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**Council of European
Energy Regulators**



CEER-ECRB Workshop

CEER Report on Commercial barriers to supplier switching

Fostering energy markets,
empowering **consumers**.

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24 October 2016

Outline of the presentation

- Aim and Scope of the Report
- Methodology
- Main Findings
- Conclusions and Next Steps



Aim and Scope of the Report

- Switching offers customers the most direct way to benefit from the market
 - ▶ In practice energy customers are confronted with barriers when they want to switch or compare alternative suppliers and contracts, therefore not allowing for real competition between energy suppliers
- Report aims to identify commercial barriers to supplier switching
 - ▶ Commercial barriers: Obstacles found from the customer side which stop or keep a customer from switching. Barriers that materialize when customers engage in the market and interact with suppliers
 - ▶ The paper aims to address the question of “what keeps customers from switching”
- Regulatory or systemic barriers are out of scope
 - ▶ Small monetary gain due to price regulation
 - ▶ The time it takes to switch due to the legislated process
 - ▶ Weak customer awareness of their rights in the energy markets



Methodology

- CEER used a customer centric approach
 - ▶ Some practices or contractual terms might not seem a barrier at first glance
 - ▶ But they can act as an obstacle to customer switching when they are not sufficiently clear
 - ▶ Transparency is key and the lack thereof might be one important barrier to switching from a customer perspective
- CEER has collected customer opinions and experiences
 - ▶ Enquiries and surveys at EU level (like the Consumer Market Scoreboard)
 - ▶ At national level
 - ▶ CEER has received the answers to ACER questionnaire among BEUC members about retail energy markets
 - ▶ CEER has collected case studies on identification and possibly successful removal of commercial barriers to switching in different member States



Main findings (1)

What are the main reasons why customers do not switch supplier?

- ACER/CEER MMR shows that the main reasons not to switch are:
 - ▶ Insufficient monetary gain
 - ▶ Lack of trust
 - ▶ Switching is perceived complex/hassle
 - ▶ Satisfaction/loyalty

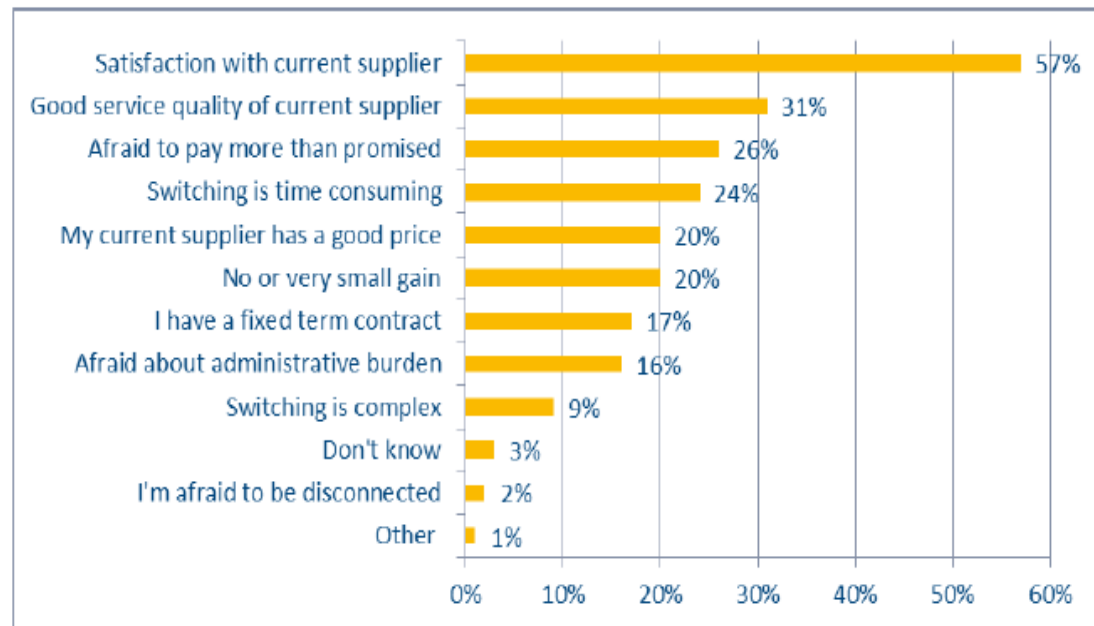


Figure 3: Reasons not to switch (Source: Consumer survey in the Netherlands, ACM, 2016)

Main findings (2)

When analyzing barriers to switching it is important to distinguish between customer perception and reality.

