2014	9
Table 2 Market concentration and market opening in 2014	12
Table 3 Annual switching rates in electricity markets in 2014 (in %)	14
Table 4 Electricity prices for households in second semester of 2014, EUROSTAT Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)	16
Table 5 Breakdown of household electricity prices into their main components (Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)	19
Table 6 Electricity prices for industry in second semester of 2014, EUROSTAT Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh)	20
Table 7 Breakdown of industry electricity prices into their main components (Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh)	22
Table 8 Number of non- households supplied at non- regulated prices in 2014	24
Table 9 Number of active suppliers in 2014	33
Table 10 Market concentration in 2014	34
Table 11 Gas prices for households, EUROSTAT Band D2: 20GJ < consumption < 200 GJ (EUR cent/kWh)	36
Table 12 Gas prices for industry, EUROSTAT Band I3: 10 000 GJ < consumption < 100 000 GJ (EUR cent/kWh)	38
Table 13 Number of non- households supplied at non- regulated prices	40
Table 14 Functions of the supplier of last resort in the Energy Community - 2014	46
Table 15 Minimum duration of disconnection process for non- paying consumers across Energy Community Contracting Parties and Georgia	47
Table 16 Measures to protect vulnerable customers in the Energy Community Contracting Parties and Georgia- 2014	50
Table 17 Number of household customer complaints received by different companies/institutions, for both electricity and gas- 2014	57

List of Figures

Figure 1 Total sale to final customers in GWh 2011-2014	8
Figure 2 Total sale to final customers in GWh 2011-2014 (excluding Ukraine)	8
Figure 3 Electricity demand growth rate 2013 to 2014	9
Figure 4 Are TSO networks used by more than one supplier?	11
Figure 5 Are DSO networks used by more than one supplier?	11
Figure 6 Electricity prices for households in second semester of 2014, EUROSTAT Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)	18
Figure 7 Structure of household electricity prices (Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)	19
Figure 8 Electricity prices for industry in second semester of 2014, EUROSTAT Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh)	21
Figure 9 Comparison of end- user electricity prices for households (Band DC) and industry (Band IC)- second semester of 2014 (EUR cent/kWh)	21
Figure 10 Structure of industry electricity prices (Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh))	23
Figure 11 Total sale to final customers in GWh	30
Figure 12 Total sale to final customers in GWh (excluding Ukraine)	30
Figure 13 Growth rates of gas demand 2013 to 2014	31
Figure 14 Average annual gas consumption per household in kWh	32
Figure 15 Gas prices for households, EUROSTAT Band D2: 20GJ < consumption < 200 GJ (EUR cent/kWh)	37
Figure 16 Gas prices for industry, EUROSTAT Band I3: 10 000 GJ < consumption < 100 000 GJ (EUR cent/kWh)	38
Figure 17 Comparison of end- user gas prices for households (Band D2) and industry (Band I3)- second semester of 2013 (EUR cent/kWh)	39

Figure 18 Share of household disconnections due to non- payment in % of household metering points- electricity- 2014	49
Figure 19 Share of vulnerable customers in the Energy Community Contracting Parties (in % of household metering points, status on 31 st December 2014)	52
Figure 20 Minimal number of days in advance that household consumers are informed about energy price changes	53
Figure 21 Information on electricity bills- 2014 (number of jurisdictions)	54
Figure 22 Share of households with smart meters (in %), status 31.12.2014.	56
Figure 23 Processing time set for service providers to deal with complaints related to electricity bills and time service providers usually need for processing these complaints	58
Figure 24 Processing time set for service providers to deal with complaints related to electricity connections and time service providers usually need for processing these complaints	58

I. INTRODUCTION

1. About the ECRB

The Energy Community Regulatory Board (ECRB) operates based on the Energy Community Treaty. As an institution of the Energy Community¹ the ECRB advises the Energy Community Ministerial Council and Permanent High Level Group on details of statutory, technical and regulatory rules and makes recommendations in the case of cross-border disputes between regulators².

ECRB is the independent regional voice of energy regulators in the Energy Community. ECRB's mission builds on three pillars: providing coordinated regulatory positions to energy policy debates, harmonizing regulatory rules across borders and sharing regulatory knowledge and experience.

2. Background

Knowledge about retail market performance and stakeholder needs is a pre-condition for well designed and targeted regulatory regimes. Taking into consideration the obligation of the Energy Community Contracting Parties to open their retail markets for household customers as of 1 January 2015³, ECRB decided to continue its last year's retail market monitoring exercise also in 2015, with a view to:

- Assess the electricity and gas retail markets in the Energy Community, with a special emphasis on barriers to their effective operation;
- Discuss the retail markets development status and provide recommendations on potential improvements.

3. Scope of the report

The present report covers **Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Georgia, Kosovo*, Montenegro, Serbia and Ukraine.**

¹ www.energy-community.org. The Energy Community comprises the EU and Albania, Bosnia and Herzegovina, Macedonia, Kosovo*, Moldova, Montenegro, Serbia and Ukraine. Armenia, Georgia, Turkey and Norway are Observer Countries. [*Throughout this document the symbol * refers to the following statement: This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence].

² The work of the ECRB is supported by the ECRB Section at the Energy Community Secretariat.

³ Decision of the Ministerial Council of the Energy Community D/2011/02/MC-EnC incorporating the Third Package in the Energy Community *acquis* (ref. Article 33 Directive 2009/72/EC and Article 37 Directive 2009/73/EC requiring opening of market for non- household customers as of 1st January 2008 and for all customers as of 1st January 2015).

4. Methodology

Data and analysis provided in this report are based on information provided by the regulatory authorities of the analyzed markets as well as on EUROSTAT database on energy prices. Where information on market opening and eligibility origins from the 2015 Annual Implementation Report of the Energy Community Secretariat⁴, this is explicitly mentioned in the text. Data underlying the presented assessments orientated on the 2013 and 2014 ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in⁵.

Where the text refers to the Energy Community Contracting Parties, this does not include Moldova, because data required for electricity and gas retail market analysis have not been provided by the regulatory authority.

Data presented in this report refer to the year 2014.

⁴ https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3872267/EnC_IR2015WEB.pdf

⁵ http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER_Market_Monitoring_Report_2014.pdf and http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER_Market_Monitoring_Report_2015.pdf

II. ELECTRICITY MARKETS

This chapter provides a status review of the analyzed retail electricity markets, namely demand data, the supply market structure, switching behavior of end-customers as well as end-user electricity prices and their regulation.

1. Retail market characteristics

Total sale of electricity to final customers in the Energy Community Contracting Parties and one observer- Georgia decreased in the period 2013-2014 by 4,96%, mainly because of drop in electricity consumption in the biggest analyzed market- Ukraine (7,47%). Other markets had either small decline in consumption over the same period (Bosnia and Herzegovina, FYR of Macedonia, Montenegro and Serbia) or an increase of demand (Kosovo* 2,1% and Albania 9,83%). The main reasons for the observed **decrease in electricity consumption** laid in a combination of the economic crisis leading to decline in industry consumption and warm winter temperatures in 2014 allowing households to use less electricity for heating. In Albania, however, two big industry customers entered the electricity market in 2014 and contributed to the substantial increase of electricity consumption in Albania. The figures below show the total electricity sales to final customers in the period 2011-2014, presented with and without data for Ukraine.

Figure 1 Total sale to final customers in GWh 2011-2014

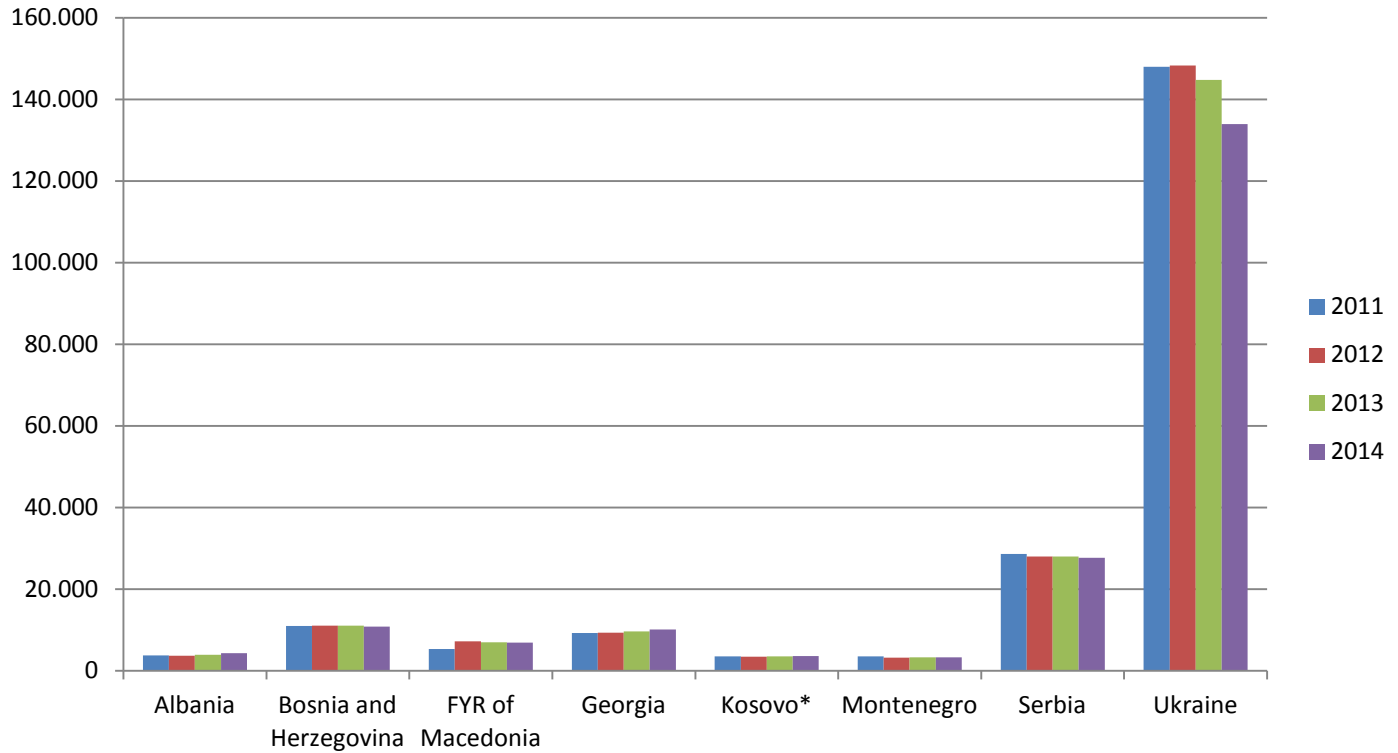


Figure 2 Total sale to final customers in GWh 2011-2014 (excluding Ukraine)

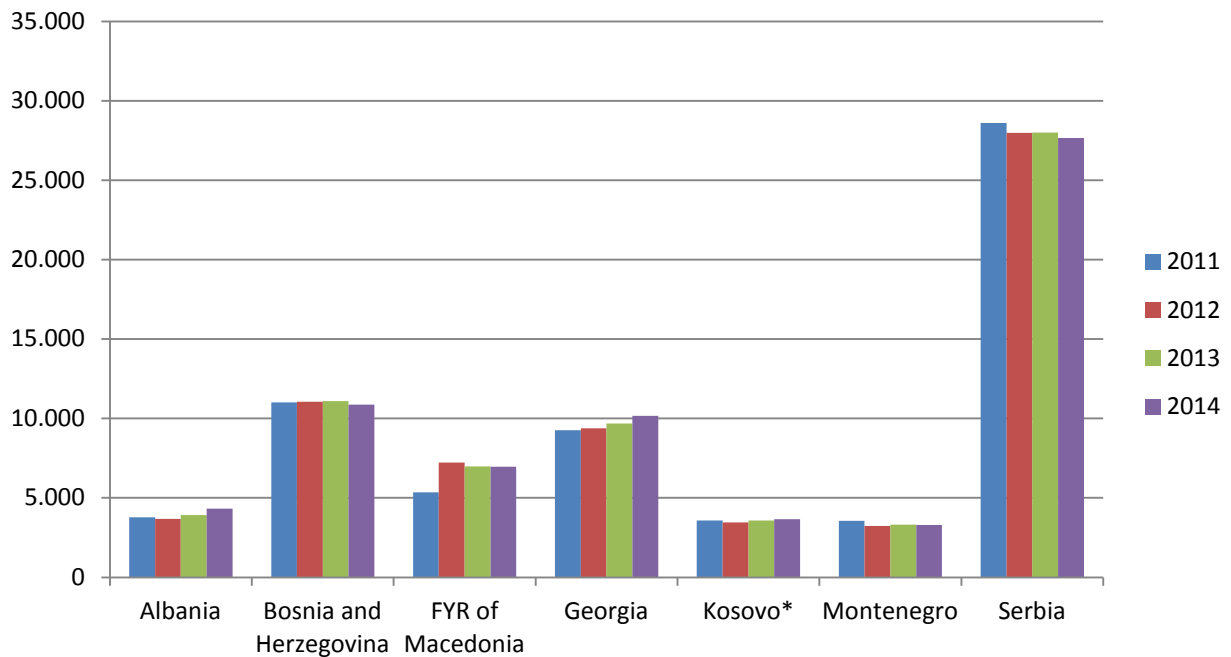
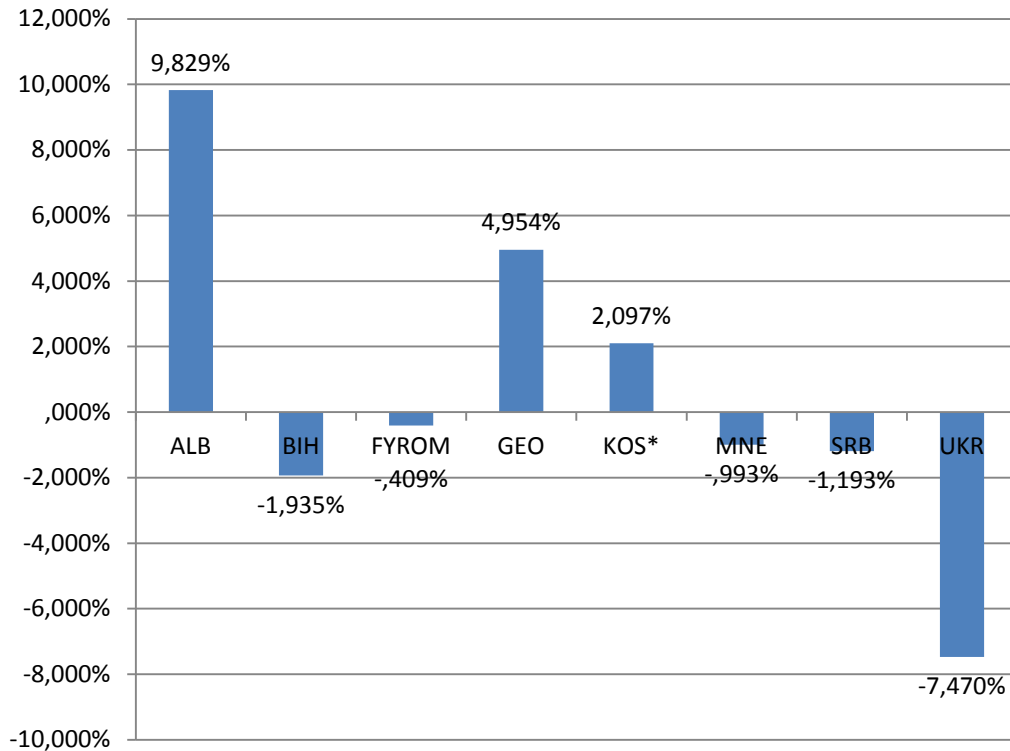


Figure 3 Electricity demand growth rate 2013 to 2014



With an exception of Ukraine, where a large number of both local and nationwide suppliers are active in the retail market, supply to electricity end-users in the majority of Energy Community Contracting Parties and Georgia was offered by **one or several suppliers** in 2014, that are at the same time in majority of cases also **nationwide** suppliers⁶.

Table 1 Number of active suppliers in retail electricity markets in 2014

	Number of active electricity suppliers	Number of active nationwide suppliers	Number of net new active nationwide suppliers ⁷
Albania	1	1	0
Bosnia and Herzegovina	17	17	3
FYR of Macedonia	8	7	0

⁶ Nationwide supplier means suppliers offering their products on the whole territory of a country.

