



The Consumer Voice in Europe

# Building a consumer-centric Energy Union

**BEUC position paper**

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## Summary

BEUC, The European Consumer Organisation, welcomes the creation of the Energy Union and its intended focus on citizens. Energy markets are changing rapidly and consumers need guarantees they will benefit from this energy transition.

From a consumer perspective, additional measures going beyond complete transposition of existing legislation will be needed. BEUC therefore encourages the European Commission to come up with ambitious initiatives and legislative proposals ensuring secure energy supply, better market functioning, more energy efficient devices, appropriate consumer rights and protections as well as fair and affordable prices. These measures should include inter alia the following elements:

- **The internal energy market must be completed** to allow consumers to reap the benefits of a **truly competitive, consumer-friendly energy markets**. While additional investments in the energy sector are needed, **costs must be properly scrutinised** to avoid an extra burden on consumers' bills.
- Energy markets need to be **transparent, easily manageable and offer real choice** allowing consumers to effectively **exercise their rights and take sustainable decisions**. Retail electricity prices must reflect the wholesale prices and **price asymmetries should be prevented**. Market must be inclusive, barriers need to be removed, consumers in vulnerable situations need to be protected and the new role of consumer to be clearly defined.
- The future electricity market should be designed in a way so that it stops free-riders and ensures a level playing-field. **Greater transparency of energy costs and prices** is necessary. Future **policy measures should set clear outcomes for consumers** that market players should strive to deliver and should also address roles and responsibilities of new market players, their relationship with and impact on consumers.
- **Consumers' transition to becoming 'prosumers'** (consumers acting as producers) should be supported **by installing stable and adequate safeguards**, including a remuneration scheme, access to the grid as well as simplified permission procedures. Consumers who cannot afford or are not willing to invest into self-generation technologies must neither be left behind nor be charged with inadequate costs.
- Energy efficiency policies should **focus on the most long-term and cost-effective solutions**. Adequate financial support schemes are needed to enable all European consumers to be more energy efficient. Further work on **boosting efficiency and sustainability of the products and passenger cars** is necessary too.
- Implementation of new technologies will require guarantees that **this roll-out is cost efficient and based on user-friendly solutions**. Consumers' **flexibility in energy consumption must be properly rewarded**. Greater co-ordination of policies guiding demand response and energy efficiency is needed.
- The Energy Union **governance system should be transparent and based on robust monitoring processes** leading to consumer-friendly energy markets. Roles and responsibilities of ACER should be updated and reinforced. Consumer representative bodies should be recognised as partners in policy development processes.

A detailed analysis of these elements can be found in the paper together with specific policy demands.

## 1 Introduction

*'Our vision is of an Energy Union with citizens at its core, where citizens take ownership of the energy transition, benefit from new technologies to reduce their bills, participate actively in the market, and where vulnerable consumers are protected.'*

European Commission's Energy Union Package, February 2015

The Energy Union is being considered as the most ambitious project since the European Coal and Steel Community in 1950s.<sup>1</sup> Indeed, energy markets are changing and transforming into a new paradigm where the outdated market model is replaced by a rather decentralised one with more bottom-up energy supply and renewables connected to the grid. National markets are opening up and becoming more integrated, especially at the wholesale level. Energy exchanges are being established and new connectors are built. These fundamental changes require guarantees that consumers will benefit from the energy transition.

In this respect, BEUC welcomes the Energy Union Strategy putting citizens at its core. We support the Energy Union visions but we nevertheless believe that a consumer-centric Energy Union will require a change of thinking with consumer interests as an integral part of each and every initiative, a change based on smart, sustainable and inclusive consumer policy.<sup>2</sup> It is often debated what the main drivers of developments in the energy market will be. While smart meters and smart grids, investments in network capacity, energy efficiency and decentralised generation may be important factors in the transition towards a low carbon energy system, BEUC believes that the main driver should be consumers' needs and expectations.

At the same time, it becomes also evident that a shift from national thinking to more coordinated, supranational initiatives will be needed. EU and national policy makers as well as energy regulators will need to tackle existing barriers and adjust regulatory regimes in a way that an EU wide energy market can develop and offer real choice and competitive prices to consumers.

Above all, policies need to be designed in a way that consumers are recognized as partners in the energy market. BEUC therefore calls on both EU and national policy makers as well as energy regulators to stand firmly on their promise to create the energy market with consumers at its heart. We encourage the European Commission to come up with ambitious initiatives and legislative proposals ensuring secure energy supply, sustainable energy systems, more energy efficient devices, better market functioning as well as fair and affordable prices for consumers.

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<sup>1</sup> Cornerstones of the new EU Energy Union, Speech by the Vice-President Šefčovič, 17 March 2015

<sup>2</sup> BEUC's EU Consumers' 2020 Vision available at <http://beuc.eu/publications/2012-00316-01-e.pdf>

## 1. Energy security, solidarity and trust

Europe imports a high amount of energy from third countries and our continent is far from covering its primary energy needs with domestic sources. The EU faces a number of challenges and has to find ways how to diversify its portfolio of gas suppliers and supply routes to reduce its overall dependence from energy imports as potential disruption of supply could cause remarkable impacts on the economy and society's welfare. European electricity markets are also undergoing major changes towards decentralised generation with a higher share of renewable energy sources (RES) modernising our energy system. Only harmonised and well-interconnected markets will allow us to increase security of supply and decrease demand for back-up capacities. Energy efficiency will also play a critical role in increasing Europe's energy security.

### 1.1 Energy efficiency

Energy efficiency can be the best energy 'source' investment improving affordability of energy bills and driving down the need for additional and costly infrastructure. However, its role in the energy security discussions is often underestimated.<sup>3</sup>

#### Homes

EU households spend on average 6.4% of their disposable income on home-related energy use, about two-thirds for heating and one-third for other purposes.<sup>4</sup> Measures improving energy efficiency in buildings and using more energy efficient appliances can help consumers to save money. Hence, it is important to tackle issues related to efficiency of appliances as well as heating and cooling of buildings and insulation standards as a matter of priority. The focus should be not only on more efficient new housing but also on retrofitting of existing homes as the majority of the houses we will occupy in 2050 are already built. Policies should focus on the most long-term and cost-effective solutions to improve the quality of energy saving solutions in buildings. It should also be recognised that most low income consumers cannot afford to pay for instance the up-front installation costs of refurbishment. Adequate financial support for energy efficiency in buildings is therefore essential to enable all European consumers to be more energy efficient.

#### Transport

As much as 90% of the oil used across all transport modes is imported into the EU. For motorists, this overwhelming reliance on the rest of the world has meant for some tough times and having to stomach short term price hikes in the wake of geo-political unrest. Consumers have also had to contend with an increase in global demand for fuel over the past 40 years which in turn has meant for steadily increasing fuel prices.<sup>5</sup> In order to reduce the EU's dependence on foreign oil supplies for the transport sector, from a consumer perspective, it is essential that measures are implemented in such a way that they aid the reduction in demand of such products which in turn should result in lower household costs. In this regard, the EU has already taken some positive moves as far as passenger cars are concerned, such as the setting of fuel economy/CO<sub>2</sub> targets for cars up until 2021. This approach has been crucial in spurring car makers to invest in more energy efficient vehicles and further targets are needed for 2025. While setting fuel economy targets cannot be considered as a silver bullet, a suite of measures including the provision of reliable and easy-to-understand information related to the fuel/energy

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<sup>3</sup> Energy efficiency received over the last decade much less support than all other energy supply options as also pointed out by Ecofys in its report 'Subsidies and costs of the EU energy' 2014

<sup>4</sup> Energy Efficiency and its contribution to energy security and the 2030 Framework for climate and energy policy, Brussels, 23.7.2014, COM (2014) 520 final

<sup>5</sup> Despite a recent drop in pump prices for gasoline and diesel, fuel costs still make up a significant part of household spending.

consumption of new vehicles is critical in order to 'nudge' consumers towards moderating demand. Above all, the development of intermodal transport systems (with greater investment in public transportation as its backbone) should enjoy the highest political priority.

#### **How to enable consumers to be more energy efficient?**

- Energy efficiency policies should focus on the most long-term and cost-effective solutions to improve the quality of energy saving solutions in buildings. Further work on boosting efficiency and sustainability of the products is necessary too.
- Adequate financial support schemes for energy efficiency in buildings are needed to enable all European consumers to be more energy efficient.
- Ambitious measures to improve fuel economy/CO<sub>2</sub> emissions of passenger cars including ambitious passenger car targets for 2025; the introduction of a new fuel consumption testing protocol (WLTP) implemented by 2017; and a reformed car labelling Directive.
- Further investment in public transport and multimodal mobility systems including the better provision of ticketing and scheduling information to consumers is needed.

## **1.2 Capacity mechanisms**

While cost-efficient infrastructure can contribute to system adequacy especially in the transition towards more renewables being integrated into the grid, increasing generation adequacy via capacity mechanisms remains questionable. In order to match electricity supply and demand, several Member States already put in place capacity mechanisms.<sup>6</sup>

However, in a period when existing power plants cannot run profitably and are being shut down, subsidising installations may create yet another subsidy dependent market. Instead, the focus should be on establishing more interconnectors across borders and making sure their functioning is not hindered by national considerations. At the same time, wholesale markets need to be further developed so that prices are unbiased. This will not only lead to an efficient match between supply and demand but also provide incentives for the necessary investments in flexibility. This should in the end lead to lower energy prices.

BEUC thus welcomes the European Commission's state aid sector inquiry into national capacity mechanisms launched in April 2015. At the same time, we are sceptical about the real need for capacity mechanisms, especially at the national level, as there is a high risk that the mechanism will not be adequately designed due to its complexity. This may create unfair competitive advantages for involved companies, leading to inefficient market outcomes and additional costs for consumers. We believe that the need for capacity mechanisms, coordinated at the EU level, could be a measure of last resort and therefore should be further analysed.

#### **How to ensure capacity mechanisms don't put an extra burden on consumers' bills?**

- Further analysis on the need of capacity mechanisms, including mechanisms coordinated at the EU level, is required as there is a high risk that the mechanism will not be adequately designed and will lead to significant additional costs for consumers.

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<sup>6</sup> These mechanisms aim to remunerate generators to offer additional capacity to the system, to keep existing capacities 'in the money' or incentivize new investments. The desired outcome of capacity mechanisms is to ensure security of supply and resolve potential dysfunctional problems. While the payment as well as the design of these mechanisms are in hand of national policy makers and regulators, the final bill will be paid by all consumers through their bills.

### 1.3 Distributed generation

Millions of European consumers already have invested in renewable energy supply for electricity generation, heating and cooling<sup>7</sup> and the use of distributed renewable energy sources (RES) represents a way consumers can engage in the market.<sup>8</sup> With decreasing costs, investments in small RES installations become more and more attractive for consumers who strive to cut household energy spending. Besides this monetary aspect, consumers want to make a difference with their 'green choice' in order to contribute to combating climate change. Against the backdrop of an incomplete internal energy market, renewable self-generation is not a self-runner. Thus, in our view, only appropriate support schemes, offsetting market failures and distortions, will trigger self-generation potentials amongst European consumers.

