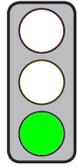


KEY ISSUES

Objective of the Communication: Energy consumers should have greater influence on the retail energy market.

Affected parties: Private and commercial energy consumers, energy suppliers, network operators



Pro: (1) Independent sources of information (e.g. internet portals) comparing energy supply contracts make it easier for energy consumers to choose their supplier.

(2) The Commission rightly calls for energy poverty to be tackled not by state price regulation but by way of social policy.

(3) Standardising the interfaces of smart meters, energy management systems and smart household appliances facilitates efficient demand response, increases competition among manufacturers and prevents the costly parallel development of technology.

CONTENT

Title

Communication COM(2015) 339 of 15 July 2015: **Delivering a New Deal for Energy Consumers**

Brief Summary

► Context and objectives

- Deregulation of the European energy market – particularly the unbundling of previously vertically integrated energy companies as part of the Third Internal Energy Market Package [see [cepCompass EU Climate and Energy Policy](#), p. 46 et seq.] – has increased the amount of energy (electricity and gas) being sold via cross-border wholesale markets. This has intensified competition among EU energy producers and reduced wholesale energy prices.
- The developments on the wholesale markets are insufficiently reflected on the retail energy markets because customers on these retail markets ("energy consumers") – particularly private households and small and medium-sized enterprises (SMEs) – do not actively manage their energy consumption and fail to make full use of the competition between energy suppliers.
- The Commission would like energy consumers to have more influence on the retail market. It sees the following as obstacles to this (p. 2):
 - a lack of information on costs and consumption,
 - non-transparent energy supply contracts,
 - insufficient competition in retail markets,
 - excessive costs for switching supplier and
 - a lack of incentive for energy consumers to be more flexible in their energy consumption.
- The Commission sees five main areas in which it is possible to empower EU energy consumers:
 - more transparency in the consumer market,
 - consumer protection,
 - demand-side flexibility
 - investment in "smart homes and networks" (p. 3) and
 - data management and protection.

► More transparency in the consumer market

- Energy consumers will be better able to estimate their own consumption due to (p. 3)
 - better information about the overall energy consumption of household appliances [see Proposal for a Regulation COM(2015) 341, see [cepPolicyBrief](#)],
 - billing of individual consumption in multi-use buildings,
 - clear and EU-wide standard energy billing and
 - the transmission of real-time consumption data to the energy consumer.

- Energy consumers will be better able to compare energy supply contracts using "comparison tools" – such as independent customer rating systems. The Commission wants (p. 5)
 - to ensure that all energy consumers have access to at least one "comparison tool" and
 - to work with national regulatory authorities to develop transparency and reliability criteria for "comparison tools".
- ▶ **Consumer protection**
 - Some Member States have regulated retail energy prices [COM(2014) 21; see [cepPolicyBrief](#)]. To justify this they point to
 - the strong market position of one or just a few energy suppliers as compared with that of the energy consumer and
 - social-policy objectives, e.g. protecting the poor from a lack of energy ("energy poverty").
 - The Commission recognises that price regulation may be appropriate to restrict market power, but it calls on Member States to refrain from price regulation on the energy market in the pursuance of social policy objectives. Regulated retail prices below the cost of production, transport and sale will be phased out.
 - According to the Commission, improving energy efficiency may be the best way to prevent energy poverty in the long term.
- ▶ **Demand-side flexibility**
 - More active management of electricity demand by the consumer ("demand-side response"; see [cepPolicyBrief](#)) may allow fluctuations in the electricity supply arising from renewable energy to be more evenly spread. This requires incentives for flexible electricity consumption (p. 5). Such incentives are e.g.:
 - supply contracts with variable pricing which take account of fluctuations in the wholesale electricity markets,
 - compensating the electricity consumer for switching off machines and electrical appliances in times of high electricity demand or
 - lower network charges for those electricity consumers willing to reduce their electricity consumption when networks are congested.
 - Demand-side response facilitates self-generation by private households because it allows electricity consumption to be adapted to the large fluctuations arising due to self-generation. By combining self-generation and demand-side response, private households in Central Europe can cover up to 75% of their own electricity consumption [SWD(2015) 141, p. 4].
 - The costs of constructing and operating power grids are financed by way of network charges. Network charges are usually passed on proportionately to the electricity consumer via the retail electricity price. Self-generators consume less electricity from the grid so they contribute less to the financing of the electricity network by comparison with other electricity consumers. The Commission calls for network charges to (p. 6)
 - be "fairly" distributed among the electricity consumers by taking account of the network costs generated by the respective electricity consumer and
 - continue to offer incentives for self-generation from renewable energy sources.
- ▶ **Investment in smart homes and grids**
 - Demand-side response by private households requires the installation of meters which measure real-time energy consumption in homes ("smart meters"; see [cepCompass EU Climate and Energy Policy](#), p. 109 et seq.).
 - Smart meters with "smart home energy management systems" and "smart appliances", which can react automatically to fluctuating electricity prices, can be connected to "smart homes". This facilitates more flexible energy consumption by private households (p. 7).
 - Demand-side response tools – smart meters, energy management systems and smart appliances – must have standardised, non-proprietary interfaces to ensure their interoperability. The Commission calls on the affected companies to develop and apply the corresponding standards.
 - The EU will continue to promote the development of smart homes by providing funding for research and demonstration projects (p. 8).
- ▶ **Data management and protection**
 - The comprehensive integration of information and communication technology into the energy system may generate large volumes of data about consumer behaviour.
 - The consumer data generated will be administered by a neutral organisation which is independent of the manufacturers and network operators and which will allow energy consumers, and companies which they designate, to have access to the consumer data.
- ▶ **Future action by the Commission**