⁷ Net means number of entries minus number of exits in the market

Georgia	3	0	0
Kosovo*	1	1	0
Montenegro	2	2	0
Serbia	7	7	5
Ukraine	116	76	9

As of 1st January 2014 electricity customers in Serbia, except households and small non-household customers, are not entitled any longer to be supplied by the incumbent supplier at regulated prices. As a consequence new suppliers entered the market. However some of the customers obliged to follow public procurement procedures for buying electricity failed to complete the process by prescribed deadline⁸ and therefore had to be supplied by the supplier of last resort (back- up supplier/reserve supplier)⁹. This shows that customer information and all **rules** regulating the functioning of the energy sector **need to be prepared in a coordinated way** to allow measures to exploit the expected effects.

In FYR of Macedonia the Government in October 2014 by an amendment to the Law postponed market opening for all small and medium enterprises and household customers until 2020. Namely, small customers and households have to remain captive until being gradually granted the right to switch supplier according to the prescribed schedule. Instead of 1 January 2015, the eligibility of the households has been delayed until 1 July 2020.¹⁰

It is worth noting that all new suppliers active in the market indeed operate as nationwide suppliers; this proves that **both transmission and distribution networks were effectively opened** for suppliers other than incumbent and the first steps towards creating level playing field in the retail markets have proven success. The figures below show detailed information on transmission and distribution network use by more suppliers in 2014. It is obvious that more suppliers were active in the part of market supplying customers connected to the transmission network, not only because these customers are with higher quantities and sensitivity to price changes, but also because in many of the Contracting Parties those customers were forced in several previous years to leave the regulated market and conclude a contract with a supplier offering electricity at non- regulated prices.

⁸ They were not aware that they had to buy electricity on the market and did not organize public procurement procedure on time.

⁹ Source: Annual Implementation Report of the Energy Community Secretariat, August 2014.

¹⁰ Source: Annual Implementation Report of the Energy Community Secretariat, September 2015.

Figure 4 Are TSO networks used by more than one supplier?

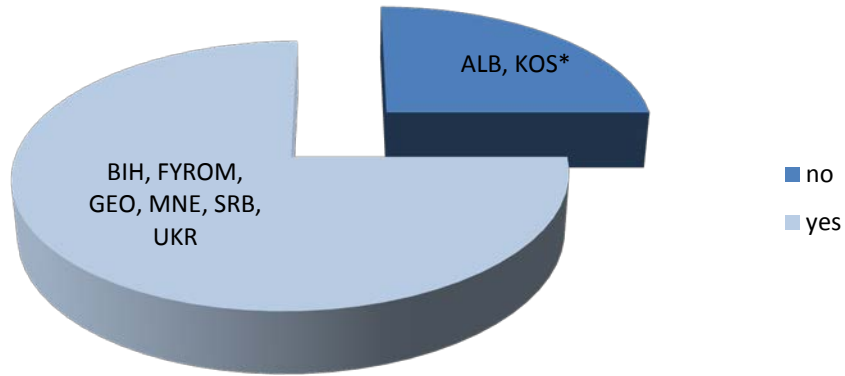
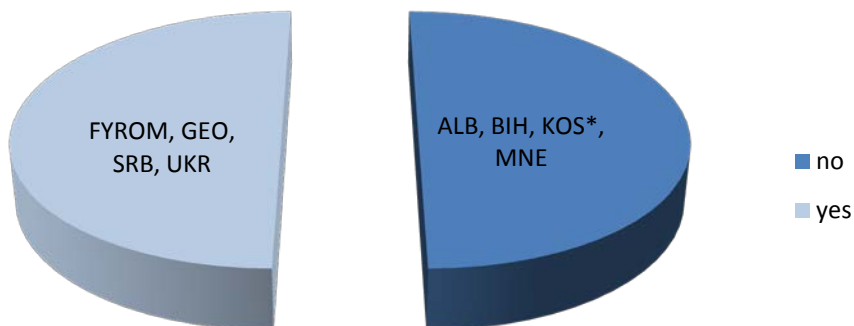


Figure 5 Are DSO networks used by more than one supplier?



In order to accomplish the picture of retail electricity markets from supply side, **concentration and openness of markets** have been investigated. Results are presented in the table below. The analyzed markets may be grouped in the following way:

- In Albania and Kosovo* there is only one retail public supplier of electricity, namely the incumbent with a **100% market share**;
- In Georgia the electricity retailers are regional and incumbent suppliers with the market share of **three largest companies being equal or close to 100%**. Similarly, in Bosnia and Herzegovina three dominant electricity suppliers with market shares adding up to 98% act as a regional suppliers, although having nationwide licenses;
- In Montenegro there are **two retail electricity suppliers** in the market: one of them supplies only one industrial customer accounting for around 20% of total consumption. All other customers are with the incumbent supplier;
- In Serbia, the great majority of customers are supplied by an incumbent supplier with a market share close to 100%. Although market shares of the largest companies are still extremely high in 2014, **new market entrants improved** slightly the competitiveness of retail markets;
- In FYR of Macedonia there were 8 active suppliers (2- regulated market, 6- liberalized electricity market). Market share of the biggest electricity supplier (active on regulated market) was 64,40%;
- The large number of electricity retailers in **Ukraine** and their low market shares¹¹ might indicate a competitive and open market. However, **household customers are still supplied by local utilities¹² at regulated prices, like in all other Energy Community Contracting Parties**. According to the Law on functioning of electricity market of Ukraine of 2013 non-household customers are eligible as of 1st January 2014¹³, household customers are eligible from 1st January 2015¹⁴.

Table 2 Market concentration and market opening in 2014

	Number of electricity retailers selling at least 5% of total electricity consumed by final customers	Market share of the 3 largest companies in the retail market (aggregated) in %	Estimated incumbent market share in the household market, in % of annual consumption
Albania	1	100%	100%
Bosnia and Herzegovina	3	98,01%	100%
FYR of Macedonia	3	91,40%	100%
Georgia	2	100%	100%

¹¹ The market share of the largest supplier in the whole market was 17,2% in 2014, while the market share of the same company in supplying households was only 8,79%

¹² There are 40 DSOs in Ukraine performing also retail supply function.

¹³ Non- household customers had the right to choose supplier also before 2014 but without using the term "eligible".

¹⁴ In order to realize such a provision of the Law relevant secondary legislation on switching is under preparation.

Kosovo*	1	100%	100%
Montenegro	2	100%	100%
Serbia	1	99,36%	100%
Ukraine	4	30,06%	100%

2. Switching behavior

The switching rate is one of the commonly used indicators for measuring market competitiveness. However, its interpretation has to be done carefully and by taking into consideration relevant legislative and regulatory provisions as well as the structures of the markets.

In the monitoring period not all customers in the Energy Community Contracting Parties had the right to choose their supplier:

- Household customers in none of the markets were eligible in 2014. Nevertheless national legislation in all cases provides for complete market opening as of January 2015. The exemption is FYR of Macedonia where the Government in October 2014 by an amendment to the Law postponed market opening for all small and medium enterprises and household customers until 2020.
- Non-household customers were eligible to switch their suppliers in more than half of the Energy Community Contracting Parties, namely in Kosovo*, FYR of Macedonia, Montenegro, Serbia and Ukraine. However, effective market opening in Kosovo* is subject to the assessment of market conditions by the regulatory authority who decided that regulated supply prices remain applicable to all customers. In some other countries granting the eligibility status was limited to consumption or voltage level thresholds¹⁵.

In order to better understand switching rates in the analyzed markets, it is worth mentioning that in FYR of Macedonia in 2009 and in Montenegro and Serbia in 2013, customers connected to the transmission system were **obliged to leave the regulated market** and

¹⁵ According to the ECS Annual Implementation Report 2015, in Albania the eligibility is ensured by the Power Sector Law which explicitly grants rights for switching the supplier to all customers. However, until the new secondary legislation is approved, the eligibility status is limited. In Bosnia and Herzegovina the eligibility is being dealt with exclusively on entity level and different rules apply. For example, in Federation of Bosnia and Herzegovina the secondary legislation envisaged gradual implementation of eligibility rights according to voltage levels by end of 2014. Secondary legislation of Republika Srpska granted eligibility status to all customers except households. However all entities and SERC for Brcko District amended secondary legislation in the end of 2014 so to allow for full market opening as of 2015. For more details, please see Annual Implementation Report of the Energy Community Secretariat, August 2014 and September 2015.

choose “new” supplier¹⁶. Furthermore in Serbia as of 1st January 2014 and FYR of Macedonia as of 1st April 2014 all customers except households and small customers were forced to choose their suppliers. However, some legal obstacles stemming from non-energy related requirements - mainly public procurement procedures - slowed down the process of market opening.

The table below shows the switching rates in the analyzed markets in 2014. Data refers to the definition of switching as the free move of a customer from one to another supplier. Where displayed data deviates from this definition, specific reference is made in the table.

Table 3 Annual switching rates in electricity markets in 2014 (in %)¹⁷

	Number of eligible customers under national legislation ¹⁸	Annual switching rate in the <u>whole retail market</u> (by number of meter points)	Annual switching rate of <u>household</u> customers (by number of meter points)	Annual switching rate of <u>non-household</u> customers (by number of meter points)	Annual switching rate in the <u>whole retail market</u> (by volume)	Annual switching rate of <u>household</u> customers (by volume)	Annual switching rate of <u>non-household</u> customers (by volume)
Albania	g ¹⁹	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia and Herzegovina	122.663	0,000133	n.a.	0,00163	6,95	n.a.	12,06
FYR of Macedonia	All customers connected to the transmission network and small non-households connected to the distribution network ²⁰	1,07	n.a.	10,13	7,05	n.a.	22,04
Georgia	all customers are	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

¹⁶ This new supplier may also be the incumbent company, i.e. the customer's previous supplier, if holding a separate license for supplying under non-regulated conditions.

¹⁷ “n.a.” in this and all other tables stands for “not applicable”. For the case of Table 3 it means that the market has not been opened to relevant group of customers or that there is only one supplier in the market (Albania and Kosovo*)

¹⁸ Source: Annual Implementation Report of the Energy Community Secretariat, August 2014.

¹⁹ Eligibility status linked to voltage level or annual consumption

²⁰ By amending Energy Law in October 2014 the eligibility status of small customers and households has been abolished i.e. postponed by 2020 for households and gradually granted to small non-households by 2019 (see Annual Implementation Report of the Energy Community Secretariat, September 2015, https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3872267/EnC_IR2015WEB.pdf)

	allowed to purchase electricity directly from Small Power Plants (With installed capacity of less than 13 MW)						
Kosovo*	All non-households (71.455)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Moldova	4	0	n.a.	0	0	n.a.	0
Montenegro	3	0	n.a.	0	0	n.a.	0
Serbia	All non-households (396.057 metering points)	Not available					
Ukraine	All non-households	0,0134	n.a.	0,1744	5,49	n.a.	9,56

During 2014 only a limited number of eligible customers freely changed their suppliers. It is obvious from Table 3 that those customers that switched supplier are large consumers of electricity; therefore the switching rates in terms of volume were high.

Due to the fact that the all customers except households and small customers were forced to choose their suppliers in 2014 in FYR of Macedonia and Serbia, **switching activities increased** in these countries. The practice in FYR of Macedonia shows that all customers on the open market have chosen new suppliers which are not connected in any way with the incumbent supplier active on the regulated market. On the other hand, in Serbia most of the customers chose their previous (incumbent) supplier, i.e. did not effectively switch to another company. However the process still has to be seen positively both in terms of raising customers' awareness of their rights in the open market and abolishment of regulated supply prices.

3. End- user electricity prices

The following chapter presents the **levels and structures of end-user electricity prices** for both household and industry customers in the Energy Community Contracting Parties and other analyzed markets, in the second semester of 2014.

End-user electricity prices for household customers in the Energy Community Contracting Parties and Georgia **vary substantially** from around 2 EUR cent/kWh in Ukraine to almost 12 EUR cent/kWh in Albania, which is still much lower than the EU 28 average²¹ price for households in the second semester of 2014 (20,52 EUR cent/kWh) . In only two Energy Community Contracting Parties, namely Albania and Montenegro, the household prices were close to 10 EUR cent/kWh. In Bosnia and Herzegovina and FYR of Macedonia they were slightly above 8 EUR cent/kWh and in other Energy Community Contracting Parties much lower. Without proper investigation of wholesale market structures and their functioning it is not possible to estimate precisely the reasons for such differences between end-user prices. However, the regulation of final prices for households, still applied in all Energy Community Contracting Parties²², clearly influences their cost reflectivity.

Table 4 Electricity prices for households in second semester of 2014, EUROSTAT Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)

	Electrical energy, network and non-recoverable levies	VAT and other recoverable taxes	Price with all taxes and levies included
Albania	9,67	1,93	11,60
Bosnia and Herzegovina	6,90	1,17	8,07
FYR of Macedonia ²³	6,66	1,20	7.86
Georgia ²⁴	5,41	0,97	6,38
Kosovo*	5,05	0,81	5,86
Montenegro	8,29	1,59	9,88
Serbia	4,97	0,99	5,96
Ukraine ²⁵	1,66	0,33	1,99
EU-28	17,64	2,88	20,52

²¹ Source: EUROSTAT.

²² Details on end- user price regulation are described in the following chapter.

²³ Source: ERC, recalculated to EUR based on EUROSTAT average exchange rates EUR-DEN for Q3 and Q4 2014

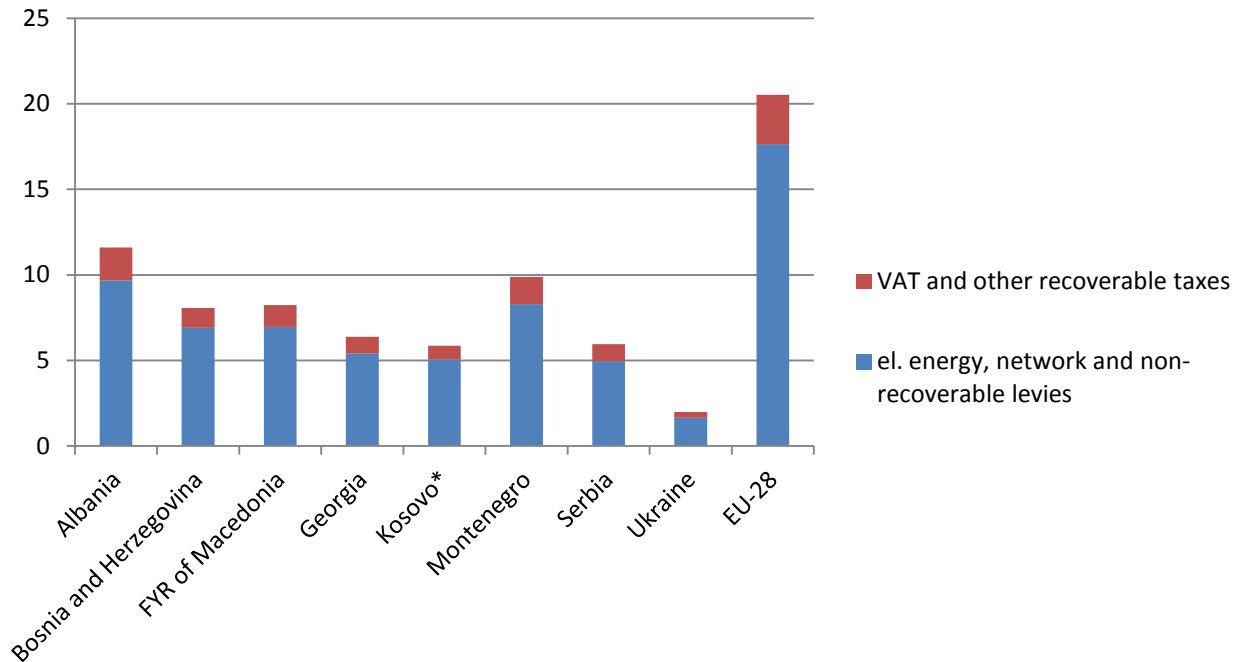
²⁴ Average electricity prices for all households, for Q4 2014 for capital city. Average price for other regions was slightly lower- 5,76 EURc/kWh.

