CLEEN
Cluster for Energy and Environment

sgem
Smart Grids and Energy Markets

SGEM WP 7

7.5. Functioning of the electricity market in different countries

Functioning of the electricity market in Sweden - The customer's point of view

Report, Full Version

Written by
Merja Pakkanen, Teemu Närvä & Maria Tuuri

vaasa|emg

CONTENTS & INSTRUCTIONS

Contents

Instructions for reading the report

It is best to read this report *with the questionnaire,* because then it is easier to form an overall picture correctly (the exact questions and answer options being clear in the reader's mind). Following the questionnaire simultaneously while reading the report is easy due to question numbers being presented in the titles of each page. The contents of the report have been divided according to certain themes to make the wholeness more logical and easy to follow.

Reading the tables: All the results have been presented graphically (charts) to make it possible to read the report very quickly. In most cases, there are also tables presented so that the exact numbers can be shown:
<u>The columns of the tables</u>: ”Frequency” tells how many respondents chose a certain option. ”Per cent” tells this as per cents (how many per cents of the whole sample chose a certain option) and ”Valid per cent” tells this as valid per cents (how many per cents of those in the sample who have answered something to this question; meaning that missing answers have been ignored).
”Cumulative per cent” tells what is the cumulative share of the answer distribution.
<u>The rows of the tables</u>: ”Valid” tells first the answer options that were given to the respondents.
”Missing” tells the number of empty answers (no answer or disqualified answer).
”Total” is the sum of Valid- and Missing-rows, so it is the total number of all the answers.

Please note!
All the percentages mentioned in this report are valid per cents unless otherwise stated.

THE RESEARCH

Objectives of the research

The aim of this research project was to analyse the functioning of the electricity market in different countries from the consumers' point of view. The study focused on the reasons behind the consumers' behaviour and the level of the consumers' activity in the selected countries.
The first stage was executed in Finland in 2010 and the second, reported in this presentation, in Sweden in 2011.

This study covered mainly the following topics:
- Analysis of structural issues (e.g. stage of deregulation, ease of switching supplier, savings potential, suppliers' and authorities' activity etc.)
- Customers' experiences (awareness, satisfaction, perceived benefits and problems, confidence and trust, level of customer loyalty, perceived ease of switching etc.)
- Price development (price level and development through deregulation).

Research methods

The research project consisted of several stages and methods:

1) Literature review
2) Expert interviews
3) Questionnaire study
4) Price analysis

This report focuses on the results of the questionnaire study, because that was the main part of the research. However, also information from the expert interviews will be analysed, because they had a great effect on the consumer study and also offered valuable results on their own. Additionally, it is very interesting to compare the experts' point of view with the consumers' point of view.

Additionally, some main issues of the electricity price development will also be discussed in the end of the report, because price issues are naturally extremely important part of the electricity market for the consumers.

SAMPLE

Information about the sample

The responses were collected by sending questionnaires to Swedish households. The addresses for this purpose were extracted from the population database of Nummerguiden.
The addresses included in the sample were randomly extracted from the national database, selecting people that are between 18 and 75 years.

The sample in this research consists of 1467 questionnaire responses. Originally 6000 questionnaires were sent in October and November 2011 (two rounds; second round was sent to those who did not reply at the first time), but 130 of the questionnaires came back due to the problems of delivering them to the right persons. Therefore, the number of successfully distributed questionnaires was 5870. Altogether 1499 questionnaires were returned by the respondents by the dead line, response rate being 25,5 % (1499/5870). This can be considered to be relatively good response rate in such a topic as the electricity market, which is a topic that many don't understand and many are not interested in. However, 32 questionnaires were empty or insufficiently filled in and therefore disqualified. Thus 1467 questionnaires were analysed in this research.

The following slides give a basic description of the composition of the sample. This information gives a good picture of the fact that the results of this questionnaire research do not represent the opinions of just limited type of consumers but represent broadly Swedish people; young and old, female and male as well as consumers living in different types of residential environments.

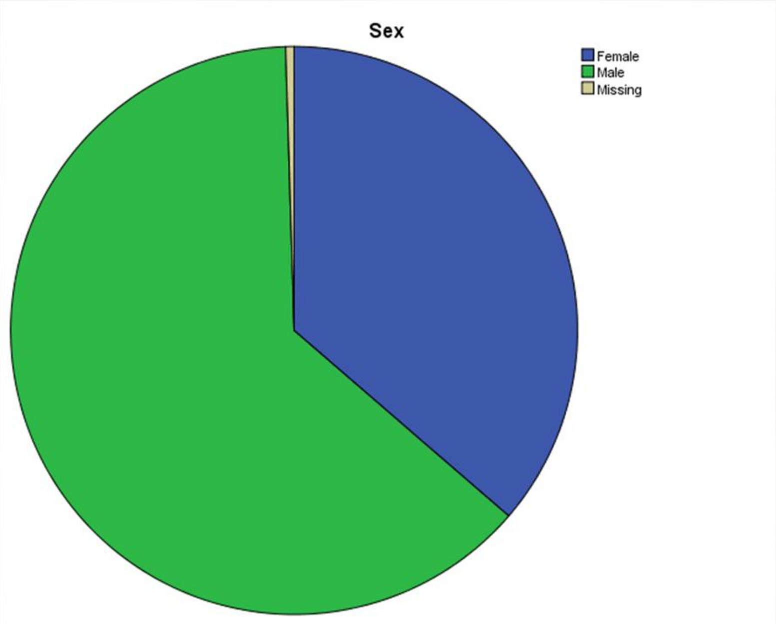
Additionally, the demographics information can be used for grouping the consumers when aiming at understanding whether some demographic information could explain certain type of attitudes or behaviour regarding the electricity market.

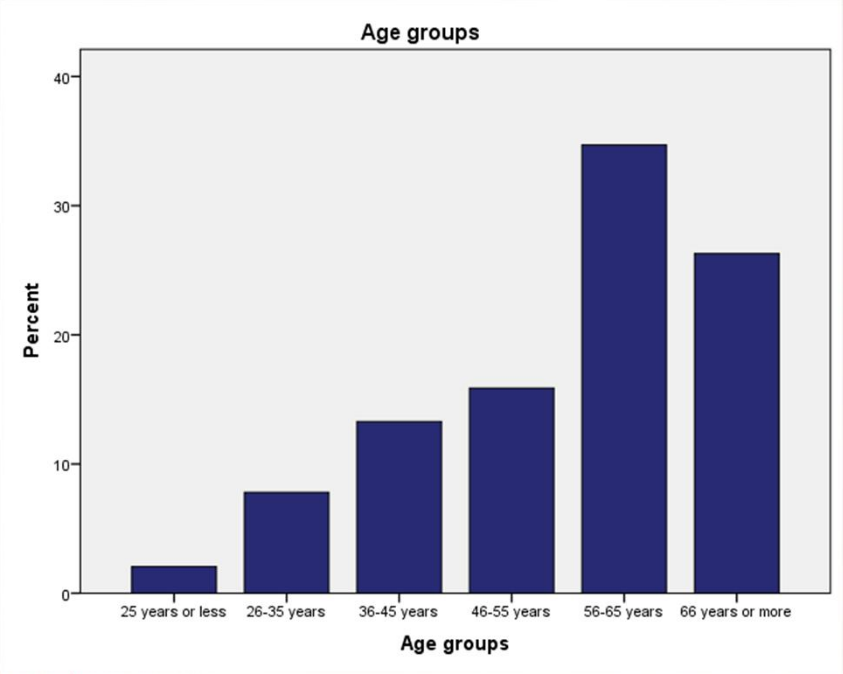
Demographic information

37 % of the respondents are females and 63 % males.

The average age of the respondents is 56 years, youngest respondent being 19 years and oldest 86 years old. The age distribution is quite mixed:

25 years or less: 2 %
26-35 years: 8 %
36-45 years: 13 %
46-55 years: 16%
56-65 years 35 %
66 years or more 26 %

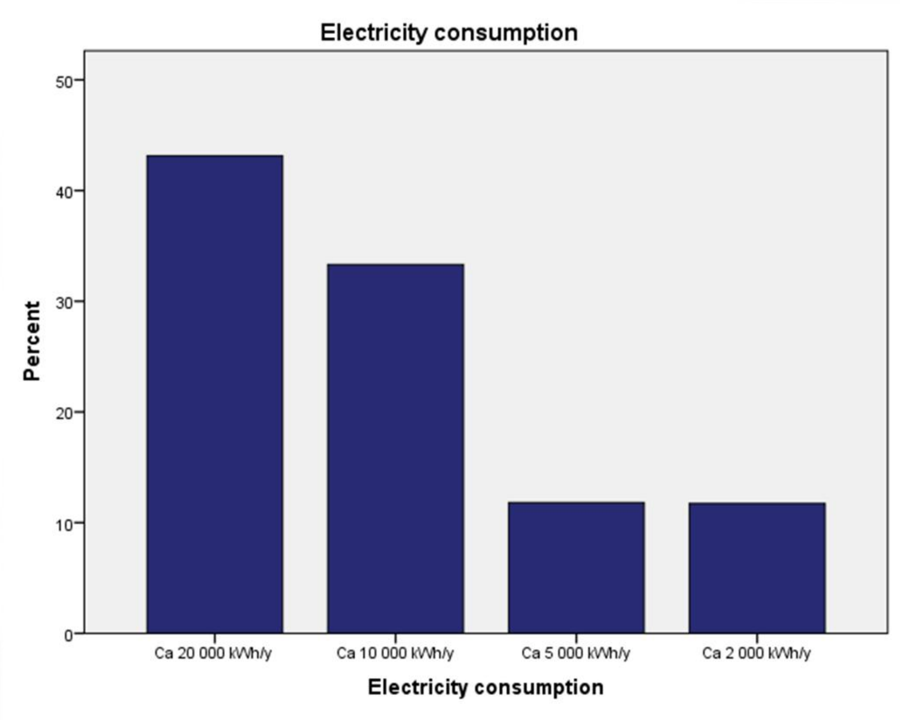




Electricity consumption

The respondents were asked to estimate their electricity consumption roughly, by putting themselves in one of the four main consumption categories that are typical for Swedish households.

43 % of the respondents have relatively large electricity consumption (a house with electric heating).

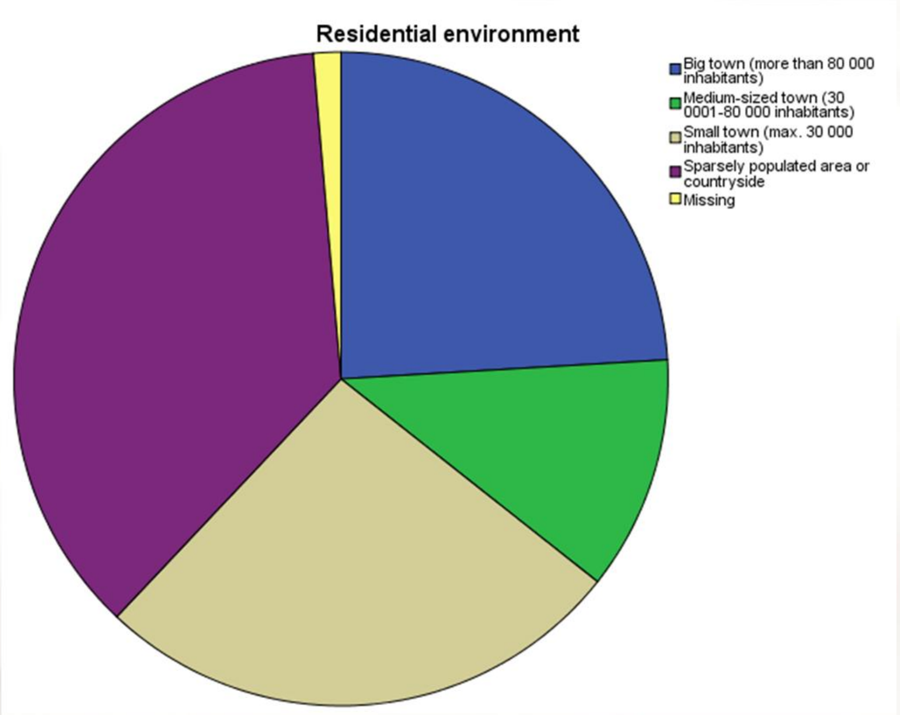


Electricity consumption

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ca 20 000 kWh/y	614	41,9	43,1	43,1
	Ca 10 000 kWh/y	474	32,3	33,3	76,5
	Ca 5 000 kWh/y	168	11,5	11,8	88,3
	Ca 2 000 kWh/y	167	11,4	11,7	100,0
	Total	1423	97,0	100,0	
Missing	System	44	3,0		
Total		1467	100,0		

Residential environment

The respondents represent broadly all types of residential environments: small, medium-sized and big towns as well as countryside or other sparsely populated areas.



Residential environment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Big town (more than 80 000 inhabitants)	353	24,1	24,4	24,4
	Medium-sized town (30 0001-80 000 inhabitants)	170	11,6	11,7	36,1
	Small town (max. 30 000 inhabitants)	387	26,4	26,7	62,9
	Sparsely populated area or countryside	537	36,6	37,1	100,0
	Total	1447	98,6	100,0	
Missing	System	20	1,4		
Total		1467	100,0		

Expert interviews

Prior to the questionnaire study, a number of energy professionals were interviewed in order to collect information and ideas to support the questionnaire study. This was more difficult task than expected, due to the fact that especially the electricity suppliers' representatives were extremely busy and often unwilling to give an interview. Finally, only 10 experts were interviewed (the original objective being 20 interviews). However, the information provided by these experts was extremely valuable.

The interviewees were chosen to represent a broad knowledge and experience of the electricity market.

2 of these experts represent the electricity suppliers, 6 different kinds of authorities or other organizations working on or with the industry, and 2 of them represent research or consultancy organizations.

Expert interviews

INTERVIEWEES	
Name, title	**Organization**
Faraz Azima, CEO	Elskling
Tor Arnt Johnsen, Head of the Analysis Section	Norwegian Water Resources and Energy Directorate, Department of Energy and Regulations
Ole Jess Olsen, Professor Emeritus	Roskilde University, The Department of Environmental, Social and Spatial Change
Tommy Johanssen, Director	The Energy Markets Inspectorate, Department for Market Surveillance
Magnus Askaner, Founder of Elprisguiden	Elprisguiden
Maria Rydberg, Case officer	Swedish Competition Authority
Stefan Nordborg, Head of Sales	E.ON Försäljning Sverige Ab
Anton Holmström, Journalist	Montel
Bo Hesselgren, Director	Swedish Consumer Electricity Advice Bureau
Anna Nordin, CFO	GodEl, Financial Department

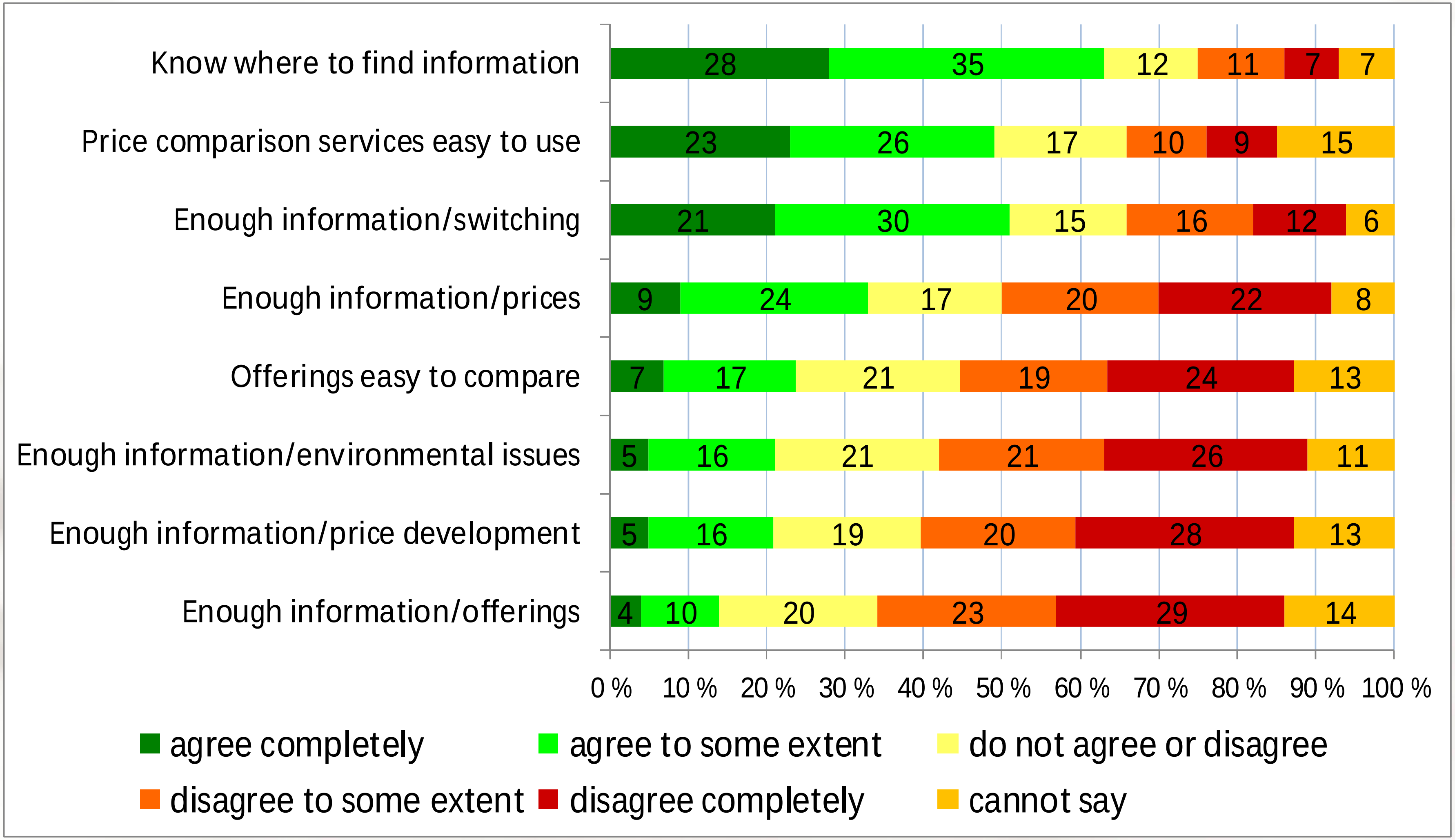
AWARENESS OF THE ELECTRICITY MARKET

Awareness of the electricity market

To be able to understand the consumers' point of view at the electricity market, one of the most important issues is to understand their perception of their awareness of the most important issues.