The Commission will examine to what extent the pending revisions of various Directives (Renewable Energy Directive 2009/28/EC, see [cepPolicyBrief](#); Energy Performance of Buildings Directive 2010/31/EU, see [cepPolicyBrief](#); Energy Efficiency Directive 2012/27/EU, see [cepPolicyBrief](#)) as well as the adoption of

the harmonised rules on cross-border energy markets (Network Codes) and the planned new market design initiative, offer possibilities for strengthening the role of energy consumers.

Policy Context

In February 2015, the Commission submitted a strategy for an "Energy Union" [COM(2015) 80; see [cepPolicyBrief](#)] inter alia with the aim of giving energy consumers a more active role. In 2013, the Commission published guidelines for including demand-side response in electricity markets [SWD(2013) 442; see [cepPolicyBrief](#)].

This Communication forms part of what is called the Commission's "Summer Package" which also includes a proposal for the amendment of the ETS Directive (2003/87/EC; see [cepCompass EU Climate and Energy Policy](#), p. 10 et seq.) [COM(2015) 337; see [cepPolicyBrief](#)], a proposal for a Regulation to replace the Energy Labelling Directive (2010/39/EU; see [cepCompass EU Climate and Energy Policy](#), p. 82 et seq.) [COM(2015) 341; see [cepPolicyBrief](#)] as well as a consultative Communication on a new energy market design [COM(2015) 340; see [cepPolicyBrief](#)].

Options for Influencing the Political Process

Directorates General: DG Energy (leading)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The energy consumers will be empowered if they are able to compare, by simple means, the offers from different energy suppliers as well as the energy consumption of the products which they use. Clear consumer labelling of household products enables private households to make informed product choices without significant prior knowledge. **Independent information sources – e.g. internet portals –, for comparing energy supply contracts, make it easier for consumers to choose a supplier** and increase competition among energy suppliers.

Impact on Efficiency and Individual Freedom of Choice

Where energy suppliers have a monopoly, regulation of the retail energy price may restrict their market power. **Government price regulation** – as the Commission rightly indicates – **should not however be used to prevent energy poverty** because state intervention in supplier pricing unnecessarily restricts trade on the retail energy market and thus prevents an efficient energy supply. **Instead, the energy costs of poorer households should be taken into account in the social policy of the Member States**, e.g. by adapting welfare benefits to take account of increases in the energy price.

Energy efficiency measures may reduce poverty as lower energy consumption reduces the energy expenditure of poor households. Such a decision must, however, be made by the households and landlords themselves to ensure that investment in energy efficiency is only initiated where the potential for saving energy costs is greater than the investment costs.

The efficient allocation of electricity network costs to the electricity consumers must – as the Commission rightly states – **be based on the network costs generated by the respective electricity consumer** because self-generators – like all electricity consumers – have to be connected to the grid and therefore generate similar network costs to other electricity consumers, thus they should also contribute proportionately to electricity infrastructure costs. Giving preferential treatment to self-generation from renewable energy sources – e.g. by granting lower network charges – would be misguided.

Electricity consumers should receive incentives for using demand response tools – smart meters, energy management systems and smart household appliances – allowing them to react to the fluctuating level of electricity. **Standardising the interfaces of demand response tools allows** them to be interoperable and thus ensures **efficient demand response**. In addition, **it increases competition between the manufacturers of the tools and prevents costly parallel development of technology**.

The Commission rightly calls for individual consumer data, which can be used for demand response, to be administered by an independent organisation. It should be left up to the electricity consumers themselves to decide whether they want their consumption data to be disclosed, and if so to whom.

Impact on Growth and Employment

Negligible.

Impact on Europe as a Business Location

Negligible.

Legal Assessment

Legislative Competency

Unproblematic. The EU is entitled to issue energy policy measures in order to secure the functioning of the energy market, to guarantee security of energy supply, to promote the cross-border connection ("interconnection") of energy grids as well as to support energy efficiency, energy savings and the development of new and renewable energy sources (Art. 194 TFEU). A conclusive assessment is not possible until concrete proposals have been submitted by the Commission.

Conclusion

Independent sources of information (e.g. internet portals) comparing energy supply contracts make it easier for energy consumers to choose their supplier. Government price regulation should not be used to prevent energy poverty; instead, the level of energy costs for poor households should be taken into account in the welfare policy of the Member States. The efficient allocation of electricity network costs to the electricity consumers must be based on the network costs generated by the respective electricity consumer. Standardising the interfaces of demand response tools facilitates efficient demand response, increases competition among manufacturers and prevents the costly parallel development of technology.