

Energy: more customers in the free market with preference for the incumbent supplier, the number of sellers is growing

ARERA 2017 Retail Markets Monitoring Report has been published

Milan, 21 December 2018 –The share of customers who choose the free market for the supply of electricity and natural gas continues to increase. This is what emerges from the results of the *Rapporto sul funzionamento dei mercati della vendita di energia elettrica e gas alla clientela di massa (Report on the markets operation of electricity and gas sale to the mass-market customers)*, published by ARERA (The Italian Regulatory Authority for Energy, Networks and Environment).

39% of households bought electricity on the free market in 2017. The rate of leaving the standard offer regime marks an inversion of the trend with respect to the decreases of recent years, reaching 4.4%, with an increase of 1.1% compared to the previous year. In addition, customers who come back to the standard offer after a free experience continue to decline, reaching a rate of 0.3%. Customers' transitions show, in general, how the dynamism of the households, although significant, is less marked than that of non-households.

The natural gas sector highlighted some signs of greater dynamism with respect to the electricity sector. The percentage of customers who leave the standard offer regime is higher than in the electricity sector, even if to a different extent between the various types of customers. In fact, the share of customers on the free market is growing at an annual rate of + 5% per year for domestic customers and + 8% per year for condo households. 44% of households are served by the free market, while condos rise for the first time above 50% (52%).

Among the customers who move to the free market, for both sectors, those who choose to do so with “incumbent suppliers”, i.e. the seller connected to the distribution company, are growing. In fact, in 2017, 68% of households who move to the free market choose the incumbent as supplier.

Operators and market share

The growth in the number of corporate groups active in the sale of electricity and gas does not stop, but market shares are fragmented. In 2017, the corporate groups active in the electricity sector reached a share of 391 units, an increase of 18 units compared to 2016. Even in the natural gas sector, the number of operators active on the free market has increased further: in 2017 they were 387, with an increase of 14 new groups in a year.

In the **electricity sector, the degree of competitiveness** of sales to households remains at a lower level than that noted for non-households, but there are signs of **slight improvement**. The first operator supplies more than half of the free market considering both the energy supplied (50.5%) and the points served (51.5%), while overall the first three serve 68.4% of the market in terms of energy and 69.6% in terms of points.

The groups operating on the free market alone, competing with the incumbent sellers (groups that also use a standard offer), despite succeeding in acquiring new customers on the free market, continue to lose market share, -0.4% compared to 2016. So, if on the one hand the barriers to entry seem not to be so high, on the other the speed with which the incumbent sellers manage to move their customers to the free market cannot be attained by competitors active only on the free market.

In the gas sector, small and medium-sized operators increase their market shares, by exerting an effective competitive pressure on the larger ones. Also, for 2017, unlike what happens in the electricity sector, competition among sellers seems to take place mainly on a local geographical scale. For households, the share covered by the first operator and the third decreases and that of the second increases. In particular, in 2017 the first operator dropped to 34.5% of the volumes and to 36.1% of the points, while the first three overall served 59.6% of the market in terms of volumes and 62.1% in terms of points. In addition, there is a certain competitive pressure by operators with a share of less than 0.5% and those with a share of between 5% and 2%. The weight of incumbent sellers in individual regions also decreases.

Offers and prices

On the free market of both sectors, for households we observe a significant differentiation of commercial offers compared to the standard offer regime (characterized by a variable price without any additional services), through the proposal of fixed price offers and variable price offers.

In both sectors, many offers are cheaper than the standard offer regime (on average 62% in the electricity sector, up compared to 2016, and 49% in the gas sector). Furthermore, **customers who subscribe to online offers can get greater benefits compared to offers that can be subscribed to via other channels**. In fact, online subscription allows sellers to minimize the costs of acquiring the customer, succeeding in making on average more advantageous offers than those sold through channels other than online. Despite this, compared to the total number of households who signed a new contract in 2017, only 3.8%, for the electricity sector and 4.1% for the natural gas sector, did so via the online channel.

Households in the electricity sector predominantly prefer fixed price offers (83.9% of new contracts) compared to those with variable prices. In the gas sector, preference for fixed price offers is slightly less frequent (68.6% of the initial offers), but still prevalent. Most of the fixed price offers chosen by customers also include additional services (tools to increase energy efficiency, plant maintenance, etc.) even if with higher average costs compared to the standard offer.

If anything, large customers and small and medium-sized companies seem less interested in additional services and more attentive to convenient prices.

Quality rating

As for the electricity sector, the rate of complaints declined significantly in 2017. In absolute terms, households put forward around 196 thousand complaints (out of 29.5 million customers, 0.66% of the total). With regard to the gas sector, the 2016 figures, the lowest since 2012, are also confirmed for the 2017 complaints. The number of complaints made in the last year by low-pressure customers (mostly household) is about 197 thousand.

Claims for disputed contracts submitted by customers in both sectors concern only 0.1% of contracts concluded in 2017. Most were resolved through the restoration of the previous contract.

Billing

Finally, the Report contains the first billing quality data showing that billing delays involve a very small number of invoices for the period most of which are resolved within 3 months. In fact, for households, the issuing delays concern 0.08% of the invoices for the period (out of more than 140 million invoices) in the electricity sector and 0.2% (out of more than 73 million invoices) in the gas sector. Otherwise there is some room for improvement to comply with the deadline for issuing closing invoices. In fact, for households, the issuing delays concern 5.8% of the closing invoices (out of more

than 4 million invoices) in the electricity sector and 12.1% (out of more than 2 million invoices) in the gas sector.

The complete results of the Report will be analysed during a public meeting that ARERA will organize at the beginning of 2019.

Report 596/2018/R/com is available on the website www.arera.it