The respondents were given questions regarding their knowledge of the electricity prices and other offerings as well as of switching supplier.

Awareness of the electricity market Q1

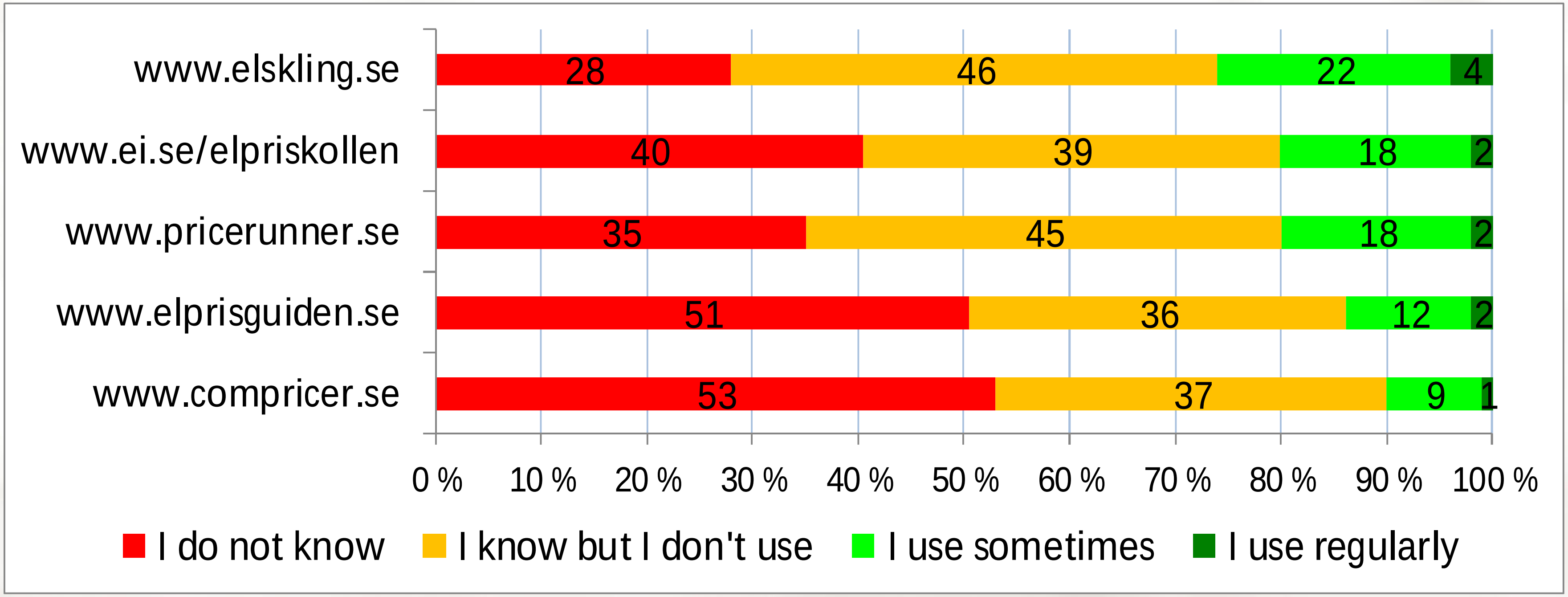


…awareness of the electricity market Q1

- switchers vs. non-switchers -

Agree	Switchers	Non-switchers
Enough information / switching	66 %	42 %
Enough information / prices	43 %	26 %
Enough information / environmentalism	26 %	18 %
Know where to find information	75 %	55 %
Price comparison services easy to use	64 %	40 %
Offerings easy to compare	32 %	17 %

Price comparison services Q2



The respondents were also able to mention some other services they use. They mentioned Kundkraft (9 times) and each of the following once: www.jamforel.se, www.baraspara.se, www.konsumentverket.se, www.billigel.se and www.elpriser.se.

Regarding pricerunner.se (offering price comparisons for many products), the respondents were asked to answer just based on the electricity price comparisons they use.

Public price information

- the experts' point of view -

The experts were asked how do they see the obligation for the electricity suppliers to inform their offer prices publicly (www.ei.se/elpriskollen) to influence in the market (competition, prices, consumers' awareness etc.).

Many interviewees mentioned that Elpriskollen as such is good to exist. All the comparison services make it easier for the consumers to compare prices and switch supplier. However, the role of Elpriskollen was not seen as significant as one could expect, due to the fact that there are several other well-known price comparison services available in Sweden (Elskling being the one that was mentioned most often) and therefore Elpriskollen is just one of the options, it is nothing really new or unique.

Some more specific comments are listed on the following slide.

…public price information

- the experts' point of view -

The following things were mentioned regarding Elpriskollen:

- Influences positively in the customers' awareness level
- Not all offerings are listed there (special offers etc. missing)
- Price is the only thing measured
- The information should be reliable → correct price information to the system (this is nowadays not always the case)
- This service should be marketed more actively to the consumers
- Activates the market, increases the competition

CLEEN Cluster for Energy and Environment

sgem Smart Grids and Energy Markets

…public price information

- the experts' point of view -

"I think this is an important thing, in fact Elpriskollen and other price comparisons lead to better competition. It really has an impact on the competition, and also on the consumer awareness."

"Actually, very marginally, because Elpriskollen has a very small share compared to the commercial alternatives, such as Elskling and others. Elpriskollen itself, I don't think it is important at all from the consumers' point of view today."

"I would say that generally it is good, but from the consumers' point of view, it does not affect that much, because Elpriskollen is still quite a small player. Even though you have the data etc. it is not enough – people also have to know about you. There have always been sites where the consumers can do the comparisons. So, Elpriskollen does not really change anything. The only thing is that the suppliers wonder that everybody else is collecting this data themselves so why cannot Elpriskollen do that as well (the suppliers have the obligation to take care of that). Plus, the thing with Elpriskollen is that of course they cannot make a law that you should report every single price you have. They only have like standard contracts that you need to give your price to, and even then there are just some types of contracts you need to report. What many suppliers do is that they change their terms and conditions so that they don't have to report their prices… of course not the majority, but some of them are doing this."

Influence of the comparison services

- the experts' point of view -

The experts were asked, what do they think of different kinds of non-official organizations' communication (e.g. via media) and information services they offer (e.g. via Internet), when thinking about activating the market and improving the functioning of the market.

These kinds of services are, at least:
www.elskling.se
www.elprisguiden.se
www.compricer.se
www.pricerunner.se
www.elpriser.se

…influence of the comparison services

- the experts' point of view -

The experts gave mainly positive feedback towards the unofficial organizations and the work they do, most experts considered them to be of great importance to the market and the consumers' awareness. However, the comments were mixed.

On the other hand, all the communication and services were seen good in a way that they activate the market and inform the customers. Therefore they were supported by almost all the interviewees.

…influence of the comparison services

- the experts' point of view -

"I think the advantage of these sites is that people get a fair chance to compare the companies. The disadvantage is that a lot of these sites might not be accurate. You might pay to get a higher position on the ranking, not that trustworthy sites. People don't know which one to trust."

"The influence is high, of course. On the commercial sites the suppliers report campaign prices and special deals that never come to Elpriskollen."

"Sites can give a picture that is too good compared to reality (just compare the best possible scenario: the worst price against the best). For some consumers savings are not really worth switching. Services help customers to switch and that makes the switching a little bit easier."

"The influence is positive. The more we have players that are trying to activate the market, the better. It is helping. The guy with the best service and the most reliable web site probably becomes number one."

FUNCTIONING OF THE ELECTRICITY MARKET

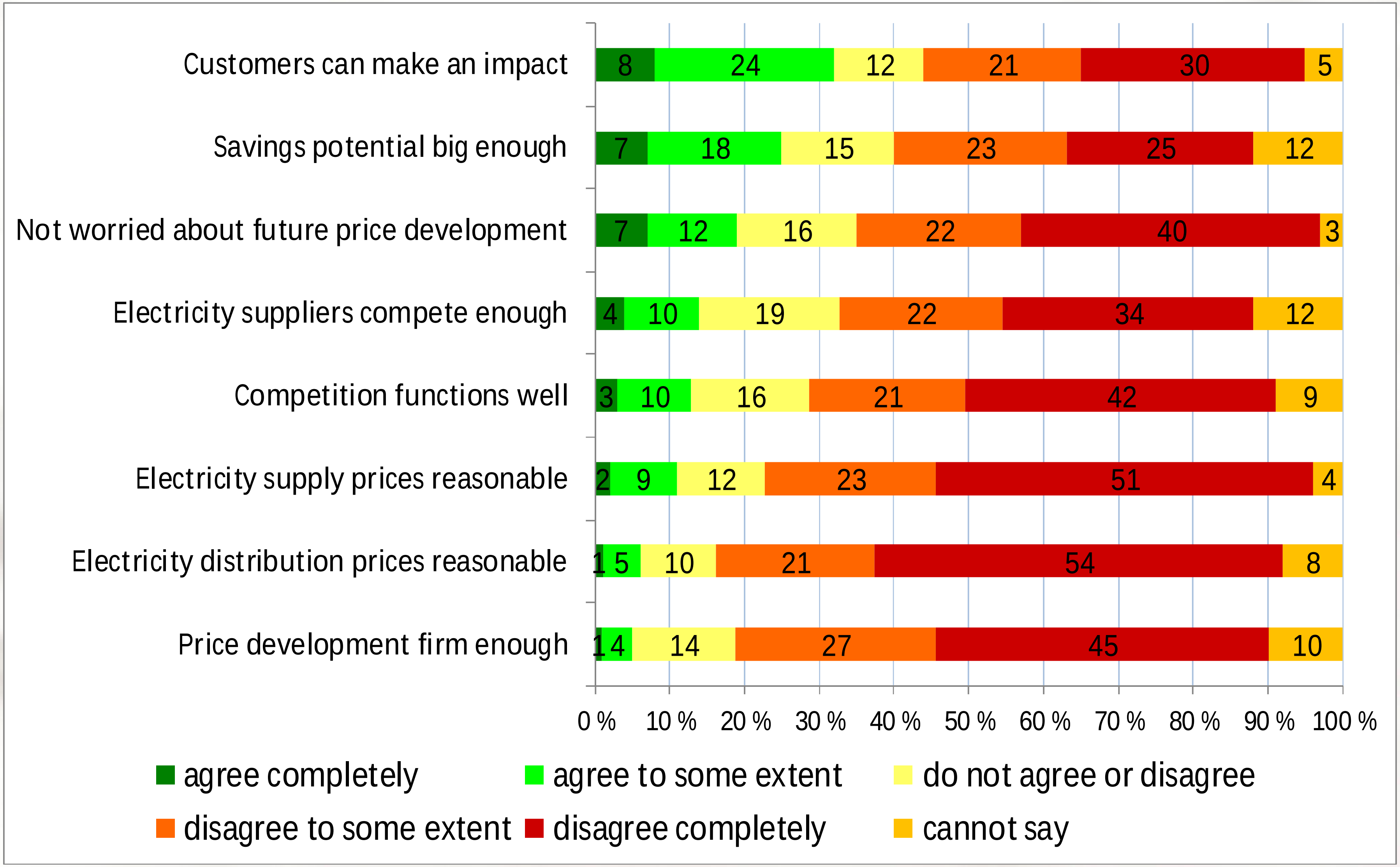
A well-functioning electricity market

- the experts' point of view -

The experts were asked to define well functioning electricity market from the consumers' point of view. The following characteristics were brought up:

- Easiness & simplicity (comparing prices, products or contracts, switching supplier...)
- Transparent and reliable pricing
- Enough active suppliers
- Enough product and contract alternatives
- All companies having same rules and clear roles
- Customers having enough information
- Market prices reflect to the end-customer prices

Functioning of the market Q3



Grades for the electricity suppliers

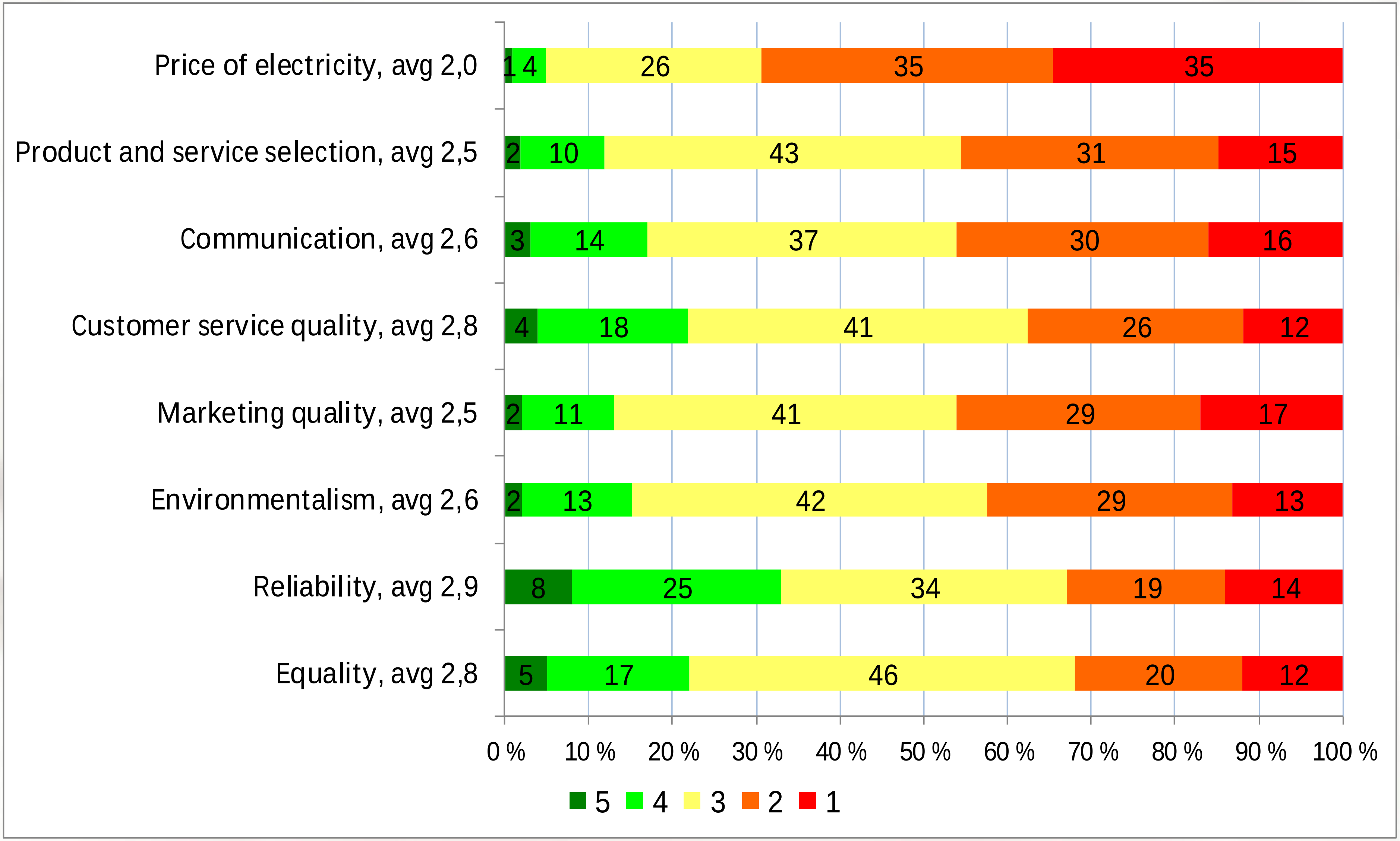
It must be noted that most of the consumers have very little experience of the electricity suppliers, due to the fact that most of them know just one or two suppliers.

