SUPPLIER SWITCHING PROCESS IN EUROPEAN ELECTRICITY RETAIL MARKETS

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A very special thanks goes out to my favorite consultant from Guatemala, Mrs. Coralia Verdugo, without your support this Master Thesis will probably be not finished yet!

Thank you Rocío for standing me during all these marvelous years…

And last but not less important, I would also like to thank my parents, Luisa and Eduardo, for the support they have provided me through my entire life and who never spared on effort in my education.
Executive Summary

The primary objectives of electricity market liberalization are to facilitate efficient utilization of the available electricity resources in the short run and efficient development of the sector in the long run.

In order to facilitate efficient utilization of electricity resources in the short run, retail markets are being opened around the world by allowing end customers to choose freely their electricity supplier.

Since the first of July 2007, most of all European citizens have been able to freely choose their electricity and gas supplier, as this was the final date for the full opening of the electricity and gas markets in the European Union.

Electricity suppliers are expected in competitive retail markets to transfer electricity prices from wholesale markets to retail markets at low margins, since electricity customers exercising their freedom of choice encourage suppliers to provide high levels of customer service, environmentalism and ethics at the lowest prices.

The margins will remain low only if customers penalize inefficient suppliers by changing to competitors with lower margins.

In order to facilitate customer’s choice, an easy, cost efficient and standardized supplier switching process is needed. Another prerequisite for a well functioning retail market are a well functioning wholesale electricity market, a minimum market structure for competition, a good level of customer awareness and the removal of regulated end-user prices.

According to the European Regulators Group for Electricity and Gas (ERGEG), the supplier switching process should fulfill the following recommendations:

- The customer’s right to switch supplier should be statutory.
• The process of supplier switching has to be easy from the customer’s point of view and the customer shall not pay any direct fees for supplier switching.

• The process of data exchange has to be cost efficient and standardized for the suppliers and the distribution system operators.

• Clear roles and responsibilities among actors are of vital importance throughout the entire procedure.

• The switching period should be as short as possible. There should not be any unnecessary obstacles for switching from the customer’s point of view.

• The customer should only need to be in direct contact with one party, preferably the new supplier, when initiating the switch. Contracting should be in writing, but should be available electronically.

• There should be easy access to relevant and correct information for the customer prior to switching. The regulator or some other competent body should ensure the availability of a list of alternative suppliers, prices and terms and conditions of the contract.

• Regulators and/or other authorities should ensure sound market monitoring.

• Information about various market indicators should be available in order to make national analyses and comparisons between countries and markets. Harmonization on the definitions of switching and the statistics needed should be sought across markets and countries.

Related to the switching rates across Europe, it is remarkable that the United Kingdom which has the highest switching rate in Europe (18.1% according to the Report to the European Commission, 2007) has the following characteristics:

• No end-user regulated prices coexisting in the open market.
Household customers may save over € 100 per year by switching from incumbent supplier to the cheapest supplier.

The energy price represents over 70% in the composition of total electricity cost.

Although obstacles to supplier switching are being reduced across European Countries, there is however room for improvement on a wide range of issues such as:

- The coexistence of the open market and end-user regulated prices.
- Lack of standardized and automatic exchanges of data between the agents involved in the supplier switching process.
- Lack of customer’s awareness.
- The former supplier is able to object to the implementation of the switch.
- Customers are not allowed to cancel the new contract within a period of time.
- Too long duration of the switch.
- Poor meter value data.

Nowadays, the main obstacle to supplier switching is that there is no economic incentive for customers to change supplier since in most European Countries open markets coexist with regulated end-user prices and the regulated end-user prices are usually fixed with political objectives instead of being calculated taking into account market conditions.

Besides, in most European Countries (with the exception of Norway and Sweden) the relative impact of electricity price on household economy is low as well as the price difference between suppliers.

The Spanish Electricity Market was opened to all categories of consumers the 1\textsuperscript{st} of January 2003. The market was opened for High Voltage consumers the 1\textsuperscript{st} of July 2000. Therefore, all Spanish consumers are allowed to choose freely their electricity supplier.
However in Spain, open market coexists with end-user regulated prices. The end-user regulated prices are fixed with political objectives and do not reflect the real costs of providing the service. Thus, for some categories of customers there is no room for suppliers in the open market.

It is foreseen that from the 1st of January 2009 all the end-user regulated prices will be abolished and that since that date, the last resort supplier will sell energy at last resort tariffs to end customers. Distribution companies will not be allowed to sell energy to end customers any more.

Depending on how the last resort tariffs are calculated and which customers will be allowed to benefit from them it will encourage the real liberalization of the retail electricity market or not.
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Introduction
1. Introduction

1.1 Introduction

The primary objectives of electricity market liberalization are to facilitate efficient utilization of the available electricity resources in the short run and efficient development of the sector in the long run.

In order to facilitate efficient utilization of electricity resources in the short run, retail markets are being opened around the world by allowing end customers to choose freely their electricity supplier.

The European energy ministers meeting in November 2002 reached a political agreement on the opening of the European energy markets.

It was established that non-household customers should be able to choose their electricity and gas supplier by 1st of July 2004 and this possibility should be extended to household customers on 1st of July 2007 at the latest.

Electricity suppliers are expected in competitive retail markets to transfer electricity prices from wholesale markets to retail markets at low margins, since electricity customers exercising their freedom of choice encourage suppliers to provide high levels of customer service, environmentalism and ethics at the lowest prices.

The margins will remain low only if customers penalize inefficient suppliers by changing to competitors with lower margins.

But not only customers actively exercising their choice will benefit from a competitive market, suppliers will have to make attractive offers to all of their clients in order to retain them.

The most efficient electricity suppliers will survive within a competitive environment, whereas those inefficient electricity suppliers will trend to disappear.
So that this happens and electricity customers really exercise their freedom of choice, among other preconditions (e.g. a well functioning wholesale electricity market, a minimum market structure for competition, a good level of customer awareness, etc.) is necessary an easy, cost efficient and standardized supplier switching process.

Supplier switching rates are normally used to measure the real liberalization level of the deregulated electricity markets.

High levels of supplier switching shows a good customer awareness of the market, the simplicity of the change of supplier switching process and fair and equal terms for new suppliers to compete with incumbent suppliers.

Whereas low level of supplier switching usually indicates the opposite: bad customer awareness of the market, complex supplier switching process or the existence of privileges for the incumbent suppliers.

This master thesis is focused in the supplier switching process of small enterprises and household customers since these types of customers are considered to be the most vulnerable and represent the greater number of clients potentially changing their supplier.

1.2 Objectives

The aims of this master thesis are the following ones:
1. Describe the standard supplier switching process of the European Countries.
2. Analyze the proposals of best practices in supplier switching process made by the agents of the electricity sector.
3. Identify the obstacles to supplier switching.
4. Analyze in the supplier switching process in place in Spain.

1.3 Methodology

The methodology followed may be divided into three stages:

- Information gathering. During this stage, the author has searched for documents related with the supplier switching process across Europe.
• Analysis. During this stage, the author has analyzed all the documentation found during the information gathering stage.

• Conclusions. During this stage, the author has obtained some remarkable conclusions of the role of the supplier switching process for the real opening of retail electricity markets.
Retail Electricity Market Opening in European Countries
2 Retail Electricity Market Opening in European Countries

The supplier switching can only take place if customers are enabled to choose freely their supplier. The market liberalization is a precondition for supplier switching.

Since the first of July 2007, most of all European citizens have been able to freely choose their electricity and gas supplier, as this was the final date for the full opening of the electricity and gas markets in the European Union.

There are a few exceptions to take account of special circumstances where it is not possible to introduce competition yet, but the basic rule of freedom of choice for every citizen has become established in the EU.

The full market opening represents a milestone in the creation of a fully functioning European Energy Market.

However, market opening as such can not guarantee a sufficient degree of supplier choice and competition; additional conditions are needed to ensure a fair and dynamic competition in all Member States:

- A well functioning wholesale electricity market.
- A minimum market structure for competition.
- A good level of customer awareness.
- And last but not less important, a consistent mechanism of supplier switching.

The following table of the document “Status review on end-user price regulation” shows a market analysis of electricity market opening across Europe, made by European Regulator’s Group for Electricity and Gas (ERGEG).

The table includes information about the status of the market, the final opening date, the existence of end-user regulated prices in the open market, who can be supplied at end-users regulated prices and, in some cases, additional relevant information.
### Table 1 - Retail electricity market opening in European Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Opening</th>
<th>Final opening date</th>
<th>End-user regulated prices in open market</th>
<th>Who can be supplied at end-user regulated prices</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>Complete</td>
<td>1990</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>Complete</td>
<td>1995</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>Complete</td>
<td>1996</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>Complete</td>
<td>1997</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Complete</td>
<td>1998</td>
<td>YES</td>
<td>Households and small businesses under 10 MWh/yr</td>
<td>The regulation of electricity end-user prices will expire on July 1st 2007.</td>
</tr>
<tr>
<td>Austria</td>
<td>Complete</td>
<td>2001</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>Complete</td>
<td>2003</td>
<td>YES</td>
<td>Households and small businesses</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>Complete</td>
<td>2003</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Complete</td>
<td>2004</td>
<td>YES</td>
<td>Households and small businesses</td>
<td>For households and SMEs, the regulator defines confidential maximum reasonable regulated price per product and can oblige a supplier to apply this regulated price if its price is higher.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Complete</td>
<td>2005</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Complete</td>
<td>2006</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>Complete</td>
<td>2006</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>Except households</td>
<td>January 2007</td>
<td>NO</td>
<td>Opening in July 2007 for Brussels city</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td>Price regulation for dominant supplier</td>
</tr>
<tr>
<td>Hungary</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Except households</td>
<td>July 2007</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>Except households</td>
<td>July 2007</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>Except households</td>
<td>July 2007</td>
<td>NO</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>Only for intensive and small businesses</td>
<td>2009</td>
<td>YES</td>
<td>All customers</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>Except households and small businesses</td>
<td>2014</td>
<td>YES</td>
<td>All customers</td>
<td>Derogation accorded by European Commission</td>
</tr>
<tr>
<td>Malta</td>
<td>Closed</td>
<td></td>
<td></td>
<td></td>
<td>Derogation requested from European Commission</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

It is remarkable that from the first of July 2007 most of all the European Electricity customers are allowed to choose freely their electricity supplier, except household customers from Estonia, household customers and small enterprises from Cyprus, all customers from Malta and household customers and small enterprises from Bulgaria.
In Belgium, only household customers from Brussels city will be eligible from the first of July.

As it is shown in the following figure, all customers can be supplied also at end-user regulated prices in open markets in most European Countries.

The coexistence of regulated end-users prices and non regulated end-users prices is considered to be one of the main obstacles for a well functioning competitive electricity retail market.

Figure 1 - European Countries regulating end-user prices
Supplier switching rates in European Retail Electricity Markets
3 Supplier switching rates in European Retail Electricity Markets

3.1 Introduction

The European Directives 2003/54/EC and 2003/55/EC define supplier switching as “the action through which a customer changes supplier”, and supplier is defined as “seller or reseller of energy to customers”.