#### **How to support consumers in becoming 'prosumers'?**

- In order to fully tap the potential of self-generation, predictable and stable support schemes are needed to offset market failures and distortions.

### 1.4 Transparency of gas supply

The integration of the European gas market is essential to achieve a well-functioning market. While gas can be traded at hubs where the main driver is the market value of gas which reflects the equilibrium between supply and demand, part of the imported gas is still being traded under non-transparent, long-term contracts. Many Member States import gas from outside Europe, some countries are fully dependent on one single supplier and gas purchasing prices vary significantly.<sup>9</sup>

Although some European gas suppliers have already broken the link to oil, on average half<sup>10</sup> of EU gas supplies are still linked to other commodities such as oil (oil-indexation). While this pricing system was introduced in 1960s to facilitate the rapid penetration of gas into the EU electricity generation and heating sector, such a system is now outdated as oil and gas are no longer competitive fuels.<sup>11</sup> Consequently, prices for final consumers do not fully reflect market dynamics. Therefore, BEUC calls for a review of existing gas contracts and swift transition from oil-indexation to gas hub-based pricing.

Moreover, as also suggested in the Energy Union Strategy, the common purchase of gas and its compliance with the EU competition rules and WTO rules are analysed. While such a mechanism applied at the regional level could enable delivery discounts through purchasing larger quantities, enhance the bargaining power<sup>12</sup> and increase transparency in gas contracts, its overall impact needs to be thoroughly assessed. In the meantime, the European Commission should take all necessary steps to improve transparency of gas contracts while taking a more active role when these contracts are negotiated. This should deliver more affordable and transparent prices to consumers.

<sup>7</sup> European Commission: Special Eurobarometer 409. Climate Change, March 2014; REN21: Renewables 2014. Global Status Report, June 2014.

<sup>8</sup> Renewable energy already reduced significantly EU's natural gas demand; see: Agency for the Cooperation of Energy Regulators (ACER)/Council of European Energy Regulators (CEER): Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2013, October 2014, p. 165. In 2010, the use of renewable energies in the EU avoided imported fuel costs of at least 30 billion Euro a year; see: European Commission: Energy Economic Developments in Europe, January 2014, p. 118.

<sup>9</sup> For instance, Central and Eastern European countries still pay a price premium of about €40 per thousand cubic meters compared to countries further west. Source: Reducing European Dependence on Russian Gas, The Oxford Institute for Energy Studies, October, 2014. On top of that, we observe price variations from the same supplier in the order of 40% across Europe, mainly stemming from political and volumetric factors. Source: A real gas market in Europe is yet to be built, Donald Tusk speech, May 2014, Brussels

<sup>10</sup> Wholesale gas price survey, International Gas Union (IGU), 2014

<sup>11</sup> Abolishing oil indexation in gas contracts, CEPS, March, 2014

<sup>12</sup> Energy Union: Can Europe learn from Japan's joint gas purchasing? CEPS, December, 2014



### **How to ensure more transparent prices reflecting market dynamics?**

- Existing gas contracts should be reviewed and swift transition from oil-indexation to gas hub-based pricing should be facilitated.
- European Commission should take all necessary steps to improve transparency of gas contracts while taking a more active role when these contracts are negotiated.

## **2 Well-functioning energy market based on consumer needs**

Well-functioning retail markets need well-informed and sufficiently protected consumers to benefit from competition, be able to compare information on consumption and costs, and have awareness of their rights and means of dispute resolution. Thus, correct transposition and full enforcement of existing internal energy market legislation, the third Energy Package in particular, as well as horizontal legislation are needed to make markets work better for consumers and ensure they can effectively exercise their rights. To this end, the energy market must undergo a significant reform while addressing following issues:

### **2.1 Completion of internal energy market**

The internal energy market must be completed to allow consumers to reap the benefits of truly competitive, consumer-friendly energy markets.<sup>13</sup> Consumers should be able to shop around and choose their preferred supplier irrespective of the Member State the supplier is registered in. However, this is not the case and European consumers are still waiting to reap the benefits of truly competitive energy markets.

Moreover, energy markets should be easily manageable, offer real choice and competing prices to consumers as well as provide all EU energy consumers with secure, sustainable, affordable and reliable energy so that they can trust the market and be more empowered to act. It should also be borne in mind that not all consumers will be willing or able to engage in the energy market. In our view, policy makers should therefore differentiate between the various consumer segments in impact assessments for the future market design in order to adapt the regulatory and policy framework to these different categories of users and consumers. At the same time, to promote consumer engagement in the energy market, BEUC calls on the European Commission to specify in future policy measures the outcome for consumers that market players should strive to deliver.

### **How should the energy market evolve to meet consumer needs?**

- Complete implementation of the internal energy market legislation is needed so that consumers can effectively exercise their rights.
- Energy market needs to be easily manageable and offer real choice.
- The European Commission should specify in future policy measures the outcomes for consumers that market players should strive to deliver.
- Policy makers should differentiate between various consumer segments in impact assessments for the future market design.

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<sup>13</sup> According to the European Commission's study, the net economic benefits from completion of the internal market to be in the range of 16 - 40 billion Euros per year.



## 2.2 Infrastructure investments

Advanced interconnectivity among Member States will improve market functioning and thereby enhance competition, diversify transit routes and lead to reduced electricity bills<sup>14</sup> as well as less need for additional investments in new and costly capacity.<sup>15</sup> Increased interconnectivity should lead to market coupling which is expected to bring sound benefits to consumers.<sup>16</sup> Cross-border capacity exchange in combination with more liquid intraday cross-border markets could counterbalance the need for costly capacity mechanisms.

BEUC welcomes plans to upgrade the existing infrastructure as this will help strengthening the internal energy market and thereby increase cost-efficiency and security of supply. At the same time, we are concerned that without proper scrutiny, new infrastructure projects could result in unaffordable rises in bills for consumers. Price developments of the grid infrastructure represent an important part of consumers' bills. We believe it is necessary to have a clear understanding of the impact of these investments on household bills and ensure a rigid cost scrutiny so that infrastructure spending is affordable for all consumers. Consumers need to be aware of the associated costs, well-informed and convinced that these investments represent good value for them. Therefore, BEUC calls for a thorough monitoring of whether infrastructure investment is being delivered efficiently as well as for further analysis on what will be the impact of infrastructure investments on consumers' bills.

Moreover, while many exemptions and benefits for industry players exist, the main target should be to achieve a fair and balanced cost sharing between all grid users: producers, wholesalers and households. Within this framework, incentives are created to use the energy grids in a cost efficient way. Distortion of competition has to be avoided, such as the exemption of producers for the financing of the grid charges. The burden sharing as to net infrastructure investment costs should be further discussed as, up to now, household consumers have to bear the main part of these charges, while advantages from these investments (such as decreasing wholesale prices) are low. These consumer-related issues should also be a part of the discussions under newly established Energy Infrastructure Forum.

### **How to avoid unnecessary costs for consumers?**

- The development of interconnection projects as well as the completion of the Internal Energy Market must accelerate as advanced interconnectivity can improve market functioning.
- Infrastructure costs need to be scrutinised and properly audited by National Regulatory Authorities (NRAs) so that this spending does not result in unaffordable rises in bills for consumers.
- The impact of infrastructure investments on consumers and their bills together with a fair and balanced cost sharing between grid users should be further discussed and addressed also under newly established Energy Infrastructure Forum.

<sup>14</sup> Appropriately interconnected European energy grid could save consumers up to €40 billion a year.

<sup>15</sup> Besides, ACER concludes that market coupling is an important driver of wholesale price convergence - ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2013.

<sup>16</sup> It is alarming to see that while market coupling has been achieved on 25 out of 40 borders, according to ACER's estimations, the social welfare losses due to the lack of market coupling account to more than 400 million euros per year. According to the ACER, the existing infrastructure is not utilized to its full potential in some regions. (Source: Annual report on the results of monitoring the internal electricity and natural gas markets in 2013, ACER/CEER, 2014)

## 2.3 Need for truly competitive market

Retail electricity prices must reflect wholesale prices.<sup>17</sup> In order to ensure consumers have access to fair pricing, price asymmetries<sup>18</sup> should be prevented. Price asymmetries mainly occur due to high concentration of incumbents, lack of competition and consequent low switching rates. Moreover, many suppliers have longer term hedging strategies for purchasing wholesale gas and electricity while cost reductions to their businesses are not necessarily passed on immediately to their customers.<sup>19</sup> NRAs should further focus on whether wholesale and retail energy price components follow the same patterns. At the same time, NRAs should carefully monitor the grid charges which represent an important part of consumers' bills.

Moreover, according to existing EU legislation, there should be a clear unbundling of distribution system operators (DSOs).<sup>20</sup> However, as also highlighted by the energy regulators, there is only limited progress on DSO unbundling and the rebranding of DSOs is sometimes not fully satisfactory.<sup>21</sup> This is confirmed by several consumer organisations who point out that this is causing confusion among consumers<sup>22</sup> and gives incumbents an unfair advantage, thus reducing the effective functioning of the retail market. Independent functioning of DSOs is essential not only for better market functioning but also with regard to evolving retail markets and provision of new services.

### How to improve transparency of prices and market as a whole?

- Regulators should carefully monitor the price developments and intervene if wholesale and retail energy components do not follow the same patterns or if network charges on consumers' bills are unjustifiably high. Price asymmetries should be prevented and cost reductions achieved by businesses should be passed on to their customers.
- Clear unbundling of the distribution system operators (DSOs) as set by the EU legislation needs to be urgently implemented.

## 2.4 Internalisation of environmental damages and costs

By feeding electricity produced for instance by wind turbines into the electricity grid, conventional electricity generation is substituted. The increased use of renewable energy avoids various costs of fossil energy sources: their mining, drilling and combustion are responsible for climate change and health damage, for landscape destruction and the loss of biodiversity. These costs are not included in the market prices, but are borne by the general public through taxes and health costs.<sup>23</sup>

The fact that incumbent utilities which rely heavily on fossil and nuclear fuels may pass on the externalities of their electricity generation to the public purse constitutes a serious market distortion to the detriment of new market entrants such as consumers

<sup>17</sup> The European Commission's study clearly stated that "*in a normally functioning energy market, the decreased wholesale prices should pass through to final consumers in the form of lower cost of the energy supply component*". [http://ec.europa.eu/energy/doc/2030/20140122\\_swd\\_prices.pdf](http://ec.europa.eu/energy/doc/2030/20140122_swd_prices.pdf)

<sup>18</sup> While in some Member States (such as Norway, Sweden and Netherlands), direct correlation between wholesale and the energy component of retail prices can be observed, the energy component of the retail prices and wholesale prices in countries such as Germany, UK and Austria correlate only very little - ACER/CEER: Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2013, October 2014

<sup>19</sup> For instance, according to our UK member, Which?, the overall cost to consumers of the disconnect that has been developed between wholesale costs and retail prices has been up to £2.9 billion in 2014.