Therefore, the consumers do not have enough information of the suppliers to be able to evaluate them on the whole in a reliable manner.

However, they were asked to do this anyway. The aim was to get an idea of the impression that the consumers have; through their own or their friends' experiences, through the media and through the communication by the suppliers.

The experts were asked to do the same. They have much more comprehensive and reliable view of the electricity industry.

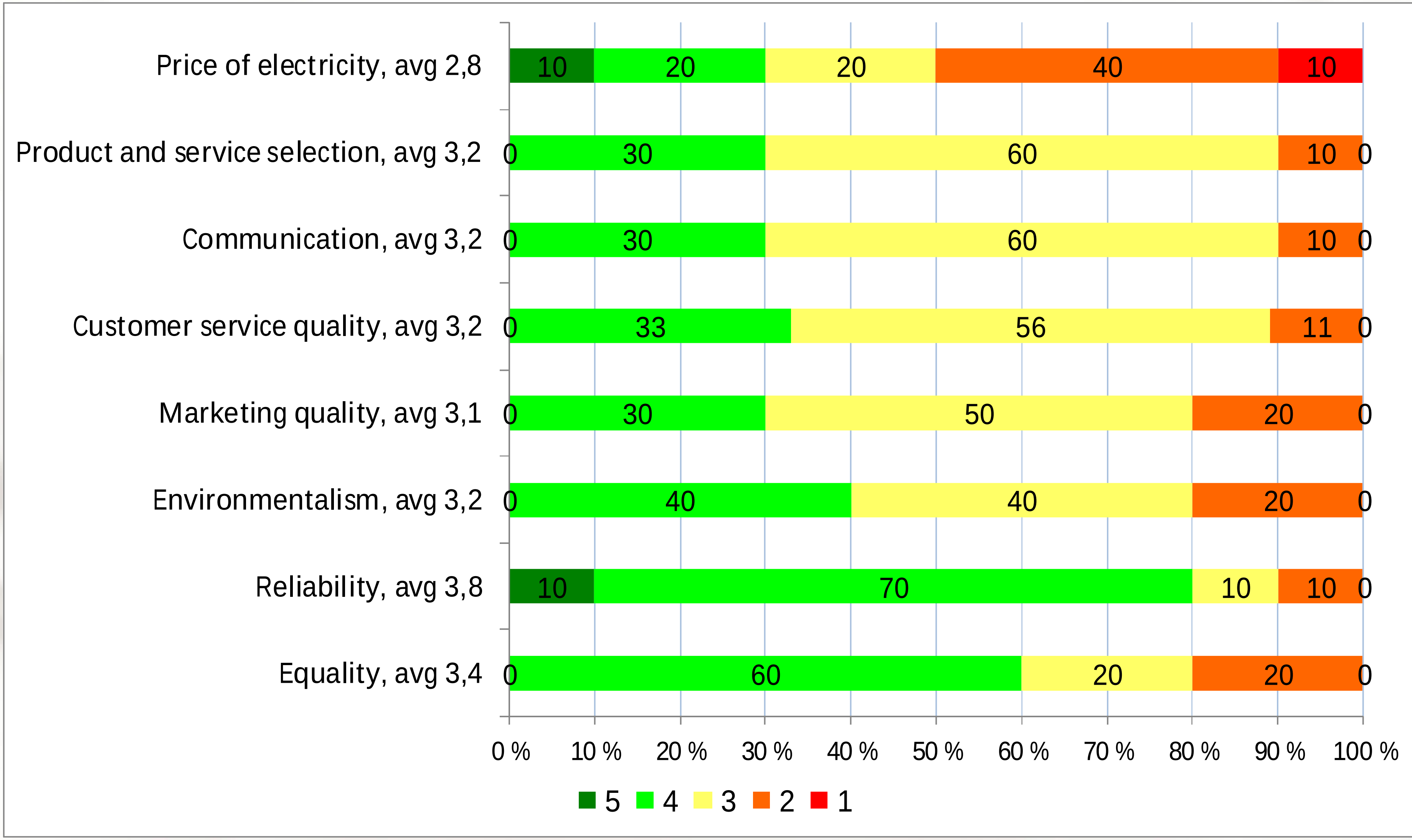
Grades for the suppliers Q4



vaasa emg
University of Vaasa, Finland www.vaasaemg.com

Grades for the suppliers

- the experts' point of view -



Grades for the suppliers

- experts vs. consumers -

Grade	Consumers (average)	Experts (average)
Price of electricity	2,0	2,8
Product and service selection	2,5	3,2
Communication	2,6	3,2
Customer service quality	2,8	3,2
Marketing quality	2,5	3,1
Environmentalism	2,6	3,2
Reliability	2,9	3,8
Equality	2,8	3,4

Price of electricity

In total 8,5 % of the respondents provided some comments to the electricity pricing. Two issues dominated the comments: Prices being high and increasing all the time, and consumers' thinking that there is no real competition between the suppliers.

Some other comments that were mentioned, were related e.g. to prices being difficult to understand and to be compared to each other, or there being too much taxes being added to the electricity prices.

When it comes to the experts that were interviewed, some of them gave statements to the grade they gave to electricity pricing. Some experts gave a poor grade and justified it by saying e.g. that the prices are not predictable, variable prices are too high compared to other alternatives and that consumers have a huge mistrust against pricing. Some other experts, giving high grades, said that the market is functioning well and end-user prices reflect the Nord Pool prices, or that the margins are low.

PLEASE NOTE! *Apart from the electricity prices, very few Swedish consumers gave any justifications to the grades they gave to different functions regarding the electricity market. The share of these respondents varying between 1 and 2 per cent, these answers are insignificant (they represent just the opinions of some individuals). Therefore, they are not being analysed at all.*

Product and service selection

Some experts interesting comments to the product and price selection, such as that there is not much to choose from, that the selection is too conservative and not very innovative, or that there is still a lot to do with simplifying bills and contracts.

Communication

Only two experts commented on their grades to the suppliers' communication. One that gave a good grade, said that the suppliers are very active, and the other that gave a poor grade, mentioned that there must be something wrong with the communications because many people still don't understand their electricity bills.

Customer service quality

Similarly, only two experts commented on their grades to the suppliers' customer service quality. One that gave a good grade, said that the level has improved a lot during the past 10 years, and the other that gave a mediocre grade, stated that this varies a lot between suppliers and can be anything from 1 to 5.

Marketing quality

Regarding marketing quality, the experts gave comments related to the activity of marketing (one thought it is quite low, other that it is quite high) and to prices not being easy to compare.

Environmentalism

There were only two comments by the experts regarding environmentalism. One thought that the customers can easily understand the differences between the products. The other one mentioned that there are two extremes: Those suppliers who really care, and those who could not care less.

Reliability

One expert mentioned that the reliability of supply is great; the problems are on the distribution side.

Equality

The poor dimension of equality, according to the experts, is the fact that the existing customers (those who are inactive) of the suppliers suffer from very high prices. Suppliers only give good offers to new customers.

Price level in Sweden

- the experts' point of view -

The experts were asked, what do they think
of the price level and stability in Sweden.

The comments given by the experts were very mixed.
Some of them stated that price stability is not an issue at
the electricity market (prices should not even be stable), whereas some
others thought that the Swedish end-user prices are way too unstable.

Additionally, there were some comments on the increasing prices;
the prices have gone up significantly since the deregulation and
the consumers must be disappointed with that. On the other hand,
the prices seem to reflect the market prices quite well.

…price level in Sweden

- the experts' point of view -

"Well, I think most consumers would say it is too expensive. On the other hand, the price level is set basically by the demand and supply mechanism. So it is hard to say whether it is high or low price, the market works today. When the demand is low and supply is high (like some summers) then the prices are low, and the other way round. I think it works."

"From the consumers' point of view, it is very bad. They hate it. They think it is moving way too much. People don't trust the pricing mechanism. Although it is the same for the whole Nordic market (we have NordPool). But there is a lot of scepticism. The reliability of the electricity companies is very low."

"Stability of prices is not a criteria in electricity but you can find prices in Sweden that are quite close to market prices."

"It is absolutely disastrous, the last 2-3 years have been characterized by extreme variations from season to season. This makes it almost impossible to know what is the actual cost or to compare different kinds of contract types."

Savings potential

- the experts' point of view -

The experts were asked, whether they feel that the savings potential is big enough for the consumers, making it worth to switch an electricity supplier.

A common view among the interviewees was that the savings potential is large enough. However, it naturally depends very much on the customer's consumption level (consumers having a house with electricity heating may save large amounts of money, but small consumers normally can achieve rather small savings), but also on his/her contract type.

In Sweden, normally the most expensive option is to stay with the default contract of the incumbent supplier. Default contract is extremely expensive, and often just switching to another contract type (e.g. spot based contract) within the current supplier saves a lot of money for the consumers. Therefore, the consumers do not necessarily need to switch supplier, but it is important that they at least compare the contract types of their own supplier.

…savings potential

- the experts' point of view -

"It depends. The first switches you make are normally the ones that give you the best savings, of course. I mean, if you have what we call "tillsvidare avtal". From that to any other supplier with an active choice, it is always a good deal. Then the second, third and fourth switch give smaller savings to most customers."

"There´s quite a lot to earn if you switch from a default contract to a spot or yearly based contract because the price levels are usually quite high on default contracts. You can save the most if you do that. You can also save a lot if you save from a high price suppliers to a cheap company, especially if your consumption is 20 000 kWh/year."

"Yes. I am definitely sure that it is and e.g. these 23 % that never made a choice, they have the "tillsvidare avtal", like on going power contract, and on average they can save between 20 and 30 %. And that's an average. There are examples where they can save maybe 60-70 %, which is huge amount of money. Especially if you take into account that the effort required for making the switch is very low... That is ¼ of the market, I would say. The other part is that there are huge price differences between the cheapest and the most expensive suppliers at the market within the same kind of contract."

Amount of competition

- the experts' point of view -

The experts were asked, whether they think that there is enough competition between the suppliers at the electricity market – and if not, what should be done about it.

Interviewees had quite unanimous view on the level of competition. Most of them stated that there is enough competition; there are more than 100 suppliers and they are competing very actively with each other, even if most of them do not operate throughout the country.

New price areas (valid from 1.11.11) may cause less active competition in certain areas (putting the consumers to unequal position), but the overall situation is good.

…amount of competition

- the experts' point of view -

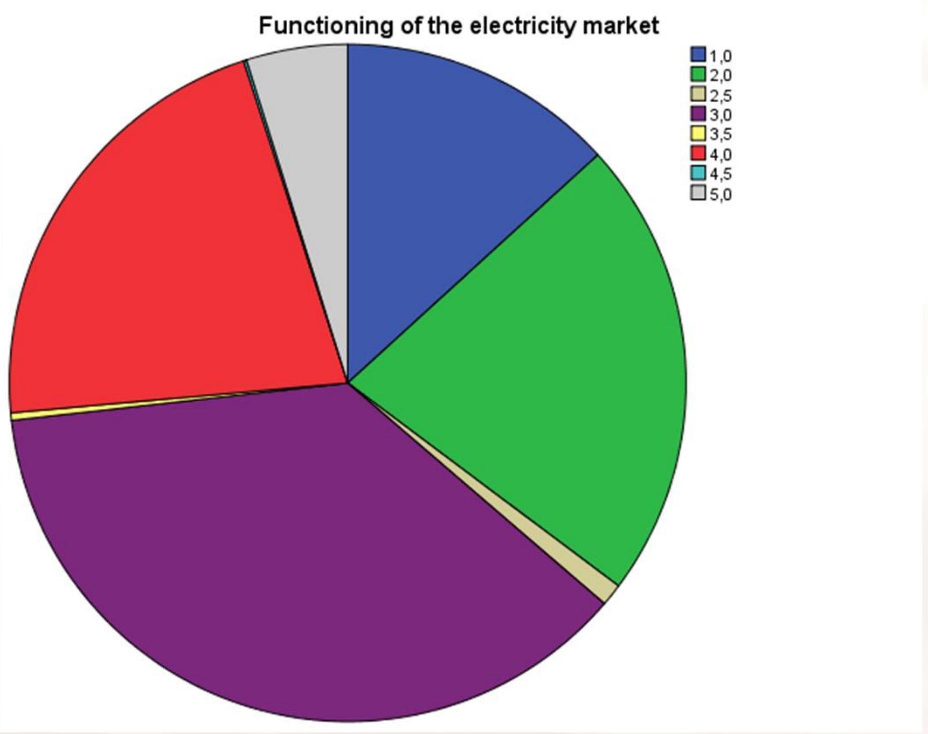
"I would say yes. One reason is the pricing and offerings – of course electricity is very difficult product to be differentiated but all the power suppliers are doing their best to make it look different and to get away from the price focus. There is huge amount of competition."

"I think there's enough competition, I think the problem is more that customers could be more informed for what they can do."

"Competition is very high and the margins are really low. In Sweden we have a lot of companies and it's really difficult to compete with other things besides the price."

Grade: Functioning of the market Q5

The consumers were asked to give a grade (1-5) to the functioning of the Swedish electricity market on the whole.
The average of the responses was 2,8.



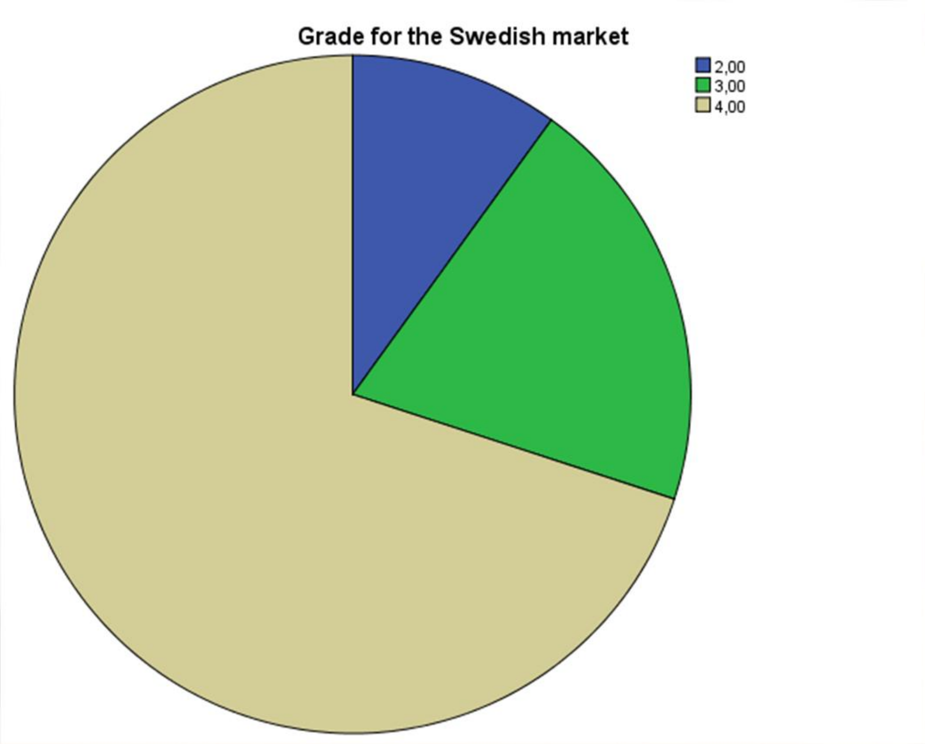
Functioning of the electricity market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1,0	186	12,7	13,2	13,2
	2,0	309	21,1	22,0	35,2
	2,5	15	1,0	1,1	36,3
	3,0	519	35,4	36,9	73,2
	3,5	5	,3	,4	73,6
	4,0	301	20,5	21,4	95,0
	4,5	2	,1	,1	95,2
	5,0	68	4,6	4,8	100,0
	Total	1405	95,8	100,0	
Missing	System	62	4,2		
Total		1467	100,0		

Grade: Functioning of the market

- the experts' point of view -

The experts were also asked to give a grade (1-5) to the functioning of the Swedish electricity market on the whole.
The average of the responses was 3,6.



