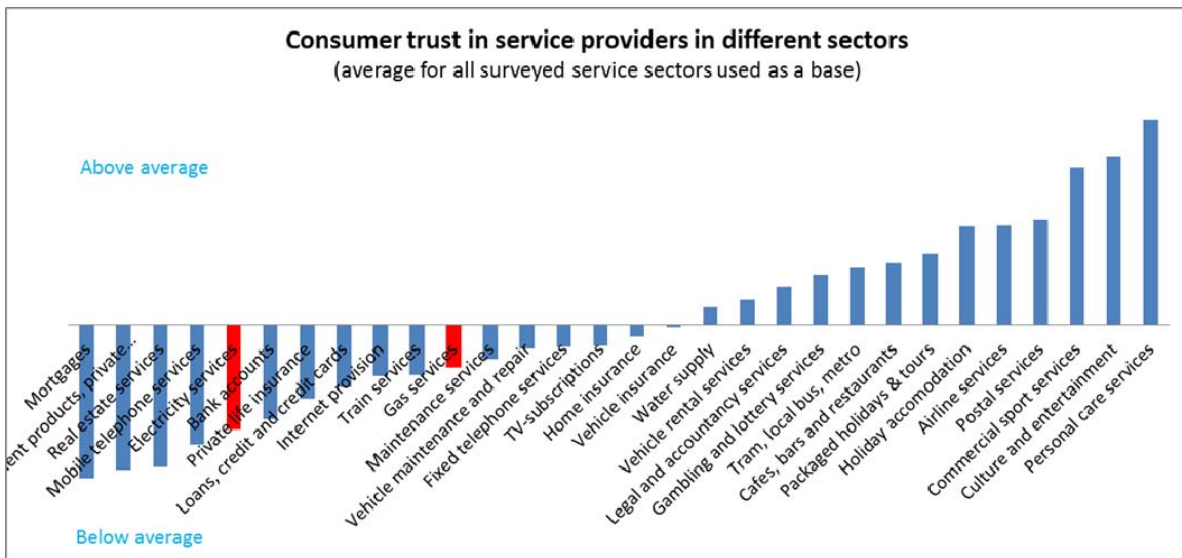


Retail Energy Market Background Document to Public Consultation

The energy market is undergoing a dramatic change. New technologies and political determination are opening up new opportunities and perspectives and many consumers will assume a completely new role as active participants in the market. Consumers are already able to generate, consume and/or sell their own electricity. With the deployment of smart metering devices and smart appliances, they will be able to monitor their consumption much more effectively and to participate in demand response services by selling their flexibility. All this is deemed to translate into better choice and lower costs for consumers. However, at present, consumers remain dissatisfied with their energy costs and choice. They also display an alarmingly low level of trust in the energy sector. A 2012 study by the European Commission showed energy among the sectors in which consumers' trust and perception of choice remain well below average¹.

The following graphs² show the overall EU-wide level of consumer "trust" in service providers and their perception of "choice" of service providers when comparing energy (electricity and gas) with other sectors.

