

Memo on Vaasa ETT market barriers report

The report¹ states 61 hurdles² in total, the hurdles have been ranked by the stakeholders themselves. The rank score goes from one (1) to three (3) with three (3) being the most important hurdle to address.

The hurdles listed as the most important can be putted into these following areas.

- Data hubs
- Smart metering systems
- Supplier centric model

The three mentioned areas are seen as the most relevant for the Nordic NRAs in order to reduce barriers for new market entries by the competing stakeholders. Apart from these areas “balancing” was seen as an important area to address however, we find the “balancing” is already handled in the NBS-project.³

The purpose of minimum requirements and market rules is to enable well-functioning wholesale and retail markets and security of supply. These rules shall be neutral to all stakeholders which wish to enter the market. Some of these requirements may result in hurdles for some stakeholders. Hurdles new entrants are facing are mostly the same in each national market in the Nordic area.

Low entry barriers enable new stakeholders to provide new innovative products and services. This can put pressure on current stakeholders to improve their offers and services for customers.

Market entry processes

Data hubs - gather information prior to market entry

The data hub is seen as completely essential for simplifying the complexity of participant relationships in the market. New entrants find it difficult to gather information of customers prior to market entry. Basic information prior to the decision to enter the market, and in the early stages of planning should be more readily available without the need to employ consultants. In order to change these each Nordic regulator should produce an online fact sheet detailing the various steps that a new entrant needs to go through in order to enter and operate in the market.

¹ Market entrant processes, hurdles and ideas for change in the Nordic energy market – the view of the market.

² Please find all hurdles categorized according to importance one (1) to three (3) in the annex.

³ Denmark is currently not part of the NBS-project

To meet the ongoing challenges of gathering data an implementation of data hubs is a high priority and will contribute significantly to make the market entry for new entrants less complicated. It is recommended that each data hubs has a similar design and obtain reliable and qualitative data. The data hubs should have data which describe i.e. when customer's contracts ends. And data hubs will also empower costumers to become more active i.e. switching of suppliers will happen more often, smart meters will as well make the costumers more aware of their energy consumption.

As a prerequisite and to achieve the full benefit of the data hub supervision of data quality and smart meters are important tools.

Retail WG concludes

Agree with stakeholder's opinion each market in the Nordic area should have similar design in their data hubs and data quality is important. We believe these hurdles are addressed with the developing of the data hubs.

Access to customer information

In extension to the establishment of data hubs, it has been pointed out that new entrant suppliers can find it difficult to obtain necessary information on a customer in order to initiate a switch, it is mainly due to poor data information or can be lack of cooperation of by some DSOs.

Retail WG concludes

Agree access to information is important to initiate the switch. We believe these hurdles are addressed with the developing of the data hubs.

Price comparison tool

In addition, a price comparison tool will make it easier for new entrants to get a view of the market and the current competition among suppliers, and will encourage customers to become more active and aware of the market. Consumer-contracts need to state more clearly when the contract ends and consequences of breaking the contract.

Retail WG concludes

We agree it's important to have neutral and correct price comparison tool. Each country is currently developing and/or revising the national price comparison tool. The working had a workshop the 12th of November regarding price comparison tool and talked about ongoing improvements we believe the current price comparison tool is sufficient.

Supplier centric model

Supplier centric market model approach

Each Nordic market should aim for implementing a supplier centric model. The supplier centric approach is seen as essential not only to help the supplier build a more focused and complete relationship with the customer, but also to reduce the opportunity for customer win-back activities by integrated suppliers.

Retail WG concludes

We agree with the stakeholders that a market design based on the supplier centric model is a way forward to improve the energy market design. All countries are currently working on implementing the supplier centric model.

Market operation processes

Data hubs - access to data and improvement of data quality

The ability of data hubs to integrate processes will depend on the similarity of the data hubs. Data hubs effectively present a good means of supervision data quality, but currently there is an absent of supervision data quality. There needs to be supervision and enforcement of the data quality within the energy market and the supervision of data is expected to be easier with data hubs.