The term supplier switching is currently used with different meanings across European Countries.

The supplier switching can refer to:

- The number of customers who have entered the competitive market by leaving the regulated tariffs –even if they are still in the liberalized market with their incumbent supplier (i.e. a supplier that belongs to the same group of his distribution company)-.

- The total volume of switches (including multiple changes by the same customer and changes-back to original suppliers).

- The volume of energy is no longer supplied by incumbent suppliers.

- The volume of energy is no longer supplied at regulated tariffs.

- The number of meter points no longer being supplied by the same supplier.

- The number of customers who have switched supplier.

- The number of customers who are no longer with their incumbent supplier.

- The migration between grid areas (switches which result from moving home or business).
The data regarding supplier switching can come from many sources including DSOs, TSOs, regulators, surveys on suppliers, surveys on customers, and the information may not be collected at comparable times of year or in regular intervals.

Thus, to compare nowadays the supplier switching activity within European countries, it is not an easy task and requires further information that in most cases is not available.

It is necessary first of all to reach a common definition of supplier switching and develop a common methodology to calculate the supplier switching rates in order to facilitate the direct comparison and analysis of the switching data.

3.2 ERGEG’s report

The European Regulators Group for Electricity & Gas includes in its report “Obstacles to supplier switching in the electricity retail market. Guidelines of Good Practice and Status Review” the following table with the switching rates in Europe in 2006:

<table>
<thead>
<tr>
<th>Country</th>
<th>Switching rate[^2]</th>
<th>Rate calculation</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>15.8 % (Large industry) 0.01 % (Medium-sized industry) 0 % (Small and household)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>2 % (Large industry) 0 % (Medium-sized industry) 0 % (Small and household)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2 %</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Spain***</td>
<td>17 % (Large industry) 8 % (Medium-sized industry) 3 % (Small and household)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Sweden</td>
<td>7.8 % (Household) 8 % (Non-household)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>United Kingdom**</td>
<td>18.1 %</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Country</td>
<td>Switching rate(^{42})</td>
<td>Rate calculation</td>
<td>Source</td>
</tr>
<tr>
<td>---------------</td>
<td>--------------------------</td>
<td>------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Austria</td>
<td>7.6% (Large industry)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>1.6% (Medium-sized industry)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.9% (Small and household)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>5.02% (Flemish region)</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4.0% (Large industry)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>2.0% (Medium-sized industry)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.2% (Small and household)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>11.5% (hourly metered)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>1.2% (not hourly metered)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>8% (Large customers)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>3% (small customers)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>14.2% (Large industry)</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>9.3% (Medium-sized industry)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.6% (Small and household)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece*</td>
<td>18% (Large industry)</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2006</td>
</tr>
<tr>
<td></td>
<td>0.5% (Medium-sized industry)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0% (Small and household)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary*</td>
<td>9.6% (Large industry)</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2006</td>
</tr>
<tr>
<td></td>
<td>1% (Medium-sized industry)</td>
<td></td>
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<tr>
<td></td>
<td>0.2% (Small industry)</td>
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<tr>
<td>Ireland</td>
<td>Not available</td>
<td></td>
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</tr>
<tr>
<td>Italy</td>
<td>6.13%</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0%</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>10.9% (Large industry)</td>
<td>Volume</td>
<td>Report to the European Commission (DG TREN), 2007</td>
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<td></td>
<td>0.7% (Medium-sized industry)</td>
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<tr>
<td></td>
<td>0% (Small and household)</td>
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<tr>
<td>Netherlands**</td>
<td>7%</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td>Norway</td>
<td>8.2% (business)</td>
<td>Number of sites</td>
<td>Report to the European Commission (DG TREN), 2007</td>
</tr>
<tr>
<td></td>
<td>11.9% (households)</td>
<td></td>
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Table 2 - Switching rates in European Countries in 2006

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

There has been no response of the following countries to ERGEG’S request of information: Bulgaria, Croatia, Cyprus, Greece, Hungary, Iceland, Ireland, Latvia, Malta and the Netherlands.

The source of information to make the table is the Report to the European Commission (DG TREN) in 2007.

The main conclusion is that data contained in the table is not directly comparable due to the following reasons:
• The calculation rate is in some cases based on the number of sites and in other cases based on the traded volume of energy. Furthermore, the number of sites is in some cases referred to the number of meter points and in other cases to the number of customers.

• It is uncertain which is considered as supplier switching in each of the countries (e.g. consumers that switch twice are counted both times or not, switches which result from moving home or business are considered as supplier switching or not).

• Some numbers are sector-specific while others are aggregated based on the whole population or on small businesses and households.

• The information is collected from different times of the year.

As it has been mentioned in the introduction, it is necessary to reach a common definition of supplier switching and develop a common methodology to calculate the supplier switching rates in order to facilitate the direct comparison of the switching data. Otherwise, erroneous conclusions about the switching activity in the retail electricity markets may be reached.

3.3 Utility Customer Switching Research Project

The Utility Customer Switching Research Project monitors switching rates and trends in over 30 fully-liberalized energy retail markets worldwide. It is considered to be one of the most comprehensive and uniform source of comparable switching statistics in the electricity and gas markets worldwide.

The Project was founded in 2004 by Paul Grey of First Data Utilities and Dr. Philip E. Lewis of VaasaETT with the aim to provide comparable switching statistics in the electricity and gas markets worldwide.

The Utility Customer Switching Research Project’s standardized definition of supplier switching is “the free movement of a customer from one supplier to another”.

This definition of supplier switching has been adopted in the European Union by the European Regulators Group for Electricity and Gas (ERGEG) in their Best Practice Report on Customer Switching Process.
The methodology used to calculate the supplier switching rate metric is as follows: the number of customers who have changed supplier in a given period is divided by the total number of customers in the market, and the result is converted to an annual rate (e.g. if one percent of customers change supplier in a given month, that month would have a 12 percent annualized customer switch rate).

According to the switching rate, markets are classified as follows:

- **Hot market**: over 15 percent of customers switching per year.
- **Active market**: between 5 and 15 percent of customers switching per year.
- **Slow market**: between 1 and 5 percent of customers switching per year.
- **Dormant market**: less than one percent of customers switching per year.

The following figure shows the World Energy Retail Market Ranking updated in July 2007:

![Figure 2 - World Energy Retail Market Ranking](image-url)
The European Countries are ranked as follows in the World Energy Retail Market Ranking (notice that some European Countries are missing in the ranking –e.g. France and Italy- because at the time the ranking was made these markets were not fully liberalized or there were not enough data at that time):

**Hot Markets: Great Britain** is ranked as the second hottest energy retail market of the world. It is the only European Country with over 15 percent of customers switching per year.

Great Britain had extremely active switching since early years up to 2001, the competitive retail activity decreased during 2002. This reduction was attributed by some analysts to a consolidation of customer bases by major utility retailers and even some of them predicted the demise of energy retail competition.

However, the switching activity has steadily risen since mid-2003. Highly-publicized increases in energy prices by utilities in recent years have motivated energy customers to switch suppliers to obtain less volatile pricing. The retail suppliers have launched aggressive customer win-back campaigns, contributing to resurgent competitive activity and increase switching rates.

Great Britain is today at its highest level of switching in history and shows no sign of abating.

Great Britain has been at the forefront of utility customer switching for over seven years, providing that high levels of activity can be sustained long term.

**Active Markets: Norway** (ranked in the 5th position), **Sweden** (ranked in the 8th position), **Finland** (ranked in the 9th position), **Netherlands** (ranked in the 10th position) and **Flanders-Belgium** (ranked in the 11th position) have between 5 and 15 percent of customers switching per year.

**Norway** is the fifth most energy retail active market in the world. It was one of the most active energy retail markets in the world in 2003, with customer switching rates around 20 percent. These high rates were motivated by a temporary but massive hike in wholesale prices, aggressive utility acquisition marketing and relatively levels of customer awareness.
The highly fluctuating energy retail prices during 2006 led once again to an increase in switching.

Despite Norway’s prominent ranking, the recent increase in switching activity and the regular entrance of energy retailers, supplier switching is nevertheless being constrained by structural issues such as high concentration of market share amongst a few major utilities, vertical integration of incumbent retail and distribution, and the over-dependence of new entrant energy retailers on a volatile wholesale electricity market.

**Sweden** is the eight most energy retail active market in the world. Despite competition is being constrained by many of the same market inhibitors as Norway, Sweden has shown an uptrend from last year in its switching activity.

Switching activity has been encouraged by such factors as media coverage of benefits available to customers for switching, negative publicity for some incumbent suppliers, and price volatility.

Sweden has recently introduced national web-based price information and switching service, which has further increase switching activity by giving consumers better access to information about their supply options.

**Finland** has previously been rated as a slow market motivated by low customer awareness and a lack of aggressive acquisition marketing.

Since 2004, however, Finland has shown a slow yet steady uptrend and in 2006, has achieved an active market rating for the first time.

The **Netherlands** has dropped three places in the ranking to tenth position.

The Dutch experience shows that high levels of market concentration are bad for competition.

In 2004, the customer switching rate reached the 10 percent per year. At that time, the Netherlands was ranked the sixth most active market in the world.

But all four major Dutch incumbent utilities have sought to merge. REMU and ENECO ENERGIE merged in 2002, and in 2006 the two largest utilities NUON and
ESSENT announced their merger plants. As a result of the market concentration, the switching activity has dropped.

**Flanders-Belgium** is the eleventh most energy retail active market in the world. The switching activity has recently increased in the Belgium province of Flanders. New market entrants such as NUON, ESSENT and E.ON have won a sizeable market share from Flander’s primary incumbent electricity and gas retailer ELECTRABEL. However, ELECTRABEL continues to dominate the market share and this market dominance will continue to inhibit retail competition.

Brussels and Valonia, the two other regions in Belgium, have more recently opened their energy retail markets to competition.

**Slow Markets: Germany** (ranked in the 13th position) has between one and five percent of customers switching per year.

Germany has been during many years rated as a dormant market with little to no significant customer switching activity but it is now rated as a slow market, with a switching rate lower than two percent per year.

The main obstacles that inhibit retail competition are an inconsistent mechanism for switching, a poorly implemented market structure and the lack of a centralized market registry infrastructure.

**Dormant markets: Austria, Denmark, Ireland, Portugal** and **Spain** have less than one percent of customer switching per year.

**Denmark** was previously ranked as a slow market but has now drooped to the dormant market category.

The merger of six leading Danish utilities gives Danish customers little choice of energy retail supplier.

The following figure shows the competitive retail markets indicating its date of liberalization, the number of customers and its classification considering the switching rates:
If Figure 1 (European Countries regulating end-user prices) is compared with the figure above, it is remarkable that five of the six European Countries with higher levels of supplier switching (i.e. Great Britain, Norway, Sweden, Finland and Flanders – Belgium-) do not have regulated end-user prices on any of the market segments.