Grade for the Swedish market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2,00	1	10,0	10,0	10,0
	3,00	2	20,0	20,0	30,0
	4,00	7	70,0	70,0	100,0
	Total	10	100,0	100,0	

Grade: Functioning of the market Q5

- experts vs. consumers -

Grade	Consumers	Experts
Average	2,8	3,6
Excellent (4-5)	26 %	70 %
Satisfactory (2,5-3,5)	39 %	20 %
Poor (1-2)	35 %	10 %

The following slides give examples of the grounds given by the consumers and experts for the grades they gave. The comments are divided according to the given grades (excellent, satisfactory, poor).

Functioning: Excellent – Reasoning?

Consumers:

+ Reliability (no electricity cuts), competition exists.

"No cuts."

"Actually it works. The phenomenon is like with banks and insurance companies, you don't want to switch because you think it requires a lot of effort."

…functioning: Excellent – Reasoning?

Experts:

+ Enough alternatives & competition, switching is easy, wholesale market works well.

- Lack of awareness and interest between the consumers, new price areas cause some challenges.

*"This lack of interest… 80 % of all the switches today are supplier-driven, meaning that the supplier has affected the consumer and started the switching process, instead of the consumer looking at the market and choosing a supplier…
I think there should be more interest and activity among the consumers."*

*"If you look at it from the suppliers' point of view, they are actually fighting for the consumers and they are very active and effective with their pricing and offerings and everything. However, there are still 23 % of the market that is still unaware, they have never made the choice.
They are being punished in many ways."*

Functioning: Satisfactory – Reasoning?

Consumers:

\+ No electricity cuts.

\- A Lot of electricity cuts and / or poor electricity quality, too little competition.

"Well, it works, but citizens shouldn't have to decide and choose an electricity company."

…functioning: Satisfactory – Reasoning?

Experts:

\+ Many companies have learned how to be more customer oriented.

\- Comparing suppliers and understanding bills is difficult, prices have increased, inactive consumers are being punished.

"It is very non-transparent at the moment, there's no integration between grid owners and suppliers from the consumers' point of view, which is confusing. We'll have this what we call "tillsvidare avtal" which is a product that you get if you make no active choice, this is a very bad product with high price. It puts the consumer in a function where they get a very bad deal basically. These are the main two things: it's hard to understand and there are some products on the market you can get that are not very customer friendly."

"Since the market was liberated in the 90´s, companies learned how to be more consumer oriented, but it is a long way to go because there are still problems: Comparing companies is difficult, there are problems in understanding bills (2 different bills: 1 for electricity and 1 for distribution), prices have mainly just gone up during the last 10 years..."

Functioning: Poor – Reasoning?

Consumers:

- No real competition, price speculation and doubts of cartels, lots of electricity cuts, high & increasing prices, bad communication, comparing prices difficult, electricity companies' behaviour is monopolistic.

"Producers make sure that the prices are the highest when we need electricity the most, in winter. They close the nuclear power plants for repair work. When there's a lot of water in the pools, they sell electricity to neighbouring countries. Then the price goes up because of lack of water."

"Oligopoly, with a cartel within nuclear power, can never mean satisfactory competition."

"Electricity cuts without an explanation, although the prices are high and should pay for repairing the network."

"It doesn't matter if the water pools are full and nuclear power functioning. They set whatever price they want."

"It's been over ten years, and most of the people don't get it at all. I've saved a lot of money by switching, but the comparison services have been very bad in marketing their smart idea."

…functioning:
Poor – Reasoning?

Experts:

\+ There is enough information about different kinds of offerings.

\- Difficult to understand and predict the prices.

"It´s impossible for the consumer to predict prices and to know how the price is set. We have enough information about different kinds of offerings but overall it is a failure."

Suppliers weakening the competition?

- the experts' point of view -

The experts were asked whether the electricity suppliers do something that weaken the functioning of the electricity market from the consumers' point of view,
e.g. something that reduces or harms the competition.
Only three experts did not see any major problems.

Most commonly mentioned issues were
misleading & aggressive marketing (especially by phone),
bad terms and conditions in the supply contracts
and high prices of the default contracts.

Most of the suppliers are good and reliable,
but it is obvious that problems exist with some.

"Contracts can end at any day of a month but you can only switch at the beginning of a month."

"False marketing about green products, telemarketing: consumers haven't approved a switch but the supplier thinks so."

…suppliers weakening the competition?

- the experts' point of view -

"Some suppliers have unexpected cancellation period. The customers have to cancel the contract like 3 months before the end of it, otherwise they are locked in for another year."

"Yes, of course, there are few bad boys at this market with very strange agreements and questionable marketing, but there are only a few. I would say most of the suppliers do this in a good way."

"Bad terms and conditions in the power contracts; with e.g. a variable contract the recommendation is that if you want to switch, you should let the supplier know one month in advance. There are some suppliers that require a notice period of 6 months, which is just locking the customer. The punishment fees create bad will. One unhappy customer will have an effect for many other customers. Basically, those who don't follow the recommendations, they create a lot of troubles in Sweden."

"All the suppliers having those default products that cost a fortune, quite nasty, they do not do any good for the competition. And also there is quite a lot of aggressive sales, especially telemarketing where they are not honest. It gives bad reputation, people feel that the companies are not being honest with them. I think also that it gets less and less transparent, there are more and more fairly complex products that are hard to understand for the consumers."

Misleading marketing? Q8

The consumers were asked whether they have seen inappropriate or misleading marketing or selling of electricity. As many as 12 % stated that they have.

Regarding the perceived misleading marketing, the comments were very diverse.
Most commonly mentioned issues were:

- Environmentalism is not genuine
- False price promises
- Inappropriate behavior of the sales people
- Cartel / Speculation

…misleading marketing? Q8

“Concerns most often “environmental” electricity. For instance, trying to get nuclear electricity appear environmentally sound – which it absolutely isn’t.”

“ A company that advertises itself as an environmental alternative, although it has coal power plants in Germany and nuclear power.”

“Sometimes they advertise cheap electricity price but then the fixed costs appear to be high.”

“Yes, offers are so unclear and different that you can not make up your mind and choose one.”

“ The price comparisons should be clearer. Especially consumer’s total price.”

“They always talk about different prices? Electricity price (with certificate?, incl. tax, VAT?). It’s like talking about Volvo but just about body, with wheels etc…”

“Many exaggerate the saving potential of switching.”

“Telemarketers tell their things and often it’s not true.”

“Many telemarketers, who are quite unfamiliar with the subject. They only have selling in their head.”

“ I dislike the telemarketers. Even worse is some electricity salesman knocking at your door.”

Authorities or other organizations influencing in the competition?

- the experts' point of view -

The experts were asked whether the authorities and other organizations, operating at the electricity industry, do something that is weakening the functioning of the electricity market, e.g. something that harms the competition. The interviewees were also asked to evaluate, what have these organizations done well.

The Energy Markets Inspectorate, Swedish Consumer Electricity Advice Bureau, Swedenergy, Swedish Consumer Agency and Swedish Competition Authority were mentioned to the interviewees as examples of these kinds of organizations.

…authorities or other organizations influencing in the competition?

- the experts' point of view -

The interviewees shared almost unanimously the opinion that for most parts these organizations do not harm the electricity market in any way by their actions and the rules set by them, just the opposite: These organizations do a lot of work in order to protect and inform the consumers and to make sure that all the companies at this industry have the same obligations.

Some issues that were often mentioned as examples of "something good", were:

- Public price comparisons help the consumers
- Common rules for all the suppliers make the game fair
- Regulations regarding switching, standardizing the contracts
- Activity in communication and public discussions

…authorities or other organizations influencing in the competition?

- the experts' point of view -

However, certain issues were criticized:

- All price comparisons are not up to date and/or reliable, which creates confusion and lack of trust among the consumers
- Consumers should be educated more, their awareness is too low
- The regulations regarding marketing are too strict and make good marketing very difficult
- Sometimes the authorities try too heavily to control the market

…authorities or other organizations influencing in the competition?

- the experts' point of view -

"All these authorities try very hard in order to protect what they THINK is best for the consumers, but sometimes actually they are so eager that in fact they weaken the competition at the market. Right now, we are looking at the new set of rules of marketing where in all marketing you have to state what are the consumers' rights, what are the consumers' ways to contact you etc… It kind of makes the marketing not really working, because as a customer you can miss what is actually important in the letter (when the supplier has to write so many other things.."

"They have been trying to e.g. publish articles and stuff in Swedish newspapers. There have been lots of articles about electricity prices and the market being really bad etc. Those organizations have been trying to get their voice heard in newspapers as well, which is good, but they could do more. It's basically about, they should have their mission to increase knowledge about market among people because the knowledge is very low. And those are the organizations that could do something about it: Educating people more, being more transparent what decisions are going to be made, what would implications be, what would happen in next five years. People in general have no clue. I mean, hardly people working in this business have a clue."

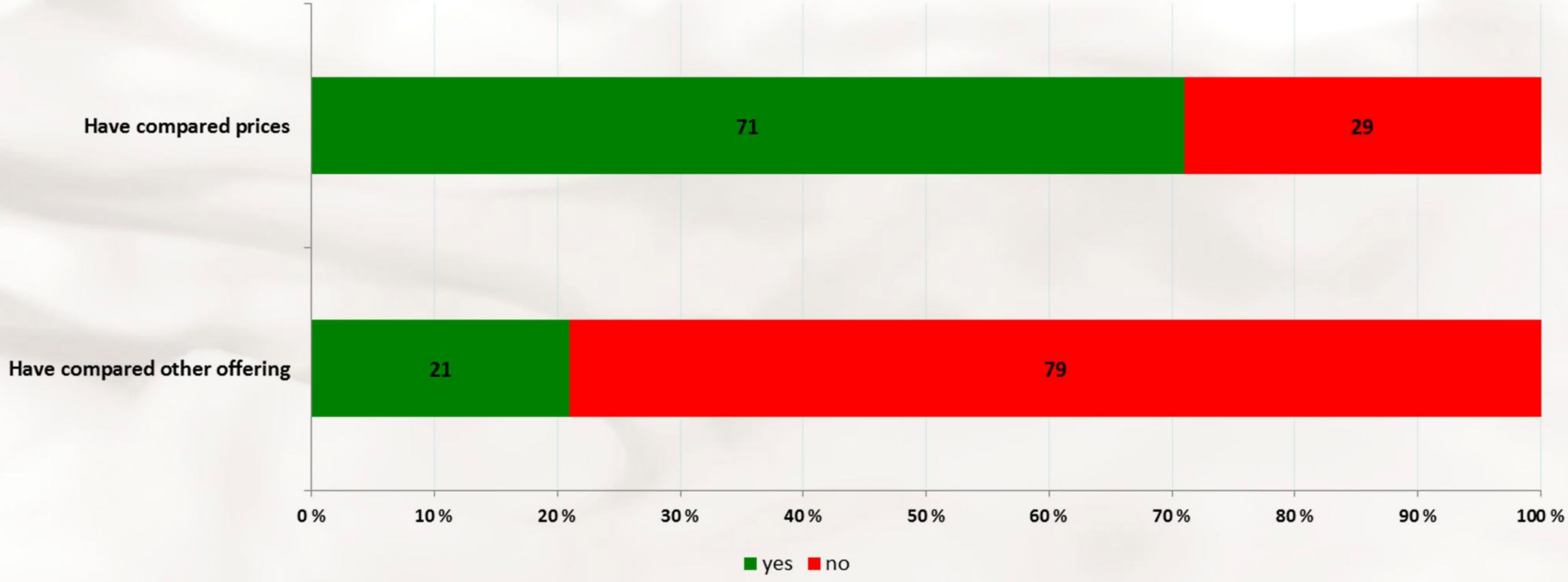
COMPARING AND SWITCHING ELECTRICITY SUPPLIERS

Comparing prices/offerings Q6

The respondents were asked whether they have compared prices or other offerings of different electricity suppliers in the past 5 years (2007 →). The results are shown in the graph below.

- switchers vs. non-switchers -

92 % of the switchers and 57 % of non-switchers have compared prices of different suppliers. 31 % of switchers and 15 % of non-switchers have compared other offerings of the suppliers.

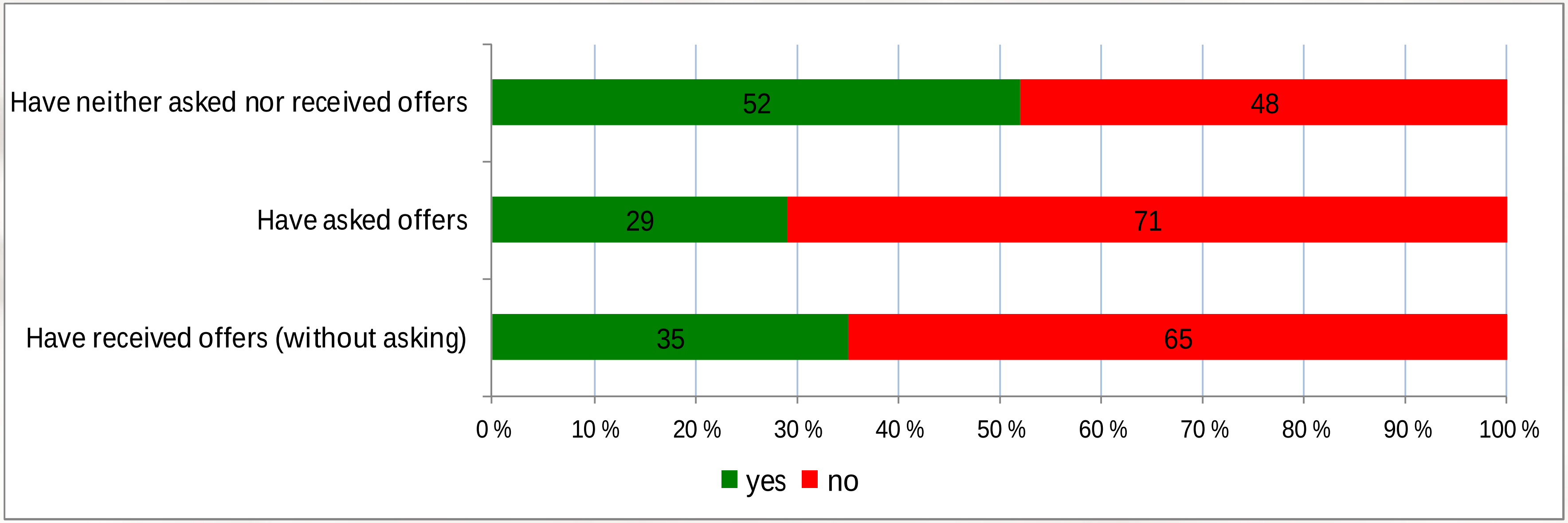


Asking / receiving offers Q7

The respondents were asked whether they have asked or received (without asking) offers from one or several electricity suppliers during the past 5 years (2007 →). The results are shown in the graph below.

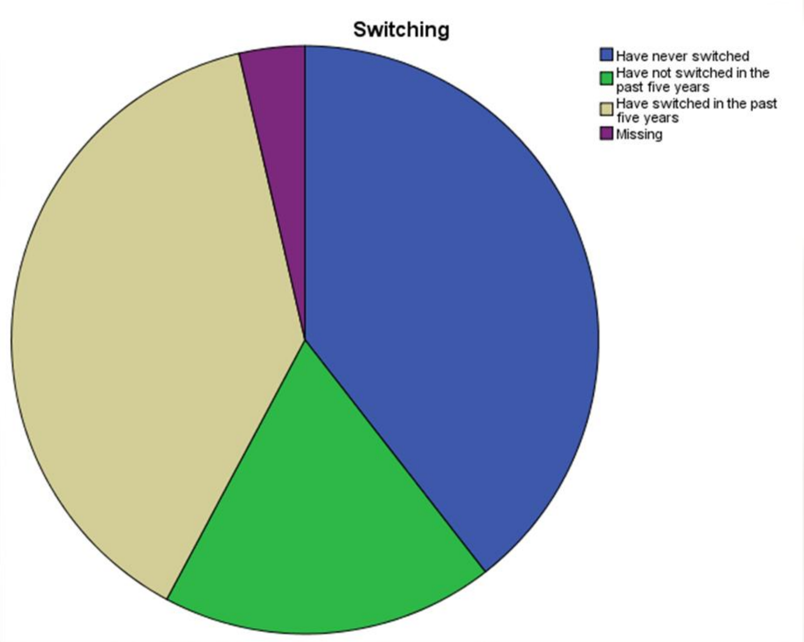
- switchers vs. non-switchers -

45 % of switchers have asked and 38 % received offers, whereas the percentages are 18 % and 33 % for the non-switchers. 62 % of the non-switchers have neither asked nor received offers, this percentage being 35 % for the switchers.