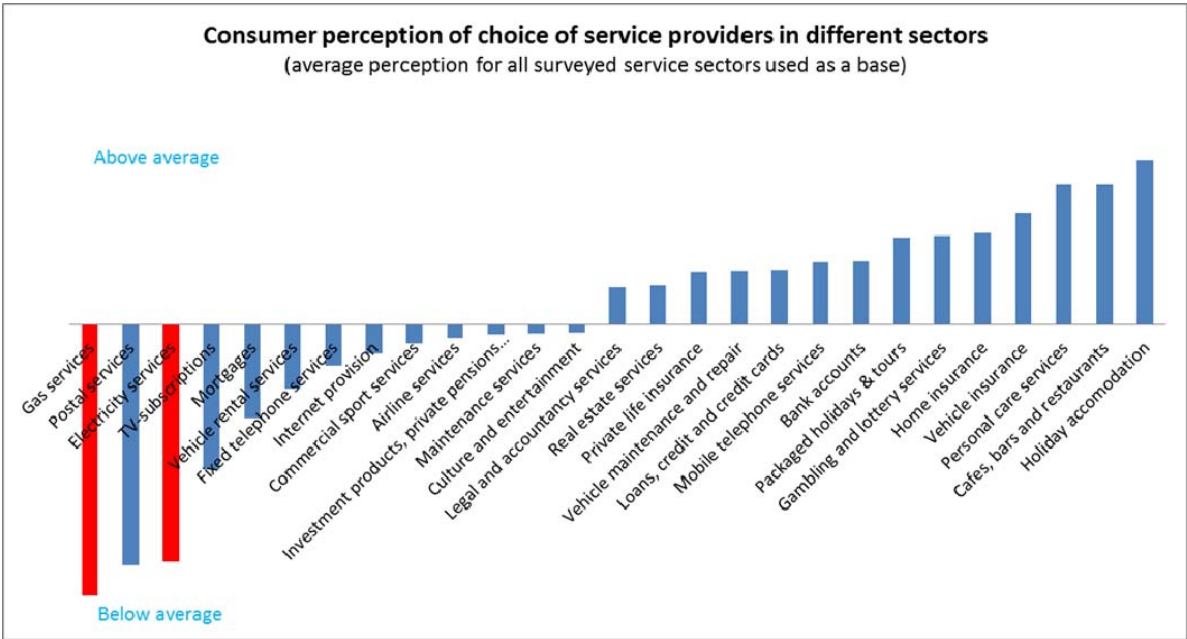
Figure 1



¹ Others include transport and telecommunications. Source: 8th Consumer Scoreboard http://ec.europa.eu/consumers/consumer_research/editions/docs/8th_edition_scoreboard_en.pdf

² Monitoring consumer markets in the European Union, by GfK EU3C. 20 November 2012. Pages 34-60, at: http://ec.europa.eu/consumers/consumer_research/editions/docs/monitoring_consumer_markets_eu_2012_en.pdf

Figure 2



The technologies for providing more added-value to consumers are mostly in place. It is therefore the market that needs to open up and adapt to new production and consumption patterns, and to a different role and evolving expectations of the consumer.

Over the last 15 years, major efforts have been made to open up the energy market. Actions have been taken to enhance competition and efficiency, with the final aim of making more choices available for end consumers and to eventually lower their energy costs. While consumer choice and competition in most Member States have increased notably, retail markets have not reached the same level of market openness as wholesale markets.

The transition of the energy system is affecting the local grid especially strongly. About 95% of fast-growing renewable energy generation is connected to the distribution grids while smart technologies are concentrating close to the final consumers. This has fuelled a dramatic change of the tasks of distribution. DSOs in general and, not least, in vertically integrated undertakings where DSOs are diversifying from their traditional tasks of operating the network as a regulated monopoly to providing new commercial energy services in the open market.

The purpose of this consultation is to seek the views of stakeholders on the functioning of retail energy markets. Assisting consumers connected to electricity or gas distribution networks to better control their energy costs and consumption is the ultimate aim of this activity.

You are invited to respond to the questions using the web link provided. You are advised to print the annex below as an aide-memoire for completing the questionnaire as it sets the context for many of the questions asked.

Figure 3

Recent quantification of consumer switching rates, which in some cases are much lower than expected. It strongly suggests that more work is needed to remove barriers to switching.

Country	Switching rates 2012	Switching rates 2011	Difference 2012-2011
Portugal	13.2	1.1	12.1
Belgium*	14.8	9.7	5.1
Slovakia	5.0	1.4	3.6
The Netherlands**	12.6	9.7	2.9
Greece	4.0	1.8	2.2
Slovenia	5.9	4.0	1.9
Denmark	3.7	1.8	1.9
Norway	13.0	11.3	1.7
Spain	11.6	10.0	1.6
Hungary	1.6	0.3	1.3
Sweden	9.9	8.9	1.0
Italy	6.4	5.8	0.6
Czech Republic	7.6	7.4	0.2
Bulgaria*	0.0	0.0	0.0
Cyprus	0.0	0.0	0.0
Estonia	0.0	0.0	0.0
Germany	7.8	7.8	0.0
Latvia*	0.0	0.0	0.0
Lithuania	0.0	0.0	0.0
Northern Ireland*	2.0	3.0	0.0
Romania	0.0	0.0	0.0
Luxembourg	0.1	0.2	-0.1
France	3.6	3.9	-0.3
Austria	1.0	1.4	-0.4
Finland	7.5	8.6	-1.1
Great Britain	12.1	15.4	-3.3
Ireland	10.6	15.1	-4.5
Malta	NA	NA	
Poland	0.6	NA	

Source: ACER, based on CEER national indicators database (12/9/2013)

Notes: * For Belgium, the 2012 switching rate for the country was not available. The 14.8% switching rate listed for 2012 refers to a weighted rate for the Flanders and Brussels regions only. ** Data for the Netherlands refers to all segments of the retail market. In Malta, there is only one supplier, hence NA.