Until all the Nordic markets have hubs each supplier needs to be in direct contact with each DSO for each customer that it wins from that distribution area. There is no need for an agreement with each DSO, but the supplier needs to be in touch primarily to facilitate the switch and for metering and master data information and for moving.

Retail WG concludes

Agree with stakeholder's opinion each market in the Nordic area should have similar design in their data hubs and supervision of data quality is important. We suggest it should be clear which body has the responsibility to supervise the data quality. We believe these hurdles are addressed with the developing of the data hubs.

Data exchange

Data formats are currently different in each Nordic market. Regardless of how similar systems are the issues of different languages, national laws and legacy systems will continue to limit the integration systems between any of the Nordic markets.

The data quality can be insufficient and there needs to be a harmonization of data to improve the data quality.

Retail WG concludes

Recognize it would be convenient if all IT-systems, processes etc. will be identical however, it is not the case in any market. It is not within in the scope of NRA mandate to decide on IT-system standards and processes which the stakeholders have to comply. It is important that the core

processes in the electricity market is harmonized enough not to be barriers for market processes. NordREG therefore has made harmonized proposals for these processes.

Customers switching

The process of switching needs to be harmonised in the Nordic markets. The wish of most new entrants is that this process will be implemented as identically as possible across the Nordic markets so that a single process is attained. There are always going to be disputes over the exact details of any process, but what matters the most is having similarity in processes. One disadvantage regarding supplier switch is the DSOs knowledge of new entrants seeking information of customers is giving DSOs an advantage affording them the opportunity to take defensive action against potential switching. For instance DSOs can assist their associated suppliers by warning them of an imminent switch.

Retail WG concludes

Agree on switching process should be harmonized and neutral. NordREG has suggested a harmonized switching process. NordREG believes data hubs will level the playing field so incumbent suppliers will not be favored.

Price comparison tool - pricing

Price comparison tools should measure suppliers on other aspects than prices. For instance customer satisfaction and misleading prices should be measured too. New entrants claim that the transparency and comparability of the energy component price is essential for being able to win new customers. It is difficult to balance the needs of energy price comparability with the needs of future innovative smart energy offerings but there should be some attempt to enable the bundling of smart energy services.

Retail WG concludes

We agree it's important to have neutral and correct price comparison tool. We agree that other aspects than prices should appear i.e. green products. We agree too that customers' satisfaction is important. However, we recognize the current price comparison tools are unable to present unbundled energy services. Each country is currently developing and/or revising the national price comparison tool. NordREG continue to follow the retail market development and when new offers appear we will take it into account.

Smart meters

Smart metering makes competition easier for new entrants. Through smart metering, suppliers are able to easily obtain customer information for the purpose of switching. The expectation is that smart meters will afford new opportunities and lower barriers. The absence of smart meters is considered a negative market characteristic. Consistency of smart meter implementation across

the Nordic region will enhance the appeal of the market and facilitate easier integration of pan-Nordic business model.

Retail WG concludes

We agree smart metering will improve the market functioning. Each country has either implemented smart metering or will implement smart metering.

Supplier centric model

DSO related operations

The lack of one central data hub to streamline interaction between DSOs and suppliers slows down the market development. Currently, the four Nordic markets are not similar enough in terms of information exchange. Suppliers assess the effort of interacting with many DSOs is unattractive. Generally there is a support on the supplier centric model but some suppliers restrain their support hence the supplier centric model means they have to cooperate with DSOs even more.

Retail WG concludes

All countries are currently developing or have developed data hubs. We agree with the stakeholders that a market design based on the supplier centric model is a way forward to improve the energy market design.

Billing

Requirement of billing information are different in each market, and the differences in the regulation on this matter should be harmonized. Whichever bill format regulation is chosen by regulators it should be the same in all markets. Combined billing should be seen as an urgent imperative for the entire Nordic market. It is recommended that each Nordic market has the same combined billing system as recommended in supplier centric model.

Retail WG concludes

NordREG has made a recommendation of implementing combined billing.