<sup>20</sup> Applies to DSOs with more than 100 000 connected customers

<sup>21</sup> Status Review on the Transposition of Unbundling Requirements for DSOs and Closed Distribution System Operators, CEER, April 2013

<sup>22</sup> Especially due to the same branding for retailers and DSOs

<sup>23</sup> Annual external costs of non-renewable energy sources in the EU are estimated at almost 200 billion Euro in 2012; Ecofys: Subsidies and costs of EU energy. Annex 1-3, November 2014, p. 109.

producing their own energy ('prosumers'). Competition between different energy sources remains flawed because prices do not adequately reflect external costs. Therefore, when discussing the future electricity market design, policy makers and regulators should recognise the need for a level playing-field as a prerequisite. In this context, BEUC also welcomes the European Commission's proposals to ensure greater transparency with regard to the energy costs and prices.

Against this background, more reflection is needed to clarify allocating costs in a fair way. There is a range of instruments that can be used to better internalise the costs associated with environmental damage, such as CO<sub>2</sub> taxes or emissions trading. However, ensuring that such tools work as intended can be challenging, as is the case with the EU Emissions Trading system (ETS) that has struggled to adequately price carbon.

**How should the future market be designed to ensure fair prices for consumers?**

- The future electricity market should be designed in a way so that it stops free-riders, ensures a level playing-field and guarantees that external costs of electricity generation are internalised in an adequate and fair way.
- The European Commission and energy regulators should ensure greater transparency of energy costs and prices.

## **2.5 Network codes**

Network codes aim to ensure that networks and demand facilities contribute effectively to the stability of the system across Europe. These will have a direct impact on consumers, for instance setting the rules for demand-side participation which will significantly influence consumer engagement in the energy market. Consumers may offer their flexibility to the network so as to better balance the supply and demand as well as reduce peak demand.

While the drafting process of network codes is rather complex and highly technical, BEUC believes that all network codes should be drafted in a transparent way and take on board consumer realities, respect consumer rights as well as enable consumer choice and ensure appropriate protections are in place. Only such an approach will ensure these codes pave the way towards the creation of a transparent, well-functioning and consumer-centric energy market.

**How should network codes empower consumers?**

- Network codes should be drafted in a transparent way, take on board consumer realities, enable consumer choice, and ensure appropriate protections are in place.

## **2.6 New deal for consumers**

According to the Energy Union Strategy, consumers should be provided with understandable, readily-accessible information to be able to make informed choices. With the implementation of smart technologies, consumers should be able to take control of their energy consumption. However, despite the current legislative framework, BEUC members very often report that consumers continue to see energy markets as unclear, non-transparent and too complex to trust and engage with.<sup>24</sup> BEUC is convinced that only well-informed consumers can participate actively in liberalised electricity markets. In order to improve consumer experience and nudge consumers to become

<sup>24</sup> While the transposition of the 3<sup>rd</sup> Energy Package brought more players to many retail energy markets, it has led also to a beginning of new complaints related to unfair commercial practices. In fact, complaints regarding door-step selling have increased exponentially in several countries and become a serious problem resulting in consumers changing their energy provider without having a full understanding of their rights and/or being fully aware of consequences of this change.

more active in the energy market, additional measures will be needed, going beyond complete transposition of existing legislation. Therefore, BEUC calls on the European Commission to put forward proposals on consumer rights and protections as described below:

### 2.6.1 Energy offers

In order to improve transparency and facilitate the comparability of different offers across the market, consumers need to be able to compare all the deals presented in the market and energy offers must contain all key elements and be presented in a clear and comparable way so that consumers can easily find the best deal for them. In this respect, BEUC believes that the European Commission should develop a standard information form, similar to what already exists in the financial sector<sup>25</sup> to facilitate the comparability of energy offers. At the same time, it is essential to take into account also behavioural economic insights in order to identify how consumers perceive and act upon pre-contractual information and therefore avoid information overload.<sup>26</sup>

#### **How should energy offers be designed to be easily comparable?**

- Energy offers must contain all key elements and be presented in a clear and easily comparable way. The European Commission should develop a standard information form, similar to the one already used in the financial sector, to facilitate comparability of energy offers.
- Learn from behavioural economics which provides insights to identify how consumers perceive and act upon pre-contractual information and how to avoid information overload.

### 2.6.2 Bundled offers

Energy services are sometimes sold as part of a package. This obscures the actual price of the electricity and/or gas and makes it harder for consumers to switch or to compare offers. Energy services provided within such a package can often be unfavourable to consumers as they may not be suitable or provide the best deal reflecting the particular needs of the consumer. The bundles being offered in some Member States include not only parallel services such as telecoms but also all sorts of services from insurance to gift cards.<sup>27</sup>

Moreover, in many cases, additional products or services are not provided by the energy retailer, but by other service providers.<sup>28</sup> In some cases, these bundles may also contain misleading practices and unfair terms regarding pricing, contracts and advertising.<sup>29</sup> At the same time, these offers raise a number of questions regarding their scope and the role of different actors, for instance the implication of these services on the energy price (not only in terms of comparison of these products with the price of energy but also how these products are being presented in the consumer's bill) or in terms of enforcement which involves regulators from different sectors.<sup>30</sup>

<sup>25</sup> For instance, as set in the Directive 2008/48/EC on credit agreements for consumers and repealing Council Directive 87/102/EEC

<sup>26</sup> In 2013 BEUC commissioned a study about consumer information which confirms that informing consumers does not automatically result in informed consumers so measures and safeguards must be in place. Better than on 'sufficient' information, the focus should be on less is better and simpler/more understandable and meaningful is better. [http://www.beuc.eu/publications/x2013\\_089\\_upa\\_form\\_matters\\_september\\_2013.pdf](http://www.beuc.eu/publications/x2013_089_upa_form_matters_september_2013.pdf)

<sup>27</sup> For instance, BEUC's Norwegian member, Norwegian Consumer Council, reported that electricity is offered with all sorts of extras, for example discounts on fuel, gift card, day pass at ski resorts and amusement parks.

<sup>28</sup> In some cases, the service provider is not even identified in the contract.

<sup>29</sup> For instance, BEUC Portuguese member, DECO, carried out a study on new associated services and products that are being presented to the consumer. DECO identified misleading practices and unfair terms regarding pricing, contracts and advertising and highlighted that most of the energy discounts are related to the subscription of these services.

<sup>30</sup> For example, when the offer contains an insurance, the Insurance regulator should be responsible for the monitoring. However, taking into account that this insurance is directly linked to energy service, it is what

BEUC believes that all products and services within bundled offers should be carefully monitored so that they provide real added value for consumers in terms of economic, social and environmental sustainability. BEUC also finds it important that the whole system is ready for a shift from what is currently the remit of one single regulator (or a sectoral Alternative Dispute Resolution (ADR) body) to the system which is able to address possible overlap of competences between regulators<sup>31</sup> or other bodies dealing with products and services. Clear responsibility schemes and ADR mechanisms capable of acting across industry sectors are needed to ensure the efficient treatment and settlement of disputes involving service providers from different sectors.

#### **How to ensure bundled offers provide real added value for consumers?**

- NRAs should monitor bundled offers and whether these offers provide benefits to consumers, especially in terms of economic, social and environmental sustainability. Consumers should also be protected against misleading practices and unfair terms.
- The European Commission should address possible overlap of competences between regulators or other bodies. At the same time, Member States should ensure that independent ADR schemes are available to address consumer complaints in the energy market, including the settlement of disputes involving suppliers from different sectors.

### **2.6.3 Contracts**

Consumers often encounter difficulties to access and understand the terms and conditions in energy contracts. This information is often difficult to find, for instance because it is placed in different web sections, presented in very small font, the language used is not comprehensible and/or the text is too long. The way to improve transparency would be to provide consumers with a summary of the key contractual conditions in a concise and simple language alongside with the contract. Such a summary should include key pre-contractual information and the rights and obligations of the consumer and the supplier under the contract.

#### **How to improve transparency of energy contract terms and conditions?**

- A summary of the key contractual conditions (such as main features of the service, detailed information on prices, conditions for switching or price increase) should be provided to consumers in concise and simple language alongside with the contract.

### **2.6.4 Bills**

Although current legislation foresees a number of obligations, BEUC members continue raising issues related to unclear and confusing bills, often caused by unclear price structure. Consequently, consumers have difficulties to use the information on the bill in practice and as a result, they spend very little time analysing their energy bills.

The information on the bill must be clear and concise, in order to help consumers to better understand their energy consumption and must contain all relevant information, including complaint handling and contact points in case consumers have complaints or questions regarding their energy bills and their consumption. The bill should also contain the necessary information for the consumer to compare offers, including when using a comparison website, and to switch supplier.

BEUC calls on the European Commission to undertake a full scale review of the content of energy bills and annual statements and assess how or if the information provided on the bill is useful to consumers. Where relevant, the Commission should urgently put

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does it mean in terms of consumer rights and enforcement? What is the role of the energy regulator in such a case?

<sup>31</sup> For instance, the role of telecoms regulator will become more important also in the energy sector considering for instance the combination of smart meters and smart home features representing new business opportunities for telecommunications companies.

forward proposals to improve the information provided to make bills clear and well-structured.<sup>32</sup>

#### **How to make bills useful to consumers?**

- Bills should be clear and concise and include the necessary information for the consumer to compare offers and to switch supplier.
- The European Commission should review the content of energy bills and annual statements and assess how or if the information provided on the bill is useful to consumers. Where relevant, the Commission should urgently put forward proposals to improve the information provided to make bills clear and well-structured.

#### **2.6.5 Price comparison websites**

When searching for a suitable deal, consumers can use price comparison tools (PCTs) which help to compare different energy offers available on the market. As comparison websites play a key role, it is essential that the consumer gets clear and independent information on different offers. Regardless of who is running the comparison website, it must be ensured that the information consumers get is impartial, up to date, accurate and provided in a user friendly way and free of charge. The comparison tool should also enable consumers to compare their current contract with new offers in an easy way.<sup>33</sup>

At the same time, BEUC strongly believes there should be at least one independent comparison tool for electricity and gas services in every Member State. In order to secure the success of such a comparison tool, it is paramount to secure also a legal basis for collection of price data. In addition, whilst PCTs are increasingly used by consumers, the proliferation of comparison tools and the influence they can have on consumers' decisions have given rise to concerns about their trustworthiness. If the transparency and reliability of PCTs is not guaranteed, if the full scale and high quality of the information they provide is not ensured or if they do not comply with existing legislation, PCTs can become a source of consumer detriment and risk misleading and thereby undermining consumers' trust in the market.

#### **How to enable consumers to easily compare different energy offers?**

- Member States should ensure that consumers are able to access independent comparison tools in order to get the information on electricity and gas offers which is impartial, up to date, accurate and provided in a simple way.
- Member States should ensure there is at least one comparison tool for electricity and gas services.
- Price comparison tools should enable consumers to compare their current contract with new offers in an easy way.

#### **2.6.6 Consumers' engagement and switching**

Switching is often perceived as complex, risky and time-consuming. Consumers do not often use their rights under liberalised energy markets<sup>34</sup> as they either have few tools to navigate the market or have very little bargaining power to subscribe to services that give them reasonably-priced energy services. Therefore, it is not surprising that, in most Member States, less than 10% of consumers changed their electricity supplier during 2013.<sup>35</sup>

<sup>32</sup> In order to improve the overall understanding of the energy bill, consumer testing can be an appropriate tool.

<sup>33</sup> This should be a key characteristic of PCTs in subscription type markets, where the majority of consumers already have a contract. This will help consumers to avoid entering into contracts which are worse for them than their current one.