Switching supplier Q9

The respondents were asked whether they have ever switched their electricity supplier. 41 % of the respondents have never switched supplier. 40 % of the respondents have switched supplier in the past 5 years, and 19 % earlier than that.



Switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Have never switched	579	39,5	40,9	40,9
	Have not switched in the past five years	269	18,3	19,0	60,0
	Have switched in the past five years	566	38,6	40,0	100,0
	Total	1414	96,4	100,0	
Missing	System	53	3,6		
Total		1467	100,0		

"Correct" switching level

- the experts' point of view -

The experts were asked, what would they consider being a "correct" switching level, when thinking about well functioning electricity market. The answers varied greatly, from 1 to 30 %. Many thought that the current switching rate (around 10 %) is quite suitable.

However, many of the interviewees mentioned that in Sweden the actual supplier switching level is not relevant, instead we should look at the contract switching level (including those who switch supplier as well as those who switch their contract type within their current supplier). This percentage should be around 30 % per year, according to most of the interviewees.

“…correct” switching level

- the experts’ point of view -

“15-20 %. It is a bit higher than we have at the moment. And the reason why I am saying this is that we have 23 % of consumers that are not doing anything at all. I guess that for the ones switching already, the market is functioning well enough.”

“We should have 0 % switching rate if the market is completely the best because in the best market the margin is so low that no one has reason to switch. We have some suppliers taking higher prices and we should have maybe 15 000 – 100 000 switches per year. Switching activity just below 1 % should be ok.”

“The actual switching rate is maybe not what is most important. The variety of offers and agreements available on the market are maybe more important as well as the easiness to switch.”

“Very difficult question, it is impossible to say. It depends… Some customers do switch every year and it is a good thing for the competition… The most important thing is that the consumers switch from “tillsvidare pris” to the actual contract. If even that would happen, it had an actual impact on the market. Whether you switch every second/third/forth/etc. year, is less important. ”

Switching levels in Sweden

- the experts' point of view -

The experts were asked, why the switching rate slightly increased (to 13 %) from the typical 10 % in 2009.

Many experts mentioned that the most significant factor was increasing prices (very high prices in 2009, mainly due to the high market prices), which activated the customers to do something. Additionally, media paid more attention to this issue, which had an impact as well. Another issue mentioned by several experts was that the suppliers were very active in their marketing.

"Two things: Most of the switching is supplier-driven (the suppliers make the customers to switch), it is not the customers' action really. So, of course, a greater activity among the suppliers could be a reason. But what I think influenced a lot is that we had very cold winter with a lack of supply in 2009, and that made many customers to have a very high electricity bill and made them eager to switch."

SWITCHERS

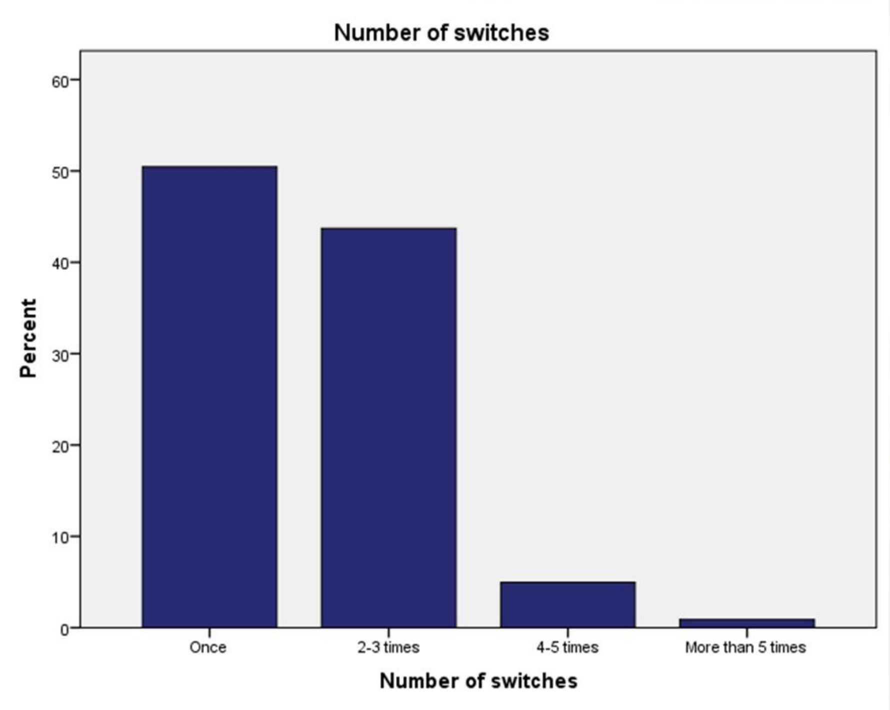
Experiences of switching

Those respondents who have switched their electricity supplier in the past five years, were asked questions regarding their experiences, including

- How many times have they switched
- Why have they switched
- How did the switching process go
- Are they happy with their decision to switch

Number of switches Q10

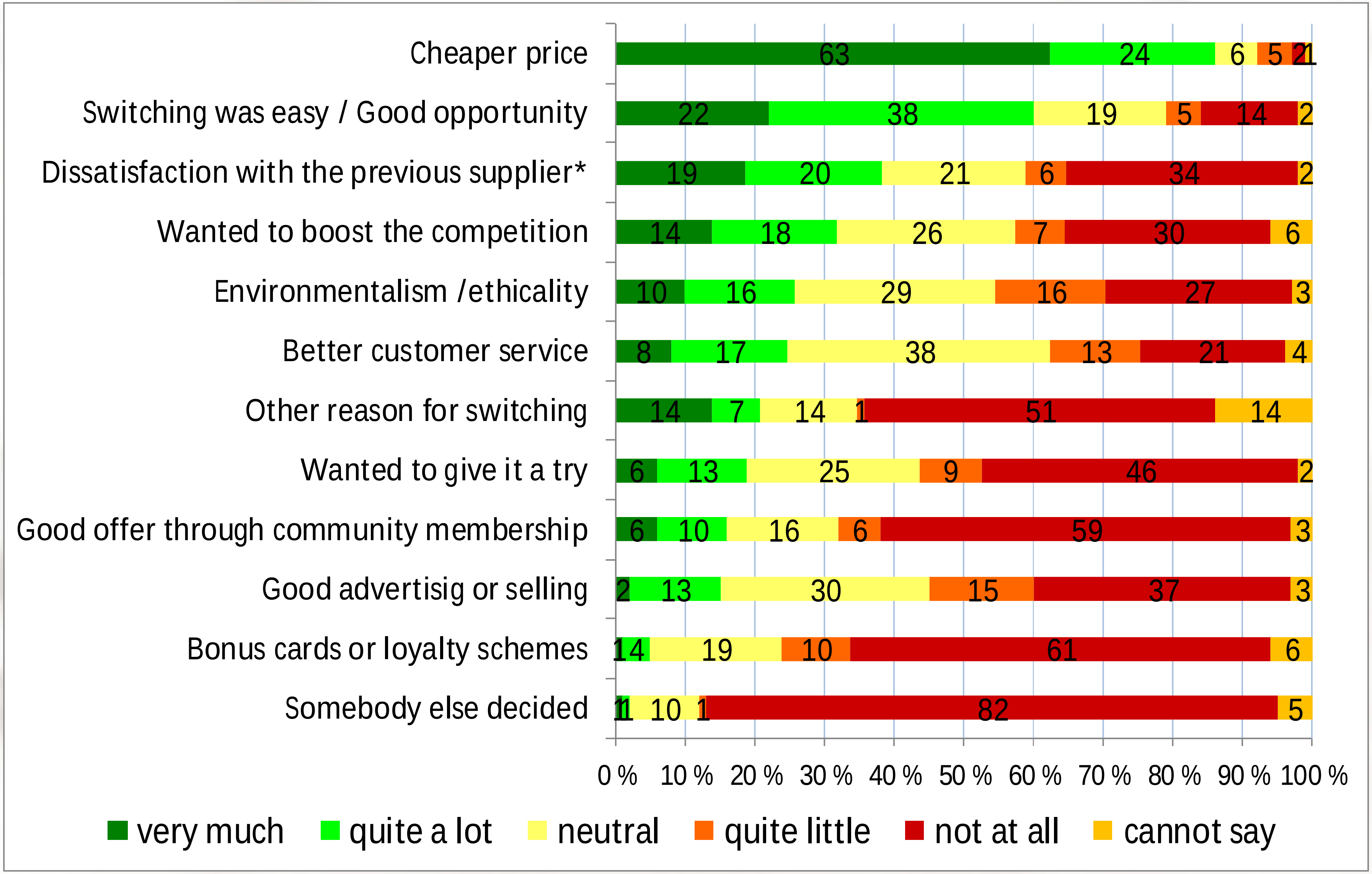
Of those respondents who have switched in the past 5 years, 50 % have switched only once.
As many as 44 % have switched 2-3 times.
5 % of the switchers have switched 4-5 times and 1 % of them more frequently.



Number of switches

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Once	285	50,4	50,4	50,4
	2-3 times	247	43,6	43,7	94,2
	4-5 times	28	4,9	5,0	99,1
	More than 5 times	5	,9	,9	100,0
	Total	565	99,8	100,0	
Missing	System	1	,2		
Total		566	100,0		

Reasons for switching Q11



** Please notice that most often the reason for dissatisfaction was "expensive price". Other type of dissatisfaction exists but is rather rare.*

Dissatisfaction with the supplier Q11

When looking at the most common reasons for switchers to be dissatisfied with their previous electricity supplier, by far the most common reason (82 %) was the supplier's high / increasing electricity price. Other type of dissatisfaction also exists but is rather rare.

Some respondents also mentioned bad customer service being an issue; all the other things were very miscellaneous and mentioned by very few respondents.

Other reasons for switching Q11

The other reasons for the respondents to switch electricity supplier, were seldom mentioned and rather miscellaneous. The only issue that was mentioned by more than a couple of respondents, was moving to different house/town. However, as the consumers only need to switch the distribution company when moving (in case moving to different area), it is not clear what these respondents meant by their answer - perhaps this reflects unawareness more than anything else.

Main reason for switching Q12

For most consumers, there is not just one reason for switching electricity supplier. It is often a combination of many things that have an impact on their decision.

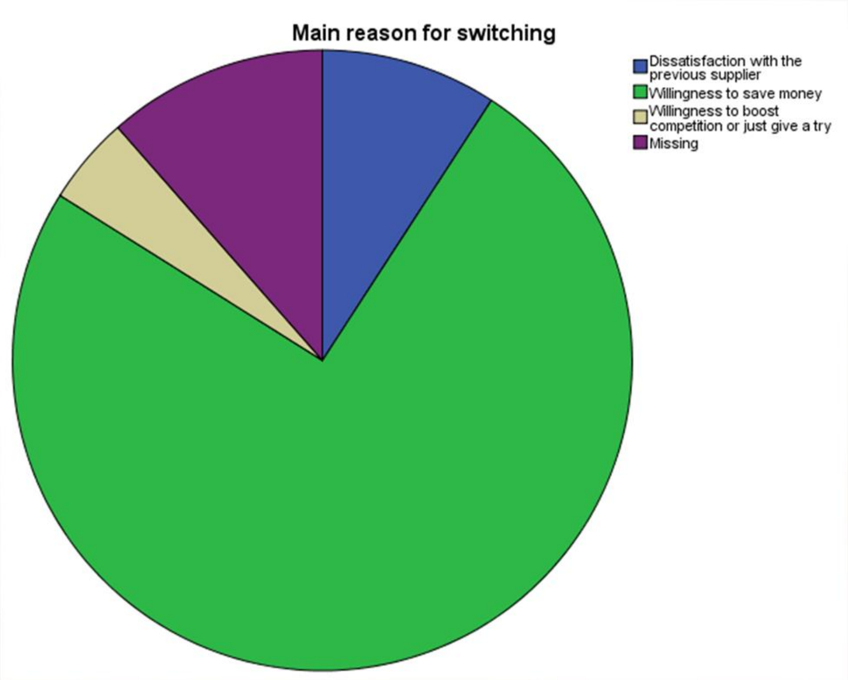
In many previous researches it has been found that three most common reason categories for switching supplier are:

- *Willingness to save money*
- *Willingness to boost the competition or just give supplier switching a try in practice*
- *Dissatisfaction with the previous supplier.*

The respondents were asked to choose, which one of these reason categories would they consider to have influenced MOST to their decision to switch supplier.

Main reason for switching Q12

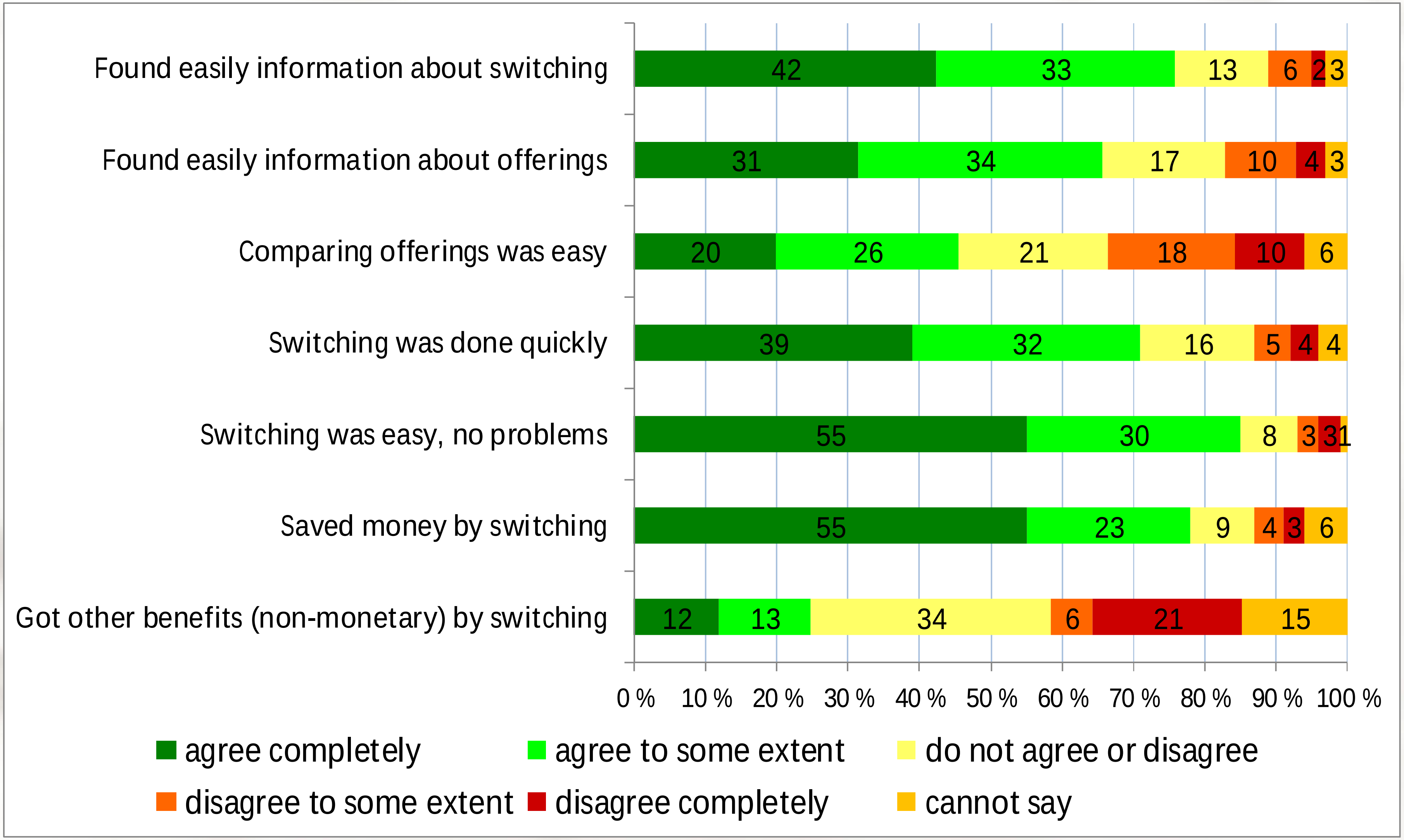
When the respondents had to choose one of these three main reasons to switch supplier, as many as 84 % of them chose monetary savings. 10 % chose dissatisfaction with the previous supplier and 5 % their willingness to boost the competition or just give switching a try.