- **Insufficient gain from switching – Gap between actual savings and perceived possible savings by the customer**
 - ▶ Could be caused by the lack of complete, understandable and comparable information on offers
 - ▶ Makes it difficult to assess the real monetary gain
 - ▶ Lack of information can prevent customers comparing their offer, contract and bill to analyze if the expected gain was actually achieved
 - ▶ May deter the customer from switching again

Case of the Netherlands:

- ▶ Customers that have never switched think they are able to save 85 euros annually
- ▶ Customers that actually have switched at least once in the last three years, report a significantly higher expected gain from switching, 147 euros annually
- ▶ Based on price analysis ACM concluded that the actual average price difference between the average and the cheapest offer was 222 euro annually

Main findings (3)

- **Customer distrust in the electricity and gas retail markets**
 - ▶ Lack of trust keeps customers from switching
 - ▶ Surveys show that customers do not trust new entrants, which is to the benefit of incumbent suppliers who already have a substantial customer base
 - ▶ To build this trust, providing complete, understandable and clear information is essential.
- **Complexity of the switching process**
 - ▶ Gap between perception and reality

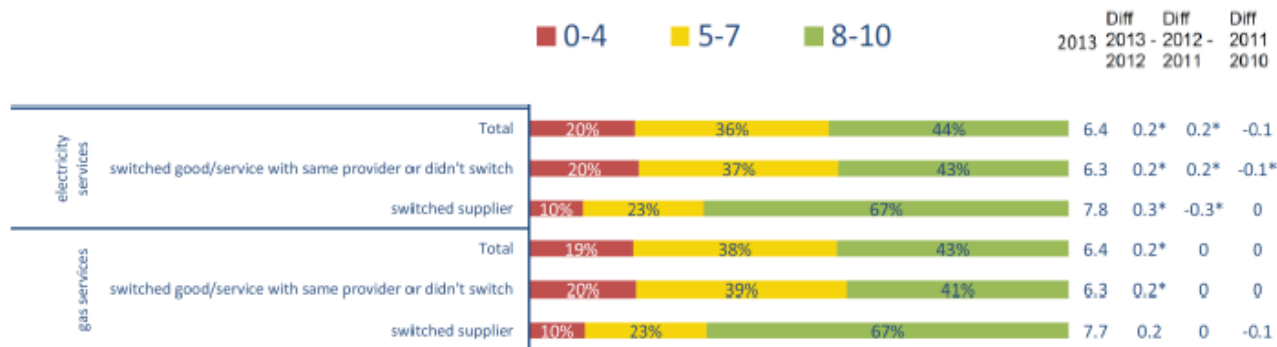


Figure 14: How difficult do you think it was to switch (Source: 10th Consumer market scoreboard)

- ▶ Commercial practices that emphasize this perception or the lack of information about (the ease) of the switching process enhance this barrier to switching.
- ▶ Customers who have switched did not regard the process of switching complex at all.