<sup>34</sup> BEUC: Making the Internal Energy Market Work. A BEUC reality check on the European Commission Communication, March 2013.

<sup>35</sup> ACER/CEER: Annual Market Monitoring Report, p. 72.



Although the majority of switches are price driven, consumers are less likely to switch if there are only a few offers available in the market or the price differences between supplier tariffs are not significant. At the same time, BEUC members report many other elements causing low switching rates and influencing consumer behaviour such as fear of consequences<sup>36</sup> or aggressive marketing practices.<sup>37</sup>

Furthermore, although the Third Energy Package defines a three week switching period, the switching process often remains lengthy. BEUC calls on the European Commission and NRAs to ensure the switching process is smooth and reduce the switching period to less than three weeks which should include the cooling off period for the right of withdrawal (in case of off-premises contract).<sup>38</sup> Consumers should be provided with necessary information on the switching process, for instance when the switch occurs.<sup>39</sup> Moreover, BEUC is concerned about the application of termination fees representing a lock in situation of the consumer and an anti-competitive measure as these fees often prevent consumers from changing the supplier. Switching should not be subject to any termination fee or penalty.

In addition, there must be tools facilitating consumer participation. For instance, collective switching campaigns and possibly new trustworthy intermediaries simplifying the market for consumers and offering services tailored to consumers' circumstances and preferences. Such switching campaigns and intermediaries should be subject to a set of transparency rules requiring amongst others openness about the methods and results over time. Several BEUC members have already enhanced consumers' interest in many European countries via organising collective energy switching campaigns.<sup>40</sup> Therefore, such campaigns which improve consumers' experience in the energy market and help them to get a better deal should be further supported.

#### **How to facilitate consumers' engagement and switching?**

- The European Commission and NRAs should ensure switching is a smooth process. The switching period should be reduced to less than three weeks.
- The European Commission should establish specific rules on the renewal and termination of contracts in order to allow consumers to switch providers at no cost if they wish to do so.
- The European Commission as well as energy regulators should further facilitate collective switching campaigns helping consumers to find a better deal.

#### **2.6.7 Protection of vulnerable consumers**

Due to low income, increasing energy prices and often not energy efficient houses, nearly 11% of EU citizens were unable to adequately heat their homes in 2012 and are living in fuel poverty.<sup>41</sup>

Special attention should be paid to low income households and consumers in vulnerable situations. Ultimately, it is the responsibility of Member States to ensure they have an appropriate policy mix (social or energy policy) in place to provide the best level of support to consumers in vulnerable situations. The circumstances and conditions that lead to vulnerability in the energy sector need to be better understood. It should be analysed if these consumer groups are sufficiently protected and strong protections should be added for these groups where needed. Moreover, consumers in vulnerable

<sup>36</sup> For instance, consumers often fear supply interruptions when switching

<sup>37</sup> E.g. cold calls or telemarketing

<sup>38</sup> However, the speeding up of the switching period should not be at the expense of the quality of switching procedure.

<sup>39</sup> Receiving only information that the switch is made within 3 weeks is not enough for a consumer who does not know which company to contact during this time.

<sup>40</sup> BEUC factsheet is available at: [http://www.beuc.eu/publications/beuc-x-2014-042\\_jkl\\_collective\\_energy\\_switch\\_factsheet.pdf](http://www.beuc.eu/publications/beuc-x-2014-042_jkl_collective_energy_switch_factsheet.pdf)

<sup>41</sup> Energy poverty and vulnerable consumers in the energy sector across the EU: analysis of policies and measures, INSIGHT\_E, May 2015



situations need to be engaged in the market as such engagement will ensure that these consumers also benefit from the best deals and are on the most appropriate tariffs, just like any other consumer. This means that the energy market must be 'inclusive'. But to achieve this, they need to know what opportunities are available to them and what their rights are. Moreover, energy efficiency will help these consumers to cut their energy bills too.

#### **How to support consumers in vulnerable situations?**

- Circumstances and conditions that lead to vulnerability in the energy sector and how these consumers can be engaged in the market need to be better understood and analysed so that concrete measures can be taken at the national level.
- The European Commission, energy regulators and Member States should further analyse if these consumer groups are sufficiently protected and add protections for these groups where needed.

#### **2.6.8 The role of consumers in energy markets**

It is often suggested that consumers should be active players in the energy market. However, according to the experience from the current energy markets, most consumers fall into a group of passive consumers who want simply to use the energy services without getting involved in understanding the market complexity. Although increased consumer engagement is considered to be important to the future of the energy sector, further analysis is needed with regards to the willingness and ability of different consumers to engage with and participate in energy markets.

Consumer sentiment about a range of issues should be regularly monitored including views on the ease of finding information suitable for carrying out a price comparison; range of tariff offers available through different sales channels; availability of offers suitable for their needs; price comparison processes; the switching process itself; and satisfaction with suppliers' customer service and/or complaints handling performance.

Moreover, while consumers are expected to actively participate in the market, there seems to be not enough understanding of the prerequisites to make this happen. Markets must be 'inclusive', barriers need to be removed and the new role of consumer to be clearly defined. BEUC calls on the European Commission to further analyse roles and responsibilities of new market players, their relationship with and impact on consumers.

#### **How to facilitate engagement of different consumers in the energy market?**

- Policy makers and NRAs should further analyse different consumer groups and stimulate consumer active participation in energy markets.
- The Commission should further analyse roles and responsibilities of new market players, their relationship with and impact on consumers.
- Regulators should monitor consumer sentiment about a range of issues such as the ease of finding information suitable for carrying out a price comparison or the switching process itself.

### 2.6.9 Transparency of 'green electricity' offers

More and more consumers want to actively support an energy transition towards renewable energy supply.<sup>42</sup> In this context, the use of local renewable energy sources gains in importance, whether as a means to cut household energy costs or to contribute to climate protection.<sup>43</sup> On top of that, opting for renewable electricity supply provides a constructive approach to get consumers actively involved in the market. From a consumer perspective, 'green electricity' offers a manifold potential to support renewable energy, to use their rights in the market and eventually to reduce their electricity bill. However, at the moment, this mutual empowerment of consumers and market functioning still meets a lot of barriers:

- *Lack of definition*

Although the Third Energy Package fixes the disclosure of the fuel mix, it remains unclear, in most Member States, what exactly is a 'green electricity' offer. No unequivocal definition, excluding fossil fuels or nuclear power, exists at the EU level. While some 'green' tariffs combine a limited share of renewables and other "low carbon" sources like efficient fossil fuel fired cogeneration, others pretend to solely contain renewable energy sources. Suppliers frequently use terms like "sustainable" or "clean" energy, often accompanied by attributes such as "environmentally friendly", "carbon neutral" or "ecological". Behind these dazzling names, suppliers may still market non-renewable energy sources.<sup>44</sup>

- *Lack of knowledge*

Consumers are neither engineers nor electricity traders. Not surprisingly, it turns out to be rather difficult for many of them to identify environmental advantages or disadvantages of electricity tariffs. A recent EU-wide survey confirmed that consumers estimate their knowledge about how their electricity is produced as quite low.<sup>45</sup> When opting for a 'green' tariff, consumers without broader technical knowledge naturally expect the supplier to deliver renewable electricity directly to their homes. Easily understandable explanations that renewable electricity is only delivered to them arithmetically speaking do not exist. Member States' regulation increases confusion by maintaining a multitude of divergent consumer information on the sources of electricity, furthermore mostly limited to suppliers' websites.<sup>46</sup>

- *Lack of environmental benefits*

In their pre-contractual product presentation and on the electricity bill, suppliers state that they provide consumers with 100% renewable energy sources, based on Guarantees of origin (GOs).<sup>47</sup> As GOs may be traded independent of the electricity

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<sup>42</sup> Voluntary 'green electricity' markets are still a niche market in many Member States. However, only in Luxemburg and in the Netherlands for instance, the share of customers holding a 'green electricity' contract exceeds non-green contracts (100% 'green' contracts in Luxemburg and 64% in the Netherlands). In Germany, representing the EU's largest 'green electricity' market in terms of tariffs, customers and electricity consumption, 'green' tariffs in 2014 covered 17.0% of retail market consumption. (Source: ACER) However, the development of these voluntary offers are not to be confounded with binding EU 2020 targets for renewable energy sources, set in the Renewable Energy Directive.

<sup>43</sup> European Commission: Flash Eurobarometer 367. Attitudes of Europeans towards building the single market for green products, July 2013; Special Eurobarometer 409. Climate Change, March 2014; Special Eurobarometer 416. Attitudes of European Citizens towards the environment, September 2014.

<sup>44</sup> BEUC does not argue in favour of a minute by minute coverage of the customers' consumption solely with the 'green' supplier's own 100% renewable generation capacities. Suppliers that offer 'green' tariffs should, of course, be able to participate in wholesale market trading, but on an annual base, the customers' electricity demand ideally should be covered by renewable kilowatt-hours produced, traded and/or purchased by the supplier.

<sup>45</sup> Ipsos/London Economics/Deloitte: Functioning of retail electricity markets for consumers in the EU. Presentation, Citizens' Energy Forum, London, 13 March 2015.

<sup>46</sup> CEER Status Review on customer access to information on energy costs, sources and energy efficiency schemes, December 2013, p. 15-24.

<sup>47</sup> "Guarantees of origin" (GOs) are tradable certificates as defined in the Renewables Directive 2009/28/EC. They indicate the source of one kilowatt-hour of electricity, produced in a certain generation unit in Europe. GOs are a basic tool for securing transparency of electricity mix necessary for any disclosure. However, GOs

produced and sold, the supplier might continue to run fossil and nuclear generation capacities, trading with “grey” electricity from the wholesale markets. GOs represent a good and necessary tracking tool. Until now, they have not delivered any measureable incentives for investments in new renewable generation capacities. Nevertheless, consumers tend to confound them with an environmental quality assessment.

Moreover, consumer organisations experiences show that many ‘green electricity’ offers do not necessarily foster any environmental benefits, e.g. an increase in renewable generation capacities, a reduction in greenhouse gas emissions or an improvement in biodiversity. Private quality labels may guide consumers to certified tariffs. However, it is important to bear in mind that these labels use divergent minimum criteria.

BEUC believes that, in the context of the Third Energy Package, the implementation of a well-functioning tracking mechanism for renewable and other energy sources should lay the foundations for transparent and comparable electricity offers throughout all Member States. GOs should be used as the key instrument for these purposes.<sup>48</sup> Not only the renewable share, but all fuels should be tracked with the help of this instrument in order to establish a level-playing field and coherent disclosure data.

However, it is important to bear in mind that the current GO system alone does not fully secure consumers’ right to know where the electricity they purchase really comes from. In order to make sure that consumers really pay for the renewable kilowatt-hours that are disclosed, suppliers’ electricity purchase and GOs disclosure could be tied together.<sup>49</sup> This provision obviously would still fail to incentivise any structural change in the supplier’s portfolio if he just dedicated an existing renewable generation capacity to a ‘green’ tariff. In this case, the supplier would only ‘green’ those consumers who opted for the ‘green’ tariff by shifting renewable kilowatt-hours that would have been produced anyway. The rest of the consumers would get a “brownier” fuel mix since the renewable share was just deducted from the fuel mix of their standard tariff.