Main reason for switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Dissatisfaction with the previous supplier	52	9,2	10,4	10,4
	Willingness to save money	423	74,7	84,4	94,8
	Willingness to boost competition or just give a try	26	4,6	5,2	100,0
	Total	501	88,5	100,0	
Missing	System	65	11,5		
Total		566	100,0		

Switching ease Q13



vaasa emg
University of Vaasa, Finland www.vaasaemg.com

Ease of switching

- the experts' point of view -

The experts were asked, whether they consider switching to be easy enough for the consumers – when taking into account ease of finding information, making comparisons, making the switch, the time required, the effort required…

All the experts thought that switching is easy enough in Sweden. The switching process as such is very easy, and comparing prices is possible to be done through several Internet sites.

However, it was recognized that there are still some problems as well, as explained in detail on the following slide.

…ease of switching

- the experts' point of view -

"I think it is very easy to switch. But the problem is that we haven't actually managed to inform the people that switching is easy. There is still a lot of people believing that it is a very complicated process. If you try it out, it is very easy."

"I would say it has become a lot easier, it's easy enough. There are many players, and people are used to compare every-thing – they know nowadays that you can compare almost anything and also the power prices. So they can make the comparisons with several services and all they need is their bill. If you compare to Norway for example, there you need to read your meter in order to be able to do the comparisons. In Sweden we have the smart meters installed everywhere so that is not needed."

"It's quite easy to do. You can go to this webpage (Elpriskollen) and there are links to different companies offering contracts, or you can call them. They will do all the paperwork."

"It's quite easy because there are different internet sites and in there it's easy to make the actual switch but in practice there are different factors complicating this: customers don't know exactly when their current contract ends and contracts are renewed with different rates if consumers don't do anything. It's difficult for consumers to keep track of all this and consumers don't have enough information."

Switching / other good experiences

Those respondents that stated some other things they experienced being positive in their switching (12 % of the switchers), were often actually related to the end result more than to the process as such. Most of these consumers commented on the benefit they received: in most cases cheaper price but sometimes also more environmental energy or receiving just one bill.

However, some respondents also commented on issues like boosting the competition or learning more about switching.

Switching / other bad experiences

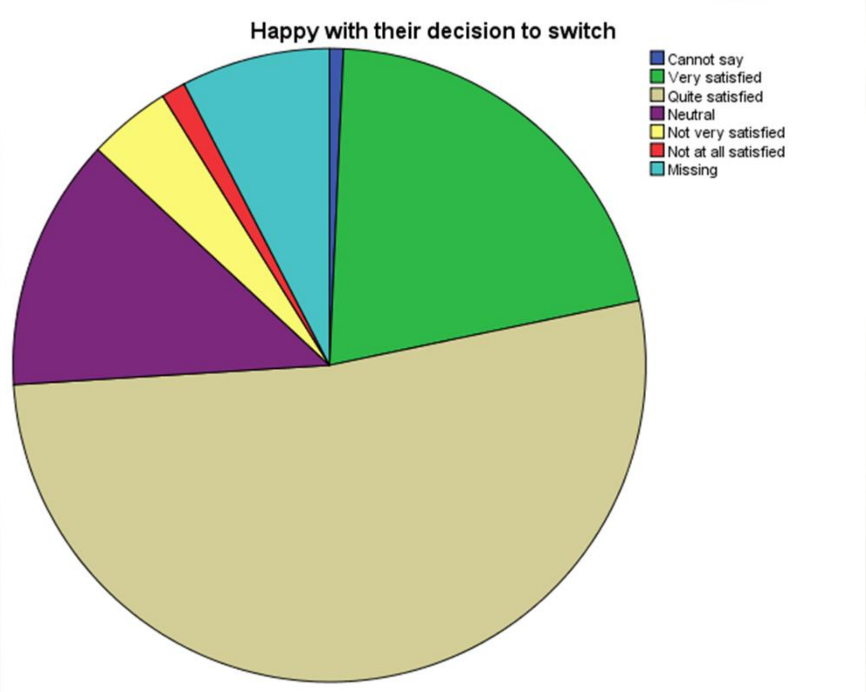
Only 8 % of the switchers mentioned some other bad experiences in switching.

The most common unpleasant experiences were comparing or switching supplier being difficult or going to the two-bill system. Also, price being higher than expected, was also mentioned by several respondents.

Some respondents also mentioned e.g. inappropriate selling methods or difficulties in getting necessary information.

Satisfaction for switching Q14

In total 79 % of the switchers are happy with their decision to switch electricity supplier.
Only 6 % of them are dissatisfied with their decision.



Happy with their decision to switch

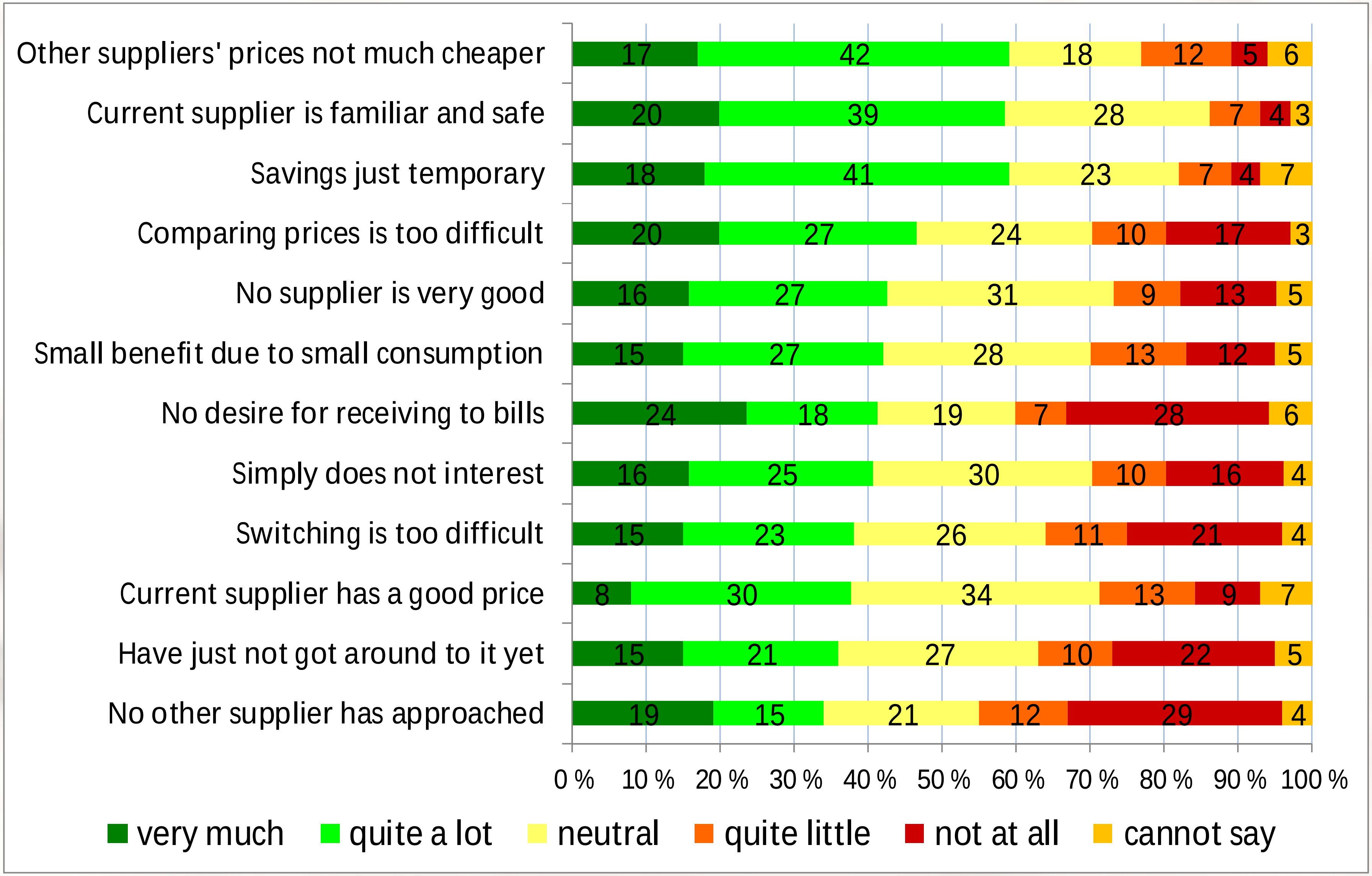
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cannot say	4	,7	,8	,8
	Very satisfied	119	21,0	22,8	23,5
	Quite satisfied	296	52,3	56,6	80,1
	Neutral	73	12,9	14,0	94,1
	Not very satisfied	24	4,2	4,6	98,7
	Not at all satisfied	7	1,2	1,3	100,0
	Total	523	92,4	100,0	
Missing	System	43	7,6		
Total		566	100,0		

NON-SWITCHERS

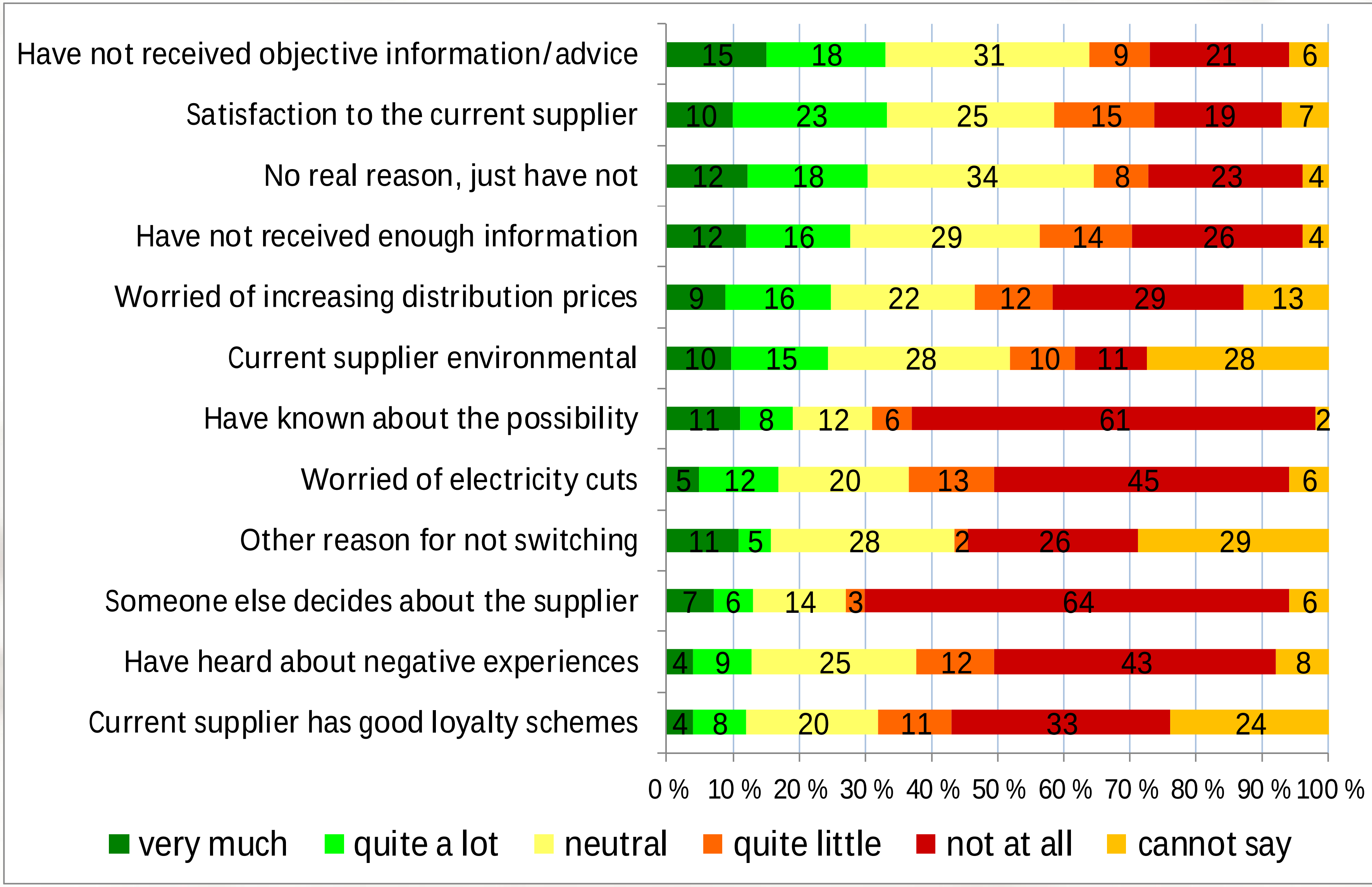
Experiences of non-switching

Those respondents who have
never switched their electricity supplier
or at least have not done it in the past five years,
were asked questions regarding
their reasons for staying passive.

Reasons for not switching Q15



…reasons for not switching Q15



Switching perceived as difficult Q15

When looking at the most common reasons for
non-switchers to state "switching seems difficult"
as one of the reasons for not switching,
two issues dominate their answers:
A lot of paper work is expected
and there is a lot of uncertainty / unawareness
among the non-switchers.

Other reasons for not switching Q15

The other reasons for the respondents to not to switch electricity supplier, were seldom mentioned and rather miscellaneous. Things that were mentioned by some respondents, were willingness to support their local supplier, having too much other stuff to do, distribution staying as a monopoly anyway etc.

Current supplier's offerings Q16

In Sweden, the consumers often can benefit from changing to different contract type within their current electricity supplier. Thus switching is not always needed, sometimes it is worth just to update the current contract. Therefore, the non-switchers were asked whether they have compared different contract alternatives that their current supplier had offered, and / or whether they had actually switched to another contract type.

As many as 60 % of the non-switchers stated that they have compared their current supplier's contract types to each other.
42 % had switched the contract type within their current supplier.

Main reason for not switching Q17

For most consumers, there is not just one reason for not switching electricity supplier. This is even more true for non-switching than it is for switching. It is often a very complex combination of many things that have an impact on the non-switchers' decision. Often, it is not even a conscious decision.

Based on several studies in the past, the reasons for not switching electricity supplier, can be roughly divided into three main categories of reasons, which have been presented on the next slide.

…main reason for not switching Q17

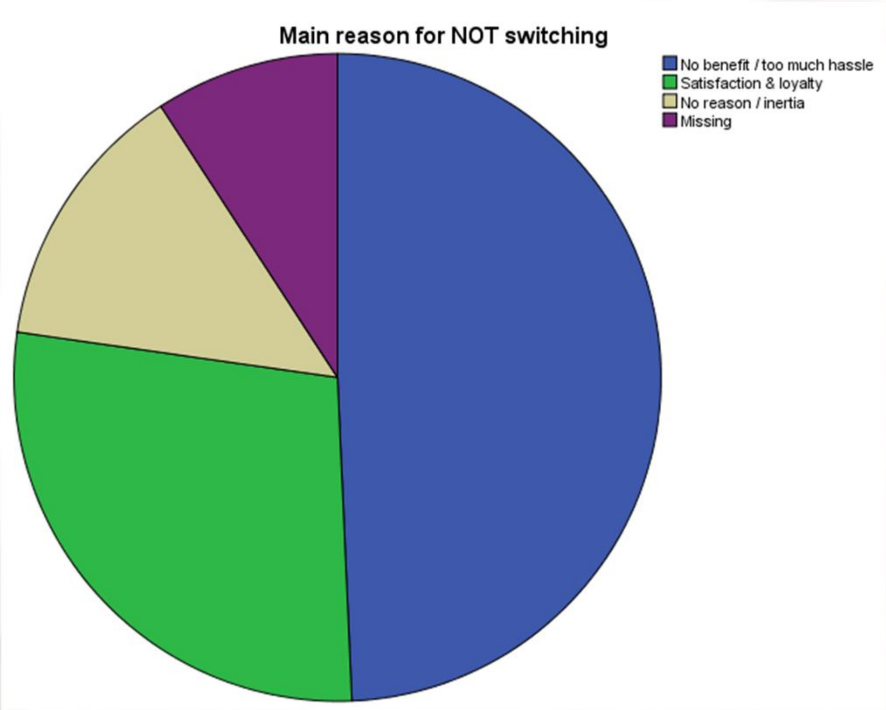
<u>Loyalty</u>: The customer is satisfied with his current supplier and he wants to stay as a loyal customer for the time being. He does not want to switch supplier, even if he received a better offer from another supplier.