The conclusion is that the coexistence of regulated end-users prices and non regulated end-users prices is one of the main obstacles for a well functioning competitive electricity retail market, as it has been mentioned previously in Chapter 2.
Best practice proposition for supplier switching
4 Best practice proposition for supplier switching

4.1 Introduction

In the framework of this master thesis, according to the European Directives 2003/54/EC and 2003/55/EC definition, the supplier switching is understood as the free movement of a customer from one supplier to another supplier, considering the total volume of free movements made by customers (including multiple changes by the same customer, changes made by customers who have entered to the competitive market or have changed-back to the regulated market).

The switching process may be divided into the following stages:

- Information gathering

  The customer searches for information on suppliers, products, prices and terms and condition of the contracts. He also checks the terms and conditions of the contract with his current supplier and collects all the information needed to carry out the switch.

- The supplier switching procedure

  This stage refers to the theoretical duration of the switch and lasts from the customer signs the new contract until the agreed date when the supplier switching is going to take place.

- Execution of the switch, delay or cancellation

  This stage refers to the real duration of the switch and lasts from the agreed date when the supplier switching is going to take place till the customers receives a confirmation letter from the new supplier and/or the first bill and when the account with the former supplier has been settled.

  If there are not errors or delays this last stage will not exist.
The description of the common supplier switching procedure in European Countries and its main topics are the following ones:

1. A supplier offers new terms for contracting the electricity supply to the customer or the customer contacts the supplier asking for a proposal.

2. The means used by suppliers for contacting the customers depends on the type of the customer (household customers; big, medium or small size enterprises). In most countries, industrial and commercial customers can negotiate terms of contract whereas household customers are offered standard terms of contract and they can not negotiate them. Customers usually only need to contact the supplier they are willing to change to. The new supplier will then contact the agents involved in the supplier switching process.

3. If the customer and the supplier agree on the terms of contract, the process of supplier switching is then formally initiated when the customer signs a contract with the new supplier.

Suppliers are typically required to provide the customer with written or at least verbal confirmation/notification and information on the contract and on the prices and other terms applied to the contract.

Many suppliers have internet pages where contracting can be made electronically. In this case, some special conditions may apply in order to ensure that the supplier can document that it rightfully is the customer’s supplier.

In some cases, the customers are provided with a change of mind period (also called “cooling off period”); during this period customers are allowed to cancel the new contract without any penalization.

The customer may give a mandate to the new supplier to start the supplier switching process, in this case the new supplier will contact the Distribution System Operator (DSO) to inform about the customer’s willingness to switch, or may start the process by himself contacting directly the DSO.
4. The DSO then checks the received request for supplier switching and informs the customer, the former and the new supplier of the requested supplier switching.

5. In most countries, the former supplier may not obstruct a switch but may disagree against the supplier switching because of a valid reason such the existence of an outstanding debt or a valid contract with the former supplier.

6. If there are not valid reasons for the supplier switching refusal, the DSO will implement it and will notify the old and the new supplier of the forthcoming change and the progression of the process.

7. In the weeks following the beginning of the process, the old (in some cases the new supplier) and the DSO will interchange some customer data in order to implement the switch.

Normally, the data is interchanged via electronic means. In fact, some countries have implemented specific standards for electronic communication related to supplier switching. This is the case of EDIEL in the Nordic countries.

8. The customer’s consumption until the date of the supplier switching may be metered or estimated by the DSO, metered by the new supplier, by a metering agency or by the customer, according to metering national legislation.

The meter reading frequency for household customers varies between European Countries. It ranges from twelve times (12) per year to once in two years. Household customers are read usually once per year.

Larger small customers are usually read more often due to their higher usage levels.

Tend in household and small enterprises metering is an intensified use of Automatic Meter Reading (AMR) technologies.
9. Concerning billing, although there is also variation between countries, typically customers receive an accurate bill as often as their meter is read and additionally a series of estimated bills per year.

The DSO will send the necessary data for settlement purposes to the old and the new supplier.

10. The DSO will inform the old and the new supplier of the completion of the process.

The time range in European countries for carrying out the change of supplier is between one and two months.

In some cases, supplier switching is allowed at any time, whereas in other cases supplier switching is only allowed in a given day of the month or upon a meter read.

11. The costs associated with the change of supplier are normally spread between all customers in the market. There is no changing or meter readings fees related to change of supplier.

However, there are some exceptions and in some countries there are additional meter reading fees or compensations to the former suppliers for breaking existing fixed-term contracts.

4.2 ERGEG’s Best practice Proposition for supplier switching

4.2.1 Introduction

The European Regulators Group for Electricity and Gas (ERGEG) is a body of independent national energy regulatory authorities, which was set up by the European Commission as an Advisory Group to the Commission on energy issues.

A work group called the Customer Focus Group was created by ERGEG to work on three areas, which are customer protection, customer switching and transparency of prices in the electricity and gas markets.
One of the objectives of the Customer Focus Group is the development of a best practice solution for the supplier switching process, since the possibility to change to a new supplier within a short period of time and without obstacles and disadvantages for the customer is an essential pre-requisite for a well functioning and efficient market.

4.2.2 Best Practice Proposition

The aim of the ERGEG’s Best Practice Proposition is to set recommendations and basic principles for supplier switching in the electricity and gas sectors.

The proposition is focused on the supplier switching in the retail electricity and gas markets, considering the retail markets to be the markets for household customers and small enterprises (according to Directive 2003/54/EC concerning common rules on the internal market in electricity, small enterprises are considered to be enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million).

The supplier switching is defined as “the free (by choice) movement of a customer (defined in terms of an overall relationship or the supply points and volume of energy associated with the relationship) from one supplier to another”.

According to this definition, all the movements of a customer made by choice from one supplier to another will be considered as a change of supplier, independently if the same customer has made several changes or if the customer moves to or changes back to the competitive market.

Two strategic priorities for change of supplier have been identified:

- The promotion of easy, cost efficient and standardized switching and activating/deactivating procedure.

- To ensure customer confidence and the implementation of sound monitoring systems.

According to ERGEG’s Best Practice Proposition, the supplier switching procedure should fulfill the following requirements:
1. The customer’s right to supplier switching should be statutory.

2. Supplier switching should be as straight-forward as possible, it should be easy from the customer’s point of view. With this aim, the customer should only need to be in direct contact with one party, when initiating the switch.

3. It should take place in a relatively short period of time and the restrictions regarding the dates when a change of supplier can take place should be minimized.

4. The customers shall not pay any direct fees for supplier switching, since the direct payment of fees for changing the supplier will be an obstacle for customer switching.

   The costs related to customer switching are considered to be costs related to enabling and effective market. These costs should be covered by the DSOs. All networks users will pay the costs related to change of supplier through the networks tariffs.

5. The process has to be cost efficient and standardized for the suppliers and the Distribution System Operators.

6. There should be clear roles and responsibilities among all agents involved and throughout the entire process. This is a very relevant issue especially when errors occur in order to solve them as quickly as possible. There should be a clear obligation for DSO and suppliers for problems resolution.

7. There should not be any unnecessary obstacles for supplier switching from the customer’s point of view.

8. Advanced meters are not a pre-requisite for supplier switching. It is recommended that meters are read upon a change. If under some circumstances, the meters could not be read, and estimation of the meter value is allowed.
Category profiles or area profiles should be used to settle those customers who are not frequently metered.

9. DSOs are normally in charge of metering, but other enterprises and customers may be allowed to read the meters and send the values to the DSO by ordinary mail, SMS, telephone or through a web page.

10. DSO will send to the old and to the new supplier the values needed for settlement purposes.

11. Electronic Data Interchange (EDI) is required for a cost efficient, timely and reliable data exchange between the actors involved in the change of supplier: the DSO, the new and the old supplier.

The implemented EDI System should be standardized through a voluntary agreement on the industry or through legal obligation.

12. DSOs should not charge suppliers for providing the necessary data.

13. All the metering points should be identified with a unique identification number to facilitate data exchanged and avoid errors.

14. Customer’s awareness is a pre-requisite for a well functioning retail market.

Customers should be informed by the regulator or any other competent body about how to supplier switching and the different alternatives for being supplied.

A price calculator to compare prices of the different offers should be available.

15. Customers should be protected against unprofessional market players.

The following figure illustrates the ERGEG’s Best Practice Procedure for supplier switching:
The proposed supplier switching procedure is as follows:

1. The customer and the new supplier sign the new contract, if they agree with the terms of the contract.

2. The new supplier contacts the DSO (or the other party with data) in order to notify the customer’s willingness to switch and requesting to carry out the switch.

3. The DSO (or other party with data) confirms the supplier switching to the new and the old supplier.

4. The DSO (or other party with data) reads the meter or asks for meter reading to the new supplier or directly to the customer.

5. If the DSO (or other party with data) reads the meters, the values are sent directly to the new and to the old supplier for settlement purposes.
6. If the DSO (or other party with data) asks for meter reading to the
new supplier, the new supplier receives the request from the DSO (or
other party with data) and asks the customer for meter reading. In
this case, the customer sends the values to the new supplier; the new
supplier receives them and sends the values to the DSO (or other
party with data).

7. If the customer receives the request for meter reading directly from
the DSO (or other party with data), he sends the values via web page,
by SMS, telephone or ordinary mail to the new supplier or to the
DSO (or other party with data).

8. Finally, the DSO (or other party with data) receives the measured
values, and sends the meter values on date of switch to the new and
to the old supplier for settlement purposes.

4.2.3 Eurelectric Position on ERGEG’s Best Practice Proposition

The Union of the Electricity Industry-Eurelectric is the sector association
representing the common interests of the electricity industry at pan-European level,
plus its affiliates and associates on several other countries.

In line with its mission, the contribution to the competitiveness of the electricity
industry and the provision of effective representation for the industry in public affairs,
Eurelectric has made some comments to the ERGEG’s Best Practice Proposition for
supplier switching.

Eurelectric agrees with ERGEG that roles and responsibilities should be clearly
defined but disagree with the idea of proposing and obligation that the DSO should in
general act as an information hub and a market facilitator.

It is remarked that the DSO plays an important role in the supplier switching
procedure and is often responsible for handling critical data but the supplier should be
the driver of the supplier switching procedure: the supplier switching procedure should be supplier-centric.

Eurelectric proposes that the customer should only need to contact the supplier for supplier switching. The supplier should be the interface with the customer on all aspects and stages of the process.

Eurelectric remarks that the scope of the Best Practice Proposition for supplier switching should be to achieve a solution at a European level by ensuring that national solutions are compatible with each other.

This objective should be reached step by step, taking into account the remaining differences in the degree of retail market openings and the need for adjustment between different national solutions and to avoid excessive high costs to the industry, costs that will finally be paid by customers.

Eurelectric proposes a generic model for supplier switching, this model will be also commented in this master thesis.

4.2.4 GEODE Position on ERGEG’s Best Practice Proposition

The “Groupement Européen des entreprises et Organismes de Distribution d’Energie” (GEODE) was founded in 1991 it is made up of 100 European independent distribution companies of gas and electricity, both privately & publicly owned.