Trust in the energy sector compared to other sectors

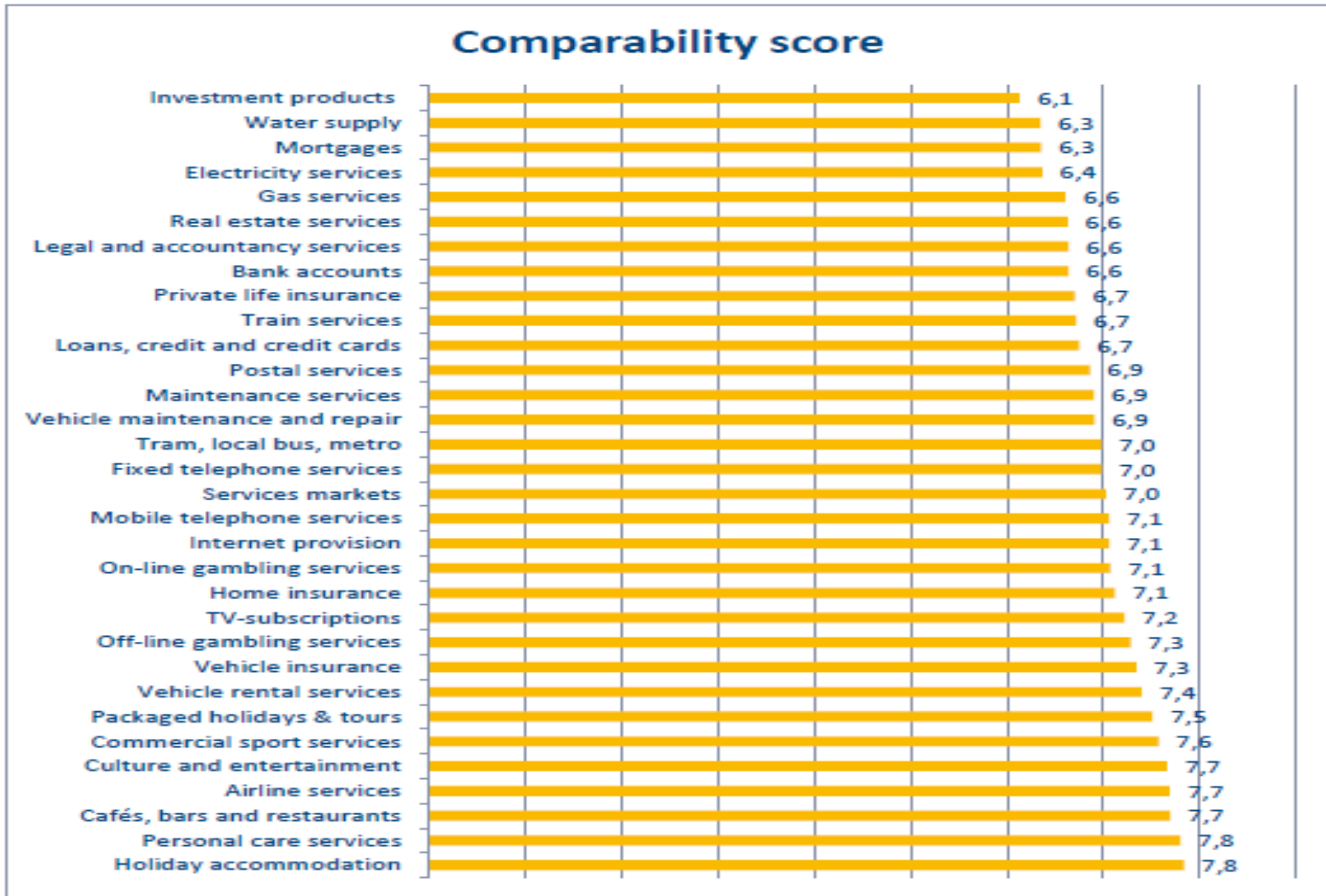


Figure 9: Comparability of offers among sectors (Source: 10th Consumer market scoreboard)



Main findings (4)

• Consumer satisfaction

- ▶ Double edged sword:
- ▶ No problem: if a customer is satisfied with the service and makes an informed decision to stay
- ▶ Problem: if satisfaction comes from inertia this could be a barrier that keeps customers from switching. Satisfaction could result from the lack of interaction between the supplier and its customers
 - Not communicating price changes actively
 - Discretely renewing contracts at the end of their term

• Unjustified early termination fees

- ▶ For energy contracts with variable pricing, where the customer carries the risk of the price variation
- ▶ Early termination fees charged in case of contracts that result from automatic renewal of fixed term energy contracts might lead to customer lock in
- ▶ From the customer's perspective, clarity is the most important consideration to ensure that justified termination fees do not create a barrier to switching

• Value added services

- ▶ Can be seen as a form of product innovation and therefore beneficial to the well-functioning of the retail market
- ▶ These services can be seen as commercial barriers to switching when the contract conditions make it impossible or costly to switch energy supplier





