

**ERGEG GUIDELINES OF GOOD PRACTICE ON RETAIL MARKET MONITORING
RESPONSE ON BEHALF OF EUROGAS'S
SUPPLY & MARKETS DEVELOPMENT COMMITTEE**

Introduction

In response to the ERGEG workshop on retail market indicators held on 5th November, Eurogas is pleased to contribute the following preliminary views on the subject on behalf of the Supply & Markets Development Committee of Eurogas.

We recognise that ERGEG will be consulting on draft good practice guidelines (GGP) on indicators in the next few months. However Eurogas wishes to register strongly its views on the purpose and scope of this initiative at this early stage, in the hope that these can be taken into account in the formulation of ERGEG's proposals.

We have responded to the recent consultation on complaint handling and classification, and our views in this regard have informed our thinking on this wider issue of retail market monitoring.

Retail market development & market indicators

Eurogas accepts the importance following full market opening in July 2007 of national regulators monitoring the development of their retail energy markets. We also agree that there is value in sharing experience of the use of market indicators by national regulators and others, although we are less convinced of the need for or value of EU best practice guidelines in this area.

In general, Eurogas believes the approach to market indicators should be pragmatic, focused and proportionate and they should not lead to bureaucratically heavy or expensive reporting obligations for companies - their cost is likely to feed through into the prices paid by customers.

We are thus particularly concerned by suggestions that NRAs will be encouraged to set up extensive and detailed statistical monitoring systems, which would to a degree be harmonised at an EU level. Clearly there is the cost and administrative burden of such systems, which has to be considered against the likely benefits for customers. Moreover we are also concerned about an approach which is unlikely to produce properly comparable results and from which dubious conclusions could well be drawn.

Thus before the detailed wording of the GGP on retail market monitoring is considered, we believe it is essential that careful consideration is given to:

- The objectives of market indicators
- How these objectives can be best achieved
- The validity of comparisons between Member States
- The publication of market indicators (noting that unambiguous data collection methodologies and audits would be necessary)

This note offers some initial thoughts on each of these aspects.

The objectives of market indicators

Retail market indicators should not be seen as a substitute for retail market reviews, which many national regulators periodically undertake to highlight barriers to competition or aspects of the consumer experience which should be addressed. Moreover statistical information - e.g. on complaints - does not of itself provide a representative picture of overall customer satisfaction.

Eurogas sees the purpose of the current work by ERGEG to develop market indicators as being twofold:

1. to assist in building up a picture of the development of retail markets across Member States
2. to provide an indication of where there are concerns about the functioning of the competitive market, either structural or operational.

How these two objectives can be best achieved

In our view, the first objective can be met by reports by regulators reviewing among other things the number of suppliers, market concentration and the effectiveness of switching in their Member State. This simple 'checklist' should be complemented by the work done by the Consumer Market Scoreboard. The scoreboard is also at a high-level, with a view to allowing the energy consumers' experience to be compared with that in other sectors.

However it must be noted that even here comparisons between Member States can be misleading. For example, consumers in some national markets may not complain because they do not know they can or what level of service to accept; equally in some Member States, customers may simply be more ready to complain than in others. Thus complaint levels cannot be used to provide an objective assessment of market functioning.

The majority of the indicators being considered by ERGEG really focus on the second objective – to provide an indication of where there are problems with the functioning of the competitive market, either structural or operational, and it is in this area that the proposed approach gives us most concern.

As we noted in our response on complaint handling, we believe that information on complaints (or indeed any other element in this market monitoring) should be no more than high-level indicators, to help direct NRA attention if one or more national indicators suggest there may be grounds for concern. From time to time the indicators may point to a more general problem, which can be followed by in-depth analysis by the regulator concerned.

The validity of comparisons between Member States

It is not necessary or useful for this second purpose that indicators are compared at an EU-level. National markets and the priorities for market development and improvement vary. There are also evident differences between Member States affecting the comparability of data across Member States – for example varying market sizes and structures (which can affect market entry economics), and national characteristics (e.g. regulated versus market prices, different levels of public service obligations).

Thus simply comparing quantitative results will not lead to a fair assessment of the functioning of the market in a given Member State or the state of competition there.

For example, the failure of an interconnector or other supply problems may have an impact on end-users, but a rise in complaints prompted by such a failure says nothing about the

functioning of the retail market. While trends in complaint levels are an indicator of how well a national market is functioning, they should not be seen in isolation or without proper context.

Similarly, while indicators such as the effectiveness of switching can be gathered by a Member State, other indicators in this area have to be related to wider considerations affecting each market.

Clearly an NRA may wish to gather retail market information for their Member State - this could be based on statistics collected from companies, survey results or other research. The NRA can use this information to assist the preparation of the retail monitoring report submitted by his Member State, which can take due account of national factors, including market maturity.

In Eurogas's view, the value of market indicators lies not in comparisons with other Member States but in enabling the NRA to identify trends within a Member State. Comparisons of detailed results across Member States is likely to lead to dubious conclusions and should not be done without a much deeper understanding of national circumstances and structures in the gas (and electricity) markets. We therefore question the validity of any approach involving comparison of detailed retail market indicators.

Publication of market indicators

Eurogas recognises that NRAs or third parties within a Member State may wish to publish information on supplier performance. However we would be concerned if regulators or third parties published information which identified individual companies, until the reliability and comparability of such data have first been verified. Unambiguous data collection methodologies and audits would be necessary.

We would point out that publication of company-specific information is not necessary to show whether the market as a whole is working for consumers. In addition, while publication of data on individual companies may result in efforts to improve performance, there is also the possibility it could encourage companies to manipulate their statistics; this could actually make it more difficult to have confidence in the usefulness of the data or mean that more onerous auditing is required.

Conclusion

Eurogas believes that before ERGEG proceeds to publish draft good practice guidelines on indicators, it is essential to be clear about the purpose of indicators and how they will be used; it is equally important that attention is given to the validity and accuracy of the information, and to be confident that the cost of collection is not disproportionate.

Eurogas has put forward its views on these and other aspects and trusts that ERGEG will find the above comments helpful at this stage in developing their thinking about retail market indicators and their proposals for GGP on retail market monitoring.

Eurogas would be happy to discuss the subject further with the ERGEG workgroup if desired.