GEODE defends the interest of the local distributors in front of energy authorities on national and international level and allows the exchange of expertise, the share of data and competence.

The GEODE’s opinion is that ERGEG’s proposition is appropriate to reach the two strategic priorities identified: to promote easy, cost efficient and standardized switching and activating/deactivating procedure and ensure customer confidence and sound monitoring systems.

The ERGEG’s Best Practice Proposition is considered to be a commendable method for tackling the supplier switching procedure.
GEODE remarks the considerable costs that distribution companies have to face to implement systems to manage the supplier switching and that the costs regarding supplier switching incurred by the distribution companies should be covered by the distribution tariffs paid by all network users.

4.2.5 CEDEC Position on ERGEG’s Best Practice Proposition

The European Federation of Local and Public Energy Distribution Companies (CEDEC) represents local energy companies at European level.

It has participated in 2005 in ERGEG’s Customer Focus Group.

CEDEC generally agrees with ERGEG’s Best Practice Proposition but makes some remarks and observations on the two strategic priorities identified by ERGEG.

Regarding the first strategic priority, “Promote easy, cost efficient and standardized switching and activating/deactivating procedures”, CEDEC remarks that the possibility for customers to supplier switching within a short but reasonable period of time without obstacles and disadvantages for the customer is a prerequisite for a well functioning and efficient market.

In order to avoid excessive administrative burden and costs to DSO and suppliers, it is proposed not to allow “re-switches” too fast.

The DSOs are proposed to manage the IT infrastructure needed for supplier switching, as they have access to the relevant customer data.

CEDEC remarks that rules should be applied in order to avoid that supplier switching is more difficult for those customers that switch to a supplier that does not belong to the DSO’s vertically integrated company.

CEDEC’s opinion is that the metering activity should be kept or brought back under the responsibility of the DSO, since exposing the metering activity to competition brings the risk that a supplier will obtain primary access to and thus control over customer data and metering can also become and element of security of supply by means of intelligent meters.
Regarding the second priority objective, “Ensure customer confidence and sound monitoring systems”, CEDEC remarks that rules and measures are needed to protect customers against unprofessional market players.

CEDEC also proposes a code of conduct signed and respected by all suppliers to protect customers against mis-selling and that the energy regulators provide information to improve customer awareness about the supplier switching procedure, the available suppliers and energy prices.

4.2.6 Nordenergi Position on ERGEG’s Best Practice Proposition

The Nordic Co-operation Organization (Nordenergi) joins the industry organizations for electricity producers, suppliers and distributors. Its main task is to promote the development of the Nordic Electricity market in a European level.

Nordenergi´s opinion is that the ERGEG´s proposition gives a good overview on requirements needed for a reliable and smooth supplier switching process.

It remarks that the customer can only initiate the supplier switching and that it can be verified through a written and signed contract, oral contract and a contract confirmation, or electronic format.

Nordenergi does not agree with ERGEG´s proposal in allowing customers to terminate fixed-priced or fixed-time contract at any time since the supplier normally hedges the procurement of energy for customers with fixed terms contracts in a forward market. If a customer is allowed supplier switching before the contract has expired this would jeopardize the link between the wholesale and the retail market.

Supplier switching is considered to be one of the indicators, but not only, to assess the functioning of liberalized markets.

There are other indicators such as the productivity increase, contract renegotiations, number of competing suppliers and offers available, customer satisfaction, barriers to supplier switching, converge of price zones and converge of wholesale and retail markets and others.
4.2.7 **TOE Position on ERGEG´s Best Practice Proposition**

The Polish Association of Energy Traders (TOE) is made up of 26 traders and suppliers in Poland. It is a voluntary, self-governing and apolitical non-profitable association created at the end of 2003.

TOE undertakes activities in support of the development of the competitive Polish energy market, to promote the principles of trading in energy and fuel and their standards and to represent the interests of the energy and fuel sector to the relevant authorities and other associations and entities.

The association agrees with ERGEG´s main recommendations and with the manner they have been formulated and propose that the Best Practice should be applied not only to household and small enterprises but should also be applied to large and middle-size customers.

TOE´s opinion is that customers should not have easy access to full information on the prices on the whole market, in opposition to which it is stipulated in the ERGEG´s Best Practice Proposition. Since in its opinion, the essence of the liberalized market is negotiating prices in the environment which guarantees confidence of data and terms of contracts.

It proposes to add in the Best Practice Proposition the preferred timeframe for every action required for supplier switching.

As in Poland the grid codes do not allow DSO load profiling, TOE remarks that the issue of load profiling should be further elaborated in the proposal with the objective to introduce load profiling in many countries.

TOE proposes to clarify which type of data should be included in the list of alternative suppliers that has to be published by the regulators.

4.2.8 **Genserv Position on ERGEG´s Best Practice Proposition**

Genserv is a specialist consultancy in the design, development and operation of European utility retail markets.
It advises on governance frameworks for regulated markets and designs, implements, manages and supports market-wide processes, working practices and standards.

Gemserv considers that when a customer moves out a property the responsibility for the supply of that premises should not revert to the incumbent supplier.

It agrees with that the scope of the proposal is the small enterprises and household customers since medium and large enterprises have complex premises and have different commercial considerations.

Gemserv remarks that only the supplier switching made by the customers free exercise of choice should be recorded as supplier switching.

The following processes related to supplier switching should be clear and transparent:

- Supplier switching timescales.
- Supplier switching blocking/rejection rules.
- Data exchange and validation, including agreement to a change meter read.
- The treatment of outstanding debt.
- Repatriation of erroneous transfers.

It is very important that processes and data structures must be allowed to evolve and improve and that governance enables full participation for all stakeholders in the change process.

Regarding the first priority objective, “Promote easy, cost efficient and standardized switching and activating/deactivating procedure”, Gemserv remarks that all customers should not be unduly excluded from the opportunity to supplier switching and that supplier switching should not be activated without the customer’s express permission.
It is Gemserv’s experience that it is not possible to completely eradicate switches by error so when this occurs, customers must be repatriated quickly to the original supplier.

Gemserv considers that the DSO should be the central point of the process since their association with the metering point is long term, but other options should be also allowed. The introduction of competition in the procurement of utility retail market services makes the market work much more efficiently since there is more commercial pressure on both price and service quality.

It is also remarked that when DSOs belong to a vertically integrated group, they have to be strictly controlled in order to mitigate potential abuse of market power in the procurement of retail market services.

Gemserv proposes to change the ERGEG proposition stating that the DSO usually acts as a hub. It considers that the Best Practice should state that there will be a Primary Access Facilitator, which under some circumstances might be the DSO.

A data hub is considered essential so that market participants can obtain information in a timely and non-discriminatory manner.

Governance should ensure that data owners should be identified and have clear duties in order to keep the data updated and that all market participants have access to information on a non-discriminatory basis.

Gemserv considers that an effective governance framework should be encourage in all Member States and the governance arrangements and rules for change of control should be operated for the benefit of all market participants.

It is preferred that the DSO is not directly mentioned to be in charge of providing/receiving the meter reading and that the customers send their own readings directly only to the new supplier.

Clear and appropriate practices for dispute reading resolution should be put in place.
Regarding the second priority point, “Ensure Customer Confidence and Sound Market Monitoring”, Gemserv highlights the following topics to increase the customer confidence:

- A customer can switch by contacting just with the new supplier.

- All the supplier switching processes must be transparent, understandable, non-discriminatory and controlled by proper governance.

- Customers should be protected against mis-selling through the introduction of Marketing Codes in each Member State.

Gemserv agrees with ERGEG’s proposition that not direct fees should be charged for supplier switching, otherwise it will discourage customers from switching. The costs related to switching are considered as “business costs” and are recovered through overall pricing.

Problem resolution processes should be in place and they should be consistent, equitable and appropriate to the size of the problem. Market participants should have duty to cooperate where they are impacted or where the problem has arisen through their error.

Gemserv considers that market monitoring should encompass information on both supplier switching and the operation market practices which impact on the process.

4.2.9 SAP Position on ERGEG’s Best Practice Proposition

SAP was founded in 1972 as Systems Applications and Products in Data Processing, provides collaborative business solutions for all types of industries and for every major market.

SAP’s goal is to support supplier switching in all European Countries.

The comments of the company focus on the IT and process-automatization perspectives, on the cost efficiency, easiness and robustness of the switching process as well as manageability/complexity and fault tolerance degree of the process.

SAP remarks that a transparent and well understood supplier switching process with a high degree of automatization is a prerequisite for a functioning retail market
and proposes the following options that support the ERGEG’s strategic goals reducing the complexity of the change of supplier process:

- A bi-directional supplier switching model where the old supplier has limited rights to interfere is proposed since is generally less complex, the degree of automatization which can be reached will be higher and manual interaction can be reduced to minimum. While a tri-directional supplier switching model allows the old supplier several interactions in the procedure but adds higher complexity of interaction between the market partners and the robustness is lower.

- The number of suppliers at one metering point should be limited to one only especially for load profile customers since allowing more than one supplier per each metering point will make the process more complex and costly.

- The data communication for supplier switching process should be wrapped into identical data communications messages.

- The supplier switching and moving processes should be non discriminatory. They should be processed by identical rules; there should not be any distinction between the incumbent supplier and any other supplier.

- The EU should provide communication rules and technical standards in order to limit the existing differences and technical variations across Europe to enable cross country activities of market participants, to decrease IT costs as well as the frequent changes. The data interchange between market agents requires very precise rules about contents and formats.

- As far as possible, the electricity and gas markets should follow the same rules, otherwise change of supplier of gas and electricity jointly will even add more complexity and higher costs.

SAP agrees with ERGEG that clear roles and responsibilities are important or even a prerequisite for a well functioning market but disagrees with the general proposition that the DSO acts as a hub and a market facilitator since the DSO will increasingly lose customer data in case the supplier will act as a single point of contact.
It is proposed the use of the ebIX-ETSO-EFET role model for the European Market.

SAP agrees with ERGEG that meter reading should not be an obstacle for supplier switching. It considers that the meter values read by the customers should be sent by suppliers to the DSO but that there is a lack of European Rules.

It is recommended to only allow DSO for meter estimation; DSO will provide these estimations to the market agents.

SAP highlights that in near future new technologies like AMI will allow access to precise values of consumption at any time.

ERGEG’s proposal states that “when it is possible, the customer reads his meter and sends the meter value to the DSO”. SAP considers that there is a contradiction with the following ERGEG’s proposition “customer should only need to be in direct contact with one party, preferably the new supplier”. It is remarked that the new supplier shall be enabled to accept meter reads from customers and to deliver them to the DSO.

SAP agrees that type of contract can not prevent the customer from supplier switching and this fact would help to reduce complexity and save IT costs. The application of a fee for withdrawing fixed terms contracts should be the way to solve this issue.

All data communication should integrate the metering point ID centric for identification. The initial identification of the metering point ID should be responsibility of the DSO within the initial opening phase of a market opening and provided to the supplier later on.