²⁵ Actual average electricity tariff of all households, without VAT. Average exchange rate for the second semester 2014, source: <http://www.investing.com/currencies/eur-uah-historical-data>



Source: EUROSTAT and NRAs

Figure 6 Electricity prices for households in second semester of 2014, EUROSTAT Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)



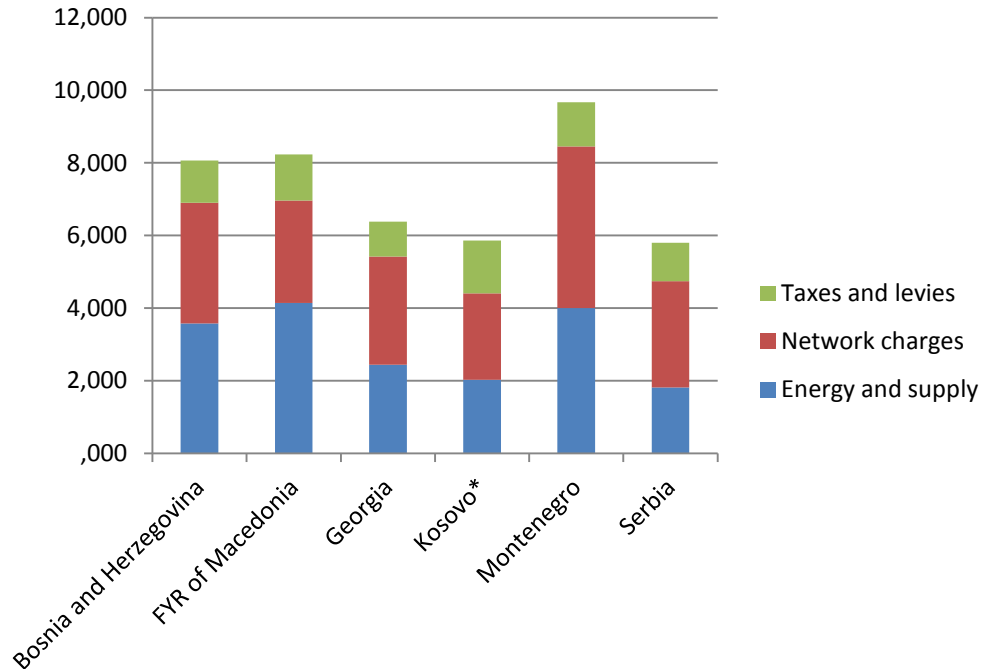
The structure of end- user prices for household customers, to the extent available (Table 5 and Figure 6), sheds more light on the competition possibilities in those markets. While in most of the EU countries taxes and levies represent a substantial portion of final prices (approximately 20 to 30%) and therefore leave less space for savings potentially coming from changing supplier, in the Energy Community Contracting Parties the **network costs have larger shares, thus leaving contestable portions of end-user prices also on a very low level.**

Table 5 Breakdown of household electricity prices into their main components (Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)

	Energy and supply	Network costs	Taxes and levies
Bosnia and Herzegovina	3,58	3,32	1,17
FYR of Macedonia	4,14	2,82	1,27
Georgia ²⁶	2,44 ²⁷	2,98 ²⁸	0,96
Kosovo*	2,03	2,38	1,45
Montenegro	4,00	4,45	1,22
Serbia	1,98	2,92	1,06

Source: EUROSTAT and NRAs

Figure 7 Structure of household electricity prices (Band DC: 2500kWh < consumption < 5000 kWh (EUR cent/kWh)



²⁶ All households

²⁷ Including transmission charge

²⁸ Distribution charge

Electricity prices for industrial customer are more harmonized among Contracting Parties and Georgia, but still **lagging behind EU levels**. However it has to be noted that in the majority of the analyzed markets (4 out of 7 analyzed Contracting Parties; ref. Figure 8) **industry prices are higher than prices for households**, in cases of Ukraine and Kosovo* even substantially higher. Having in mind that household customers and part of industry customers were supplied under regulated prices, it may be concluded that some kind of **cross-subsidization** between these customer categories applied. On the other side, the fact that industry prices had been partially deregulated has already led to certain price harmonization across borders. If forthcoming market liberalization is to bring benefits to customers, not only by allowing choice of suppliers, but also by offering lower prices, **end-user price regulation has to be abandoned**. Abandoning of end-user price regulation in countries where prices are regulated at levels below costs will, most evidently, not lead to lower prices in the first step. Only once all suppliers offer electricity at market prices, market liberalization and competition can bring benefits to customers in terms of lower prices. Cost-reflectivity of energy prices remains the only means for entry of new suppliers but also economic viability of the incumbent suppliers.

Table 6 Electricity prices for industry in second semester of 2014, EUROSTAT Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh)

	Electrical energy, network and non-recoverable levies	VAT and other recoverable taxes	Price with all taxes and levies included
Bosnia and Herzegovina	6,22	1,05	7,27
FYR of Macedonia	7,84	1,41	9,25
Georgia ²⁹	3,24	0,58	3,82
Kosovo*	7,93	1,27	9,20
Montenegro	7,53	1,47	9,00
Serbia	6,66	1,33	7,99
Ukraine ³⁰	6,31	1,26	7,57
EU-28	12,01	2,9	14,91

Source: EUROSTAT and NRAs, for Albania: http://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3164026/ECS_Performance_Report%20%2B%20cover.pdf

²⁹ Only final end-user price for industry available; for Q4 2014 capital city

³⁰ Average electricity price for 1 and 2 classes of industry customers; Average exchange rate for the second semester 2014, source: <http://www.investing.com/currencies/eur-uah-historical-data>

Figure 8 Electricity prices for industry in second semester of 2014, EUROSTAT Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh)

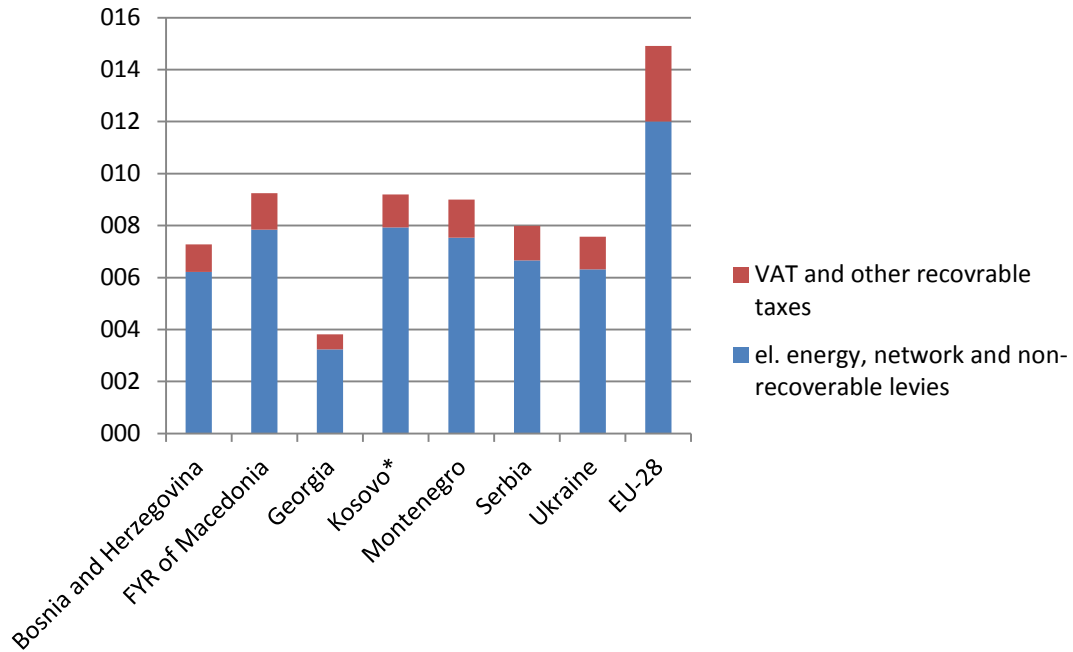
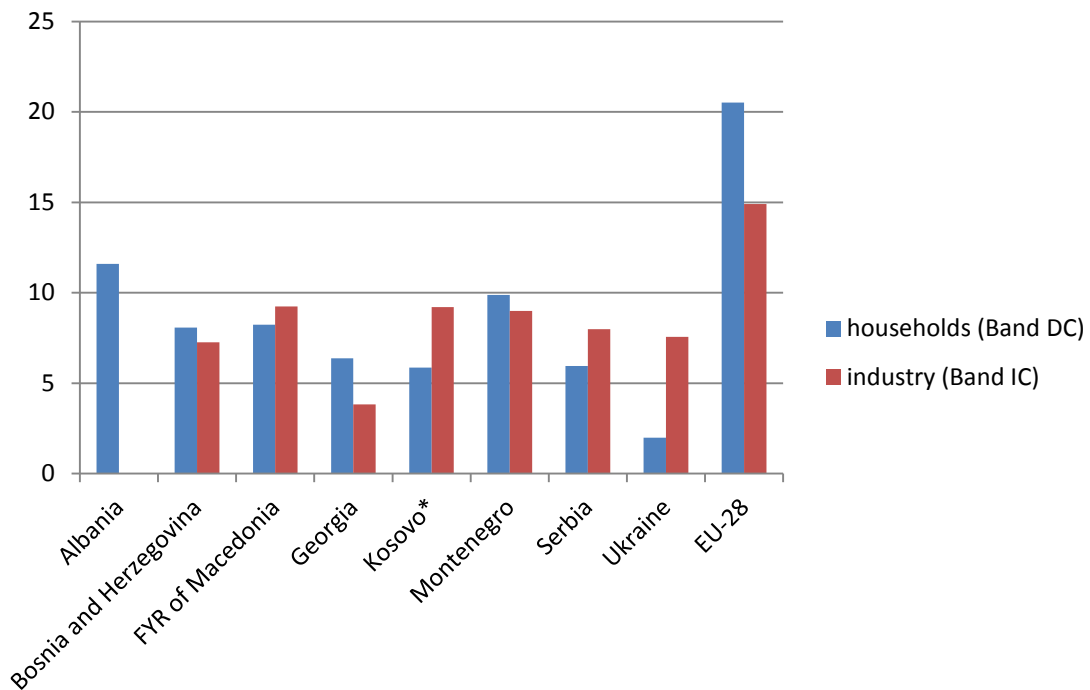


Figure 9 Comparison of end- user electricity prices for households (Band DC) and industry (Band IC)- second semester of 2014 (EUR cent/kWh)



The table below shows the structure of electricity prices for industrial customers.

Table 7 Breakdown of industry electricity prices into their main components (Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh))

	Energy and supply	Network costs	Taxes and levies
Bosnia and Herzegovina	4,72	1,50	1,05
FYR of Macedonia	4,14	3,70	1,41
Georgia	2,44 ³¹	0,80 ³²	0,58
Kosovo*	5,68	1,61	1,91
Montenegro	3,80	3,73	1,47
Serbia	4,45	2,14	1,40
Ukraine³³	5,89	0,42	1,26

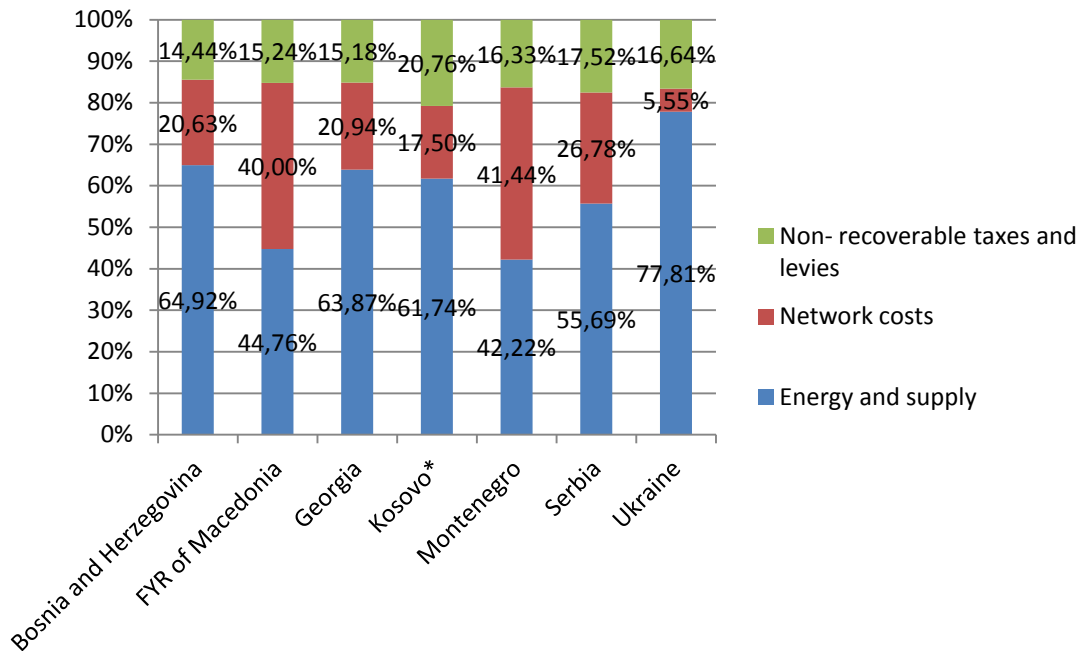
Source: EUROSTAT and NRAs

³¹ Including transmission charge

³² Only distribution charge

³³ Breakdown of average price for 1 and 2 classes of industry customers, see above

Figure 10 Structure of industry electricity prices (Band IC: 500MWh < consumption < 2000 MWh (EUR cent/kWh))



4. Regulation of end-user prices

Regulation of end- user energy prices is generally recognized as one of the main **obstacles to creating competitive and well-functioning retail markets**. This is especially the case when regulated prices are determined at levels below costs and/or when cross-subsidization between groups of customers applies.

End-user electricity prices for **household customers** were regulated in all Energy Community Contracting Parties and Georgia³⁴ in 2014.

Also the great majority of **non-household customers** were still supplied at regulated prices in 2014. Although the relevant national laws proclaimed eligibility status for non-household customers in most³⁵ of the Energy Community Contracting Parties, in some of the markets the possibility to change supplier was limited by secondary legislation³⁶, namely in Bosnia and Herzegovina, Kosovo* and Albania. On the other side and as described earlier, in some countries, namely FYR of Macedonia, Montenegro and Serbia, final customers connected to the transmission network were forced to leave the regulated market and choose a new

³⁴ Household customers in Georgia are allowed to switch out of regulated prices and purchase electricity directly from Small Power Plants (With installed capacity of less than 13 MW) with price agreed upon between the parties

³⁵ Ref. chapter II.2.

³⁶ Source: Annual Implementation Report of the Energy Community Secretariat, August 2014.

supplier and all non-household customers were allowed to choose their suppliers³⁷. The table below shows the number / percentage of non-household customers were supplied at non-regulated prices in 2014.

Table 8 Number of non- households supplied at non- regulated prices in 2014

Number of non- households supplied at non-regulated prices in 2014	
Albania	0
Bosnia and Herzegovina	2
FYR of Macedonia	222
Georgia	Exact number not known
Kosovo*	0
Montenegro	1
Serbia	57.454
Ukraine	1376

End- user electricity prices are regulated by using the following **methodologies**³⁸:

- Rate of return/cost plus in Bosnia and Herzegovina, Serbia, Georgia and Ukraine
- Revenue cap in FYR of Macedonia, Kosovo* and Montenegro
- Price cap in Albania

In the process of **phasing out** end-user price regulation it is important to prove to customers that the electricity price is a market-based commodity price that varies according to the wholesale market developments. One of the most efficient tools for doing so is frequent updating of the energy component, so to allow the final price to reflect changes in the wholesale market. This will also offer customers the possibility to estimate if retail companies, other than incumbent suppliers, provide cheaper energy. The energy component in the analyzed markets receives update once a year in all Contracting Parties and in Georgia³⁹.

- Ukraine: monthly for customers other than households,

³⁷ In FYR of Macedonia as of April 2014 and in Serbia as of January 2014; ref. chapter II.2 on switching.

³⁸ More details on types of price regulation implemented in the Energy Community can be found in the 2013 ECRB report "Status Review of Main Criteria for Allowed Revenue Determination for transmission, distribution and regulated supply of electricity and gas", http://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/2768183/Criteria%20for%20Allowed%20Revenue%20Determination_approved%20by%20the%20ECRB.fin.pdf.

³⁹ The methodology in Georgia also allows one additional energy component review in emergency situations (in 2015 this option was used due to dramatic devaluation of the national currency)

- Serbia: no automatic mechanism, NRA decides upon request of a supplier;
- FYR of Macedonia: no automatic mechanism, the final prices are changed by new price setting proceedings; the need for a related price review is considered on annual basis;
- Bosnia and Herzegovina: no automatic mechanism, the final prices are changed in case of new price setting by the regulated initiated upon request of a supplier.

Adequate approach to protecting vulnerable customers in the Energy Community Contracting Parties is also an important step in the process of price deregulation. Namely, only when the vulnerable customers are properly defined and targeted, price regulation will lose one of its main justifications- protection of customers by not exposing them to potential effects of liberalized market.