Examples of value added services

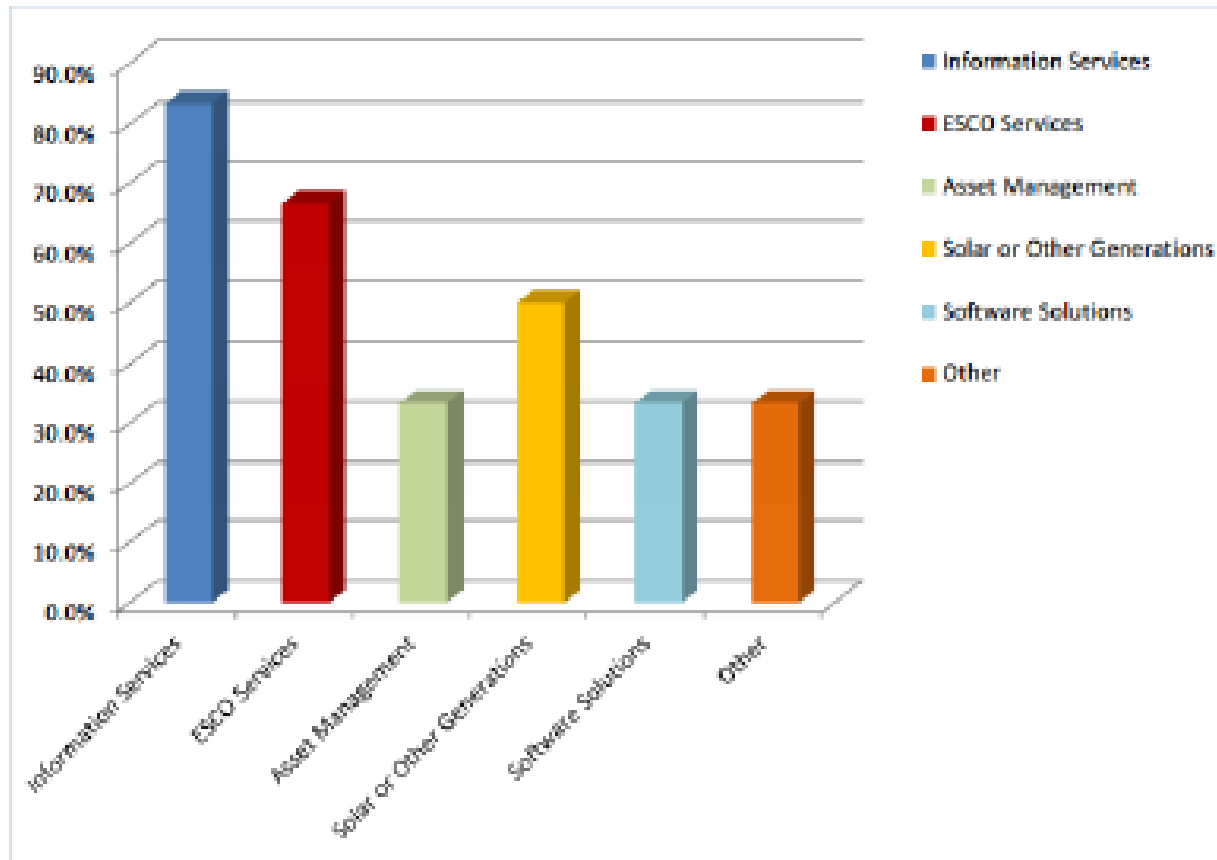


Figure 17: Value added service provided by US retailers (Source: 2012 Retail Energy Marketer Trends, National Energy Marketers Association)



Conclusions and Next Steps

- Two groups of barriers:

Type of barrier	Description
Consumer perception	Insufficient monetary gain
	Lack of trust
	Complex switching process
	Satisfaction/loyalty
Commercial contract conditions	Unjustified termination fees
	Value added services

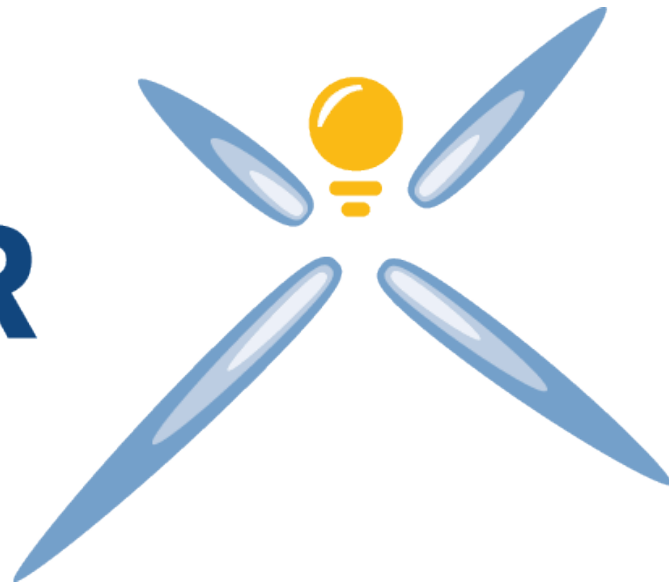
- NRAs should identify the barriers in their relevant markets
- NRAs should make an effort to improve the transparency and comparability of offers.
- Cooperation with national consumer protection agencies and consumer organizations may also be an effective way to remove some of the barriers discussed in this document.



Thank you for your attention!

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