4.3 Eurelectric’s Best practice Proposition for supplier switching

4.3.1 Introduction

In line with the objective to contribute to the competitiveness of the electricity industry, Eurelectric, through its Work Group Retail Markets, has made a proposal to reach a common model in Europe for supplier switching.

An easy, quick and reliable supplier switching process is considered to be one of the pre-conditions needed for a well-functioning retail market since without a viable
supplier switching process, customer choice, even if possible in law, remains theoretical.

4.3.2 The Proposed Generic Supplier Switching Model in Europe

The goal of the model is to make supplier switching easy, simple, reasonably fast and free of charge and based on clear and correct information. It is intended to facilitate customer choice at national level also ensuring that national models are compatible across Europe to enable customer choice in the future pan-European Market.

The generic supplier switching model can only be achieved step by step; first covering national markets and gradually evolves to regional and finally EU market.

The focus of the proposed model is the retail market, which includes households and small businesses, connected to the low or medium voltage grid, with an average yearly consumption below 100 MWh.

Eurelectric defines supplier switching as “the change from one supplier to another by the customer making a deliberate choice”.

The supplier switching period begins with the agreement on the terms of the contract between the customer and the new supplier and ends when the new supply starts.

Eurelectric identifies the following core tasks that should be performed within the common change of supplier period:

1. Make supply contract
2. Identify and verify critical switching information
3. Verify no obstructing element exists and inform customers of the possible consequences of terminating the contract with the old supplier
4. Establishing switching date and period of regret
5. Organize meter reading or agree on estimating it
6. Inform all parties on switch
7. Verify all parties agree on switch
8. Wait for any relevant period
9. Switch
10. Provide real or estimated meter reading
11. Start new supply

The generic model states that the supplier switching process should not take longer than 14 to 30 days since a longer period of time will deprive customers from switching. However, the time-period should allow for the necessary checks and verifications for carrying out the switching.

It is recommended that the process should be possible on any day of the week or month.

The generic model states to establish a change of mind period (also called cooling-off period), in which the customer can regret the supplier switching without being penalized.

From a contractual point of view, two options are stated:

- Supplier switching can be carried out only when customers are free (i.e. customers do not have outstanding contracts).
- Supplier switching can be carried out even if customers have outstanding contracts, by allowing customers to terminate the existing contracts.

The customer should remain responsible for the contractual obligations entered into with the old supplier in the previous supply contracts.

The customers should be entitled to receive their contract in a paper or a written version independent of how the agreement with the new supplier was made.

Considering the roles and the responsibilities of the actors involved in the existing procedures for supplier switching across Europe, there are two basic models:

- The supplier-centric model.
- The distribution-system-operator-centric model (the so called DSO-centric or distributor-centric).

The generic model proposed by Eurelectric is based in the roles and the processes from the customer’s perspective. It is a supplier centric-model, where the new supplier
is the single point which customers contact to obtain all the necessary information of
the supplier switching procedure. The requirement for a customer to make multiple
contacts is confusing and may create a fear for switching.

If another party needs additional information, he should be able to retrieve this
information through the supplier: only the new supplier should contact the customer.

In the generic model is stated that the new supplier is responsible for providing all
relevant and correct information to the customer.

While, for the purpose of supplier switching, the supplier is the single point of
contact in the generic model, the DSO should retain the responsibility for the physical
operation of the network. The DSO may retain direct contact with the customer in case
of new connection, new construction and building, moving, power failures and
outages.

The supplier-centric model has been mainly chosen because the supplier is the
natural driver of the supplier switching process, it is easier to put in practice since
supply is a competitive business and thus more open to changes that distribution and
is better suited to facilitate market entry by new suppliers.

A supplier-centric model is a tool for market integration as well as can better cope
with differences between existing supplier switching models in different national
markets.

Eurelectric’s proposal states a common switching period, compatible electronic data
exchange mechanisms and common implementation principles.

It is remarked that the generic model should ensure that new suppliers have easy
access to critical supplier switching information in order to facilitate market entry by
new suppliers. To reach this objective, smoothly running, straightforward and timely
communications systems are needed. On-line data-bases with easy but protected access
to critical information should be made available to relevant agents.

Centralized data-bases are not considered to be necessary since other solutions can
provide equivalent access to the information.
When DSO is responsible for handling the relevant information, it is highlighted that it is very important to guarantee that the information will be provided to all suppliers in an efficient, neutral and non-discriminatory way.

Customers should give consent to supplier for access to their data.

The following information is considered to be critical for the change of supplier process:

- Customer data (to identify the customer: name, address…)
- Consumption data (actual meter values, historical data, load profile…)
- Unique metering point ID (location, type of meter…)
- Relevant information of debt, if debt is an allowed valid reason to block switching.

As the switching activity is expected to increase, the information exchange between agents will also increase. The information exchange systems that carry out the changes must be able to cope with a large number of messages. This can be achieved only by automatization the processes.

It is a pre-requisite to allow change of supplier across European countries, the interoperability of information exchange systems used within national markets.

Eurelectric considers that data-exchange systems should be harmonized, covering at least messaging format, content and data exchange protocols.

The generic model proposed by Eurelectric is based on a set of core tasks to be performed by relevant parties (customer, new and old supplier, DSO and others), a common switching period and common implementation principles, including compatible electronic data-exchange mechanisms (message content and format, deadlines for data exchange between DSO and suppliers).

Eurelectric proposes that customers should not be charged extra fees for customer switching. Customers with long-fixed terms contracts should be allowed to supplier switching but they may required to pay penalties to their old supplier according to the terms of the previous contract. Customers should be informed of the consequences of terminating fixed-term contracts.
The proposed generic model has important consequences on the organization of the wholesale and retail markets.

Eurelectric has identified the following relevant issues that need to be adjusted in order to make the model work smoothly for customers and new entrants:

- **Marketing and Contracting:**

  In the generic model, the contract relevant for the switch is between the new supplier and the customer. The new supplier initiates the supplier switching process with the DSO and other involved parties and will provide the relevant customer services.

  There should be just one contract. Although a contract between the DSO and customer concerning network access is necessary, this can be signed by the supplier on behalf of the customer.

  The possibility to contract by a wide variety of means: mail, internet, phone, personal contact in branch offices, etc, creates room for abuses.

  Customers should be protected against mis-selling practices and misleading information through detailed customer protection regulation (e.g. telemarketing law, selling codes, marketing code of conduct, code of good practices, notification and regret period, etc.)

- **Metering:**

  One of the most critical information elements for switching is the consumption data.

  There is a wide variety in metering practices, technical solutions and regulation applied across Europe.

  The general practice is that household customers and small enterprises are low frequency metered. This situation requires load profiles.

  The generic model easily encompasses load profile systems but has consequences on aspects of how these should be used. Load profiles should not result in disincentives for customers switching and should not discourage new suppliers to entry into the market. Load profile systems should be updated regularly to closely
mirror current consumption trends and the information about the load profiles procedure should be published by DSO.

The limitations of load profile systems is driving to the introduction of new and advanced technologies that enables customers to influence their consumption and take advantage of the dynamics of retail markets.

The generic model also easily encompasses real time metering solutions and automated metering (AMR).

The generic model states the assignment of metering to a particular market actor. DSO or an agency should have the responsibility since competition in metering is not helpful as it makes switching more difficult and complex.

- **Billing:**

  The bill should provide critical information for the supplier switching as well as the starting date and ending date of contract.

- **Balancing and Settlement:**

  An important consequence of the generic model is that balance settlement periods used in wholesale markets and power exchanges need to be aligned with metering and settlement periods applied to retail consumers since discrepancies in wholesale and retail markets balance settlement periods increase risk and cost of entry.

  In addition, balancing models of national markets should be aligned at least within regional markets in order to allow customer choice in regional markets. Discrepancies between different national markets are currently the main inhibitors of regional market integration.

- **Access to and linkage with wholesale markets:**

  The generic model requires transparent wholesale markets and access by new suppliers to function effectively.
4.4 NordREG´s Best practice Proposition for supplier switching

4.4.1 Introduction

The Nordic Energy Regulators (NordREG) is a cooperative organization for Nordic regulatory authorities in the energy field. Its mission is to actively promote legal and institutional framework and conditions necessary for developing the Nordic and European electricity markets.

One of NordREG´s strategic priorities is to develop a truly common Nordic retail market with free choice of supplier.

In order to reach this goal, NordREG has established the following objectives:

- To develop a common balance management and settlement system
- To ensure easy and harmonized switching procedures in the whole Nordic market
- To create harmonized criteria for unbundling to ensure neutrality

On September 2005, NordREG published “Supplier Switching in the Nordic Countries”. In this document, NordREG made its proposal for supplier switching with the aim to report the Nordic recommendations to the European forum as the Nordic electricity market has been in the forefront as regards market opening and retail market competition as well as supplier switching.

It is remarkable that ERGEG´s Best Practice Proposition for Supplier Switching Process is mainly based on the recommendations made by NordREG.

4.4.2 NordREG´s Best Practice Proposition

An efficient model for supplier switching is considered to be a prerequisite for a well-functioning retailing market by NordREG.

The model must guarantee an efficient and manageable switching procedure for households and small business customers.
The main features of the proposed supplier switching model can be summarized as follows:

- The customer who wants to switch should need to contact only one market actor –the new supplier- to initiate the switching procedure.

- The new supplier contacts the Distribution System Operator (DSO) to carry out the switch.

- The DSO confirms the supplier switch to both the old and the new supplier.

- The customer reads his meter, when possible, and sends the meter value to the DSO either through a web page, by SMS or ordinary mail. The meter value can be estimated by the DSO if the customer has not access to his meter.

- The DSO sends the metered or estimated values to the old and the new supplier.

- Electronic data interchanged is required to operate the switching process smoothly.

- Every metering point should have an identification number exclusive for that point only.

- The identification number should be known to the customer (e.g. through the electricity bill or on a label next to the meter).

- Contracting should be possible electronically.

- The information required from the customer in order to implement the switch must be regulated.

The following figure represents the proposed supplier switching model by NordREG (notice that in NordREG’s figure is missing when the DSO estimates the meter values):
Figure 5 - NordREG’s Best Practice Procedure for supplier switching.

NordREG propose to make available several standards contracts in order to make possible the comparability of the prices and conditions of the contracts to make the customers decision easier.

With the aim to provide accessible and comprehensible price information to the customers, NordREG proposes the use of price comparisation systems through which customers can compare prices free of charge and find out information on the suppliers.

Regarding obstacles for switching, NordREG remarks in its proposal that there should not be any unnecessary obstacles for switching (e.g. restrictions limiting the number of costless switches per year or fees related to supplier switching, restrictions regarding the date when a switch can take place, too long switching periods).

The costs incurred by supplier switching are considered to be costs related to market operations fundamental for the functioning of the market. These costs should be recovered through the regulated income of DSOs. Otherwise, charging each individual customer could prevent many customers from switching.
It is proposed to put in place specific customer protection rules to safeguard the position of small customers in the electricity retail market.