Finally, another precondition for successful transition towards complete deregulation of end-user prices is allowing customers to **switch from and to regulated prices**. Customers, especially households, typically consider regulated energy prices as more stable. If customers are not allowed to return to regulated supply, they will most likely not be willing to change supplier at all. This tendency increases where regulated prices are set at levels below costs. Obviously such approach does not contribute to liquid and effective retail market development. Also the ACER/CEER Market Monitoring Report 2013⁴⁰ investigated the influence of the possibility to switch in and out of regulated prices on switching behavior and the results showed that in countries with regulated electricity prices where both⁴¹ preconditions for efficient transition to deregulation are met, the switching rates were much higher.

In all Energy Community Contracting Parties, except Albania, and in Georgia switching from and to regulated prices is allowed, in some cases only for households and small enterprises⁴².

⁴⁰

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202013.pdf , pages 53-55.

⁴¹ Namely frequent review of the energy component and the possibility of switching in and out of regulated prices.

⁴² Bosnia and Herzegovina and Serbia

5. Summary and conclusions

Total sale of electricity to final customers in the Energy Community Contracting Parties and one observer - Georgia decreased in the period 2013-2014 by 4,96%. The only markets with an increase in electricity demand over the period were those of Kosovo* and Albania. The main reasons for the observed **decrease in electricity consumption** laid in a combination of the economic crisis leading to decline in industry consumption and warm winter temperatures in 2014 allowing households to use less electricity for heating.

With an exception of Ukraine, where a large number (116) of both local and nationwide suppliers are active in the retail market, and of Bosnia and Herzegovina where 17 nationwide suppliers are active in the retail market, supply to electricity end-users in the majority of Energy Community Contracting Parties and Georgia was offered by **one or several (less than 10) suppliers** in 2014, that are at the same time in majority of cases also **nationwide suppliers**. It is worth noting that all new suppliers active in the market indeed operate as nationwide suppliers; this proves that **both transmission and distribution networks were effectively opened** for suppliers other than incumbent and the first steps towards creating level playing field in the retail markets have proven success. More suppliers were active in the part of market supplying customers connected to the transmission network, not only because these customers are with higher quantities and sensitivity to price changes, but also because in many of the Contracting Parties those customers were forced in several previous years to leave the regulated market and conclude a contract with a supplier offering electricity at non-regulated prices.

Retail electricity markets are still highly concentrated, with only few retailers selling more than 5% of total electricity and with an aggregated market share of three largest companies close to 100% (the exception is Ukraine where the share is 30%). In addition to this, markets are dominated by incumbent retail suppliers. However there is a significant difference noticed in FYR of Macedonia, where the market share of the biggest electricity supplier (incumbent, active on regulated market) in 2014 was only 64,40%, compared to the other Energy Community Contracting Parties where, except for Ukraine, market shares of the incumbent electricity suppliers range between 80% (Montenegro⁴³) and close to 100% (Serbia, Bosnia and Herzegovina, Albania and Kosovo*).

In the monitoring period **not all customers** in the Energy Community Contracting Parties **had the right to choose their supplier**:

- **Household customers in none of the markets were eligible in 2014.** Nevertheless national legislation in all cases provides for complete market opening as of January 2015. The exemption is FYR of Macedonia where the Government in October 2014 by an amendment to the Law postponed market opening for all small and medium enterprises and household customers until 2020.
- **Non-household customers were eligible to switch their suppliers in more than half of the Energy Community Contracting Parties**, namely in Kosovo*, FYR of

⁴³ Whereby non-incumbent supplier sells to only one customer accounting for 20% of total national consumption.

Macedonia, Montenegro, Serbia and Ukraine. However, effective market opening in Kosovo* is subject to the assessment of market conditions by the regulatory authority who decided that regulated supply prices remain applicable to all customers. In some other countries granting the eligibility status was limited to consumption or voltage level thresholds.

During 2014 **only a limited number of eligible customers freely changed their suppliers.** The customers that switched supplier are large consumers of electricity; therefore the switching rates in terms of metering points were very low but in terms of volume were significant.

Due to the fact that the all customers except households and small customers were forced to choose their suppliers in 2014 in FYR of Macedonia and Serbia, **switching activities increased** in these countries. However, it should be noted that these changes of suppliers in Serbia were not done on the own decisions of customers but a result of regulation forcing them to choose their supplier. While most of the customers chose their previous (incumbent) supplier, i.e. did not effectively switch to another company, still the process has to be seen positively both in terms of raising customers' awareness of their rights in the open market and abolishment of regulated supply prices.

End-user electricity prices for household customers in the Energy Community Contracting Parties and Georgia **vary substantially** from around 2 EUR cent/kWh in Ukraine to almost 12 EUR cent/kWh in Albania, which is still much lower than the EU 28 average price for households in the second semester of 2014⁴⁴. Without proper investigation of wholesale market structures and their functioning it is not possible to estimate precisely the reasons for such differences between end-user prices. However, the regulation of final prices for households, still applied in all Energy Community Contracting Parties, clearly influences their cost reflectivity.

The structure of end- user **prices for household customers** sheds more light on the competition possibilities in those markets. Namely, **very high portions of network costs** in the final prices leave less **space for savings potentially coming from changing supplier.**

Electricity prices for industrial customer are more harmonized among Contracting Parties and Georgia, but still lagging behind EU levels. However it has to be noted that in the majority of the analyzed markets **industry prices are higher than prices for households**, in cases of Ukraine and Kosovo* even substantially higher. Having in mind that household customers and part of industry customers were supplied under regulated prices, it may be concluded that some kind of **cross-subsidization** between these customer categories applied. On the other side, the fact that industry prices had been partially deregulated has already led to certain price harmonization across borders. If market liberalization is to bring benefits to customers, not only by allowing choice of suppliers, but also by offering lower prices, **end- user price regulation has to abandoned.** Abandoning of end-user price regulation in countries where prices are regulated at levels below costs will, most evidently,

⁴⁴ 20,52 EUR cent/kWh

not lead to lower prices in the first step. Only once all suppliers offer electricity at market prices, market liberalization and competition can bring benefits to customers in terms of lower prices.

End-user electricity prices for **household customers** were regulated in all Energy Community Contracting Parties and Georgia in 2014. Also the great majority of **non-household customers** were still supplied at regulated prices in 2014.

End-user electricity prices are regulated by using the following different **methodologies** (rate of return, revenue cap or price cap).

In the process of phasing out end-user price regulation it is important to prove to customers that the electricity price is a market-based commodity price that varies according to the wholesale market developments. One of the most efficient tools for doing so is **frequent updating of the energy component**, so to allow the final price to reflect changes in the wholesale market. This will also offer customers the possibility to estimate if retail companies, other than incumbent suppliers, provide cheaper energy. The energy component in the analyzed markets usually receives an update once a year (in Ukraine monthly for non-household customers), but there is no automatic mechanism - the change is initiated by the supplier when needed.

Adequate approach to protecting vulnerable customers in the Energy Community Contracting Parties is also an important step in the process of price deregulation. Namely, only when the vulnerable customers are properly defined and targeted, price regulation will lose one of its main justifications - protection of customers by not exposing them to potential effects of liberalized market.

Finally, another precondition for successful transition towards complete deregulation of end-user prices is allowing customers to **switch from and to regulated prices**. Customers, especially households, typically consider regulated energy prices as more stable. If customers are not allowed to return to regulated supply, they will most likely not be willing to change supplier at all. This tendency increases where regulated prices are set at levels below costs. **In all Energy Community Contracting Parties, except Albania, switching from and to regulated prices is allowed**, in some cases only for households and small enterprises.

III. GAS MARKETS

Having in mind that Albania, Kosovo* and Montenegro do not have gas markets, this part of the report does not include information on these three markets. For Bosnia and Herzegovina the information has not been provided, therefore the analysis, where possible, relies on the information from 2014 and 2015 Annual Implementation Report of the Energy Community.

1. Retail market characteristics

The total sale of gas to final customers in the Energy Community Contracting Parties and one Observer (Georgia) decreased from 2013 to 2014 by 15,36%⁴⁵. The gas **consumption decreased** in all countries, except Georgia. The decrease was the highest- 16,57% in Ukraine, following by decrease of 15,09% in FYR of Macedonia. Decrease in Ukraine was mainly caused on purpose, with a view to lowering import (dependence). Decrease in other countries was mainly triggered by warm autumn/winter temperatures in 2014 and a decline of industry consumption. The figures below present the total gas sales to final customers in 2012, 2013 and 2014, expressed including and excluding Ukraine⁴⁶, as well as consumption growth rates by country.

⁴⁵ Decrease from 2012 to 2013 was 10, 15%.

⁴⁶ With a view to provide comparability having in mind the size of the Ukraine gas market compared to those of the other analyzed markets.

Figure 11 Total sale to final customers in GWh

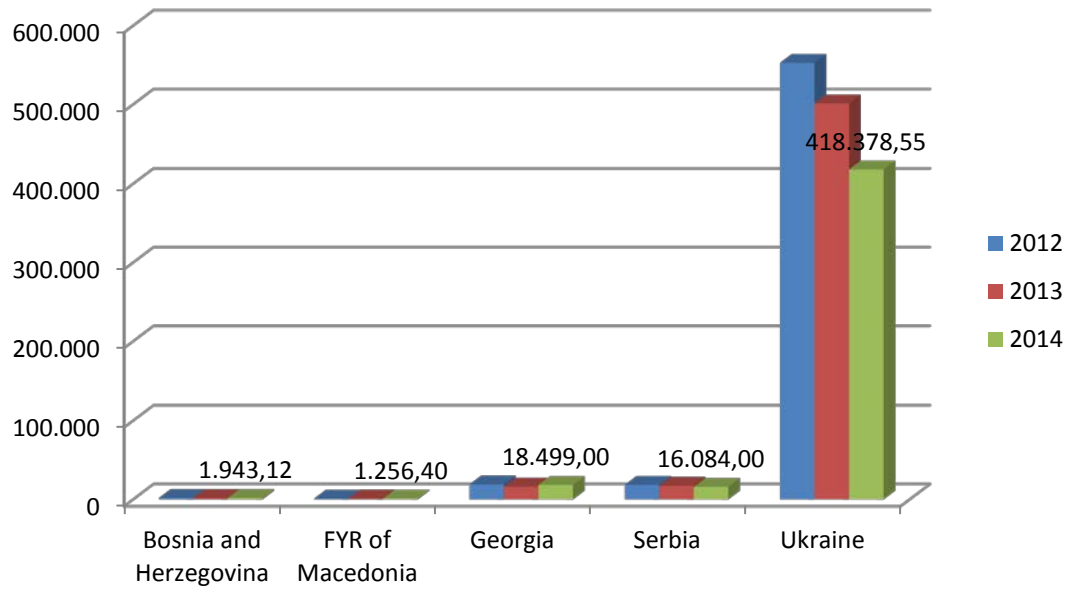


Figure 12 Total sale to final customers in GWh (excluding Ukraine)

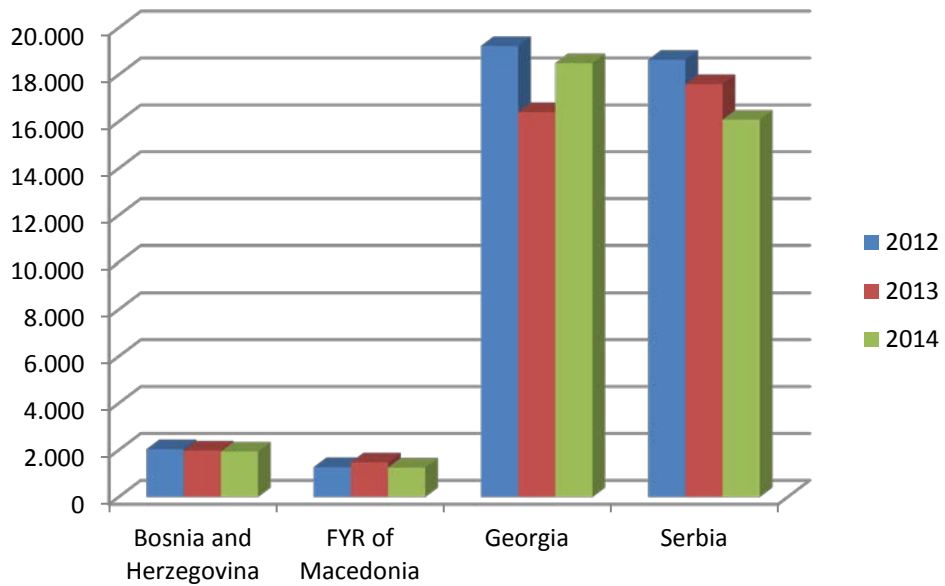
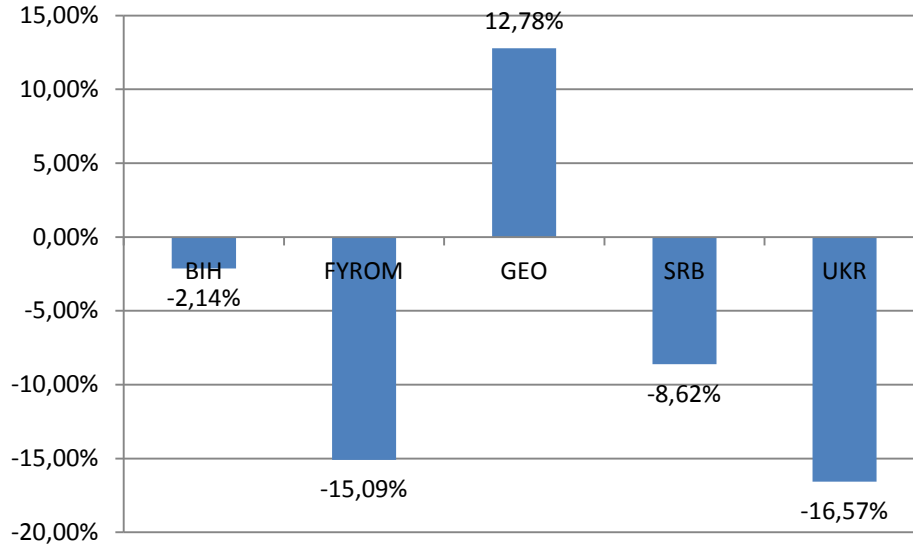


Figure 13 Growth rates of gas demand 2013 to 2014



The **consumption of natural gas at household level differs** among the analyzed markets.

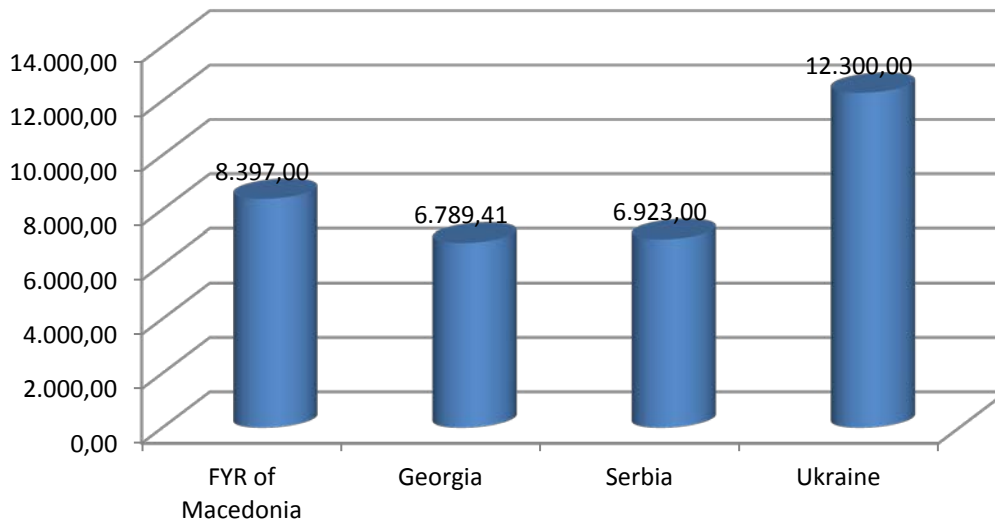
The percentage of households using gas is:

- Georgia 73%,
- Ukraine 70,76%⁴⁷,
- Serbia 10% and
- FYR of Macedonia 0,007%.

Also the **average consumption of gas per household varies** among countries. Relevant quantities are displayed in the figure below.