Furthermore, when opting for ‘green electricity’, consumers expect their supplier to shift towards renewable generation, thus to create additional benefits that would not have occurred without the consumers’ choice. Therefore, BEUC believes ‘green’ tariffs need to be tied to measurable criteria regarding their *additional* environmental benefits. Otherwise, nothing beyond business as usual would happen.

Besides national regulators, private ‘green electricity’ quality labels can concurrently help to establish environmental minimum criteria on a voluntary base. Nevertheless, they cannot supersede neither a coherent implementation of reliable tracking nor understandable disclosure of relevant attributes of the fuel mix. Against this background, we encourage the European Commission to proactively adopt transparency of ‘green electricity’ as a template for enabling consumers to make well-informed choices. In this respect, we believe the future Renewable Energy Directive will provide with an opportunity to address those issues.

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do not necessarily ensure consumers truly support investment in the new, environmentally-friendly electricity generation. GOs represent a good and necessary tracking tool, but nothing more.

<sup>48</sup> The recent CEER Advice on customer information on sources of electricity provides a very valuable overview of the challenges of a reliable and coherent fuel mix disclosure system. Implementing CEER’s recommendations would help accomplishing this first step.

<sup>49</sup> In this case, the supplier would match its customers’ electricity consumption under a ‘green’ tariff not only with renewable GOs but at its best entirely with renewable electricity that the same supplier produced or purchased.

#### **How to improve transparency of 'green tariffs'?**

- Misleading 'green' tariffs should be stopped in order to reinstall confidence in electricity markets with trustworthy offers.
- Offers with environmental claims should be transparent and match consumers' expectations: consumers' money should lead to additional investments in renewable generation capacities. The future Renewable Energy Directive should address those issues.
- Clear criteria and traceability for measurable impacts of 'green' tariffs should be established. 'Green' tariffs should be tied to measurable criteria regarding their *additional* environmental benefits.

#### **2.6.10 Consumer benefits from new technologies**

New technologies like smart meters, varying user interfaces, smart appliances and home automation in general may offer a larger choice of products and services as well as more information for consumers, yet the benefits for consumers are not guaranteed. It all depends on how these new technologies will be presented and used by consumers, how changes in energy products and services will be communicated to them and if there is any interest (financial, environmental, and social) from consumers' side.

Although new technologies such as smart meters may help those who consume large amounts of electricity or for example households equipped with heat pumps, smart meters should not be understood as a necessity to achieve energy savings. Therefore, instead of pushing through this technology, new services (facilitated by new technologies) or demand response programmes should be based on understanding market opportunities and consumer outcomes. Consumers should also have the right to opt out and have their meter operated in *dumb* mode. A voluntary and consumer-centred roll-out of smart meters rather than a mandatory one may increase consumer participation and public support as it facilitates ownership, data protection, security and cost allocation issues.

Moreover, where smart meters are rolled out, minimum functionalities and interoperability are essential to ensure consumers have easy access to the information they need to take informed decisions on their consumption, but this is only the starting point. Further work is needed to build trust and encourage consumer engagement. Consumers urgently need clear commitments that the investments to upgrade the infrastructure and the roll-out of smart meters will deliver benefits to them as well as monitoring and enforcement of these commitments.<sup>50</sup> BEUC therefore calls for a solid legal and regulatory framework in order to guarantee that the roll-out is cost efficient and that costs and benefits are fairly shared among all stakeholders who benefit from the new technology.<sup>51</sup>

In addition, with new technologies and smart solutions for our homes, electric cars, energy storage technologies as well as new actors slowly entering the market, BEUC believes that Research & Innovation (R&I) is crucial in putting all these puzzle pieces together. Smart home needs to be a comfortable energy efficient living space in which consumers can benefit from self-generation, smart and interoperable appliances which have been designed to last long as well as to control consumption through consumer friendly smart metering systems if they choose so.

<sup>50</sup>More details about BEUC key demands for the future smart markets are available at <http://beuc.eu/publications/2013-00083-01-e.pdf>

<sup>51</sup> BEUC also notes that the benefits to DSOs from smart meters in regard to running, surveillance, repairing and planning the network is often undervalued when setting the share of costs covered by consumers via their bills.

### **How to ensure smart technologies bring benefits to consumers?**

- With the implementation of new technologies, such as smart meters, the European Commission together with Member States and regulators should ensure that consumers have easy and timely access to the information on their consumption to make informed decisions.
- Consumers should always have a choice to opt out and have their meter operated in a 'dumb mode'.
- Where smart meters are rolled-out, Member States should establish a solid legal and regulatory framework in order to guarantee that the roll-out is cost efficient and that costs and benefits are fairly shared among those who benefit.
- Smart home needs to be a comfortable energy efficient living space in which consumers can benefit from self-generation, smart and interoperable appliances which have been designed to last long as well as to control consumption through consumer friendly smart metering systems if they choose so.

#### **2.6.11 Data protection**

New technologies, such as smart meters, make it technically possible to process much more granular data than is currently processed in the retail energy market sector, which could give a unique insight into the activities of households. If compliance with the data protection framework and effective enforcement is not ensured, this information may be used not only for analysing the consumption patterns of particular households but also for other purposes that are not compatible with the one for which the data has been collected.

In order to address all concerns and prevent the misuse of consumers' personal data, the EU legal framework<sup>52</sup> has established a number of fundamental principles every data processing operation must comply with. The customer has a fundamental right to access and control *all* the data generated by the smart meter, whether the consumer owns (or has the property rights to) the smart meter is irrelevant. In addition to the right to access the data, consumers must be also able to exercise their rights to correct, erase and delete information held about them. This should always remain free of charge so that consumers can fully exercise their fundamental rights in accordance with the principle that they have the ownership and the control over their data. Moreover, when consumers wish to switch their energy supplier, they need to be able to carry their data with them. Proper procedures for the complete and effective erasure of their personal customer data by the old suppliers need to be guaranteed.

BEUC believes each party requesting data from consumers should provide justification why the data is needed, i.e. the burden of proof should also be extended to DSOs/metering operators. In our view, this is vital in order to prevent parties from collecting data that is 'nice to have' for the performance of their (legal) duties but is not critical to perform their (legal) duties.<sup>53</sup> Furthermore, although the discussion on the proposal for a Data Protection Regulation is still ongoing, the need for a specific legislation should not be excluded and be considered on the basis of the new general data protection regulation.

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<sup>52</sup> Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

<sup>53</sup> It should always be tested if there are alternatives open to the other party that are less intrusive to the fundamental right to privacy of the consumer. BEUC therefore believes that further guidance will be needed in this respect.

### **How to ensure consumers' personal data is protected?**

- Compliance with the data protection framework and effective enforcement must be ensured and the customer must have the right to access and control all the data generated by the smart meter and other smart devices at home. Each party requesting the data should provide justification why the data is needed.

### **2.6.12 Demand-side response**

Demand-side response<sup>54</sup> is being considered as an important tool to balance the future electricity grid. However, if simplicity and consumer confidence cannot be attained and appropriate protections are not in place, consumers may a) be unwilling to adopt the dynamic tariffs that would maximize the use of Smart Grids and b) be unable or unwilling to change their behaviour. Getting it right may make demand side response a valuable resource, but getting it wrong could result in chronic confusion, poor service and unfair costs for consumers.<sup>55</sup>

First of all, transparency is key to the success of dynamic tariffs. BEUC thus considers clear information and adequate reward for consumer participation as prerequisites for consumer engagement. Therefore, it is critical that new tariffs are explained to consumers in a simple and clear way using a set of common terms, so that they can weigh up the costs and benefits and compare offers. Precision is critical, given the outcomes for consumers can vary hugely.<sup>56</sup> A level-playing field needs to be ensured while treating demand and supply side equally and enabling consumers to opt for the supplier or service provider of their choice. At the same time, regulators should ensure there are price safeguards when consumers are fully exposed to wholesale market developments. Consumers may participate in and provide demand-side flexibility (DSF) if they see clear benefits. In order to be able to understand the implications for their energy consumption, they should be provided with concrete projections and the impact of changing their behaviour and energy use as well as with the value of these changes.

Secondly, price comparison tools play an important role in helping consumers find the best offer and should enhance comparison of DSF services in increasingly complex market.

Thirdly, when assessing the opportunity for consumers to engage with dynamic tariffs, it is equally important to assess the degree to which they will likely rely on home automation to deliver the expected benefits, and therefore what 'smart' services would be expected from appliances in the future, and how such services accommodate consumers' lifestyles. If we want to develop a market with high consumer confidence, the market opening has to go hand in hand with transparency and policies covering

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<sup>54</sup> CEER defines demand response as the following: "Changes in electric usage by end-use customers/micro generators from their current/normal consumption/injection patterns in response to changes in the price of electricity over time, or to incentive payments designed to adjust electricity usage at times of high wholesale market prices or when system reliability is jeopardised. This change in electricity usage can impact the spot market prices directly as well as over time."

<sup>55</sup> Report 'Taking a walk on the demand-side', Citizens Advice, August 2014

<sup>56</sup> For instance, our Norwegian member, the Norwegian Consumer Council, reported that due to the confusing price structures and directly misleading marketing practices, it is very difficult for the majority of households to verify their electricity invoices. While most consumers think they pay the so-called spot price, following the fluctuations in the wholesale market, our member discovered that most contracts are in fact only partly based on the spot price. Even the most informed consumers, who enter into the most favourable contracts, experience that their prices and conditions are being changed without being properly informed. In addition, bundling electricity service with other products and services leads to problems especially in terms of comparability and switching. While consumer organisations fully support innovation, many of these offers should rather be called 'invoice innovations'.



smart grid, ecodesign and renewable technologies need to ensure that the promised consumer outcomes are delivered.<sup>57</sup>

Fourthly, consumers often encounter difficulties to understand the contract terms and conditions (as explained in chapter 2.6.3.). Therefore, contracts with new intermediaries and DSF service providers must be fair and with necessary protections against discriminating consumers. For instance, in the design of contracts, profiles (or preferences) are assumed to be stable throughout the time. This is however not always the case<sup>58</sup> and consumers will move between customer segments so they need to be able to change to more suitable demand response products without barriers or penalties.

Fifthly, we note there is not enough experience with flexible tariffs and their impact on different households. BEUC is concerned that consumers who might not be able to shift their load or reduce consumption at peak times might end up paying more with the introduction of these tariffs. BEUC thus calls on the European Commission to coordinate with Member States and national regulators a distributional analysis on the impact of time-of-use tariffs on different social groups and if/how these groups can access the benefits of new deals.<sup>59</sup>

Sixthly, the energy services market must be open to competition and there must be interoperability between smart meters, smart appliances and energy service companies' information systems. Regulators need to ensure that consumers are not locked into demand-side response schemes by bundled appliance offers and stronger protections must be in place for vulnerable consumers.<sup>60</sup>

Last but not least, BEUC strongly believes the European Commission and energy regulators need to refocus demand response policies to give consumers greater control and choice according to their specific needs and interests. To date the primary focus has been on the introduction of 'time-of-use' and dynamic tariffs. However it is likely that greater co-ordination between demand response and energy efficiency policies could open new opportunities for consumer to manage and reduce their consumption if this is supported by a greater understanding of the potential of the respective consumer groups to engage.