- *<u>Rejection</u>: The customer has nothing against switching supplier, but he thinks it is worthless or too troublesome (e.g. difficult to find information, make comparisons or switch supplier, or the savings potential is too small).*

- *<u>Inertia</u>: The customer just has not got around to switch supplier, without any specific reason (e.g. he has not even thought about it, has not known it is possible for him to switch, he is not interested in the topic or just has not bothered to do anything).*

…main reason for not switching Q17

When the respondents had to choose one of these three main reasons to not to switch supplier, 54 % of them chose that there is not enough benefit compared to the hassle. 15 % chose inertia as a main reason and 31 % their satisfaction with and loyalty for their current electricity supplier.



Main reason for NOT switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No benefit / too much hassle	418	49,3	54,3	54,3
	Satisfaction & loyalty	237	27,9	30,8	85,1
	No reason / inertia	115	13,6	14,9	100,0
	Total	770	90,8	100,0	
Missing	System	78	9,2		
Total		848	100,0		

…main reason for not switching Q17

- experts vs. consumers -

Also the experts were asked to estimate, how big a share of the consumers belong to the groups of rejection, loyalty or inertia being their main reason not to switch supplier.
In the table below the answers by the experts and the consumers themselves are compared with each others.

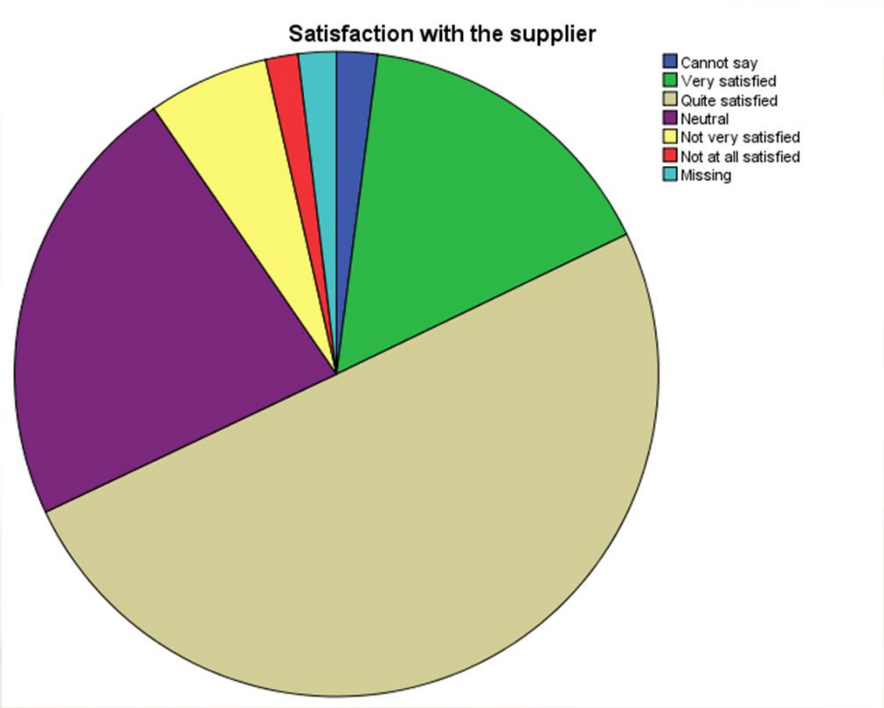
It is interesting to see that the experts assume the share of inertia to be significantly higher than the consumers evaluate themselves.

Reason	Consumers (average)	Experts (average)	Experts (variation)
Rejection	54 %	33 %	5 – 50 %
Loyalty	31 %	25 %	10 – 70 %
Inertia	15 %	42 %	20 – 75 %

SWITCHING & LOYALTY

Satisfaction with the supplier Q18

In total 66 % of the respondents are somewhat satisfied with their current electricity supplier.
8 % are not satisfied.



Satisfaction with the supplier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cannot say	30	2,0	2,1	2,1
	Very satisfied	232	15,8	16,1	18,2
	Quite satisfied	735	50,1	51,1	69,3
	Neutral	329	22,4	22,9	92,1
	Not very satisfied	89	6,1	6,2	98,3
	Not at all satisfied	24	1,6	1,7	100,0
	Total	1439	98,1	100,0	
Missing	System	28	1,9		
Total		1467	100,0		

- switchers vs. non-switchers –

It seems that the switchers are relatively similarly satisfied with their electricity supplier than the non-switchers. 18 % of switchers stated to be “very satisfied” with their supplier, whereas this percentage was 15 % for the non-switchers.

Satisfied customers Q19

One third of the satisfied respondents stated their current supplier's good price as their reason for satisfaction.

Also these comments were given by a significant proportion of the respondents:

- Good customer service / communication
- Reliable delivery of electricity
- Everything has worked ok, no problems
- Good billing
- Environmentalism
- Locality of the supplier (support to local companies and / or easiness to deal with)
- Everything has worked fine, good experiences

…satisfied customers Q19

"The current supplier takes care of the business well, invests for the future in a smart way, informs what's happening in the company, produces great proportion locally – I need to think about the municipality too."

"Good information. They value their customers."

"Because the electricity is guaranteed environmentally friendly, wind power!"

"I get environmentally friendly electricity without exploiting fossil fuel sources, and reduce carbon dioxide emissions."

"A part of the profit goes to charity."

"The company's after sales is good. They fix the faults very fast. Totally satisfied! "

Dissatisfied customers Q19

More than half of the dissatisfied respondents stated their current supplier's high electricity price/frequent increases as their main reason for dissatisfaction.

All the other comments were mentioned by only a fraction of these respondents. However, some issues that were stated by several respondents, were:

- Bad customer service/communication
- Bad billing system
- High distribution prices
- Unreliable company

…dissatisfied customers Q19

"Lack of information."

"I think the price should be lower. They offer cheaper prices for the customers to come back – the price they should have offered from the beginning."

"Not as cheap electricity as they promised."

"Too expensive price for e.g. 3 years contract. The companies make big money on fixed-term contracts."

"All in all I'm dissatisfied with how we, customers, actually always are being fooled. The deregulation has not led to anything else but the electricity companies taking advantage of our demand of electricity!"

Uncertain ones Q19

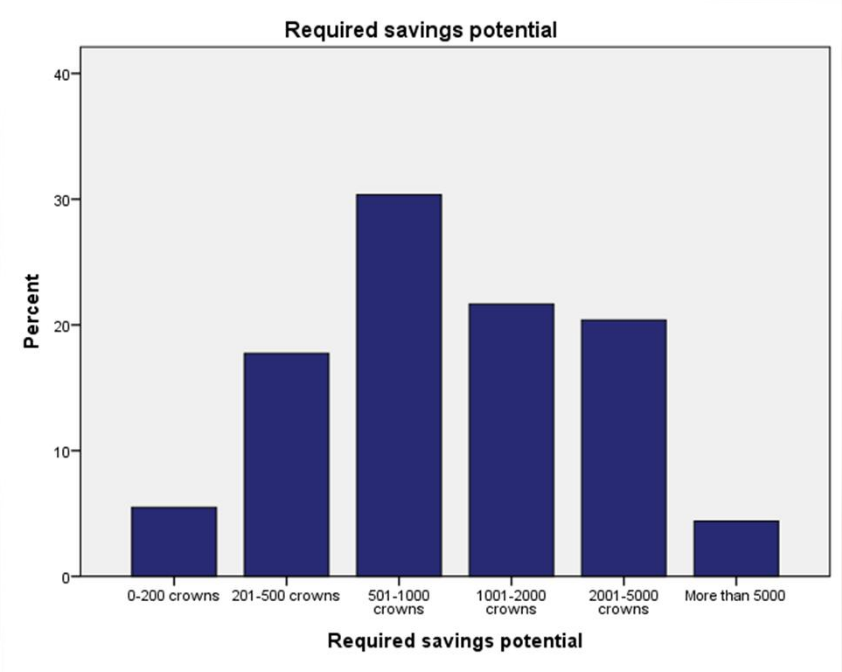
For those respondents, who stated that they feel "neutral" about their satisfaction towards their current supplier, or they could not say, the grounds were miscellaneous.

However, the biggest reason for their uncertainty was a perception of their current supplier having high electricity prices or frequent increases, so they were thinking of doing something about it. Another quite common reason for uncertainty was the fact that the respondents did not yet have a lot of experience of their current supplier and therefore were not able to judge yet.

Several respondents also mentioned the following issues:
They have no problems with the current supplier,
they don't think the other suppliers would be any better,
delivery of electricity is reliable, billing is good or
customer service/communication is bad.

Required savings potential Q20

The majority (54 %) of the respondents would require savings of 1000 Swedish crowns/year or less in order to switch supplier. However, the variation is great and the average required savings is 1933 crowns.



Required savings potential

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-200 crowns	60	4,1	5,5	5,5
	201-500 crowns	194	13,2	17,7	23,2
	501-1000 crowns	332	22,6	30,3	53,6
	1001-2000 crowns	237	16,2	21,7	75,2
	2001-5000 crowns	223	15,2	20,4	95,6
	More than 5000	48	3,3	4,4	100,0
	Total	1094	74,6	100,0	
Missing	System	373	25,4		
Total		1467	100,0		

In total 15 % of the respondents stated that they would NOT switch electricity supplier because of financial savings.

CLEEN Cluster for Energy and Environment
sgem Smart Grids and Energy Markets

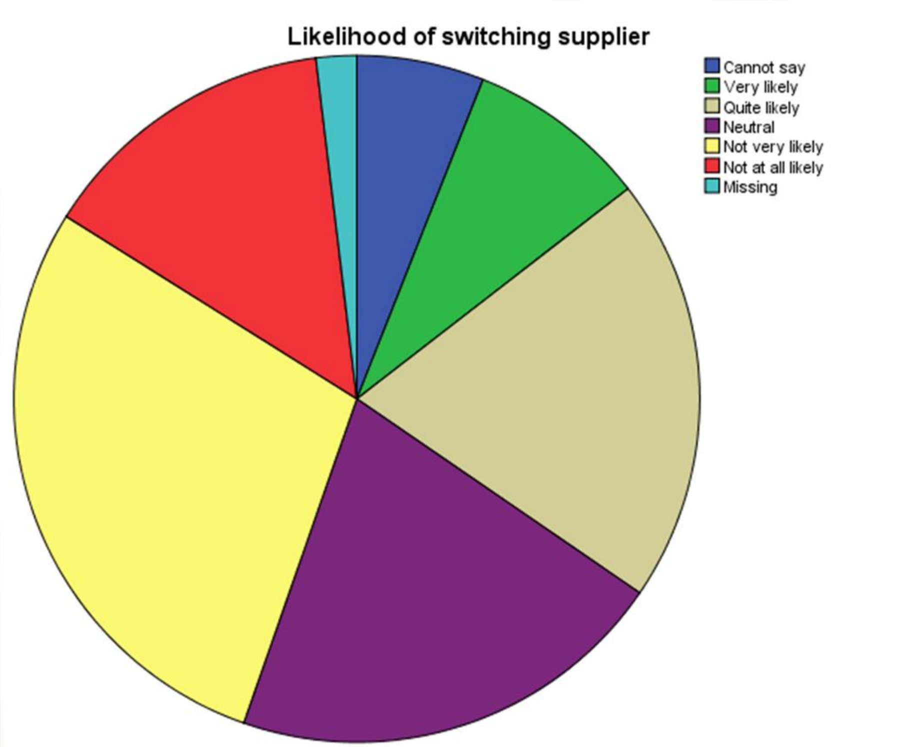
…required savings potential Q20

For obvious reasons, the required savings potential varies depending on the amount of electricity consumption of the respondent's household. Below this is presented as averages.

Electricity consumption of the respondents household	Required savings potential (average)	
2 000 kWh / year	1310 SEK / year	149 € / year
5 000 kWh / year	1325 SEK / year	150 € / year
10 000 kWh / year	1672 SEK / year	189 € / year
20 000 kWh / year	2370 SEK / year	269 € / year
All respondents	1933 SEK / year	219 € / year

Switching intentions Q21

29 % of the respondents feel that they are likely to switch their electricity supplier in the near future. 44 % are not likely. A significant proportion of the respondents (27 %) had a neutral position or they could not say about their intentions.



Likelihood of switching supplier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cannot say	88	6,0	6,1	6,1
	Very likely	125	8,5	8,7	14,8
	Quite likely	294	20,0	20,4	35,2
	Neutral	305	20,8	21,2	56,4
	Not very likely	419	28,6	29,1	85,5
	Not at all likely	208	14,2	14,5	100,0
	Total	1439	98,1	100,0	
Missing	System	28	1,9		
Total		1467	100,0		

vaasa emg
University of Vaasa, Finland www.vaasaemg.com

…switching intentions Q21

- switchers vs. non-switchers -

Likelihood to switch supplier in the near future	Switchers	Non-switchers
very likely	17 %	3 %
quite likely	30 %	13 %
neutral	19 %	23 %
not very likely	16 %	38 %
not at all likely	11 %	17 %
cannot say	6 %	6 %

Likely switchers Q22

By far the most common reason for switching is the price, stated by more than half of those who are likely to switch. These respondents expected to save money by switching, and as soon as they get evidence of that, they are willing to switch.

Other most common issues were willingness to check the situation as soon as the respondent's fixed contract comes to an end, moving, willingness to buy a more environmentally friendly option or boost the competition etc.

…likely switchers Q22

"Price and only the price matters."

"The prices can vary between companies quite a lot."

"If the association I am member of, negotiates a cheaper price in another company, I'll switch. I'll just tick I accept the switch, and they take care of the rest."

"It usually always works to negotiate prices if you become a new customer somewhere."

"I became more active when I realized how easy it was."

Likely non-switchers Q22

By far the most common reasons for the respondents to feel that they are not likely to switch supplier, were their perception that the benefit would be too small, their satisfaction with their current supplier, or the fact that they have a fixed-term contract at the moment and therefore they are unable to switch.

Other reasons that were often mentioned, were:

- Switching or comparing suppliers is too difficult
- Current supplier has a good price
- Reliable delivery of electricity

…likely non-switchers Q22

"There's no reason, I live in an apartment."

"It doesn't seem to be financially beneficial enough."

"I don't know if there are any other suppliers in the area where I live."

"The price advantage seems to exist only for a while. Then you have to switch again if you want to keep the advantage."

"Environmentally friendly electricity for a reasonable price, which doesn't hurt the nature or future generations' lives, is my choice and I'm planning to hold on to it."

"As a loyal customer I get a good deal."

"It's troublesome and not particularly profitable."

"Too much effort, too little savings."

Uncertain ones Q22

More than 1/4 of the respondents, who stated that they feel "neutral" about their switching likelihood, or could not say, stated that the financial benefit is too small, because of too little or too short-time savings.

Other reasons for uncertainty that were often mentioned, were:

- Depends on price; willingness to switch in case of a cheaper offer
- Satisfaction with the current supplier
- Switching is too troublesome
- A fixed-term contract, cannot switch
- Low level of interest, just cannot be bothered

…uncertain ones Q22

“I’m satisfied with my current supplier, but the price can get worse in the future.”

“Kilowatt-prices make only a small difference, as long as distribution prices are so high.“

“It’s troublesome, and the comparisons I’ve done weren’t particularly profitable.”

“It can as likely happen that I don’t get around to it, but if someone called and could prove a significant price change, I would certainly be interested.”

“I hope they continue with the price guarantee, and then I hardly have to switch. Distribution costs are high but there’s nothing I can do about it!”