⁴⁷ Source: The National Joint Stock Company Naftogaz of Ukraine

Figure 14 Average annual gas consumption per household in kWh



End-users of gas in the Energy Community Contracting Parties and Georgia were supplied mainly by regional retail suppliers, i.e. suppliers offering gas only to a restricted area defined by their license and usually performing also DSO function. The number of active suppliers ranged from 4 in Bosnia and Herzegovina and FYR of Macedonia to 36 in Serbia and 37 in Georgia. The number of suppliers in Ukraine - 350 refers to the licensed suppliers, since there is no information on number of retail suppliers practically active in the market. The number of active nationwide suppliers⁴⁸ was very low - only one in Serbia⁴⁹ and FYR of Macedonia; in Bosnia and Herzegovina all retailers supply gas regionally. In Georgia all retailers supply nationwide. The information on nationwide suppliers for Ukraine refers only to number of nationwide licensed suppliers (301), however it is expected that the number of retailers actually supplying customers nationwide is lower.

In only two countries, Ukraine and Serbia, transmission and distribution networks were used by more than one supplier. In FYR of Macedonia only transmission network is used by more than one supplier. For the purpose of facilitating the forthcoming market opening, it is of utmost importance to enable efficient separation of supply and network activities, i.e. to allow gas retailers to supply customers on the whole territory of a country.

⁴⁸ Nationwide supplier means suppliers offering their products on the whole territory of a country.

⁴⁹ 40 suppliers were licensed as nationwide, but only one was nationwide active.

Table 9 Number of active suppliers in 2014

	Number of active gas suppliers	Number of active nationwide suppliers
Bosnia and Herzegovina	4 ⁵⁰	0
FYR of Macedonia	4	1
Georgia	37	37
Serbia	36	1
Ukraine ⁵¹	350	301

In order to accomplish the picture of retail gas markets from supply side, concentration and openness of markets have been investigated. The results are presented in the table below. The following conclusions can be drawn:

- Although most of the analyzed markets have a substantial number of retailers, only a very limited number of them have a market share (% of annual consumption) higher than 5%. This, however, does not prove immediately absence of monopolies, but, taking into consideration other relevant information provided in this report⁵², rather points out to the existence of regional or local monopolies;
- In the same context, information on the aggregated market share of the three largest retailers in the market shows only that there are several dominant incumbent suppliers;
- There is mostly no alternative to the incumbent gas suppliers in the analyzed markets. However, obstacles to retail market entries mainly come from reasons other than retail market design-scarce infrastructure and the status of wholesale market development (e.g. single source of gas, poor access to liquid wholesale markets, long - term contracts).

⁵⁰ Source: Annual Implementation Report of the Energy Community Secretariat, 1 September 2015.

⁵¹ Information for licensed suppliers, not available for active

⁵² Ref. Table 10.

Table 10 Market concentration in 2014

	Number of gas retailers selling at least 5% of total gas consumed by final customers	Market share of the 3 largest companies in the retail market (aggregated) in %	Estimated incumbent market share in the household market, in % of annual consumption
FYR of Macedonia	3	36,18% ⁵³	100%
Georgia	5	77%	100%
Serbia	1	71%	100%
Ukraine	1	43,8%	100%

2. Switching behavior

The switching rate is one of the commonly used indicators for measuring market competitiveness. However, its interpretation has to be done carefully and by taking into consideration relevant legislative and regulatory provisions as well as the market structures.

Not all customers in the Energy Community Contracting Parties were eligible to choose their supplier:

- **Household customers** in none of the Energy Community Contracting Parties were eligible in 2014. Formally, in FYR of Macedonia also households were eligible to choose their suppliers in 2014, however, this legislative provision was conditioned on implementation of secondary legislation and the eligibility could be exercised in practice only as of January 2015⁵⁴. National legislation in all countries provides for complete market opening as of January 2015⁵⁵.
- All **non-household customers** were eligible to switch their suppliers in 2014 only in Georgia, Serbia and Ukraine. In Ukraine⁵⁶ the annual switching rate for 2014 in the whole retail market was 0,007% measured by number of metering points which equals to 4,64% measured by volume; the switching rate of non-household customers added up to 0,405% or 8,05% measured by volume. The information on switching was not available for Serbia. However, there were 60 active eligible customers in Serbia in 2014⁵⁷. In FYR of Macedonia eligibility status was limited by secondary legislation.

⁵³ Remaining 63,82% of the final gas consumption is used by energy companies BEG and TE-TO, which according to the Energy Law have permission to buy natural gas directly from abroad, as well as very small portion in this quantity is of DSO's in Strumica and Kumanovo

⁵⁴ Annual Implementation Report of the Energy Community Secretariat, 1 September 2015.

⁵⁵ The exception is Bosnia and Herzegovina, where gas related state level legislation as well as legislation of Federation BIH has not been finalized yet.

⁵⁶ Based on information for 36 companies supplying gas at regulated tariff.

⁵⁷ Annual Implementation Report of the Energy Community Secretariat, 1 September 2015.

Beside legal obstacles for changing the gas retail supplier, application of end-user price regulation, as it will be described in the following two chapters, and the poor access to liquid wholesale markets may be seen as the main reasons for low switching rates.

3. End-user gas prices

This chapter presents the **levels and structures of end-user gas prices** for both household and industry customers in the Energy Community Contracting Parties and other analyzed markets in the second semester of 2014.

End-user gas prices for **household** customers in the Energy Community Contracting Parties and other investigated markets **vary substantially**, from less than 1 EUR cent/kWh in Ukraine⁵⁸ to approximately 5 EUR cent/kWh in Bosnia and Herzegovina. The EU-28 average⁵⁹ gas price for households in the second semester of 2014 was 7,19 EUR cent/kWh. The household prices Serbia are similar to those in Bosnia and Herzegovina, and the gas prices for residential customers in Georgia are very low on average - 2,08 EUR cent/kWh. The main reason for low gas price for household customers in Ukraine is the low price of domestic production that is dedicated to supply of households. Low import price in Georgia in comparison to higher import prices in Bosnia and Herzegovina and Serbia certainly also play an important role. Finally the regulation of end- user prices for households, still applied in all Energy Community Contracting Parties⁶⁰, clearly influences their cost reflectivity.

Table 11 Gas prices for households, EUROSTAT Band D2: 20GJ < consumption < 200 GJ (EUR cent/kWh)

	Gas, network and non-recoverable levies	VAT and other recoverable taxes	Price with all taxes and levies included
Bosnia and Herzegovina	4,39	0,73	5,12
Georgia ⁶¹	1,76	0,32	2,08
Serbia	4,10	0,41	4,51
Ukraine ⁶²	0,53	0,10	0,63
EU-28	6,20	0,99	7,19

Source: EUROSTAT and NRAs

⁵⁸ It is worth noting that end-user prices for households substantially increased in 2015.

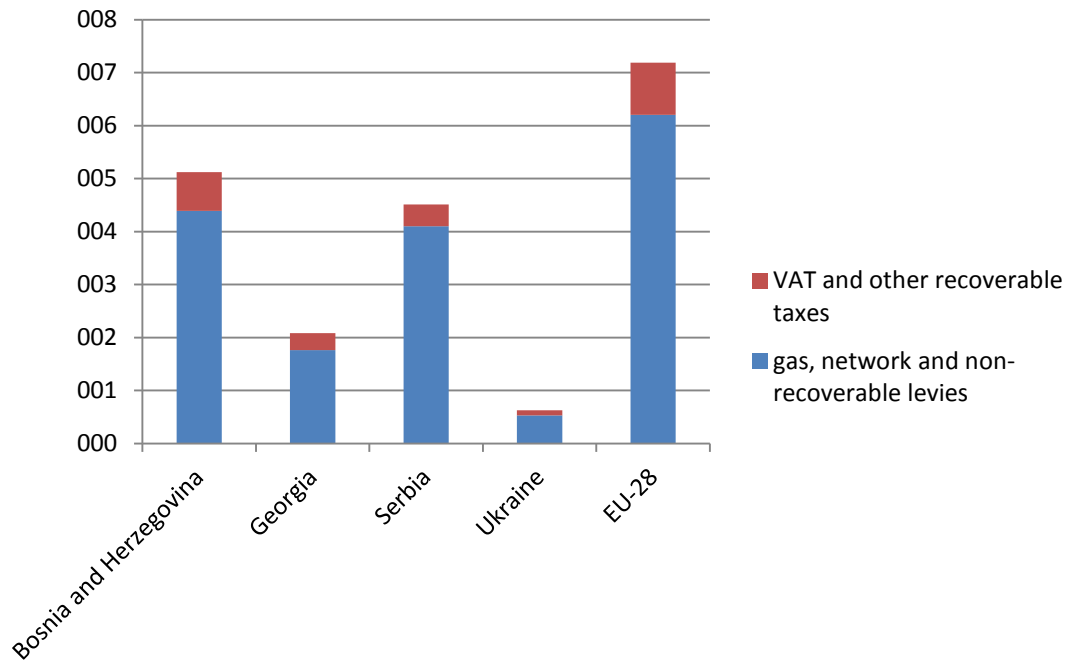
⁵⁹ Source: EUROSTAT.

⁶⁰ Details on end- user price regulation are described in the following chapter.

⁶¹ Weighted average price for all households. Prices for the supplier of last resort in the capital city.

⁶² Weighted average price for all households; Average exchange rate for the second semester 2014, source: <http://www.investing.com/currencies/eur-uah-historical-data>

Figure 15 Gas prices for households, EUROSTAT Band D2: 20GJ < consumption < 200 GJ (EUR cent/kWh)



The **structure of end-user prices for household customers** is available only for Ukraine and, partially, Georgia. The share of network costs in the end-user price for households is 28,6% in Ukraine and 28,4% in Georgia, whereby the network share for Georgia refers only to distribution charge.

Gas **prices for industry were more harmonized** among analyzed markets, in some cases higher than EU average gas price. However it has to be noted that in majority of the analyzed markets (Bosnia and Herzegovina, Georgia and Ukraine, see Figure 17) industry prices were higher than prices for households, in cases of Ukraine and Georgia even substantially higher. Having in mind that the great majority of customers, both household and industry⁶³, were supplied under regulated prices, it can be consequently concluded that a certain level of **cross-subsidization** between these customer categories applied. On the other side, the fact that industry prices had been partially deregulated has already led to certain price harmonization. If forthcoming market liberalization is to bring benefits to customers, not only by allowing choice of suppliers, but also offering the lower prices, **end-user price regulation has to be abandoned**. Abandoning of end- user price regulation in countries where prices are regulated at levels below costs will, most evidently, not lead to lower prices in the first step. Only once all suppliers offer gas at market prices, market liberalization and competition can bring benefits to customers in terms of lower prices. Cost-reflectivity of energy prices remains one the most important means for entry of new suppliers but also economic viability of the incumbent suppliers.

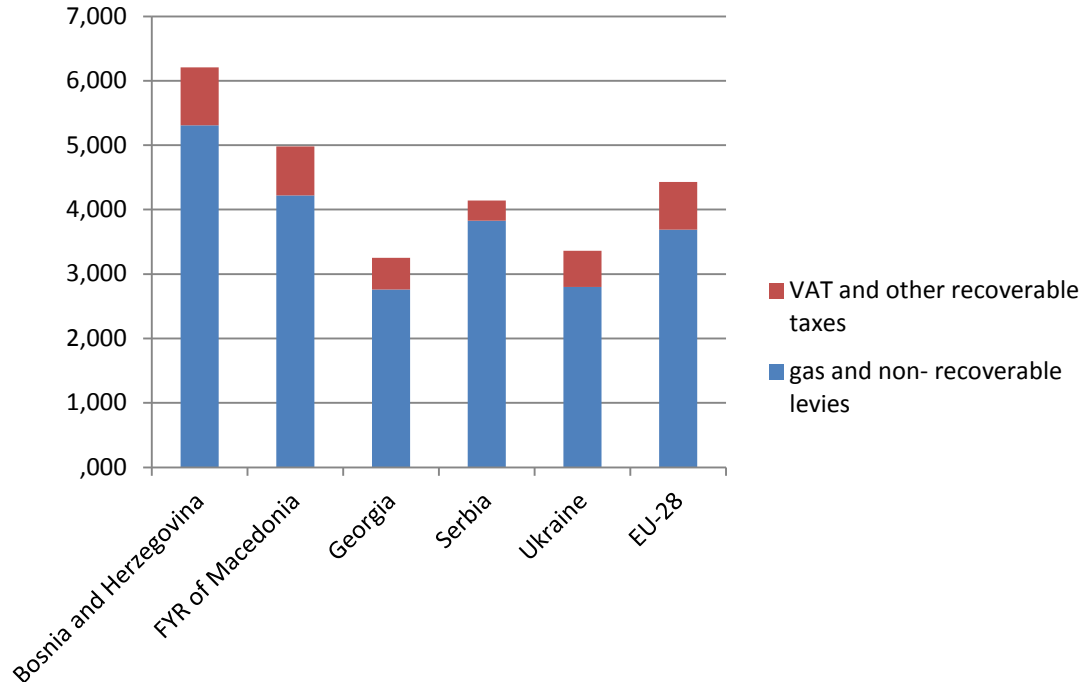
⁶³ For more details on end- user price regulation see the next chapter.

Table 12 Gas prices for industry, EUROSTAT Band I3: 10 000 GJ < consumption < 100 000 GJ (EUR cent/kWh)

	Gas, network and non-recoverable levies	VAT and other recoverable taxes	Price with all taxes and levies included
Bosnia and Herzegovina	5,31	0,90	6,21
FYR of Macedonia	4,22	0,76	4,98
Georgia ⁶⁴	2,76	0,49	3,25
Serbia	3,83	0,38	4,21
Ukraine ⁶⁵	2,80	0,56	3,36
EU-28	3,69	0,74	4,43

Source: EUROSTAT and NRAs

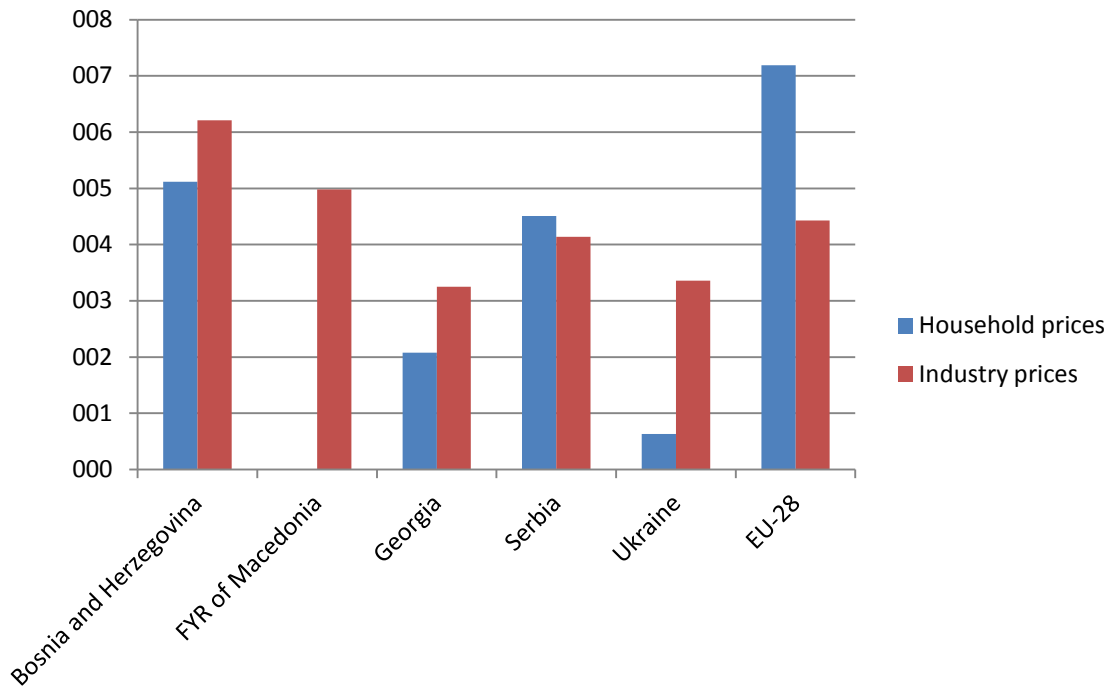
Figure 16 Gas prices for industry, EUROSTAT Band I3: 10 000 GJ < consumption < 100 000 GJ (EUR cent/kWh)



⁶⁴ Weighted average for all industry customers

⁶⁵ Weighted average for all non-household customers

Figure 17 Comparison of end- user gas prices for households (Band D2) and industry (Band I3)- second semester of 2013 (EUR cent/kWh)



The **structure of end-user prices for industry customers** is available only for Ukraine and, partially, Georgia. The share of network costs in the end-user price for all non- households is 5,39% in Ukraine and 2,39% in Georgia, whereby the network share for Georgia refers only to distribution charge.