#### **How to guarantee consumers can benefit from demand response?**

- Transparency and comparability are key to the success of new dynamic tariffs. These new tariffs must be explained to consumers in a simple and clear way.
- The European Commission should assess the degree to which consumers will likely rely on automation to deliver the expected benefits and identify what 'smart' services would be expected from appliances, and how such services accommodate consumers' lifestyles.
- Regulators should ensure consumers' flexibility is properly rewarded and that there are price safeguards when consumers are fully exposed to wholesale market developments.
- The European Commission should coordinate with Member States and national regulators a distributional analysis on the impact of time-of-use tariffs on different social groups and if/how these groups can access the benefits of new deals.

<sup>57</sup> I.e.: Will the appliances perform as expected? Will the label explain smart performance? Are current safety regulations and insurance policies fit for the new environment? Will the housing fabric, heating control or storage allow consumers to benefit from the tariff offerings as expected?

<sup>58</sup> Individual situation can change quickly (illness, family situation) and consumers must be able to change their contract accordingly.

<sup>59</sup> Apart from the level of income, this analysis should take into consideration vulnerability, heating type, dwelling and location among other factors. All of these issues will influence the degree of flexibility the household has to shift their load and help assess benefits and risks.

<sup>60</sup> E.g. time of use tariffs and the potential misuse of load limiting by suppliers as a debt management tool, remote switching and disconnection etc.



- Regulators should ensure that consumers are not locked into demand-side response schemes by bundled appliance offers. Stronger protections must be in place for vulnerable consumers.
- Greater co-ordination of policies guiding demand response and energy efficiency is needed.

### **2.6.13 Welcoming culture for 'prosumers'**

Self-generation is power and/or heat generation on the premises of a private consumer who uses self-generated heat, respectively electricity, to cover his/her own demand to a certain degree ('self-consumption'). It also entails storing excess electricity production or feeding it into the public grid. Thereby, the consumer transforms into a 'prosumer'.

From a consumer's point of view, self-generation technologies (1) protect households' purchase power if cost and benefits are allocated in a fair way, and (2) enable households to contribute to climate protection. At the same time, self-generation technologies initiate a more general shift of consumers' role from the point of view of the energy markets: The incumbent hierarchical model of a top-down oriented energy supply with a limited number of dominant suppliers evolves towards a decentralised system with more bottom-up energy supply by 'prosumers'. 'Prosumers' have proved that they are able to contribute to key objectives of the European Commission's Energy Union Strategy in the field of further integration of internal energy market:

- o They help to enhance competition.<sup>61</sup>
- o They started to break up market concentration as well as oligopolistic electricity markets in some Member States through investing in RES generation capacities.<sup>62</sup>
- o They diversify generation capacities and the fuel mix.
- o They decrease wholesale market prices. Especially high shares of solar photovoltaic excess electricity fed into the grid impact on the merit order by diminishing the previous price peaks at noon.<sup>63</sup>

BEUC would welcome a recognition of the role of 'prosumers' in the Energy Union Strategy when it comes to implementing and upgrading what the European Commission calls the "internal energy market's software".<sup>64</sup> Formatting of this "software", which is meant as an image for the set of rules and policies, should be designed towards the needs of the weakest software users who are private prosumer households. Ambitious expectations with regard to their key role in new interactive relationships with utilities and grid operators characterise the debate. We have to recall that 'prosumers' are neither energy traders nor utilities. Although borders between generation and consumption may become vaguer, they still remain simple private households that should not be overtaken. Therefore, every market design that wants to embrace consumers as active market players should meet consumers' needs and enable private households, including tenants, to operate on the markets through being on a par with incumbent suppliers and DSOs.

In this context, BEUC welcomes that the Energy Union Strategy recognises the necessity to reduce regulatory risks in order to create a stable investment framework which responds to all potential investors' expectations. However, private households should not be placed together with huge corporate stakeholders in one and the same row of actors because both enter the markets under completely different conditions. Consumers' small

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<sup>61</sup> For instance, the Commission highlights the importance of the growth in renewable generation capacities for competition on the Italian electricity market. European Commission: EU Energy Markets in 2014, October 2014.

<sup>62</sup> In 2014, Germany counted around 1.5 million individual solar PV installations (source: BSW-Solar), mainly owned by private households and farmers, see Poize, N., Rüdinger, A. (2014), Projets citoyens pour la production d'énergie renouvelable : une comparaison France-Allemagne, Working Papers n°01/14, Iddri, Paris.

<sup>63</sup> ACER/CEER: Annual Report, p. 110.

<sup>64</sup> European Commission: Energy Union Package. COM(2015) 80 final, p. 9.

RES projects need a dedicated, specific approach because they usually have limited access to capital and pursue fundamentally different interests in terms of expectations and return on their investment. As a matter of fact, they need to be treated differently in regulation in order to empower them as well-informed market participants. Still, consumers' self-generation projects are not a self-runner, though investment costs especially for solar photovoltaic (solar PV) have been and still keep decreasing impressively.<sup>65</sup>

For all these reasons, private households that are willing to start their self-generation project rely on an appropriate public support scheme.

Findings of the IEA-RETD platform<sup>66</sup> confirm BEUC members' analysis of current deficiencies of self-generation schemes:

- o Consumers' plans to invest in self-generation are hampered by a lack of reliable and structured information on technological options and potentials while the quality of offers and services often differs widely. Research has identified some emerging trends that have the potential to become policy challenges if these are not tackled early on, for instance lack of access to independent advice during the sales process, problems during the installation process as well as dissatisfaction with the performance and maintenance including aftercare by installers.<sup>67</sup>
- o Consumers face financial risks related to the difficulty of access to capital, high upfront investment costs and long amortisation. In private households, electricity generation and consumption timely often do not match, e.g. solar PV peaks at noon when a family is not at home. Substituting electricity imports from the grid by 'home-grown' electricity alone usually does not allow to pay off an investment, regardless of the technology and local potentials. Redemption is questioned by a lack of stable and sufficient remuneration schemes for excess electricity fed into the grid, or even by retroactive changes that fundamentally endanger the project's viability.
- o Grid access constitutes an additional hurdle in many Member States. Administrative barriers, e.g. long and complex permission procedures, established in the past to regulate big utilities, discourage consumers. They disproportionately increase investment costs of private self-generation projects.<sup>68</sup> Further analysis is urgently needed also what regards sharing the grid costs.

Better institutional market entry conditions in the strict sense, like priority grid access and remuneration schemes, cannot deliver the necessary 'welcome culture' for 'prosumers'. Whether in the heating or electricity sector, soft factors appear to be at least equally important, e.g. one-stop shops, tailored information campaigns as well as training and certification initiatives for installers. Such initiatives help uniting all stages of the value chain of self-generation in order to overcome consumers' specific investment barriers. Simplified administrative procedures reduce households' investment costs as well as the financial burden of public support schemes.<sup>69</sup> Any public support scheme should be assessed with regards to cost effectiveness in order to make sure that targets are met with the least cost-intensive solutions. In parallel, due to different ambitions, potentials and market conditions with regard to the development of

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<sup>65</sup> Agora Energiewende/Fraunhofer ISE: Current and Future Cost of Photovoltaics. Long-term Scenarios for Market Development, System Prices and LCOE of Utility-Scale PV Systems, February 2015.

<sup>66</sup> International Energy Agency – Renewable Energy Technology Deployment (IEA-RETD): Residential Prosumers – Drivers and Policy Options (RE-PROSUMERS), September 2014.

<sup>67</sup> Staying FIT, Learning from consumer experience of solar PV systems to inform the development of low-carbon policies, Citizens Advice, 2015

<sup>68</sup> In Sweden, households wait more than 1.5 year for authorisation of their PV panel. See PV GRID: Final Project Report, August 2014, <http://www.pvgrid.eu>.

<sup>69</sup> The IEA proved that solar PV's levelised cost of electricity generation are significantly lower in Germany than in Italy or in California, amongst others because of standardised simple authorisation process. The "PV Grid" calculated that in 2014, only 7% of total PV project development costs in the residential sector in Germany were administrative costs, while 78% in Italy. See PV GRID: Final Project Report, August 2014, <http://www.pvgrid.eu>.

renewables, Member States should keep enough freedom to design their national support schemes.

Last but not least, we note that the debate about the role of 'prosumers' on energy markets mainly focuses on private owners of detached houses. Access to renewable self-generation, going hand in hand with energy efficiency measures in the building sector, is also relevant for cutting vulnerable households' energy costs. However, in most Member States, tenants do not yet find a favourable framework allowing them to profit from 'in-house' energy generation, e.g. from solar PV electricity produced on the rooftop of their multi-storey dwelling.

#### **How to facilitate consumers' transition into 'prosumers'?**

- The Commission and Member States should ensure stable and adequate safeguards, including a remuneration scheme for electricity fed into the grid.
- Grid operators should grant priority grid access without setting any caps, e.g. on the size of the installation. The duration of the permit procedure should be short and straightforward, without excessive charging for grid connection and use.
- Consumers who cannot afford or are not willing to invest into self-generation technologies must neither be left behind nor be charged with inadequate costs related to a possible market split into privileged 'prosumers' on the one side and consumers on the other side.
- More attention should be paid to the role of tenants and fostering the self-generation potential of multi-storey dwellings. In principal, tenants should have the same opportunities to participate in self-generation projects as home owners.

### **3 Energy efficiency contributing to moderation of demand**

In 2014, advanced industrialised countries used 0.9% less electricity than 2013, and slightly less than in 2007, since when their combined economies have grown by 6.3%.<sup>70</sup> One of the main factors is greater use of energy-saving technology which includes better insulation, advanced heating and cooling systems, and energy efficient devices.<sup>71</sup> Following chapter 1.1 which explains the key role of energy efficiency in increasing energy security, this chapter provides further recommendations on tools and measures stimulating energy efficiency.

#### **3.1 Incentivise energy efficiency**

Energy efficiency is one of the most sustainable and cost-effective ways and therefore, many European households are getting more and more interested in energy efficiency solutions. However, according to the International Energy Agency (IEA), only one-third of the available energy-saving opportunities with a cost-effective payback period are taken up. The main barriers are market organisation and price distortions, access to affordable financing, awareness as well as regulatory and technical barriers. At the same time, the European Environment Agency (EEA) points out that energy savings of up to 20% can be achieved through consumer behaviour change if appropriate measures are in place.<sup>72</sup>

<sup>70</sup> Green around the edges, Economist, April, 2015

<sup>71</sup> District energy in cities, United Nations Environmental Program (UNEP), 2014

<sup>72</sup> According to the European Environmental Agency, savings of up to 20% can be achieved under certain conditions:

- Provide appropriate frames of reference through a combination of direct and indirect feedback measures;
- Understand the relationship between feedback measures, demand response measures and energy efficiency programs;
- Address the shortcomings of the current energy market design;
- Understand and make adequate provisions for the rebound effect in the policy design.