Figure 4

EU average composition of the electricity bill for EU households in 2012: 42% is energy costs, 28% is network charges, 30% is taxes and levies.

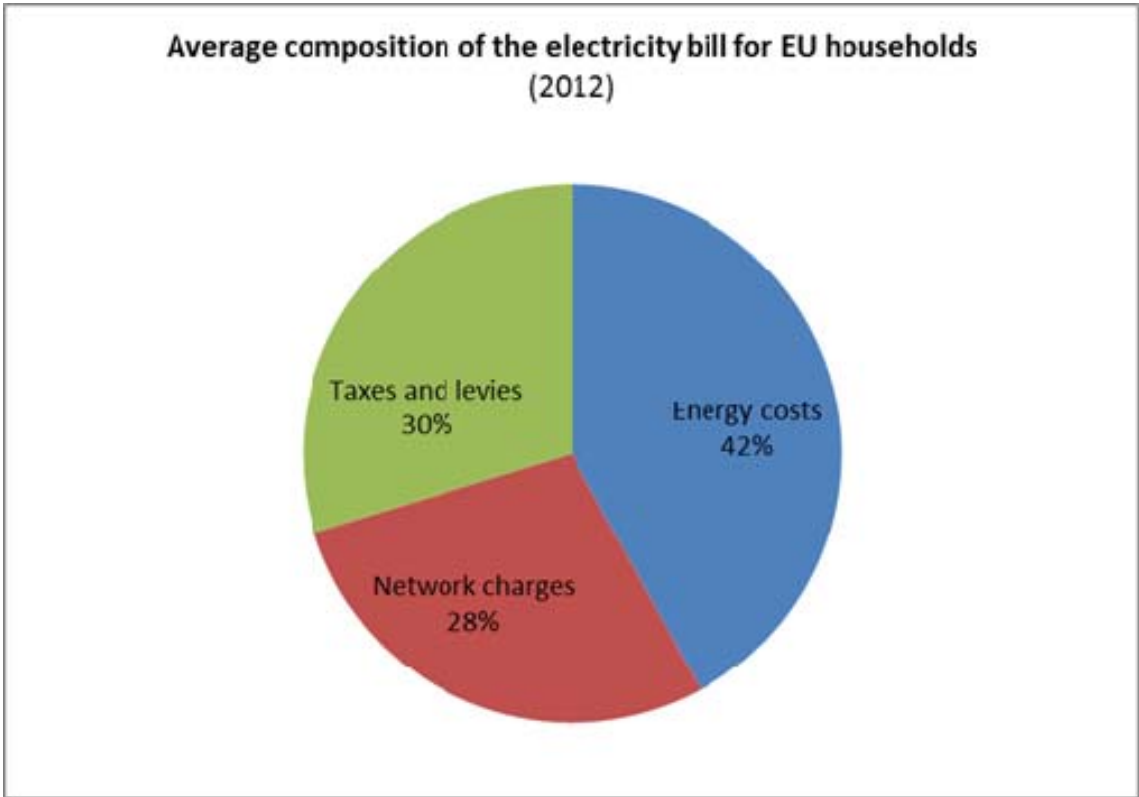
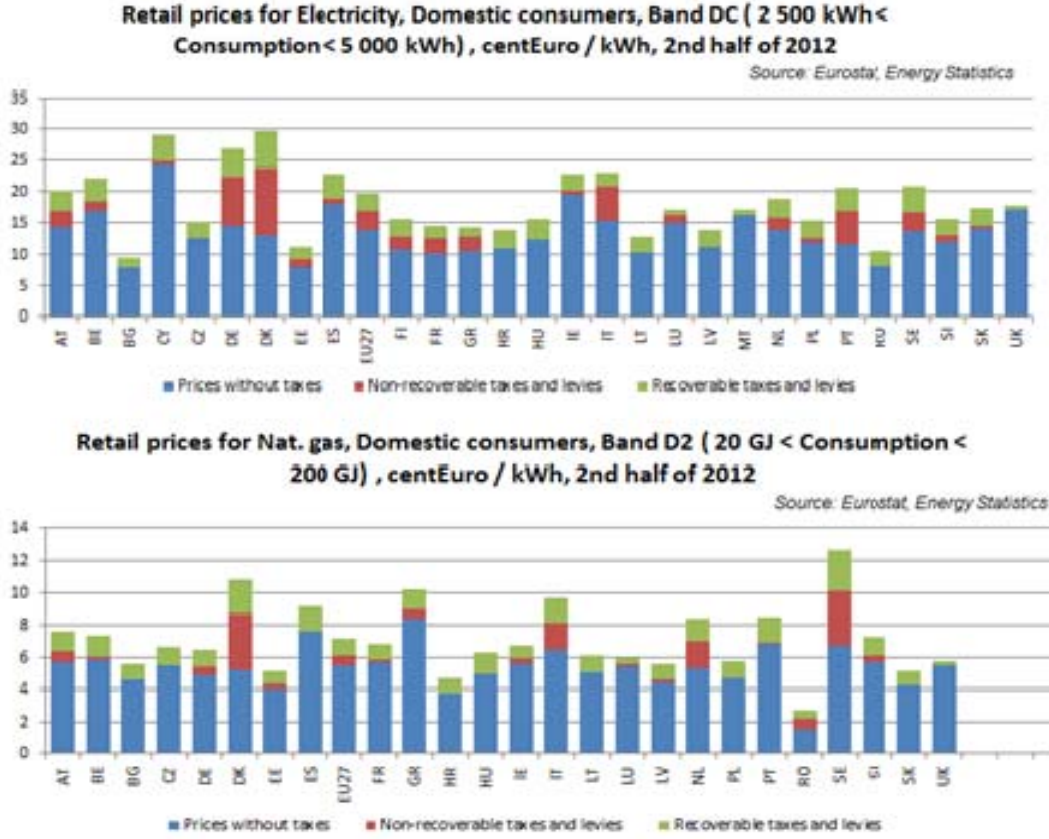