4. End- user price regulation

Regulation of end- user energy prices is generally recognized as one of the main **obstacles to creating competitive and well-functioning retail markets**. This is especially the case when regulated prices are determined at levels below costs and/or when cross-subsidization between groups of customers exists.

End-user gas prices for household customers were regulated in all Energy Community Contracting Parties in 2014, with the exception of FYR of Macedonia, where only limited number of households⁶⁶ was supplied at non-regulated prices. In Georgia household customers connected to the grid after 2007 are supplied under non-regulated prices. However 84% of residential consumers were supplied under partly regulated prices, consuming 93% of gas supplied to residential consumers.

⁶⁶ 37 household customers.

Also the great majority of **non-household customers** were still supplied at regulated prices in all investigated markets, except Serbia, in 2014. The table below shows how many non-household customers were supplied at non-regulated prices in 2014.

Table 13 Number of non- households supplied at non- regulated prices

	2014
Bosnia and Herzegovina	not available
FYR of Macedonia	0
Georgia	not available
Serbia	12.227 ⁶⁷
Ukraine	54.414

End- user gas prices are regulated by using the following methodologies:

- Rate of return/cost plus in Georgia, Serbia and Ukraine;
- Price cap in FYR of Macedonia.

In the process of **phasing out** end-user price regulation it is important to prove to customers that the gas price is a market-based commodity price that varies according to the wholesale market developments. One of the most efficient tools for doing so is frequent updating of the energy component, so to allow the final price to reflect changes in the wholesale market. This will also offer customers the possibility to estimate if retail companies, other than incumbent suppliers, provide cheaper energy. The energy component in the analyzed markets receives update as follows:⁶⁸

- Monthly in FYR of Macedonia,
- Every 12 months in Georgia,
- Serbia: no automatic mechanism, but suppliers are obliged to submit to the regulator price proposals in case of a more than 3% change in gas purchase price. The price was updated in 2014 approximately every 4 months.

Adequate approach to protecting vulnerable customers in the Energy Community Contracting Parties is also an important step in the process of price deregulation. Namely, only when the vulnerable customers are properly defined and targeted, price regulation will lose one of its main justifications- protection of customers by not exposing them to potential effects of liberalized market.

⁶⁷ Number of metering points

⁶⁸ Information not available for all relevant markets.

Finally, another precondition for successful transition towards complete deregulation of end-user prices is allowing customers to **switch from and to regulated prices**. Customers, especially households, typically consider regulated energy prices as more stable. If customers are not allowed to return to regulated supply, they will most likely not be willing to change supplier at all. This tendency increases where regulated prices are set at levels below costs. Obviously such approach does not contribute to liquid and effective retail market development. Also the ACER/CEER Market Monitoring Report 2012⁶⁹ investigated the influence of the possibility to switch in and out of regulated prices on switching behavior and the results showed that in countries with regulated gas prices where both⁷⁰ preconditions for efficient transition to deregulation are met, the switching rates were much higher.

Among the markets analyzed in this report, only in Serbia⁷¹ and Ukraine switching in and out of regulated prices was allowed.

⁶⁹

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202013.pdf , pages 53-55.

⁷⁰ Namely frequent review of the energy component and the possibility of switching in and out of regulated prices.

⁷¹ Only for households and small customers

6. Summary and conclusions

Total sale of gas to final customers in the Energy Community Contracting Parties and one observer - Georgia decreased in the period 2013-2014 by 15,37%. The gas consumption decreased in all countries, except Georgia. While in Ukraine the decrease was mainly caused on purpose, with a view to lowering import (dependence), in other countries the decrease was triggered by warm autumn/winter temperatures in 2014 and a decline in industry consumption.

End-users of gas in the Energy Community Contracting Parties and Georgia were supplied mainly by regional retail suppliers, i.e. suppliers offering gas only to a restricted area defined by their license and usually performing also DSO function. The number of active nationwide suppliers was very low - only one in Serbia and FYR of Macedonia; in Bosnia and Herzegovina all retailers supply gas regionally. In Georgia all retailers supply nationwide. In Ukraine there were around 300 licensed nationwide suppliers, however it is not known how many of them are active on the market.

In only two countries, Ukraine and Serbia, **there were transmission and distribution networks with more than one supplier**. In FYR of Macedonia only transmission network is used by more than one supplier. For the purpose of facilitating the forthcoming market opening, it is of utmost importance to enable efficient separation of supply and network activities, i.e. to allow gas retailers to supply customers on the whole territory of a country.

Although most of the analyzed gas markets have a substantial number of retailers, only a very limited number of them have a market share higher than 5%. This, however, does not prove immediately absence of monopolies, but, taking into consideration other relevant information provided in this report, rather points out to the **existence of regional or local monopolies**. In the same context, information on the aggregated market share of the three largest retailers in the market shows only that there are **several dominant incumbent suppliers**. There is mostly no alternative to the incumbent gas suppliers in the analyzed markets. However, **obstacles to retail market entries mainly come from reasons other than retail market design-scarce infrastructure and the status of wholesale market development** (e.g. single source of gas, poor access to liquid wholesale markets, long-term contracts).

Not all gas customers in the Energy Community Contracting Parties were eligible to choose their supplier:

- **Household customers** in none of the Energy Community Contracting Parties were eligible in 2014. National legislation in all countries provides for complete market opening as of January 2015⁷².
- All **non-household customers** were eligible to switch their suppliers in 2014 only in Georgia, Serbia and Ukraine. In Ukraine⁷³ the annual switching rate for 2014 in the

⁷² The exception is Bosnia and Herzegovina, where gas related state level legislation as well as legislation of Federation BiH has not been finalized yet.

⁷³ Based on information for 36 companies supplying gas at regulated tariff.

whole retail market was 4,64%, the switching rate of non-household customers added up to 8,05%⁷⁴. The information on switching was not available for Serbia. However, there were 60 active eligible customers in Serbia in 2014⁷⁵. In FYR of Macedonia eligibility status was limited by secondary legislation.

Beside legal obstacles for changing the gas retail supplier, application of end-user price regulation and the poor access to liquid wholesale markets may be seen as the main reasons for low switching rates.

End-user gas prices for **household** customers in the Energy Community Contracting Parties and Georgia **vary substantially**, from less than 1 EUR cent/kWh in Ukraine⁷⁶ to approximately 5 EUR cent/kWh in Bosnia and Herzegovina, which is still lower than the EU-28 average gas price for households in the second semester of 2014⁷⁷. The main reason for low gas price for household customers in Ukraine is the low price of domestic production that is dedicated to supply of households. Low import price in Georgia in comparison to higher import prices in Bosnia and Herzegovina and Serbia certainly also play an important role. Finally the regulation of end-user prices for households, still applied in all Energy Community Contracting Parties clearly influences their cost reflectivity.

Gas **prices for industry were more harmonized** among analyzed markets, in some cases higher than EU average gas price. However it has to be noted that in majority of the analyzed markets (Bosnia and Herzegovina, Georgia and Ukraine) industry prices were higher than prices for households, in cases of Ukraine and Georgia even substantially higher. Having in mind that the great majority of customers, both household and industry, were supplied under regulated prices, it can be consequently concluded that a certain level of **cross-subsidization** between these customer categories applied. On the other side, the fact that industry prices had been partially deregulated has already led to certain price harmonization. If market liberalization is to bring benefits to customers, not only by allowing choice of suppliers, but also offering the lower prices, **end-user price regulation has to be abandoned**. Abandoning of end-user price regulation in countries where prices are regulated at levels below costs will, most evidently, not lead to lower prices in the first step. Once, the wholesale market is more developed, and all suppliers offer gas at market prices, market liberalization and competition can bring benefits to customers in terms of lower prices.

End-user gas prices for household customers were regulated in all Energy Community Contracting Parties in 2014, with the exception of FYR of Macedonia, where only limited number of households was supplied at non-regulated prices. In Georgia household customers connected to the grid after 2007 are supplied under non-regulated prices.

Also the great majority of **non-household customers** were still supplied at regulated prices in all investigated markets, except Serbia, in 2014.

⁷⁴ Switching rates measured by volume.

⁷⁵ Annual Implementation Report of the Energy Community Secretariat, 1 September 2015.

⁷⁶ It is worth noting that end-user prices for households substantially increased in 2015.

⁷⁷ 7,19 EUR cent/kWh

End-user gas prices are regulated by using the rate of return or price cap methodology.

In the process of **phasing out** end-user price regulation it is important to prove to customers that the gas price is a market-based commodity price that varies according to the wholesale market developments. One of the most efficient tools for doing so is frequent updating of the energy component, so to allow the final price to reflect changes in the wholesale market. This will also offer customers the possibility to estimate if retail companies, other than incumbent suppliers, provide cheaper energy. The energy component in FYR of Macedonia and Serbia receives regular update (monthly or several times during the year), while in Georgia the end-user prices are updated only once a year.

Adequate approach to protecting vulnerable customers in the Energy Community Contracting Parties is also an important step in the process of price deregulation. Namely, only when the vulnerable customers are properly defined and targeted, price regulation will lose one of its main justifications - protection of customers by not exposing them to potential effects of liberalized market.

Finally, another precondition for successful transition towards complete deregulation of end-user prices is allowing customers to **switch from and to regulated prices**. Customers, especially households, typically consider regulated energy prices as more stable. If customers are not allowed to return to regulated supply, they will most likely not be willing to change supplier at all. This tendency increases where regulated prices are set at levels below costs. Obviously such approach does not contribute to liquid and effective retail market development. Among the markets analyzed in this report, only in Serbia (only for households and small enterprises) and Ukraine switching in and out of regulated prices was allowed.

IV. CONSUMER PROTECTION AND EMPOWERMENT

Well functioning of retail electricity and gas markets means that consumers have continuous access to energy and benefit from competition, as well as that their rights are guaranteed and strengthened. Therefore 3rd Energy Package outlines a set of measures which aim to:

- Ensure continuous supply of electricity and gas and address energy poverty;
- Define concept of vulnerable customers and means for their protection;
- Ensure participation of customers in liberalized energy market by providing necessary information to customers, in a transparent way and free of charge, related to metering and billing, contractual terms and conditions, switching supplier, dispute settlement etc.

This chapter monitors **household** consumer protection according to the relevant provisions of Electricity and Gas Directive. More precisely, it explores how these provisions have been transposed into national legislation i.e. how the national legal frameworks protect household consumers.

The topics covered in this chapter are:

- Supplier of last resort and disconnections,
- Vulnerable customers,
- Consumer information
- Switching and
- Complaint handling and dispute resolution.

1. Supplier of last resort and disconnections

Electricity Directive⁷⁸ requires that all household customers enjoy universal service- the right to be supplied with electricity of a specified quality at reasonable, easily comparable, transparent and non- discriminatory prices. This may be ensured by appointing a supplier of last resort. On the other side, Gas Directive⁷⁹ does not recognize the term “universal service”. However, supplier of last resort for customers connected to the gas system may be appointed. None of the directives explains which functions has the supplier of last resort. ACER/CEER Market Monitoring Report⁸⁰ identified the list of functions that electricity and gas suppliers of last resort have in EU Member States. The table below summarizes which of these functions are applicable in the Energy Community Contracting Parties and Georgia.

Table 14 Functions of the supplier of last resort in the Energy Community - 2014

In what circumstances may a household customer turn to the "supplier of last resort" to ensure continuous energy supply?	Number of countries- electricity	Number of countries- gas
If a household customer does not find supplier on the market	5	2
If a household customer is dropped by its current supplier because of non- payment	3	1
The current supplier has gone bankrupt and is no longer doing business	5	3
The license of the current supplier has been revoked	4	3
If a final household customer does not choose a supplier at market opening	4	2
If a fix- term supply contract expires	4	2
Other reasons	1	
There is no supplier of last resort in the country	1 ⁸¹	0

The supplier of last resort is appointed for electricity and gas⁸² in all Energy Community Contracting Parties, very often having another name (e.g. guaranteed supplier of electricity in Ukraine or reserve supplier in Serbia). In Albania the wholesale electricity supplier had functions of a supplier of last resort in 2014. The table 14 shows that electricity supplier of last

⁷⁸ Article 3(3) of Directive 2009/72/EC, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0055:0093:EN:PDF>

⁷⁹ Article 3(3) of Directive 2009/73/EC, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0094:0136:en:PDF>

⁸⁰ ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas markets in 2013, http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER_Market_Monitoring_Report_2014.pdf

⁸¹ In Albania the wholesale supplier has the function of supplier of last resort.

⁸² Where gas market exists

resort usually supplies customers in case they do not find supplier on the market or remains inactive after market opening (this function may be also considered as default supply) or in case their supplier does not perform its function any more (e.g. because of bankruptcy or the license has been revoked). In Montenegro, the function of supplier of last resort is defined more generally - it supplies electricity customers because of the reasons the customer can not influence. Similar functions have gas suppliers of last resort, in countries where the gas market exists and the relevant information was provided, namely FYR of Macedonia, Serbia and Ukraine^{83,84}.

Besides having guaranteed energy supply, it is important for consumers to know under which circumstances they can be disconnected from the network and what is the procedure for connecting them again after the reasons for disconnection are removed. Electricity and Gas Directive specify that a prohibition of disconnection may be a tool for protecting vulnerable customers, but do not include disconnection related requirements to energy suppliers. However, national regulatory authorities have an obligation to monitor, among other, disconnection rates when monitoring level and effectiveness of market opening⁸⁵.

Non-payment of energy bills is one of the main problems electricity and gas suppliers still face in the Energy Community Contracting Parties. Therefore easy and transparent procedures for disconnection that protect both suppliers and customers are very important. Here the minimum notice period to disconnect a customer was assessed and the results are presented in the table below.

Table 15 Minimum duration of disconnection process for non-paying consumers across Energy Community Contracting Parties and Georgia

How many days (at least) does it take to disconnect a final household customer from the grid because of non-payment? Starting date is due date of payment	legal	In practice
Albania	If the customer does not pay the invoice within 30 days after the defined deadline, the supplier has the right to disconnect him, after the supplier has notified in writing the latter 48 hours in advance.	More than 30 days
Bosnia and Herzegovina	FBiH&BD approx. 30, RS 21 (8+8+5)	FBiH approx. 30, RS 8-25 days, BD approx 60
FYR of Macedonia	45	60

⁸³ No information for Bosnia and Herzegovina

⁸⁴ In Ukraine SoLR for gas envisaged only as of 2015. Until 2015 this function was performed by guaranteed supplier.

⁸⁵ Article 37 (1j) of Directive 2009/72/EC and 42 (1j) of Directive 2009/73/EC

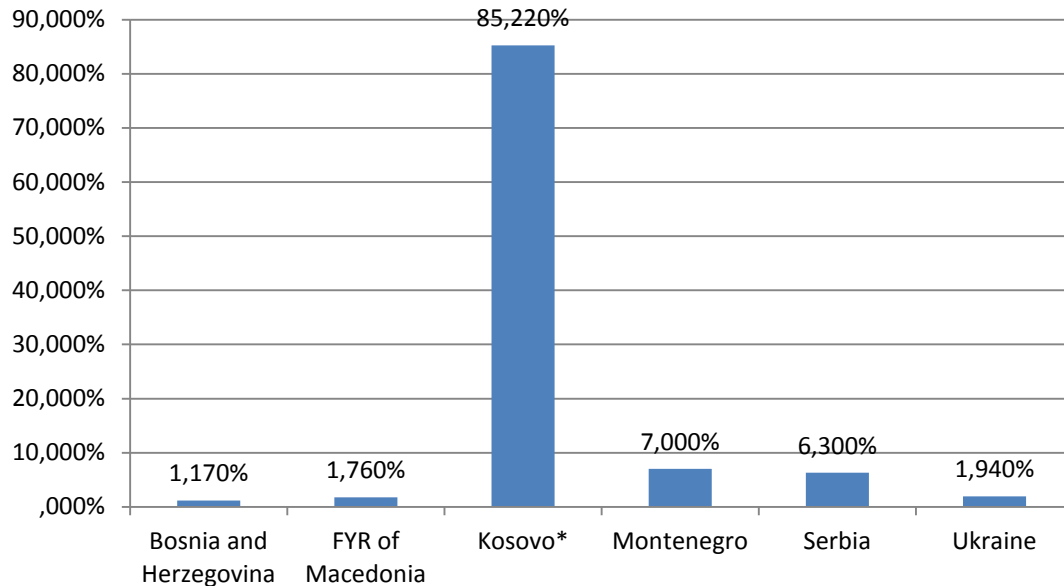
Georgia	for electricity, legally it takes at least 3 days. For gas – 10 days.	approximately 10 days for both electricity and gas
Kosovo*	30	mainly 30 days, sometimes longer
Montenegro	16 (8 days for payment plus 8 days additional deadline for payment after the warning has been issued)	More than 16
Serbia	15 - 30 days starting from the date when supplier warned the customer that his/her bill was not paid in due time	Not applicable
Ukraine	50 electricity, 20 gas	50 electricity, 23 gas

Minimal number of days that are legally envisaged between payment due date and actual disconnection of a customer is usually 30-50 days. This period includes deadline for payment of the bill, warning after non-payment, usually with extension of payment deadline and, if applicable, announcement of disconnection⁸⁶. The actual duration of a disconnection usually takes longer than legally binding deadlines.