While full implementation of the Energy Efficiency Directive is urgently needed, it is also important that energy efficiency measures are supported by appropriate incentives and properly audited. At the same time, BEUC calls for future energy and climate policies built on the most long-term and cost-effective solutions, while keeping energy affordable and avoiding discrimination against vulnerable consumers. This should be born in mind by the European policy makers when reviewing relevant energy efficiency legislation.

Last but not least, while the tariff system plays an important role in incentivising consumers to be more energy efficient, some consumer organisations report that tariffs are not always designed accordingly. Such an approach could achieve carbon objectives at much lower cost than other policy measures underway, reducing the cost burden on the public.<sup>73</sup>

#### **How to support consumers in being more energy efficient?**

- The Commission should address existing barriers such as access to affordable financing, awareness as well as regulatory and technical barriers which hinder investments in energy efficiency solutions.
- Policy makers should ensure the review of energy efficiency legislation supports further energy efficiency measures and focuses on the most long-term and cost-effective solutions, while keeping energy affordable.

### **3.2 Financing energy efficiency**

The transition towards a system which is sustainable and more secure will require additional investments into interconnections and energy efficiency - estimated at around €200 billion annually in the next 10 years. BEUC agrees that more focus needs to be put on financing energy efficiency. Buildings are responsible for approximately 40% of the final energy consumption and it is alarming to hear that 75% of our housing stock is energy inefficient.<sup>74</sup> The potential to increase efficiency is huge while the barriers remain high - main barriers affecting investments (for private residential buildings) is the fiscal support and lack of tailored financial product availability.

There are already several EU funds focusing on financing energy efficiency. In addition, the European Fund for Strategic Investments (EFSI) should play an important role in mobilising private sector capital and increasing investments in infrastructure and energy efficiency among others. Moreover, while the main focus of existing financing tools has been put on the public sector which provides a significant potential for further improvements, more focus should also be put on how to trigger more investments into privately owned houses. Loans are not enough to trigger massive refurbishments of private housing.<sup>75</sup>

In addition, the means to better integrate EU funds with national programmes, whilst ensuring accountability for the achievement of identified outcomes, should be investigated further. Best practices should be further shared among Member States, particularly with regard to financing mechanisms and information programs (such as awareness raising programs among the building industry). For instance, although according to our UK member fundamental changes to the "Green Deal" in the UK will be needed, the model 'pay as you save' is an example of new financing mechanisms for consumers. Moreover, the German public development bank KfW introduced an energy

<sup>73</sup> For instance, as reported by our Latvian member, the current tariff system in Latvia is created in a way that if the consumer uses less than 300 kWh/per month s/he is paying more than those who are using more than 300 kWh/per month. Another example can be seen in Denmark where the supplier has recently changed its tariff plan by raising its fixed monthly charge and lowering the per kWh charge. This has led to higher bills for small consumers and have taken some of the incentive out of saving energy.

<sup>74</sup> Speech by Commissioner Arias Cañete: A "Renewable" Energy Union, 17 March 2015

<sup>75</sup> According to the Energy Efficiency Financial Institutions Group (EEFIG) energy efficiency will spur growth and become the first fuel for the EU economy. As fiscal support and regulatory financing (for home owners) rank high on the list of main barriers, the group concludes that if we want to boost energy efficiency in residential buildings we need to reduce transaction costs and introduce an on-bill repayment mechanism.

efficiency programme to support loans to private owners for energy efficiency refurbishments. Also, moving to a locally led, area-based approach may often deliver better results while targeting those in need.<sup>76</sup> While energy efficiency measures are often rather costly, Energy Performance Contracting (EPC) is one way how to accelerate the implementation of these measures.<sup>77</sup> However, to our knowledge, this model needs to be further supported due to its limited use at present.

Furthermore, smart financing schemes could either entail low interest rates or introduce a repayment model through savings.<sup>78</sup> These offers could support the replacement or improvement of insulation, lighting, boilers, ventilation, home appliances as well as the installation of renewable energy systems. Following the European Commission's announcement, BEUC therefore welcomes the European Commission's plan to establish a Smart Financing for Smart Buildings' initiative.

#### **How to facilitate financing for energy efficient solutions?**

- More focus should be put on how to trigger energy efficiency investments in privately owned houses as well as in multi-storey dwellings.
- The European Fund for Strategic Investments as well as other funds should support only high quality projects in line with the EU's energy goals and providing real added value. These projects should be selected according to stringent criteria.
- Best practices should be shared among Member States, particularly with regard to financing mechanisms and information programmes.

### **3.3 Product policy**

The Ecodesign and Energy Labelling Directives form the core of EU's product policy framework. Their conception came to fulfil not only the goals of the single market but also Europe's climate change and energy security objectives. Ten years after the adoption of the first Ecodesign Directive,<sup>79</sup> these objectives remain more relevant than ever and Ecodesign has covered a good part of the way to reach them. According to estimations, Ecodesign measures contribute to about 40% of the EU 2020 energy savings targets and save a European household about 216 euro per year.<sup>80</sup>

Ecodesign measures cover numerous types of energy related products. Certain measures are about to complete their first cycle and are currently under revision such as the ones on washing machines, fridges and dishwashers. These revisions constitute an excellent opportunity to step up the phase out of the most inefficient appliances but also unlock saving potentials that remain unexploited due to shortcomings. This can be achieved by integrating the lessons learned from their implementation as well as data associated to user patterns.

The Ecodesign Directive provides a robust framework for a broad range of product improvements. The opportunity to select which product categories are going to be considered for these improvements is given every three years through the Ecodesign Working Plan. Therefore, we are convinced that the process for the adoption of the new

<sup>76</sup> 'A Local Approach to Energy Efficiency' report by Which? suggests that better results will be achieved while moving to a locally led, area-based approach to make better use of funding. The benefits of this approach include more effective targeting of those in need, better engagement through community working, economies of scale and a closer fit with other objectives such as fuel poverty and health.

<sup>77</sup> EPC can be characterised as a model where the energy service company (ESCO) implements the project (energy efficiency measure) and the costs of this project are repaid by achieved savings.

<sup>78</sup> For instance, according to the US experience, the interest rate ranges typically between 4-6% for a principal capital equal to \$25000. On top of raising the necessary funding, they provide consultancy services over the optimum realization of the project as well as instruct the debt owner how to use the new equipment. The duration of the loan is up to 10-15 years.

<sup>79</sup> Directive 2005/32/EC establishing a framework for the setting of ecodesign requirements for energy-using products and amending Council Directive 92/42/EEC and Directives 96/57/EC and 2000/55/EC of the European Parliament and of the Council

<sup>80</sup> According to coolproducts campaign calculations. For more information: <http://www.coolproducts.eu/infographics>



Ecodesign Working Plan for 2015-2017 needs to be accelerated and new product groups should be included.

Through the Ecodesign Directive, the EU has established an exemplary, open, evidence-based process aiming to offer to all consumers around the EU better performing products, save costs for European households and at the same time alleviate the impact of these products to the environment. Through the Energy Labelling Directive, the EU has provided to consumers more transparency about the impact of products on their energy bills and at the same time has given them a leverage to demand more efficient products.

Since the adoption of the first Directive (92/75/EC) the Energy Label has become one of the most recognisable and successful communication tools - a tool to save on energy but also educate European citizens of the broader EU vision to become an energy efficient society. Since its introduction it has instigated changes in the purchasing behaviour of Europeans and the innovation rhythm of industry. Nevertheless, this potential of the label has been compromised after the last revision of the Energy Labelling Directive.

As academic research<sup>81</sup> as well as surveys by the European Commission<sup>82</sup> and consumer organisations<sup>83</sup> have shown, the A-G has been proven not only well understood but also the most effective layout for encouraging consumers to turn to more efficient appliances. We urge the European Commission to move forward with a proposal for the revision of the Energy Labelling Directive and restore the A-G layout together with the motivational effect of the EU Energy Label as further explained in ANEC-BEUC position paper on simplifying the EU Energy Label.<sup>84</sup>

#### **How to ensure product policy delivers benefits to consumers?**

- An Ecodesign Directive should be implemented through an ambitious Ecodesign Working Plan 2015-2017
- Simplifying the EU Energy Label and restoring its power to turn consumers to more efficient appliances through the well-known, closed A-G scheme.

### **3.4 Policy measures to further decarbonise transport**

Providing prospective car buyers with reliable and easy-to-understand information about the fuel/energy efficiency and running costs of a new vehicle is fundamentally important in regards to moderating energy demand. If consumers are not provided with information in such a way, they will be less able to adequately consider the fuel/energy efficiency of different vehicles. This in turn will mean that the potential of measures to improve energy efficiency will be hampered, as consumers concerned about such issues will be unable to decide on which vehicles will be the most energy efficient and provide the lowest running costs.

The EU strategy to reduce CO<sub>2</sub> emissions from passenger cars partly relies on the requirement that information related to the energy efficiency (read 'fuel consumption') and CO<sub>2</sub> emission values of new cars is easily accessible for consumers. The EU Directive 1999/94/EC outlines the requirements concerning the way information must be displayed but is now out of date and its implementation in several countries has simply confused prospective car buyers. Studies by the European Parliament in 2010 and the Commission itself in 2013 have supported these claims and without amending the

<sup>81</sup> Dynamic Adjustment of Eco-Labeling Schemes and Consumer Choice „the Revision of the EU Energy Label as a Missed Opportunity? Stefanie Lena Heinzle and Rolf Wüstenhagen.

<sup>82</sup> Study on the impact of the energy label – and potential changes to it – on consumer understanding and on purchase decisions, London Economic, 2014

<sup>83</sup> In 2008, ANEC, BEUC, Consumer Focus (UK), the UK Energy Saving Trust and the UK Department for Environment, Food and Rural Affairs (DEFRA) tasked Ipsos MORI to carry out empirical research concerning consumers' perception of the A-G Energy label. This research confirmed that the A-G rating was the easiest to understand and remember.

<sup>84</sup> ANEC-BEUC position paper on Simplifying the EU Energy Label BEUC-X-2015-065

Directive, it is unlikely that the full potential of measures designed to improve fuel/energy efficiency of new passenger cars will be realised.<sup>85</sup>

Factoring in that prospective European car buyers also consider and indeed purchase cars from other EU Member States than their own means that if the label does differ significantly between countries there is a real risk of further confusion and disengagement with the labelling information.

From a consumer's perspective, a goal to moderate demand in relation to road transport must also recognise that improving the interoperability of different transport modes and investing in public transport will be essential. Beyond the need for adequate investment into public transport infrastructure and routing, improving the interoperability of different transport modes will require joint planning of networks and coordinating timetables between different modes of transportation in order to allow for the seamless interchange of passengers between different modes of transport.

Moreover, travellers also need to be able to rely on integrated trip services, which include better information provision and the use of common reservation systems and ticketing systems for the entire trip. Integrating and enhancing the combination of different public transport modes, whilst also investing in their performance, would have the effect of incentivising more consumers to forego the use of their private car and in turn reduce moderate demand for road fuel. Combining public transport services with car sharing schemes can also act as an incentive for those consumers not keen on owning their own vehicle. Without the offer of equally attractive alternatives, private cars as the principal mode of passenger transport will clearly play a dominant role in the life of many European citizens for many years to come.