Summary

Market processes have to be the similar no matter what market the company will enter. Suppliers hope to see a higher degree of harmonization. If the market models and processes were the same or at least similar enough it would make entry into multiple markets almost as simple as operating in one market.

To summarize the Retail WG finds the majority of the hurdles mentioned by the stakeholders are currently being addressed and sees no need for further measures on a Nordic level at this point.

Annex 1 – Status of identified hurdles

This annex lists all the hurdles identified in the Vasaa ETT report, and the current status for the different hurdles.

For further description of the different hurdles refer to the report itself.

As the lists show, the hurdles classified as 3 – important are, for the most part, addressed through various processes in the Nordic countries

Important hurdles – category 3 in the report.

Market Entry Processes

New suggestions

Market for ESCO services immature, moves slowly / protectionism

Issues are currently being addressed

Need to have different IT systems in each Nordic market

Separate BRP agreements in each Nordic market for own BRP suppliers

Size of individual markets is seen as too small for larger entrants

Market Operation Processes

Issues are currently being addressed

(Current) absence of smart meters in Denmark and Norway

Absence of easy access to near real-time consumption data

Absence of near-identical processes between Nordic markets

Absence of supplier centric approach

Balancing processes and costs not consistent (NBS may solve except for DK)

Current APIs for meter data are not considered sufficient for ESCO use

Customer information required to initiate switch is often difficult to obtain

Customer unawareness, apathy and inactivity

Data quality issues (poor or late data)

Different data formats in each Nordic market

Difficulty identifying when a customer's contract will end (not Norway)

Easier to keep customers than to win them / Incumbent Margins Transfer

Inferior customer lifetime value for entrant suppliers

Inhibition of legality or visibility of innovative tariffs

Lack of combined billing or combined billing only by bundled incumbents

Limited savings potential in face of price matching

Moving home favours incumbents

Process of attaining customer information reveals intentions of competitors

Risk from hedging (case for all competitors) - increases with size

Some DSOs may forewarn their associate suppliers of imminent switch

Issues for national legislation

Brand bundling (DSO, Supplier)

Cost and difficulty of brand and offering awareness

Less important hurdles – category 2 in the report.

Market Entry Processes

Low priority

Different balancing services in each Nordic market. No mass market for ESCOs

Outside NRA mandate

Adapting to local language

High risk, low margin business. Substantial capital required

Size, price expectation and other undesirable prospect characteristics

Tax obligations on non-realised sales revenue is off-putting

Out of scope

Capacity aggregators / other ESCOs need to become BRPs for some services

New suggestions

Insufficient customer and stakeholder awareness

Obtaining pre-market entry information

Issues are currently being addressed

Too cumbersome to establish relations with DSOs

Market Operation Processes

(tom)

Balancing is a cost-concern for ESCOs who need to provide balancing services

Cost and difficulty of scaling up systems

Outside NRA mandate

Entrant image harm resulting from misselling

Entrants have higher proportion of customers with payment reliability issues

Fixed-term contracts (disputed by active incumbents)

Price comparison sites that do not assist the switching process

Threat to telesales

Out of scope

Lack of auctioning / Poor auctioning (poor image of auctioning)

Issues are currently being addressed

Bidding area price differences

Bill format differences in each Nordic market

Billing process variation between different DSOs

Bundled DSO-Supplier consumption feedback services vs. ESCO services

Price comparison sites that do not compare all the competitors

Price matching (incumbent offers only to customers who plan to switch away)

Process obstruction from some DSOs

Issues for national legislation

Price comparison sites that allow price manipulation

Not important hurdles – category 1 in the report.

Market Entry Processes

Low priority

BRPs as possible obstacle to demand side innovation

Denmark not part of Nordic Balance Settlement (NBS) system (disputed hurdle)

Insufficient choice of independent BRPs

Supplier ownership of generation reduces interest in demand side services

Suppliers losing demand side skills base to BRPs

Outside NRA mandate

Adapting to local culture

Need for multiple accounts at banks, for balance settlement, at NordPool, etc.

Out of scope

DSOs restricted from partnering with ESCOs for customer facing offerings

Market Operation Processes

(tom)

Price transparency of energy component