Finally, for the countries where such information is available, a share of disconnections of household customers due to non-payment of electricity bills is shown in the figure below.

⁸⁶ Announcement of disconnection is sometimes not sent separately, but it is part of a warning.

Figure 18 Share of household disconnections due to non-payment in % of household metering points⁸⁷⁸⁸- electricity- 2014



The shares of household disconnections due to non-payment for electricity in the Energy Community Contracting Parties varies substantially among countries. While the percentages in Bosnia and Herzegovina, FYR of Macedonia and Ukraine are similar to those of the majority EU Member States⁸⁹, the shares of household disconnections in Montenegro and Serbia are higher. The rate of household disconnections in Kosovo* is extremely high⁹⁰, witnessing historically high rate of non-payments. In 2014 there were 4 888 607 electricity bills generated to household customers. Total number of household disconnections for 2014 was 351 201. If we compare the total number of disconnections and total number of bills generated for household, then it is 7.18% household disconnections from the generated bills through the whole year. From 351.201 household disconnections realized during 2014 there are one or more disconnections of one customer.

The shares of household disconnections due to non-payment of gas were available only for Bosnia and Herzegovina - Republika Srpska entity (0,70%) and Ukraine (0,95%). These figures are similar to those in the EU Member States and generally prove the higher payment of gas bills in comparison to electricity bills.

⁸⁷ For Macedonia the % refers to both household and non- household disconnections.

⁸⁸ The share is calculated by dividing the number of household disconnections in 2014 with the number of household metering points. It assumes that some households could be disconnected more than once during the year.

⁸⁹ Usually lower than 2% (ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas markets in 2013, p.208)

⁹⁰ For illustration reasons: number of household disconnections in Kosovo* was more than 350.000 in 2014, while in Ukraine this number was around 320.000.

2. Vulnerable customers

According to Article 3 of both Electricity and Gas Directive, adequate safeguards to protect vulnerable customers should be in place. In this context each country should define the concept of vulnerable customers and ensure that rights and obligations linked to vulnerable customers are applied.

Energy Community Contracting Parties in majority of cases included definition of vulnerable customers as well as the measures for their protection in the relevant legislative frameworks, even if not always precisely in line with requirements of Directives. Some of the Contracting Parties define vulnerable customers in their energy related laws, while others have some kind of recognition of the vulnerable customers in their general social protection schemes⁹¹. There are different criteria applied for defining which customer categories have right to use energy related support schemes. Typically, low level of income and health or disability of persons or their family members serves as criteria for obtaining the status of a vulnerable customer.

Different approaches to protecting vulnerable customers have been chosen. The table below summarizes measures used for protection of vulnerable customers in the Energy Community Contracting Parties and Georgia.

Table 16 Measures to protect vulnerable customers in the Energy Community Contracting Parties and Georgia - 2014

Measures to protect vulnerable customers	Number of countries- electricity	Number of countries- gas
Restrictions on disconnection due to non- payment	3	1
Earmarked social benefits to cover (unpaid) energy expenses	5	2
Special energy prices for vulnerable customers	-	-
Additional social benefits to cover (unpaid) energy expenses (non- earmarked financial means)	-	-
Free energy- saving advice to vulnerable customers	2	1
Right to deferred payment (if applied, please explain the way it is deferred)	3	1
Exemption from some components of final customer energy costs (e.g. energy price, network tariffs, taxes, levies...)	-	-
Financial grants for the replacement of inefficient appliances	1	-

⁹¹ For more information see ECRB 2013 report "Treatment of vulnerable customers in the Energy Community", https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/2124179/Treatment_of_Vulnerable_Customers_2013_update_approved_by_ECRB.pdf

Free basic supply of energy (if applied, please explain how (e.g. how much energy is free of charge)	1	1
Other	2	-

Measures for protections of vulnerable customers are much more used for electricity than gas. The most spread measure is earmarked social benefits to cover energy expenses, applied in 5 out of 8 analyzed markets. Other measures often used are restrictions on disconnection due to non-payment and right to deferred payment.

Some details on specific protection measures are the following:

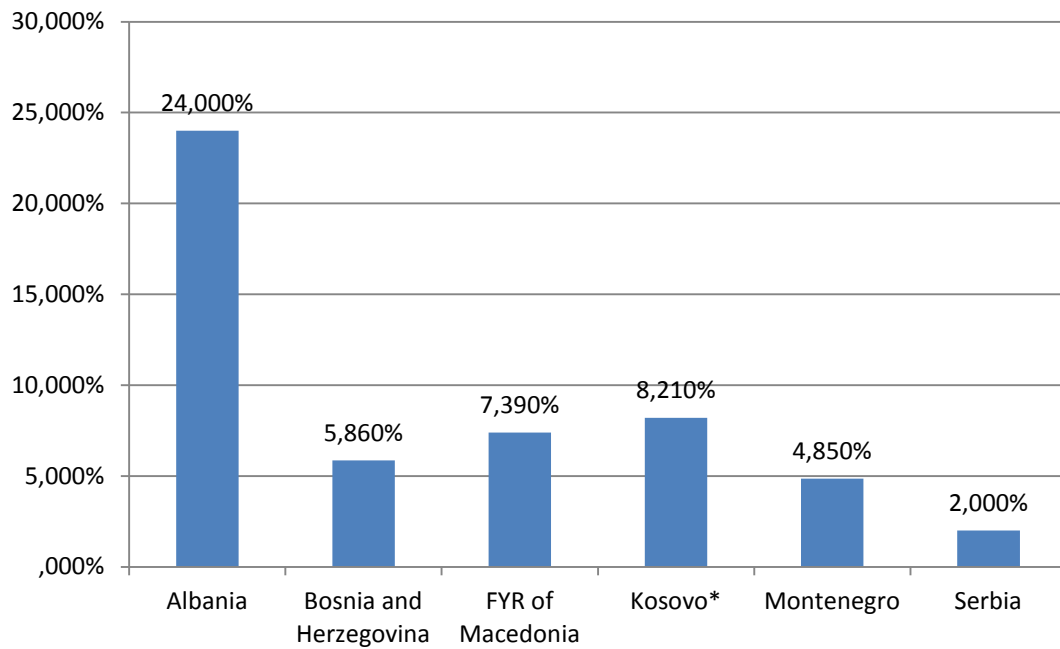
- Serbia: vulnerable customers are granted the right on free supply of 120-250 kWh of electricity and 35-75 m³ of gas, depending on number of household members (vulnerable customer have to chose only one support – for electricity or gas);
- Albania: the prices structure of 2015 removed the two blocks tariff system and the difference in price between the existing price (in 2014) and the price defined for 2015. (648 leke/month – 4,62 €/month⁹²) is compensated by the state budget directly to the customer;
- Kosovo*: when deciding on disconnections, electricity suppliers have to take into account the decision taken by ERO on the protection of vulnerable customers, in order to avoid disconnections during the winter period;
- Georgia: if disconnection would pose a threat to human health or life, a licensee must defer payment for a reasonable period of time (gas - no more than 3 months; electricity - at least 1 month);
- Ukraine: electricity related legislation has not defined the concept of vulnerable consumers. However for all household customers disconnections are prohibited before the weekend and holidays. Household customers also have right to earmarked social benefits to cover energy bills for both electricity and gas (in case of compliance with the conditions of appointment and granting subsidies for reimbursement of payments for utility services). If electricity customer does not have funds to pay the debt, he must apply to the energy supplier for scheduling repayment or deferred payment period and provide a certificate confirming his insolvency. For gas, legislation approved in 2015 envisaged preparation of definition of vulnerable customers as well as adequate protection measures.
- Montenegro: subventions for all endangered categories are 40% of the bill if it is up to 60 €, for bills of more than 60 € it is fixed subvention of 24 €. The Government pays the subventions.
- Bosnia and Herzegovina: distributor and supplier must take appropriate measures to avoid the disconnection due to non-payment. Republika Srpska and Brcko District have restrictions on disconnection during the winter and extreme cold weather, but

⁹² Recalculated based on the exchange rate on 31st December 2014 (1EUR=140,14 leke), National Bank of Albania https://www.bankofalbania.org/web/Exchange_Rates_2014_2.php

the suspension of delivery can be used as a final measure. Federation BIH has restrictions on disconnection of life supporting equipment. Also, there are restrictions on disconnection in the Federation BIH before and during public holiday, as well as on Friday and during weekends. In addition to this, Governments of Federation BIH and Brcko District have the active programs to support vulnerable customers from their budgets.

The share of vulnerable customers in the total number of household metering points shows how well targeted vulnerable customers are - the less the percentage, the vulnerable groups of customers are better defined and targeted. The figure below shows these shares calculated as the status on 31st December 2014.

Figure 19 Share of vulnerable customers in the Energy Community Contracting Parties (in % of household metering points, status on 31st December 2014)

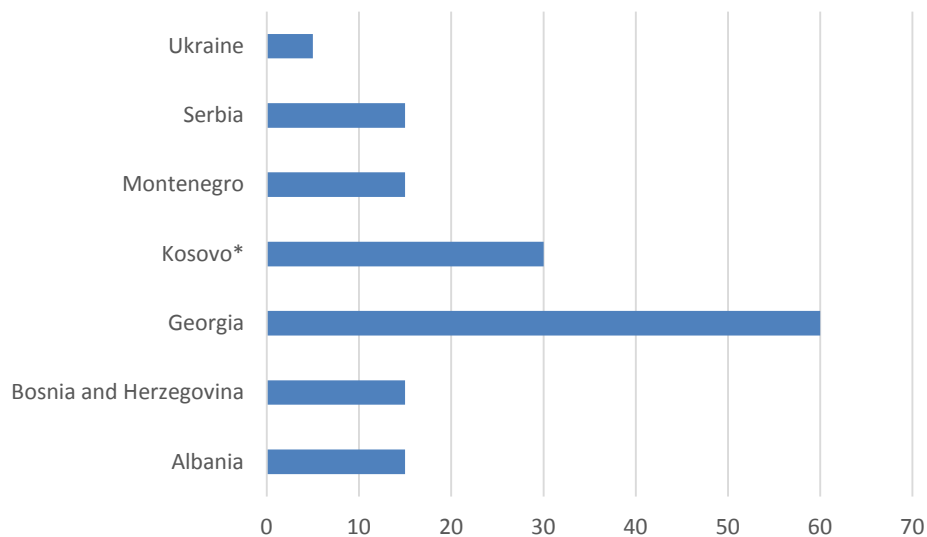


3. Customer information

Transparent and reliable information to customers is one of the most important preconditions for customers' active participation in energy market. Electricity and Gas Directive comprise many provisions that require proper informing of customers on prices, bills, switching, dispute settlement and rights and obligations of customers in general⁹³. This chapter deals not only with compliance with legal requirements of directives related to provision of information to consumers, but also with good practices that exceed them.

Consumers should receive transparent information on applicable electricity and gas prices. This means also that they need to be informed in advance about the **change in energy prices**. In majority of analyzed markets there is a legal requirement for information to household consumers on price changes, including the provision on minimal number of days for informing consumers before the new prices apply. Only in FYR of Macedonia there is no such a requirement. The figure below shows how many days minimally in advance the households have to be informed about the electricity and gas price changes.

Figure 20 Minimal number of days in advance that household consumers are informed about energy price changes⁹⁴



In most of the countries the household consumers have to be informed about the price change at least 15 days in advance. In Kosovo* and Georgia these deadlines are longer - 30 and 60 days respectively, while in Ukraine the legal requirement for informing households in advance about the price change is only 5 days. In order to allow consumers to actively participate in energy markets - in this case to investigate other offers and eventually change

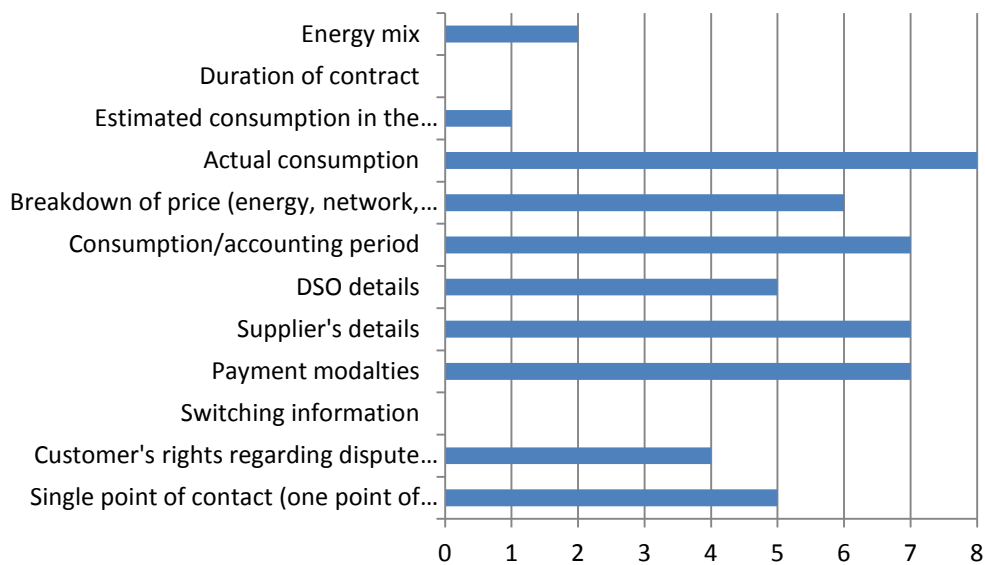
⁹³ Article 3 and Annex I of Directives 2009/72/EC and 2009/73/EC

⁹⁴ The information for Bosnia and Herzegovina refers only to Republika Srpska entity; in other entities the legislation requires only that customers are appropriately informed in advance about the price change.

supplier, the information on price change should be provided in advance enough⁹⁵ (e.g.30 days)

Electricity and gas bills are the primary source of information to customers, therefore their content needs to be carefully prepared - relevant, clear and concise. In all analyzed Energy Community energy markets, except Ukraine, the **content of electricity and gas bills** is prescribed, usually by supply rules. In Kosovo* the supplier is obliged to prepare the standard form of bill that is to be approved by the regulator. The figure below shows which information may be found on energy bills in the Energy Community Contracting Parties and Georgia.

Figure 21 Information on electricity bills- 2014 (number of jurisdictions)



The only information available on all electricity and gas bills is actual consumption of a customer. In some cases there is also information on estimated consumption - in Ukraine (in case supplier issues monthly bills not based on actual consumption with further reconciliation based on actual data (ones or twice a year)) and Albania (when there is no electricity meter). Information related to switching and duration of contract is not visible on neither of bills. Breakdown of price to its components, relevant for switching, is available in most of the countries, however not in Ukraine. The information on energy mix, which is also an obligation specified within Article 3(9) of the Electricity Directive, is available only on the electricity bills in Serbia and Ukraine. Other information mentioned as part of energy bills are: payment due

⁹⁵ In some more developed EU markets, where consumers may conclude contracts with fixed or variable energy prices, legal requirements for informing consumers in advance differ according to the type of pricing chosen. Of course, if a consumer has chosen variable energy pricing, the prices will vary frequently and the information on price change may be provided only in a short term. For more information, please see ACER/CEER Market Monitoring Report 2014.

date, information about privileges and subsidies, balance of payments, cost of metering point, legal default interest, common area consumption (elevator, water pump), RES incentives etc.

Annex I of both directives requires that customers have to be offered a wide choice of **payment** methods. In all analyzed markets, this is indeed the case for both electricity and gas.

Establishing **single point of contact** to provide consumers with all necessary information concerning their rights, current legislation and the available means of dispute settlement is another obligation for Energy Community Contracting Parties⁹⁶. With the exception of Albania, all other countries reported that there is a single point of contact established, however this function is usually shared between several bodies. Only in Ukraine the single point of contact is clearly defined - supply companies have established call centers where consumers may receive all relevant information regarding their rights and dispute resolution.