A reliable, efficient and free of charge dispute settlement procedure should be put in place.

Considering that switching rates is a central indicator for the functioning of the electricity retail market, NordREG remarks the necessity to reach a common definition of customer switching and in the methodology used to measure the switching rates.
5

Obstacles to supplier switching
5 Obstacles to supplier switching

5.1 Introduction

As it has been mentioned previously, the possibility to change to a new supplier within a short period of time and without obstacles and disadvantages for the customer is an essential pre-requisite for a well functioning and efficient market. Thus, reducing the obstacles to supplier switching is one of the single most important issues for achieving a well-functioning end-user market.

Although obstacles to supplier switching are being reduced across European Countries, there is however room for improvement on a wide range of issues.

In June 2007, ERGEG sent to ERGEG members and observers a questionnaire asking for the obstacles to supplier switching identified in each country.

This chapter summarizes the main conclusions of the received answers.

5.2 Identified obstacles

The identified obstacles to supplier switching can be summarized as follows:

- **Lack of economic incentive for switching.**

  Nowadays, the main obstacle is that there is no economic incentive for customers to change supplier since in most European Countries open markets coexist with regulated end-user prices and the regulated end-user prices are usually fixed with political objectives instead of being calculated taking into account market conditions.

  Figure number 1 shows the European Countries regulating end-user prices.

  Besides, in most European Countries (with the exception of Norway and Sweden) the relative impact on household economy is low as well as the price difference between suppliers.
The following figure shows the average annual household consumption and total annual cost across Europe.

![Figure 6 - Average annual household consumption and total annual cost](image)

It is remarkable that consumers should consider the electricity cost when switching and not the total cost which includes terms that are not affected by a switch (e.g. grid tariffs, VAT, renewable charges, etc.)

In all countries except Austria, Belgium, Germany, Norway, Sweden and the U.K., customers can save less than € 50 per year for total electricity cost.
The following table shows the total annual electricity cost and household savings by switching from incumbent supplier to the cheapest supplier:

<table>
<thead>
<tr>
<th>Country</th>
<th>Total annual cost (share of GDP per capita&lt;sup&gt;a&lt;/sup&gt;)</th>
<th>Savings from average consumption</th>
<th>Savings with 3500 kWh consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total bill</td>
<td>Electricity supply</td>
</tr>
<tr>
<td>Austria</td>
<td>612 € (2.1%)</td>
<td>Between € 50 and € 100</td>
<td>Between € 50 and € 100</td>
</tr>
<tr>
<td>Belgium</td>
<td>801 € ---</td>
<td>More than 100 €</td>
<td>---</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>321 € (1.7%)</td>
<td>Less than € 50</td>
<td>Less than € 50</td>
</tr>
<tr>
<td>Denmark</td>
<td>930 € (3.2 %)</td>
<td>Less than 50 Euro</td>
<td>Less than 50 Euro</td>
</tr>
<tr>
<td>Estonia</td>
<td>380 € (2.4%)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Finland</td>
<td>780 € (2.8%)</td>
<td>Less than € 50</td>
<td>Less than € 50</td>
</tr>
<tr>
<td>France</td>
<td>537 € (2.1%)</td>
<td>Less than € 50</td>
<td>Less than € 50</td>
</tr>
<tr>
<td>Germany</td>
<td>684 € (2.7%)</td>
<td>More than € 100</td>
<td>---</td>
</tr>
<tr>
<td>Ireland</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Italy</td>
<td>400 € (1.6 %)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Lithuania</td>
<td>166 € (1.3 %)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>762 € (1.2%)</td>
<td>Less than € 50</td>
<td>Less than € 50</td>
</tr>
<tr>
<td>Norway</td>
<td>2453 € (6.9%)</td>
<td>More than € 100</td>
<td>More than € 100</td>
</tr>
<tr>
<td>Poland</td>
<td>210 € (1.7%)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Portugal</td>
<td>437 € (2.4%)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Romania</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Slovenia</td>
<td>426 € (2.2%)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Spain</td>
<td>380 € (1.7%)</td>
<td>Less than € 50</td>
<td>Less than € 50</td>
</tr>
<tr>
<td>Sweden</td>
<td>2479 € (9.0%)</td>
<td>More than € 100</td>
<td>More than € 100</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>611 € (2.2%)</td>
<td>More than € 100</td>
<td>More than € 100</td>
</tr>
</tbody>
</table>

*Table 3 - Total annual electricity cost and household savings by switching from incumbent supplier to the cheapest supplier.*
The following figure shows the composition of total electricity costs in 2006 across Europe:

![Figure 7 - Composition of total electricity costs in 2006.](image)

It is remarkable that the United Kingdom which has the highest switching rate in Europe (18.1% according to the Report to the European Commission, 2007) has the following characteristics:

- No end-user regulated prices coexisting in the open market.
- Household customers may save over €100 per year by switching from incumbent supplier to the cheapest supplier.
- The energy price represents over 70% in the composition of total electricity cost.
• **Lack of information for customers.**

Customers should have easy access to information about:

- Alternative suppliers.
- Prices.
- Switching procedure.

Although in most European Countries the regulator or some other relevant national authority publishes list of suppliers, this information should be given for each grid area. Additional information about prices and tariffs should be given as well as the terms and conditions of the contracts.

Information about alternative suppliers and prices in some cases it is not updated as often as needed.

Customers should be provided with user-friendly tools for comparing prices.

Additional efforts should be made to inform customers about the supplier switching process in place in each country, identifying clearly the roles and responsibilities of all the agents involved in the supplier switching process.

In some countries, the customer has not got easy access to the information required in the switching process.

• **The former supplier is able to object to the implementation of the switch.**

In many European Countries, the former supplier is able to hinder the switching procedure in case of outstanding fixed term contract, of customer debt to the former supplier or in case of error.

It is recommended to eliminate or reduce the situations when the former supplier is allowed to object to the implementation of the switch.
In case of contracts with fixed terms, it is recommended the use of reasonable fees for withdrawing this type of contracts.

- **Customers are not allowed to cancel the new contract within a period of time.**

Customers should be provided with a change of mind period (also called “cooling off period”); during this period customers are allowed to cancel the new contract without any penalization. This will ensure customer protection and mobility in the liberalized retail electricity market.

- **Too long duration of the switch.**

Although the theoretical maximum duration of the supplier switching process in the European Countries is between one and two months, in some countries the typical duration of the switching process is longer.

For example in France, switching takes effect every first day of month M. The switching request has to be registered by the supplier with the DSO before the 10th of the month M-1 to implement the switch on the first day of month M. Since customers can cancel a contract 7 days after it has been signed, suppliers usually wait for 7 days before notifying the switching. Thus, the switching process duration is usually between $20 + 7 = 27$ days and $50 + 7 = 57$ days, if the switching request is not rejected due to fraud, wrong data or double demand. Under these circumstances the duration can be longer.

Supplier switching process should take place in a relatively short period of time; otherwise it could prevent customers from switching.

Standardized switching procedures, standardized and automatic exchanges of data between the agents involved in the supplier switching process as well as minimizing restrictions regarding the dates when a supplier switching can take place will help to reduce the duration of the process.
• **Poor meter value data.**

The switching costs will be high and will prevent customers from switching if there are settlement disputes between the involved parties due to poor meter value data.

In order to promote effective supplier switching, the meter should be read as part of the switching process.

Under some circumstances, the agent responsible for meter reading –in most European Countries the DSO- is allowed to estimate the values. The methodology of the estimation should be published in order to avoid disputes between the involved parties.

As it has been mentioned previously, the customers shall not pay any direct fees for supplier switching, since the direct payment of fees for changing the supplier will be an obstacle for customer switching. In some countries (e.g. Austria) customers sometimes have high supplementary payments due to estimation of the meter value. These supplementary payments should be removed as they are direct fees related with the supplier switching.

The implementation of the use of automatic meter reading will improve the supplier switching procedure in many countries.

• **Lack of standardized and automatic exchanges of data between the agents involved in the supplier switching process.**

The flow of information between the agents involved in the supplier switching process increases significantly with market opening. It would be hard to achieve efficient business transfers without a single legally binding data format used throughout the market.

Although there are some European Countries that have a legally binding format, there are still many countries that do not.
The most common standard data formats are EDIFACT and XML. Additional efforts should be made to harmonize the data transfer across European Countries.
Case study: supplier switching process in Spain
6 Case Study: supplier switching process in Spain

6.1 A brief description of the Spanish retail electricity market

6.1.1 The liberalization of the retail electricity market

The Spanish Electricity Market was opened to all categories of consumers the 1st of January 2003. The market was opened for High Voltage consumers the 1st of July 2000. Therefore, all Spanish consumers are allowed to choose freely their electricity supplier.

Initially, a progressive liberalization calendar was established. This calendar has been modified several times in order to accelerate the liberalization process. The final calendar was as follows:

- In January 1998, the retail electricity market’s consumption threshold was established at 15 GWh/year.
- The first of January 1999, consumers with consumption in excess of 5 GWh/year were eligible.
- The first of April 1999, consumers with consumption in excess of 3 GWh/year were eligible.
- The first of July 1999, consumers with consumption in excess of 2 GWh/year were eligible.
- The first of October 1999, consumers with consumption in excess of 1 GWh/year were eligible.
- The first of July 2000, all High Voltage (greater than 1 kV) were eligible.
- Finally, the first of January 2003, all consumers were eligible.

Low Voltage electricity consumers can choose between being supplied in the regulated market at regulated prices (final tariffs) through the distribution company they are connected to, or being supplied in the liberalized market at freely negotiated prices through a supplier of their choice. In this case, a network access contract is needed.
The final tariffs could be reviewed and published four times a year by the Government.

The Distribution Companies have the obligation to supply at regulated prices those consumers that are allowed to be in the regulated market –Low Voltage consumers and some categories of High Voltage consumers- and choose this option.

To move back from the liberalized market to the regulated market is only permitted for Low Voltage consumers, with the restriction of staying in the liberalized market, at least for one year. This condition prevents them from returning any earlier to the regulated market.

The Law 17/2007 states that the 1st of January 2009 the final tariffs will disappear, and since that time last resort tariffs will be used.

Since 2011, it is foreseen that only small size enterprises with a contracted power of less than 50 kW and household customers will be allowed to purchase electricity at last resort tariffs. The rest of customers will have to contract their electricity supply in the liberalized market through the suppliers.

6.1.2 Market structure

There are five major distribution companies and approximately three hundred medium and small size distribution companies (i.e. distribution companies with less than 100,000 customers)

The following figure shows the regulated market share of the five major distribution companies between January and June 2007 in the Peninsular Area:
Case Study: supplier switching process in Spain

Figure 8 - Shares for distribution companies in the regulated market between January and June 2007.

The distribution companies Iberdrola Distribución and Endesa Distribución have a 76.96% of the total regulated market share in the Peninsular Area between January and June 2007.

Although by October 2008, the Minister of Industry, Tourism and Trade has registered 53 suppliers in the Registry of Suppliers, not more than 15 suppliers are currently operating in the Spanish Electricity Market.