#### **How to support consumers in cutting their costs and decarbonising the transport system?**

- The car labelling Directive must be revised in order to provide consumers with better information at the point of sale and in advertisements.
- The interplay between various existing public transportation modes must be enhanced (e.g. by joint planning of networks, coordination of time tables, better information provision, common reservation systems and ticketing systems, common baggage handling, enhancing passenger rights, 'one-stop-shop' travel solutions etc.).

## **4 Decarbonising the economy**

The European Commission emphasises in its Energy Union Strategy and Communication on the Paris Protocol very clearly that we have to move away from an economy driven by fossil fuels and to manage a transition towards a low carbon economy to make sure that dangerous rises in global average temperature will remain below 2°C compared to pre-industrial levels. To ensure that the climate will not completely derail, enormous changes have to be undertaken by businesses on the way how they produce, by policy makers on how they develop and implement climate friendly legislation and by consumers on how we run our homes, how we get around on a daily basis and on our holidays and the food we eat among others. Many consumers have also invested in small RES installations for electricity generation and RES projects have proven to be a job engine, creating locally added value. While BEUC shares the Commission's notion of urgency and agrees that the EU must take a leading role at global scale to achieve a new and binding international agreement, we believe that more needs to be done in the context of the international climate treaty negotiations to empower consumers to adopt truly sustainable lifestyles.

<sup>85</sup>See BEUC position paper on car labelling: [http://beuc.eu/publications/beuc-x-2014-053\\_cca\\_cars\\_co2\\_labelling-2014\\_anec-beuc\\_position\\_paper\\_long\\_version.pdf](http://beuc.eu/publications/beuc-x-2014-053_cca_cars_co2_labelling-2014_anec-beuc_position_paper_long_version.pdf)



## 4.1 Ambitious and consumer-centric EU Climate Policy

Efforts to mitigate climate change are characterised by a massive gap between the available scientific evidence and the agreement that change is needed at the one hand and little effective action on the other hand. While many consumers have already engaged in some responsible action in past years such as switching light bulbs and sorting waste, most consumers feel neither empowered nor motivated to take action beyond the easy steps. This is partly the case because consumers, as non-experts, do not see how their contribution matters in relation to the urgency and scale of the problem and because they receive too many contradicting messages on what they are expected to do. The Energy Union Strategy, in particular the measures related to energy efficiency and moderation of demand, decarbonising transport and becoming global leaders in renewables will – if implemented according to the recommendations that are outlined in this paper – also make an important contribution to lower harmful greenhouse gas emissions in the daily life of consumers.

However, BEUC recommends that policy makers take the following recommendations into account when negotiating the Paris Protocol<sup>86</sup>:

- o Consumers do not understand what commitments of “reducing global emissions by at least 60% below 2010 levels by 2050” will mean for their daily life and what changes are expected from them. Consumers need rather to understand what emission sources matter in terms of impacts and what concrete changes they should do in their daily habits. Messages need to be simple and action steps should be prioritised.
- o Given the current complexity of our everyday lives, most consumers do not want to take into account additional factors in daily decision making. Therefore, the EU, Member States and companies must go on with choice-editing policies, i.e. phasing out of the most environmentally harmful products while providing choice to consumers at different price levels for more sustainable goods. Policy instruments should be designed to ensure that the sustainable choice will become the ‘default’ option. Sustainable choices should be the affordable and easy ones.
- o Consumers loose trust when there is a gap in between what companies say and what they do. Hence, acting against greenwashing will remain an important task for policy makers.
- o Policy makers should enable individual actions and help consumers to make the cuts that count by helping them to identify the material changes that matter and those they can undertake. In this context, consumers will need reassurance that their contributions matter. Making them feel part of a town, region, team or peer group is more promising than pointing out for each individual citizen the need to act.
- o Lead by good example, e.g. through credible personal commitment and through putting in practice ambitious green public procurement. It will also be important that messages are consistent and given through credible messengers.
- o People need regular feedback to understand whether we are on track and if there are successes. This will be an important challenge for policy makers to portray the contribution of consumers when engaging into future review and work program processes.

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<sup>86</sup> The recommendations are partly based on: 1) Consumers International (2007): “What assures consumers on climate change? Switching on Citizen Power” and 2) Sustainable Development Commission (2006): I will if you will. Towards sustainable consumption.

#### **How to support consumers in mitigating climate change?**

- Consumers need to understand what emission sources matter in terms of impacts and what concrete changes they should do in their daily habits. Messages need to be simple and action steps should be prioritized.
- Policy instruments should be designed to ensure that the sustainable choice will become the 'default' option. Sustainable choices should be the affordable and easy ones.

## **4.2 Future CO<sub>2</sub> emission standards for transport**

An increased market penetration of more energy-efficient cars and the development of new powertrain technologies such as electric vehicles will play a fundamental role in the transition towards a low carbon future. Developing ultra-low carbon vehicles, coupled with a decarbonisation of the electricity mix, will help achieve the EU target of significantly reducing CO<sub>2</sub> emissions from transport by 2050 and simultaneously help to reduce the dependence on foreign oil imports. In addition, reduction in harmful substances from combustion engines would lead to significant health benefits for consumers. Furthermore, electric vehicles might also be beneficial in the long term as electrical energy storage in order to stabilise electricity production capacity.

As a key instrument to achieve further market penetration of more energy-efficient cars in order to reduce CO<sub>2</sub> emissions and lower the cost of driving, we therefore support setting ambitious emissions targets for passenger cars as part of the Energy Union package. BEUC indeed welcomed the existing targets of 130 CO<sub>2</sub>/km to be met by 2015 and the 95 g CO<sub>2</sub>/km to be achieved by the year 2021. The effect of these targets<sup>87</sup> should lead to reductions in CO<sub>2</sub> emissions of passenger vehicles, protect consumers from long term fuel price increases, reduce the dependence on foreign oil imports, and prevent further air pollution. Existing evidence indicates that the additional potential manufacturing costs for meeting the targets will on average be paid back to consumers through lower fuel costs within a short time. Consumers will therefore highly benefit from these emissions targets as they would see a significant net saving over the period of ownership of the car.

Concerning the European Commission's endeavours to move forward on setting mandatory CO<sub>2</sub> emission targets for passenger vehicles for the period after 2021, we have high expectations that under this Energy Union Strategy, the Commission will come forward with an ambitious proposal for tighter CO<sub>2</sub> standards for cars for 2025. BEUC proposes an indicative 2025 target of 70 g CO<sub>2</sub> per km.<sup>88</sup> In order to achieve this target, it would mean that around 10% of all new cars sold in 2025 would have to be ultra-low carbon vehicles (e.g. battery electric vehicles), whilst for conventional new cars sold, they would have to achieve significant fuel consumption savings (a target of 75 g CO<sub>2</sub> per km).<sup>89</sup> Relative to the 2015 target of 130 g CO<sub>2</sub> per km, lowering emissions of conventional cars to such levels could lead to significant fuel savings.

Clearly, the setting of ambitious emissions standards can act as an incentive for low carbon vehicles however the EU must also ensure that complimentary measures are in place to support the uptake of alternatively powered vehicles and indeed the electrification of passenger cars. This will mean ensuring that charging systems for electric vehicles across Europe are fully standardised (e.g. in terms of paying systems, charging plugs, charging points etc.) which in turn would allow consumers to charge their vehicles easily if they are driving across borders or when travelling within their own

<sup>87</sup> BEUC (2012): Good for the environment and good for your pocket: Consumer benefits of CO<sub>2</sub> emissions target, short version: <http://www.beuc.org/publications/2012-00461-01-e.pdf>

<sup>88</sup> BEUC (2013) CO<sub>2</sub> emissions target for passenger cars for 2025: delivering value to consumers <http://www.beuc.org/publications/2013-00208-01-e.pdf>

<sup>89</sup> This target must be subject to confirmation of its feasibility in an updated impact assessment. This must include a full financial cost/ benefit assessment for consumers.

Member State. In turn, this approach would improve interoperability and ensure against fragmented market developments across Europe.

**How to enable consumers to support decarbonisation of the transport system?**

- Ambitious 2025 CO<sub>2</sub> emissions targets for cars should be set as this is the smart route towards cutting fuel costs and achieving overall CO<sub>2</sub> targets.
- Common standards for charging electrified vehicles across the EU should be developed as a priority.

## 5 Energy Union Governance

BEUC welcomes the European Commission's commitment to establish an integrated governance system to ensure the Energy Union's objectives are achieved at all levels. At the same time, we call on the European Commission to create a governance system which is highly transparent and based on a robust monitoring process so that energy and climate goals are implemented in a way to work to the benefit of consumers, consumer welfare, competition and deliver a sustainable energy system.

As the energy sector transforms itself, it is even more important than ever that consumer representative bodies are not left out and able to participate in policy development processes, helping out policy makers to protect and strengthen consumer interests. Being experienced in and having a good overview over a number of markets, consumer organisations are very well placed to identify market malfunctioning. Therefore, they need to be involved and act as partners both at national and European level. However, consumer organisations have very often limited resources to analyse complex and often technical aspects of regulatory proposals in the energy market and therefore, their engagement in the development of future energy policies needs to be further supported by the policy makers as well as energy regulators.

Moreover, the role of energy regulators needs to be reinforced, especially in terms of their competences. We need strong, independent and proactive national energy regulators. It is important that NRAs and consumer organisations regularly communicate on market developments in order to be able to take action when the market is not performing well. NRAs should also proactively contact consumer organisations and better understand the range of activities that consumer organisations undertake. The advice published by the Council of European Energy Regulators (CEER)<sup>90</sup> provides a set of recommendations which should result in a more structured approach to consumer organisations and their better involvement in the regulatory process. BEUC supports the collaboration between NRAs and consumer representative bodies to promote consumer engagement in the development of future energy policies in order to identify and address consumer expectations during the integration of the energy markets.

Moreover, being established by the Third Energy Package, the Agency for the Cooperation of Energy Regulators (ACER) has been mainly supporting NRAs in performing their regulatory functions at the EU level, coordinating their actions where necessary and acting through recommendations and opinions. However, in order to achieve effective implementation of the internal market, the roles and responsibilities of ACER need to be updated and reinforced, for instance with regards to its monitoring functions, decision making powers and implementation of its decisions.

Finally, market transformation brings about changes in terms of roles and responsibilities of different market players. New market players will enter the market. For instance, the 'aggregator' managing loads of a number of consumers may play an important role for

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<sup>90</sup> CEER Advice on How to Involve and Engage Consumer Organisations in the Regulatory Process, March 2015

those consumers who will not be able or willing to play the game alone. Nevertheless, in order to enable consumers to harvest the advantages of liberalisation and effectively exercise their choice of service provider or product, the market needs to provide for a true level playing field.

**How to ensure the governance system delivers to consumers?**

- European Commission should ensure the Energy Union governance system is transparent and based on robust monitoring process leading to consumer-friendly energy markets.
- Consumer representative bodies should be recognised as partners in policy development processes both at national and European level, helping out policy makers to protect and strengthen consumer interests.
- NRAs should closely collaborate with consumer representative bodies to promote consumer engagement in the development of future energy policies and address consumer expectations during the integration of the energy markets.
- The European Commission should ensure that roles and responsibilities of ACER are updated and reinforced, for instance with regards its monitoring functions, decision making powers and implementation of its decisions.

**END**