Possibility to efficiently **change electricity and gas supplier** is important tool for consumers to exercise their power in energy market and benefit from competition. Therefore it is not only crucial to enable and facilitate supplier switching, but also to provide information to consumers on how to do it. Electricity and Gas Directive require that switching is done within 3 weeks and that the final closure account is available not later than 6 weeks after the switching is performed. Although in several Energy Community Contracting Parties supplier switching is not possible because there is no alternative supplier in the market⁹⁷, the rules for switching have been approved in majority of them, usually correctly transposing the timing requirements of directives⁹⁸. Switching process may be stopped due to some prescribed reasons in most of the countries⁹⁹, here are some examples:

- Serbia: non- payment of a bill and non-payment of damage claim in case of contract termination when duration of contracted supply is fixed;
- FYR of Macedonia: in the case if non-payment of electricity bills to the incumbent supplier and costs to DSO, TSO and Market Operator;
- Kosovo*: in cases when current supplier rightly considers that, in the proposed transfer date, the customer is not eligible customer or is still obliged under the contract with the current supplier;
- Ukraine: 1. debt of customer under the supply contract; 2. the system of commercial metering customer does not meet the requirements necessary to switch supplier; 3. failure to submit the necessary documents, the shortcomings in the documents; 4. new supplier didn't sign distribution contract with relevant DSO.
- Bosnia and Herzegovina: incomplete or inaccurate request for switching; provisions of previous contract between old supplier and a customer, withdrawal of customer request, force majeure.

⁹⁶ Article 3(12) of Electricity Directive and Article 3(9) of Gas Directive

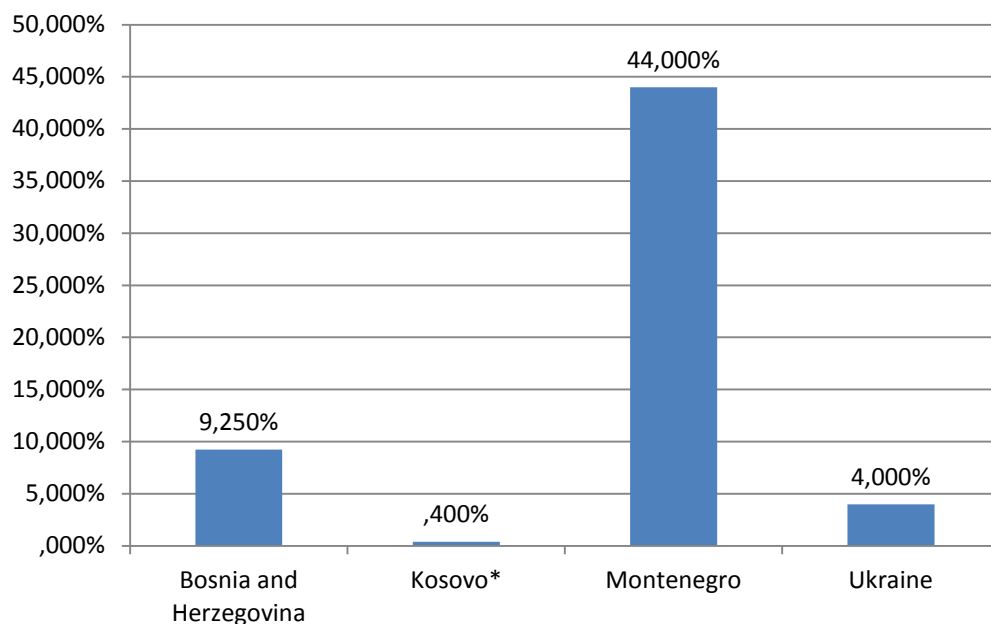
⁹⁷ Ref. Chapters II and III of this report

⁹⁸ In FYR of Macedonia prescribed number of working days for switching is 45 for both electricity and gas. This is also the time in which the switching is actually completed.

⁹⁹ In Montenegro switching process cannot be stopped.

According to Annex I of the Electricity and Gas Directive, Contracting Parties shall ensure implementation of **smart meters** that should assist the active participation of consumers in electricity and gas markets. The implementation of smart meters may be subject to cost-benefit analysis that is to be performed then by 1st January 2014. Electricity smart meters should be rolled-out to at least 80% of consumers by 2020, unless the result of a cost-benefit analysis is negative. There is no such a timeline envisaged for gas. In none of the Contracting Parties cost-benefit analysis has been performed. The figure below presents the percentage of household customers with electricity smart meters¹⁰⁰ in Contracting Parties where implemented.

Figure 22 Share of households with electricity smart meters (in %), status 31.12.2014.



Although smart meters are not yet widely implemented in the Energy Community Contracting Parties, **frequency of billing information based on actual consumption** in households is monthly in all cases¹⁰¹. For comparison reasons it is worth noting that in the majority of EU Member States households receive information on actual consumption (if without smart meters) only once a year¹⁰².

¹⁰⁰ A smart meter is a new generation of device for energy metering that sends electronic meter readings to the energy supplier automatically and provides the customer with helpful functionalities in order to regulate own consumption.

¹⁰¹ Only in BIH- Republika Srpska electricity and gas billing based on actual consumption is annual.

¹⁰² ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas markets in 2013, p.221

4. Customer complaints

Besides being continuously supplied by energy and informed about various aspects of their consumption, consumers may be properly protected and empowered only if their complaints are efficiently treated and if there are clearly defined dispute resolution procedures. When monitoring level and effectiveness of market opening and competition, regulatory authorities should monitor also the complaints of household customers.

Table 17 Number of household customer complaints received by different companies/institutions, for both electricity and gas- 2014

	suppliers	DSOs	ADR	NRA
Albania	Not available	49.923	Not applicable	Not available
Bosnia and Herzegovina	6.865	962	Not applicable	303
FYR of Macedonia	25.114	Not available	Not applicable	125
Georgia	Not available	Not available	Not available	1239 ¹⁰³
Kosovo*	17.367	288	Not applicable	234
Montenegro	8.000		Not applicable	125
Serbia	Not available	288.846 ¹⁰⁴	Not applicable	201
Ukraine	174.228 ¹⁰⁵		Not applicable	1.899

The table above shows the number of household complaints received during 2014 by electricity and gas suppliers, distribution system operators and regulatory authorities. The table also shows that there is no separate information on complaints received by an institution appointed as alternative dispute resolution body, mainly because the regulatory authority is tasked with these activities¹⁰⁶, together with some other institutions¹⁰⁷. It is also obvious that customer complaints can hardly be separated between suppliers and DSOs - they are still seen as one company by household customers, even if legally unbundled. The majority of mentioned complaints refer to electricity and gas bills; only in Ukraine most of the electricity related complaints are actually complaints to quality of supply. Interpretation of number of complaints may be difficult- high number of complaints may come because of customers' dissatisfaction, but also from higher customers' engagement in the retail energy markets, mixed with cultural differences and different levels of market maturity.

¹⁰³ 688 for electricity and 551 for gas. All complaints- households and commercial customers

¹⁰⁴ Only electricity

¹⁰⁵ Including 14674 complaints submitted to Information and Consultation Centers. Partially ICCs fulfill ADR function however they are established by electricity suppliers at regulated tariff and operating as its units.

¹⁰⁶ Activities of out-of-court dispute settlement

¹⁰⁷ Ombudsman, consumer protection organizations, etc.

The legally permitted time for service providers to deal with complaints in the Energy Community Contracting Parties and Georgia is relatively low, especially for complaints related to energy bills. Some regulators reported that, in practical terms, some service providers need more time for processing complaints (Albania and Ukraine, Montenegro for complaints related to connections). However, in majority of cases it may be considered that the timelines for processing are reasonable. For more information on particular countries, please see the figures below.

Figure 23 Processing time set for service providers to deal with complaints related to electricity bills and time service providers usually need for processing these complaints

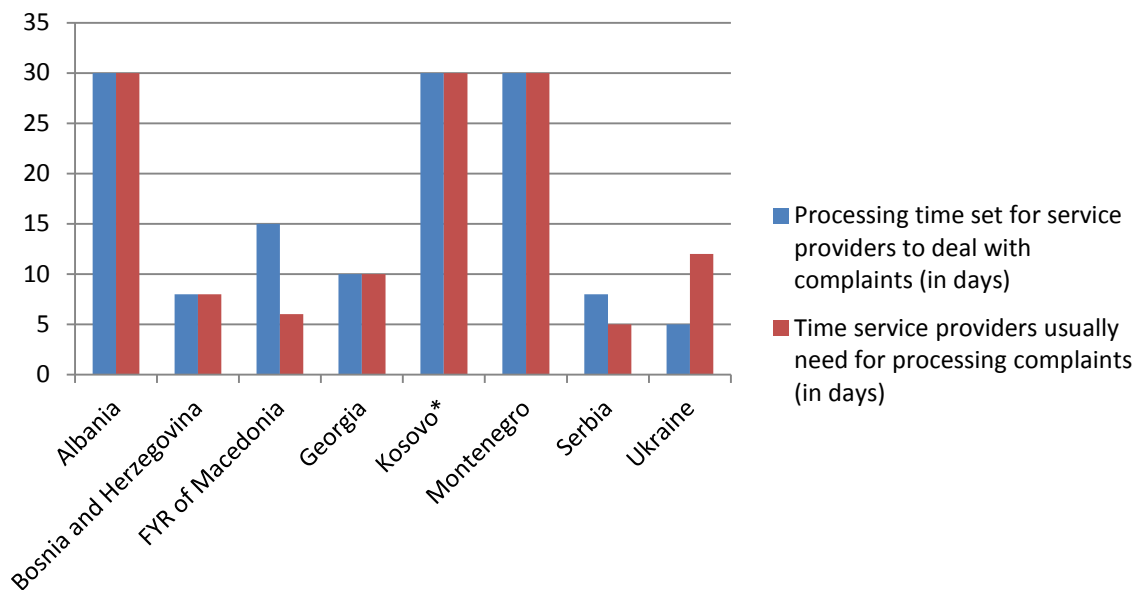
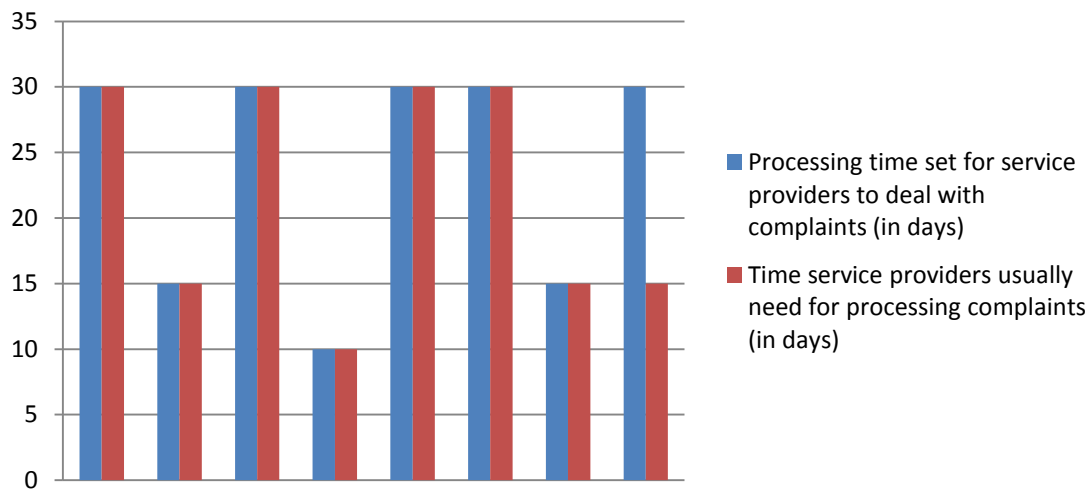


Figure 24 Processing time set for service providers to deal with complaints related to electricity connections and time service providers usually need for processing these complaints



5. Summary and conclusions

The **supplier of last resort** is appointed for electricity and gas in all Energy Community Contracting Parties, very often having another name (e.g. guaranteed supplier of electricity in Ukraine or reserve supplier in Serbia). Electricity and gas suppliers of last resort usually supply customers in case they do not find supplier on the market or remain inactive after market opening (this function may be also considered as default supply) or in case their supplier does not perform its function any more (e.g. because of bankruptcy or the license has been revoked).

Non-payment of energy bills is one of the main problems electricity and gas suppliers still face in the Energy Community Contracting Parties. Therefore **easy and transparent procedures for disconnection** that protect both suppliers and customers are very important. Minimal number of days that are legally envisaged between payment due date and actual disconnection of a customer is usually 30-50 days. This period includes deadline for payment of the bill, warning after non-payment, usually with extension of payment deadline and, if applicable, announcement of disconnection. The actual duration of a disconnection usually takes longer than legally binding deadlines.

The **shares of household disconnections due to non-payment** for electricity in the Energy Community Contracting Parties varies substantially among countries. While the percentages in Bosnia and Herzegovina, FYR of Macedonia and Ukraine are similar to those of the majority EU Member States, the shares of household disconnections in Montenegro and Serbia are higher, in Kosovo* extremely high. The shares of household disconnections due to non-payment of gas were lower than for electricity and generally prove the higher payment of gas bills in comparison to electricity bills.

Energy Community Contracting Parties in majority of cases included **definition of vulnerable customers** as well as the measures for their protection in the relevant legislative frameworks. Some of the Contracting Parties define vulnerable customers in their energy related laws, while others have some kind of recognition of the vulnerable customers in their general social protection schemes. There are different criteria applied for defining which customer categories have right to use energy related support schemes. Typically, low level of income and health or disability of persons or their family members serves as criteria for obtaining the status of a vulnerable customer.

Different **approaches to protecting vulnerable** customers have been chosen. Measures for protections of vulnerable customers are much more used for electricity than gas. The most spread measure is earmarked social benefits to cover energy expenses. Other measures often used are restrictions on disconnection due to non-payment and right to deferred payment.

The share of vulnerable customers in the total number of household metering points, showing how well targeted vulnerable customers are, varied between 2% in Serbia to 24% in Albania.

Consumers should receive transparent information on applicable electricity and gas prices. This means also that they need to be informed in advance about the **change in energy**

prices. In majority of analyzed markets there is a legal requirement for information to household consumers on price changes, including the provision on minimal number of days for informing consumers before the new prices apply. In most of the countries the household consumers have to be informed about the price change at least 15 days in advance. In Kosovo* and Georgia these deadlines are longer - 30 and 60 days respectively, while in Ukraine the legal requirement for informing households in advance about the price change is only 5 days. In order to allow consumers to actively participate in energy markets - in this case to investigate other offers and eventually change supplier, the information on price change should be provided in advance enough (e.g.30 days).

Electricity and gas bills are the primary source of information to customers, therefore their content needs to be carefully prepared - relevant, clear and concise. In all analyzed Energy Community energy markets, except Ukraine, the **content of electricity and gas bills** is prescribed, usually by supply rules. In Kosovo* the supplier is obliged to prepare the standard form of bill that is to be approved by the regulator. The only information available on all electricity and gas bills is actual consumption of a customer. Breakdown of price to its components, relevant for switching, is available in most of the countries, however not in Ukraine. The information on energy mix, which is also an obligation specified within Article 3(9) of the Electricity Directive, is available only on the electricity bills in Serbia and Ukraine.

In all analyzed markets the electricity and gas customers are offered a wide choice of **payment** methods.

Establishing **single point of contact** to provide consumers with all necessary information concerning their rights, current legislation and the available means of dispute settlement is another obligation for Energy Community Contracting Parties. With the exception of Albania, all other countries reported that there is a single point of contact established, however this function is usually shared between several bodies. Only in Ukraine the single point of contact is clearly defined - supply companies have established call centers where consumers may receive all relevant information regarding their rights and dispute resolution.

Besides being continuously supplied by energy and informed about various aspects of their consumption, consumers may be properly protected and empowered only if their **complaints** are efficiently treated and if there are clearly defined dispute resolution procedures. When monitoring level and effectiveness of market opening and competition, regulatory authorities should monitor also the complaints of household customers. Information on household complaints received during 2014 shows that there is no separate information on complaints received by an institution appointed as alternative dispute resolution body, mainly because the regulatory authority is tasked with these activities, together with some other institutions¹⁰⁸. It is also obvious that customer complaints can hardly be separated between suppliers and DSOs - they are still seen as one company by household customers, even if legally unbundled. The majority of mentioned complaints refer to electricity and gas bills; only in Ukraine most of the electricity related complaints are actually complaints to quality of supply.

¹⁰⁸ Ombudsman, consumer protection organizations, etc.



The legally permitted time for service providers to deal with complaints in the Energy Community Contracting Parties and Georgia is relatively low, especially for complaints related to energy bills. Some regulators reported that, in practical terms, some service providers need more time for processing complaints. However, in majority of cases it may be considered that the timelines for processing are reasonable.