Figure 5
Differentiation of electricity and gas prices by Member State



Acronyms and Glossary

Distribution system operator	DSO
Energy service company	ESCO
National Regulatory Authority	NRA
Small- and medium-sized enterprise	SME
Transmission System Operator	TSO

Distribution System Operator: a natural or legal person responsible for operating, ensuring the maintenance of and, if necessary, developing the distribution system in a given area and, where applicable, its interconnections with other systems and for ensuring the long-term ability of the system to meet reasonable demands for the distribution of electricity.

Demand response: important instrument for improving energy efficiency, since it significantly increases the opportunities for consumers or third parties nominated by them to take action on consumption and billing information and thus provides a mechanism to reduce or shift consumption, resulting in energy savings in both final consumption and, through the more optimal use of networks and generation assets, in energy generation, transmission and distribution.

Energy service companies: businesses that design and implement integrated energy solutions, including energy supply, energy conservation and financing. They can facilitate favourable contractual arrangements for consumers and provide information that can be used by consumers to achieve better prices (e.g. in demand response programmes). Energy services - **specifically** in the context of energy efficiency - are services that can deliver measurable energy efficiency improvements on the basis of a contract between energy service providers and consumers. They can also help finance initially high investment costs against the cost benefits over time (e.g. through contracting).

Transmission System Operator: a natural or legal person responsible for operating, ensuring the maintenance of and, if necessary, developing the transmission system in a given area and, where applicable, its interconnections with other systems, and for ensuring the long-term ability of the system to meet reasonable demands for the transmission of electricity.

Vertically Integrated Undertaking: an electricity undertaking or a group of electricity undertakings where the same person or the same persons are entitled, directly or indirectly, to exercise control, and where the undertaking or group of undertakings perform at least one of the functions of transmission or distribution, and at least one of the functions of generation or supply of electricity.