The following figure shows the liberalized market share of the suppliers between January and June 2007 in the Peninsular Area:

Figure 9 - Shares for suppliers in the liberalized market between January and June 2007.
Endesa Energía has a 56.53% of the total liberalized market share in the Peninsular Area between January and June 2007, followed by Unión Fenosa Comercial (14.59%), Cantábrico Energía (13.16%) and Iberdrola (7.40%).

It is remarkable the low liberalized market share of Iberdrola (7.40%) comparing with its dominant position in the regulated market (42.8%). The company has decided to reduce its activity in the liberalized market till the increase of the margins for supplying in the liberalized market.

The wholesale market price was high in 2005 and 2006, so the wholesale market plus access tariff were higher than end-user regulated prices during this period.

The following figure shows a comparison between the wholesale price plus access tariffs and end-user regulated prices for small industries for the period 2003-2006.

![Figure 10](image)

**Figure 10** - Evolution of wholesale price +access tariff and end-user regulated tariff from 2003 to 2006

Although in theory suppliers could make also bilateral contracts with generators to purchase electricity, in order to reduce the prices to a level lower than those in the wholesale market, suppliers have not got much real choice to make bilateral contracts with generators since they obtain better price conditions in the spot market.
The result of this situation is that the number of customers as well as the amount of electricity energy in the liberalized market has decreased since 2005.

Suppliers that belong to a fully vertically integrated energy group, somehow compensate the losses in their supplying activity with the extra incomes of the generating activity, in some cases the group have even earned more money. But the situation has been critical for those independent suppliers without generation.

6.2 End-user prices and contracts

The law stipulates that to determine regulated prices for electricity, the remuneration of activities must be calculated according to objective, transparent and non-discriminatory criteria.

The law also establishes the methods of calculating the costs included in regulated prices, based on transparent criteria. However, it does not define the specific criteria to be used for allocation each cost in order to determine the various levels of regulated prices.

The decisions concerning end-user regulated prices are still taken currently by the Minister of Industry, Tourism and Trade.

This situation was supposed to change the first of July 2008, since Royal Decree 871/2007 estates that the National Energy Commission (CNE) will update the regulated tariffs. The Minister is allowed to introduce new terms in the methodology used for price calculation, before the CNE makes its proposal.

The Royal Decree 1634/2006 states that since the first of July 2007, the Government will update the regulated prices of electricity each three months.

There are two types of regulated prices:

- Final tariffs for consumers who are in the regulated market (i.e. end-user regulated prices).

 The final tariffs mainly include the following costs:

- Production costs
Transmission and distribution costs

Retailing (supply sales) costs

Permanent costs of the system

Supply diversification and security costs

- Access tariffs (including costs related to transmission and distribution plus other costs), paid by customers in the open market.

- Access tariffs include the same costs as the final tariffs, except production costs.

The following figure shows the annual evolution, from 2000 to 2007, of the total cost of supplying electricity in the liberalized market.

![Figure 11 - Evolution of the costs of supplying electricity in the liberalized market from 2000 to 2007.](image)

The energy cost refers to the cost of the electricity in the “pool” plus all the regulated costs related to the production.

The figure shows the increase of the energy prices that started the second half of 2001 and finished in the second half of 2002, the decrease of the energy prices from the
second half of 2002 to the second half of 2004, the high increase of energy prices from the second half of 2004 to the second half of 2005 and the soft decrease of energy prices from that date to 2006 and the significant decrease of energy prices since that date.

6.3 Neutrality and access to information

The Royal Decree 1454/2005 estates that Distribution Companies must have available a Data Base, named the Registry of Delivery Points, with information about all the delivery points connected to their grids as well as information about all delivery points connected to the transmission grid within their distribution zone.

The Registry of Delivery Points must be regularly updated by the Distribution Companies and must contain, at least, the following information:

- Unique Metering Point Identification Number (CUPS)
- Distribution Company
- Place of the delivery point
- City of the delivery point
- Province of the delivery point
- Connection date of the delivery point
- Actual final tariff or access tariff
- Voltage of the delivery point
- Maximum power authorized by the official bulletin of the electrician
- Maximum power authorized by the launching act
- Type of metering point
- Availability of the Power Control Switch
- Type of the load profile
• Recognized extension rights

• Recognized access rights

• Ownership of the metering equipment

• Ownership of the Power Control Switch

• Contracted power by each period

• Date of last contract movement for metering effects

• Date of last switching

• Deadline of the recognized extension rights

• Last two natural years consumption (by hourly discrimination periods and months)

• Date of last metering

The distribution companies must put in place the information systems needed to allow the consultation of the data of the Registry of Delivery Points as well as the reception and validation of the information requests and communications with consumers and electricity suppliers.

Consumers have statutory free access to their data contained in the Registry of Delivery Points as well as the electricity suppliers. Consumers may communicate by written to distribution companies not to make accessible their data to electricity suppliers.

Although the distribution companies with more than 10,000 clients must have systems allowing telemetric access to the Registry of Delivery Points since not later than March 2006, suppliers complain about the impossibility to access to the Registry of Delivery Points of several distribution companies.

In order to reinforce the obligations related to the Registry of Delivery Points, the Law 17/2007 estates as a serious default not fulfilling the following obligations by distributors or suppliers:
• The obligation to allow free access to the Registry of Delivery Points to consumers or suppliers.

• The obligation to maintain a Data Base with information about all the delivery points connected to the distribution grid as well as information about all delivery points connected to the transmission grid within their distribution zone.

• The obligation to put in place the information systems needed to allow the consultation of the data of the registry of delivery points as well as the reception and validation of the information requests and communications with consumers and electricity suppliers.

6.4 Metering requirements and load profile system

The Royal Decree 1955/2000 states that distribution companies are responsible for the meter reading values.

Electricity customers are given the right to choose between purchasing their metering devices or to rent them at a regulated price to the distribution companies.

In general terms, High Voltage customers (customers connected to a network with a voltage above 1 kV) are monthly automatic measured whereas Low Voltage customers (customers connected to a network with a voltage up to 1 kV) are measured each two months.

The Low Voltage customer’s values can be estimated at maximum three times per year.

Since customers that are metered each two months can choose to change of supplier within fifteen days after DSO receives the supplier switching request, a category load profile system is in place to estimate the consumed values under these circumstances.

Nevertheless the foreseen situation is going to change because the Royal Decree 809/2006 states that since the first of July 2007, the metering devices for the new delivery points with a contracted power up to 15 kW as well as the metering devices
that replace the old ones should be prepared to allow automatic meter reading and hourly discrimination.

The Ministries Council of the 24th of August 2007 has approved the Technical Rules of the Metering Points of the National Electricity System.

The National Energy Commission is in charge to prepare the Metering Replacement Plan. This plan will state the deadlines and the conditions for the replacement and the financing of the metering devices for delivery points with a contracted power up to 15 kW.

6.5 Information management

The Royal Decree 1435/2002 states that the National Energy Commission will propose the Ministry of Industry to elaborate the procedures for the management and administration of the contracts for purchasing electricity and for the access to Low Voltage networks. These procedures include the procedures for supplier switching.

Nevertheless to date, these procedures have not been developed yet by the Ministry of Industry.

The lack of statutory supplier switching procedures is considered to be one of the main obstacles for a well functioning retail electricity market in Spain, jointly with the existence of regulated tariffs that for some types of customers do not reflect the real costs of the electricity and the electricity market structure that does not promote competition.

A workgroup was created by the National Energy Commission and enterprises of the electricity sector, with the aim to make a proposal about supplier switching procedures and information interchange systems. After several meetings, a proposal with the flow chart for the change of supplier processes and the information exchange files was made in 2002.
The following figure shows the flow chart for the supplier switching process in place in Spain:

![Flow chart of the Supplier Switching Process in Place in Spain](image)

**Figure 12** - Flow chart of the Supplier Switching Process in Place in Spain.

Major companies have agreed to use the files and the processes of this proposal till the Ministry of Industry regulates the procedure for supplier switching.

Distribution companies have adapted their legacy commercial systems in order to implement the supplier switching.

Major distribution companies have put in place web pages or web channels in order to allow suppliers and customers to submit their supplier switching requests.

These web pages or web channels are connected to the commercial systems and set off all the processes needed to implement the supplier switching.

The Web channel verifies the format of the supplier switching requests and the commercial systems of the distribution companies verifies the content and the consistency of the supplier switching requests.
Suppliers can obtain from the Web channel information about the status (e.g. rejected, activated, waiting for meter reading...) of each submitted supplier switching requests as well as other relevant information (e.g. reason of the rejection, date of activation...).

Another option is to connect directly the commercial systems of the suppliers with the systems of the distribution company, independently if the supplier belongs to the same group of the distribution company or not.

This option uses MQ Series connection. Comparing with the Web channel, it has the following advantages:

- The problem to handle high volumes of information is reduced.
- MQ Series uses standard software; the distribution company does not need to develop a bespoke system, as it the case of web channel.

The distribution companies and suppliers give direct and customized treatment regarding supplier switching to High Voltage customers (customers with delivery points with a voltage over 1 kV).

They have created internal departments to manage all the processes related to supplier switching.

For this type of customers, there have not been created interfaces that communicate commercial systems of the suppliers and systems of the distribution companies for the submission and management of the supplier switching requests.

Communications between agents involved in the supplier switching process regarding the activation of the Access Contract are usually made by e-mail.

Once the Access Contract has been activated, many processes take place in the commercial systems of the distribution companies as well as in the systems of the suppliers.

The e-mail is used also to communicate any change or the withdrawal of the Access Contract.
For Low Voltage customers (customers with delivery points with a voltage below 1kV), the followed criteria has been the maximum automatization of the process, the use of standardized formats and integrity and control of the processes.

The XML is the electronic format used for the management and interchange of the supplier switching requests.

The distribution companies and the suppliers have adapted their legacy commercial systems in order to use the XML format.

6.6 Obligations on network operators regarding supplier switching

The distribution companies play a key role in the supplier switching. They handle the customer information and reject or activate, according to the law, the supplier switching in their distribution area.

The obligations on distribution companies regarding the neutrality and access to information have been previously mentioned in point 6.3.

According to the Royal Decree 1435/2002, that regulates the basic conditions of the contracts for purchasing the electricity and the access to the Low Voltage networks, the distribution companies must answer the customer’s requests as well as the supplier’s requests regarding supplier switching within five (5) working days, after receiving the request.

The distribution companies must inform if the request is going to be attended or if there are obstacles that hinder the process.

There are different deadlines for the implementation of the supplier switching by the distribution companies:

1. For Low Voltage delivery points where no field works are needed for the change of supplier:

   a) Distribution companies must implement the change of supplier process for customers that are metered each two months within fifteen (15) days after receiving the switching request or according to the metering cycle. The customer can choose between the two
options mentioned above and must communicate his/her choice to the DSO or to the new supplier.

b) Distribution companies must implement the change of supplier process for customers that are monthly metered according to the metering cycle.

2. For Low Voltage delivery points where field works are needed for the change of supplier, the Distribution Companies must implement the change of supplier process after the termination of the field works. The deadlines for the field works are regulated.

The Law 17/2007 states that distribution companies must send the required information by the Supplier Switching Office. This information has not been established yet.

6.7 Other issues affecting switching

6.7.1 Monitoring supplier switching procedure: the Supplier Switching Office

The Law 17/2007 states the creation of the Supplier Switching Office.

It is stated that the Supplier Switching Office must be created by distribution companies and suppliers not later than September 2007 and must be functioning not later than January 2008.

The Supplier Switching Office was created the 7th of September 2007 with the name “Oficina de Cambios de Suministrador S.A. (OCSUM)” and received the authorization for start functioning from the Ministry of Industry, Tourism and Trade the 2nd of August 2008.

The Supplier Switching Office is an independent enterprise in charge to monitor the supplier switching procedures of electricity and gas supplier.

The Supplier Switching Office will have the following basic functionalities:

• To monitor the supplier switching process in the electricity and gas sector according to the principles of transparency, objectivity and independence to the principles of transparency, independency and non-discriminatory.
To promote and in its case of monitoring, the telematic and agile interchange of the information between distributors and suppliers.

To propose the improvement of the procedures relative to supplier switching, and to send them to the Ministry of Industry, Tourism and Trade and/or the CNE.

To monitor that agents submit to the Office all the prescribed information.

To submit all the agents the prescribed information.

To emit the periodic reports necessary to know the real operation the activities associated with the supplier switching process.

To elaborate the specific reports related to the supplier switching process required by the Ministry of Industry, Tourism and Trade and the CNE.

To obtain from the agents all the necessary information for the fulfillment of the functions assigned to the Office.

To facilitate information and to promote the formation in the procedures to the existing agents as well as to the new entrants.

To decide its organization, operation and the selection and contracting of the necessary resources

To annually elaborate a Memory of Activities, that will be sent to the Ministry of Industry, Tourism and Trade and the CNE.

The following types of reports will be made:

- Reports of the requests without response based on the delay time.

- Reports of the accepted active requests based on the delay on the term of the switch.

- Reports of the accepted requests not finished based on the delay on the accepted term and the incidence.
• Reports of the non-accepted requests by cancellation based on the petitioner and the reason for replacement.

• Reports of the non-accepted requests by rejection, based on the cause of the rejection

In the future, the Government could entrust also the management of the supplier switching procedures of electricity and gas to the Supplier Switching Office.

The Supplier Switching Office must have access to the electricity and gas delivery points Data Bases and electricity and gas customer’s Data Bases in order to monitor the implementation of the supplier switching procedures.

The main characteristics of the proposed model are the following ones:

• It is a distributed model. The communications between agents are made directly between agents, without the intervention of the office, using the established protocols and the information model.

• The office receives the information of the transactions from all the agents: the distribution companies and the suppliers.

• A procedure for the exchange of customers and delivery points information must be defined.

• The periodic reporting will be made from the information submitted by the agents in the standard format.

• The Office is in charge of maintaining the Agents Registry as well as their security electronic certificates.

• It is considered that this model will allow the Office to develop all the basic functionalities is in charge of, with a moderate effort in implementing the model: the effort required to adapt the existing systems of the agents.

• The Office will have access to all the information related to the supplier switching stored in the Agent’s Data Bases.
The following figure shows the proposed distributed model for the implementation of the Supplier Switching Office:

![Proposed distributed model for the Supplier Switching Office.](image)

**Figure 13** - Proposed distributed model for the Supplier Switching Office.
The preliminary design of the information system is shown in the following figure:

![Preliminary design of the information system](image)

**Figure 14** - Preliminary design of the information system.

Distribution companies of electricity and gas as well as electricity and gas suppliers are obligated to participate in the share capital of the company with the following rates:

- Distribution companies of electricity: 15%
- Distribution companies of natural gas: 15%
- Electricity suppliers: 35%
- Natural gas suppliers: 35%
The participation of each company within the share capital of each group is made according to the energy distributed through its network in the case of the distribution companies, and according to the energy sold in the case of the suppliers.

The participation in the capital share of each company is updated, at least, each two years.

The same energy group could not have more than the 20% of the total capital share of the Supplier Switching Office. The amount above the 20% is distributed between the rest of the agents proportionally to the initial quotas.

The new entrants will be given the right to be represented in the office by the Government.

The Supplier Switching Office is financed through the shareholder’s quotas.

It is still an open issue which information must be delivered to the Supplier Switching Office by different agents involved in the supplier switching. In any case, information about customer’s debts when asking for supplier switching will be included.

6.8 Data on the rates of supplier switching

The National Energy Commission (Comisión Nacional de la Energía-CNE) publishes a half-yearly bulletin about the evolution of the electricity retail market in the Peninsular Area and monthly, a bulletin with electric and economic statistics, which contains also information about the evolution of the electricity retail market.

These documents are elaborated with the information provided voluntarily and periodically by the DSOs about the delivery points connected to their grids.

In these documents there are information about the current status and the evolution of the number of customers and the amount of electricity in the regulated and in the liberalized market and additional information (e.g. market quotas of suppliers, prices, etc…), but it is remarkable that there is no specific information related to the number of customer switches.
The main conclusions of the “Bulletin about the evolution of the electricity retail market in the Peninsular Area for the first half of 2007” and of the “Monthly bulletin of electric and economic statistics. July 2008” are the following ones:

- The total number of electricity customers in the liberalized market has decreased during the first half of 2007.

- During the first half of 2007, the total number of customers that purchased their electricity in the liberalized market through a supplier was approximately 1,840,796 in contrasted with 2,073,241 in the second half of 2006.

- In the first half of 2007 there has been an increase in the number of High Voltage customers in the liberalized market (16,864 High Voltage customers in the liberalized market in the first half of 2007 in contrasted with 16,500 in the second half of 2006).

- At the end of the first half of 2007, the 17.84 percent of the total number of High Voltage customers were in the liberalized market purchasing the 35 percent of the total amount of electricity consumed by these types of customers.

- In the first half of 2007 there has been a decrease in the number of household customers and small size enterprises in the liberalized market (1,823,932 household customers and small size enterprises in the liberalized market in the first half of 2007 in contrasted with 2,056,741 in the second half of 2006).

- The updated information for April 2008 shows even a worst scenario for the liberalized market with 1,747,110 household customers and small size enterprises in the liberalized market in that date.

- Considering the energy, the total amount of electricity bought in the liberalized market has increased from the 23 percent of the electrify bought in the liberalized market in the first half of 2007 as contrasted with the 22 percent in the second half of 2006.
The decrease of the number of clients in the liberalized market is motivated to the customer’s move back to the regulated market –because customers found better price conditions in the regulated market- and to the behavior of some suppliers reducing their offering in the liberalized market.

The following table shows the status of the Spanish Retail Electricity Market between January and June 2007:

<table>
<thead>
<tr>
<th>Type of Customer</th>
<th>Number of Customers</th>
<th>ENERGY (GWh)</th>
<th>Energy per customer (kWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Voltage customers in the regulated market</td>
<td>77,132</td>
<td>39.668</td>
<td>514.287</td>
</tr>
<tr>
<td>Households and small size enterprises in the regulated market</td>
<td>22,613,382</td>
<td>52.093</td>
<td>2.304</td>
</tr>
<tr>
<td>Total number of customers in the regulated market</td>
<td>22,690,514</td>
<td>91.761</td>
<td>4.044</td>
</tr>
<tr>
<td>High Voltage customers in the liberalized market</td>
<td>16,864</td>
<td>21.385</td>
<td>1.268,086</td>
</tr>
<tr>
<td>Households and small size enterprises in the liberalized market</td>
<td>1,823,932</td>
<td>6.592</td>
<td>3.614</td>
</tr>
<tr>
<td>Total number of customers in the liberalized market</td>
<td>1,840,796</td>
<td>27.977</td>
<td>15.198</td>
</tr>
<tr>
<td>The whole Spanish Electricity System</td>
<td>24,531,310</td>
<td>116.738</td>
<td>4.881</td>
</tr>
</tbody>
</table>


**Table 4** - *Electricity consumed in the Peninsular Spanish System during the first half 2007.*

The following table shows information about the fidelity rates (i.e. customers who are in the liberalized market with a supplier that belongs to the same group of its distribution company):

<table>
<thead>
<tr>
<th>Type of Customer</th>
<th>Number of customers in the liberalized market with a supplier of the same group of its distribution company</th>
<th>Energy consumed by customers with a supplier of the same group of its distribution company (GWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>1,259,149 (72%)</td>
<td>2,291 (74%)</td>
</tr>
<tr>
<td>Small size enterprises connected in Low Voltage</td>
<td>58,965 (78%)</td>
<td>2,701 (77%)</td>
</tr>
<tr>
<td>Customers connected in Medium Voltage &lt; 36 kV</td>
<td>9,775 (60%)</td>
<td>10,036 (59%)</td>
</tr>
<tr>
<td>Customers connected in High Voltage &gt; 36 kV</td>
<td>161 (36%)</td>
<td>1,998 (47%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,328,050 (72%)</strong></td>
<td><strong>17,026 (39.1%)</strong></td>
</tr>
</tbody>
</table>

**Table 5** - *Fidelity rates in the Peninsular Spanish System during the first half 2007.*

6.8.1 **Conclusions**

Spain has opened up its electricity market to competition ahead of the requirements placed by the Electricity Directives of the European Union. Since the first of January
2003, electricity consumers are allowed by law to freely choose their electricity supplier.

In general terms, the supplier switching procedures have functioned well in spite of the lack of statutory procedures to regulate the supplier switching.

There has been an increase in the number of clients and in the amount of energy in the liberalized market from its opening to the year 2005.

The increase of electricity prices in last years and the existence of end-users regulated tariff that does not reflect the real costs of electricity have led to a reduction in the number of customers and in the amount of energy in the liberalized market.

Regarding customer’s awareness, the author recommends the Spanish Energy Regulator to give more detailed information in its website about the supplier switching process, the available suppliers in each region, the prices and the terms and conditions of the contracts as well as providing a real price calculator and not just a list of suppliers with its main data.

The Spanish Government has adopted several measures to promote the liberalized market.

Among others, the following measures have been adopted:

- The promotion of the bilateral contracts in order to allow suppliers to purchase electricity at lower prices than in the spot market.

- The creation of the Supplier Switching Office to monitor the supplier switching procedure.

- The update of the final tariffs each three months in order to reflect the real costs of the electricity.

- The designation of the National Energy Commission as the institution in charge of the calculation of the final tariffs.

- The creation of the Virtual Power Plants (VPP) options for the incumbent generators Endesa and Iberdrola.
• The elimination of the final tariffs for High Voltage customers in July 2008.

• The elimination of the final tariffs and the creation of last resort tariffs from 2009.

The application of these measures is expected to revitalize the liberalized market and to promote competition for customer’s benefit.
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