“I don’t spend time on comparing prices very often.“

AWARENESS OF SWITCHING RELATED ISSUES

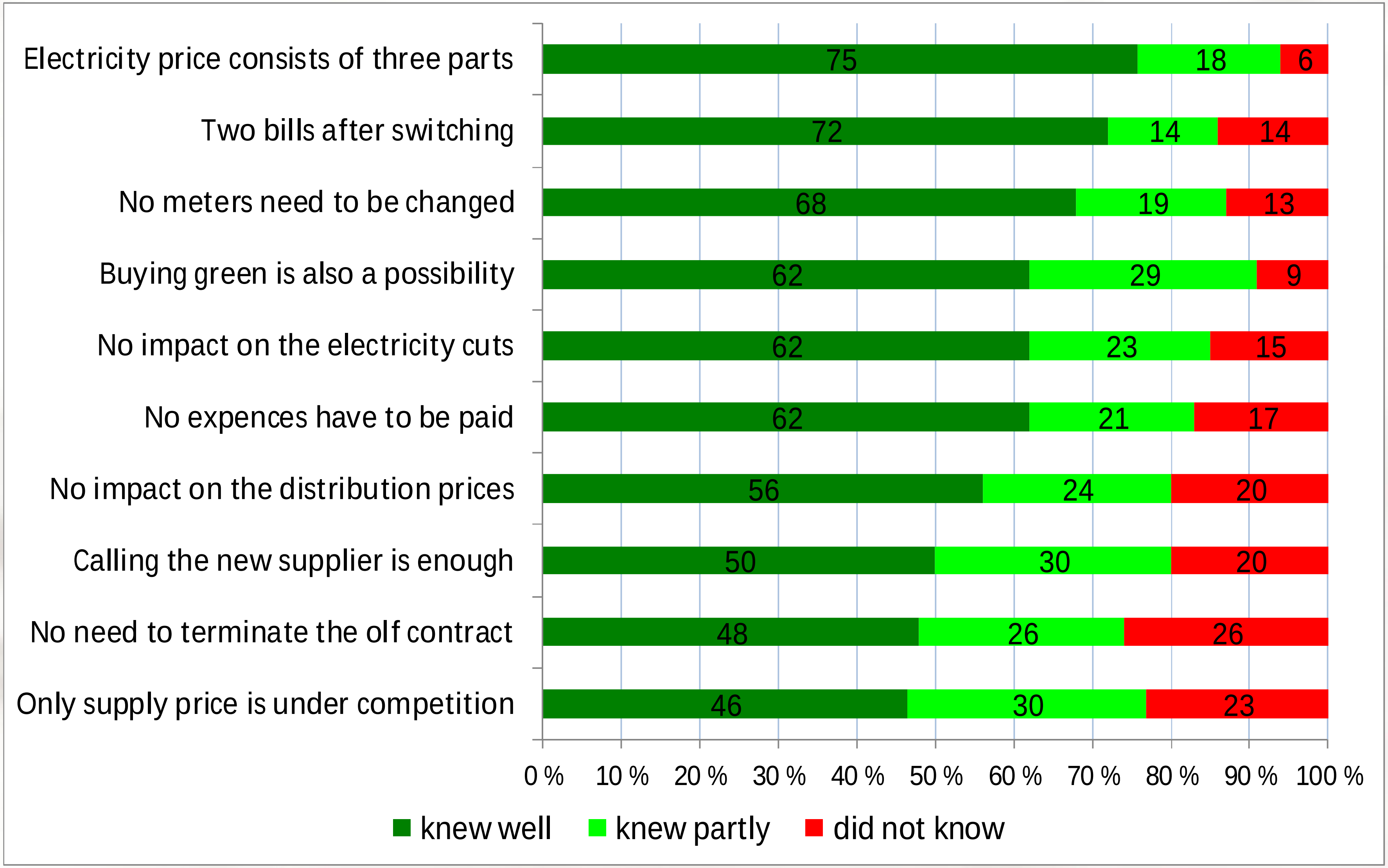
Awareness regarding switching

It is extremely important that people know the most critical issues regarding switching issues, such as that switching should not influence in the quality of electricity they get or the distribution prices they pay, and that the switching is free of charge for them.

However, they should also understand the downsides, such as the fact that they can only influence in part of their electricity bill and that after switching they will in most cases end up with two separate electricity bills.

If the consumers are not aware of these pros and cons of switching, they will always have doubts and they will not use their chances to gain benefits at the electricity market.

Awareness regarding switching Q23



Awareness regarding switching Q23

- switchers vs. non-switchers -

Knew well	Switchers	Non-switchers
Calling the new supplier is enough	67 %	39 %
No need to terminate the old contract	66 %	37 %
No meters need to be changed	86 %	56 %
No impact on the electricity cuts	77 %	52 %
No impact on the distribution prices	75 %	44 %
Buying green is also a possibility	72 %	55 %
Electricity price consists of three parts	82 %	72 %
Only supply price is under competition	57 %	40 %
Two bills after switching	89 %	62 %
No expenses have to be paid	83 %	49 %

OTHER COMMENTS

Other comments Q24

In the end, the respondents had a chance to give comments freely on what ever issues they had in mind regarding the electricity market. In total 15 % of the respondents gave some additional comments.

The most common topics mentioned were:

- Asking offers and switching doesn’t bring you enough savings
- Suppliers are profit seeking, unfair bonuses
- Price cartel, Nordpol bad
- Distribution prices are high
- Distribution prices should be under competition as well
- Electricity prices are high
- Switching and comparing is difficult
- The new price area system is bad

…other comments Q24

"The network price increases are unreasonably high, taking into consideration that we have many cuts, and the company makes incredible profits."

"The fact that wind power cooperation in Sweden is being taxed because the prices are lower than the Nordic electricity markets' market value (oligopoly market), I think it's a scandal. How do you think you get people to choose green electricity when they are being punished of it. In the future I want to see more local energy solutions which take into consideration the local circumstances."

"I think there's a useless jungle of suppliers and surcharges, competition is usually relative anyway and it's a bit like a lottery."

"It's a weird industry, which consists of a small number of producers that totally dominate supply and prices. And, the same companies own most of the electricity network."

"I'm quite suspicious of "environmentally friendly", especially when it comes to so called biofuels. How much energy does it require to maintain a power plant? All the sea transports , loading machinery, trucks? Never seen a calculation."

"It's a shame that the actors take advantage of the profits and take profits. They should give the profits back to electricity consumers."

…other comments Q24

"One price. The electricity companies should be obliged to have one price. It's not reasonable to pay distribution charge, consumption charge + fixed charges. Compare with milk or fuel price – you only pay a price (not to the transport company etc.). The current price structure means that consumers don't really care to save."

"It's difficult to get any information because I don't have a computer."

"I'm an electricity customer with a double tariff contract. There aren't ever any comparison tables on the newspapers and magazines."

"The system is troublesome and meaningless for consumers. "Freedom of choice" is meaningless".

"I wish it wasn't so complicated with all the separate contracts."

"It'd be great to have a price follow-up in the internet, similar to the one for car insurances, e.g. fill in your apartment area and consumption in kwh's and then you'll have a list of prices of different companies."

"I see it as a responsibility for society not just to deregulate, but to have a reference system for product information, which makes it possible for consumers to actually compare."

Other important things

- the experts' point of view -

The experts were also asked, whether they can think of any other relevant issues (than those that have been already mentioned) which influence now and in near future in the functioning of the electricity market from the consumers' point of view.
Almost all the experts brought up the four bidding areas that were introduced 1.11.11 in Sweden. It was believed to have a big impact. (All the interviews were done prior to that date).

Dividing Sweden to 4 different pricing areas will, in the long term, help to balance the supply and demand of electricity.
On the other hand this was seen possibly improving the market and lowering the overall prices in Sweden, but on the other hand it was seen to be quite confusing to the customers.
In future, they might understand the pricing even less than they do now, and they might not feel to be equally treated.

…other important things

- the experts' point of view -

Some other issues that were mentioned as other things to influence in the market, were:

- Introduction of the new metering system
- Introduction of the supplier-centric model in the future
- Introduction of the common Nordic market
- Introduction of the possibility of the customers to switch supplier any day of the month (nowadays only at the beginning)
- Politics about taxation within Sweden and EU

…other important things

- the experts' point of view -

"New price areas in Sweden could cause some uncertainties until the new system has been introduced but that's only temporary. Introduction of the new metering system (meters are read every month) helps customers and makes the whole system more reliable and also improves the situation, because earlier the meters were read every 3 years and the customers could get huge bills..."

"Sweden is introducing 4 elspot areas this November and that will actually improve the market and make it simpler to the suppliers to get good prices in the area where they are located. Hopefully this will lower overall the Swedish prices so that it will be a stimulant both to consumers and suppliers."

"One thing what is happening now is that Sweden will be split to 4 separate pricing areas, similar to what Norway has had for several years. I think it is hard enough for the customers to understand the bills and the pricing, and now we say to them that people in Stockholm, for example, will have different prices than those living in Malmö… Those who make the trading at the market, they understand this and know the reasons, but this can create a lot of bad will and misunderstandings for the market."

…other important things

- the experts' point of view -

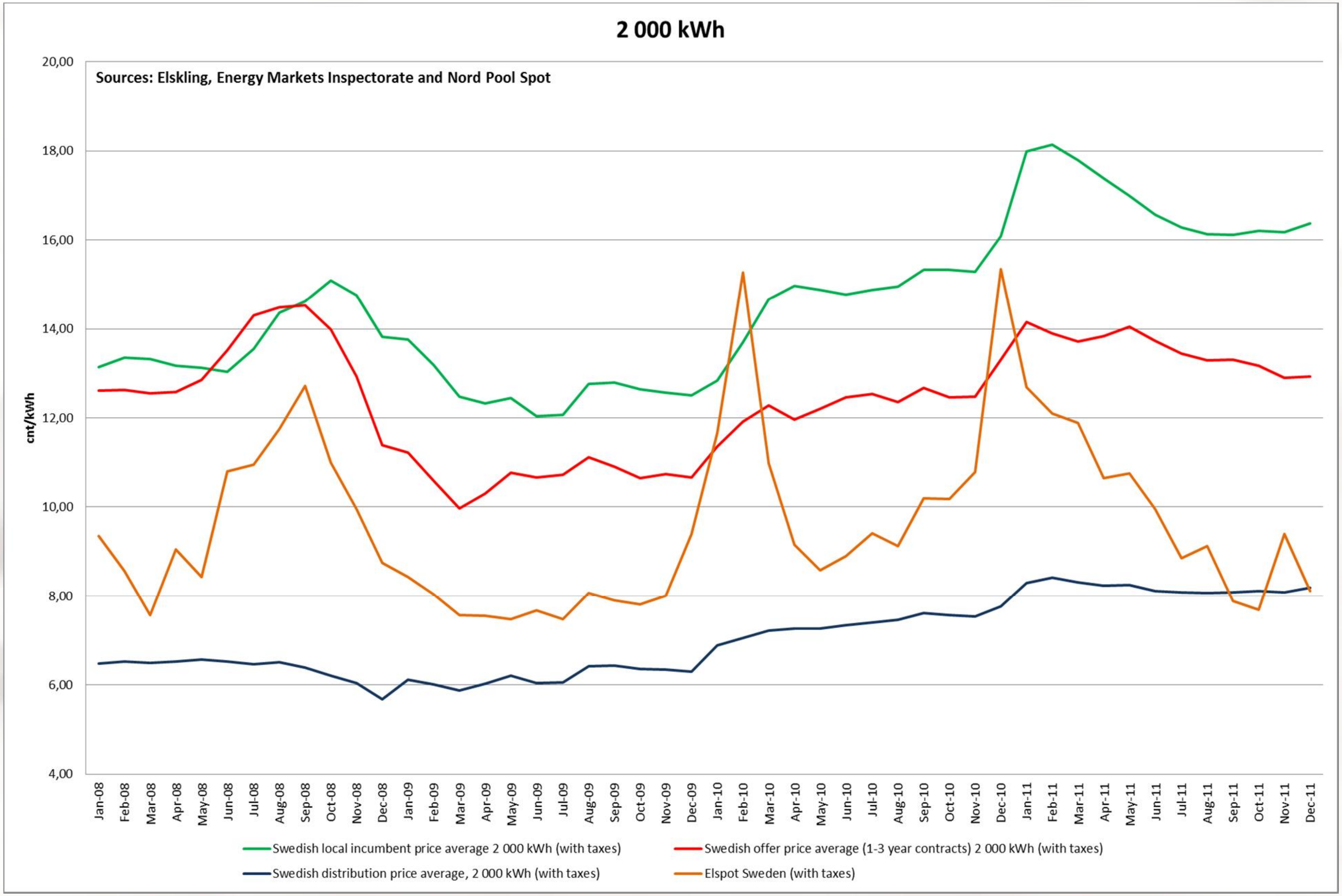
"Of course we have to mention the price areas. They will be reality in November and they will have a great influence on the Swedish electricity market. And then there are two more EU initiatives; supplier centric model in 2014 and 2016, where the supplier should have all the contact with the customer, including distribution matters, and then the common Nordic market in 2015, which will make the competition much tougher (when all the suppliers compete for the same customers)."

PRICE ANALYSIS
2008-2011

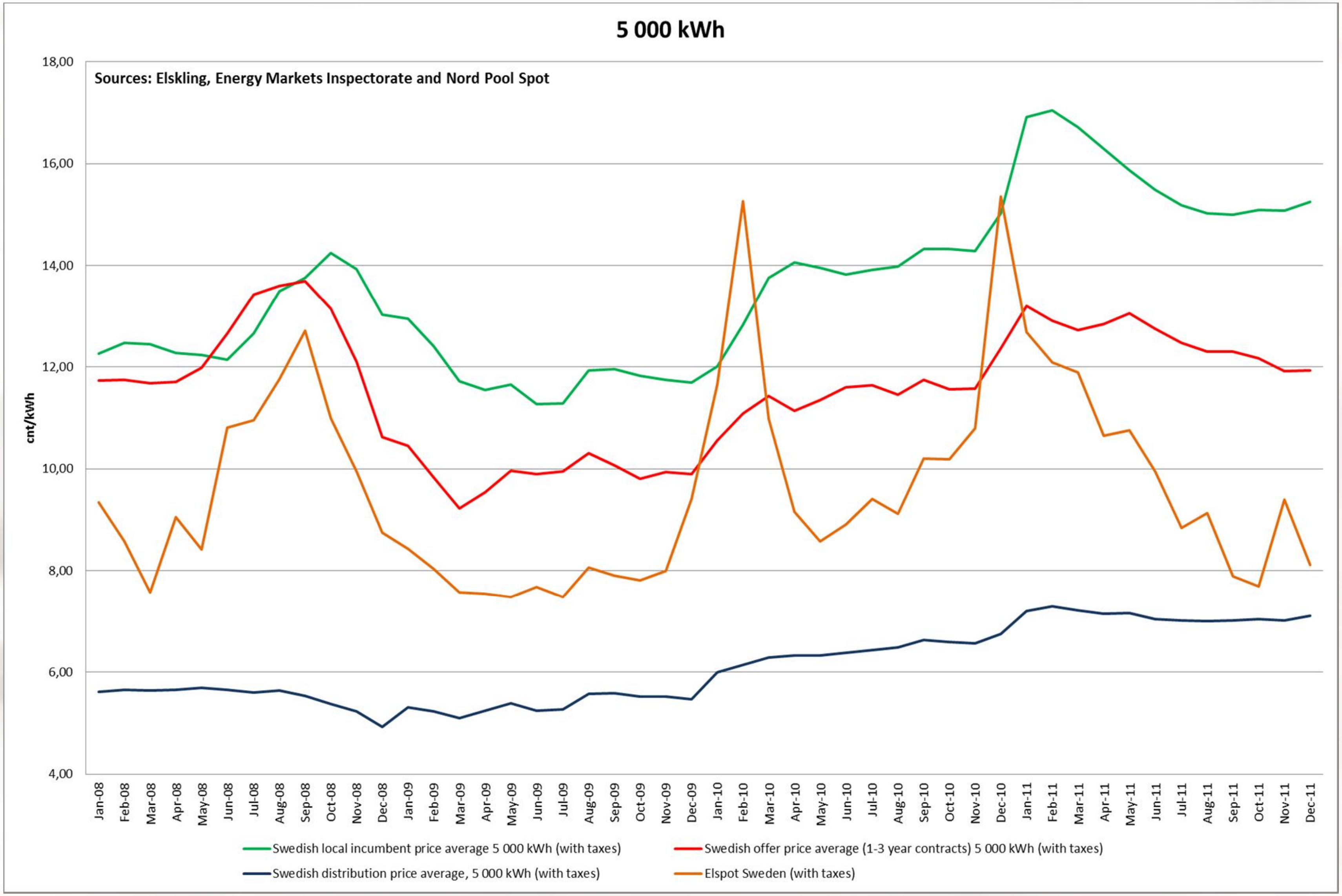
Price analysis

- In the price analysis section the prices were analyzed from January 2008 (distribution, local incumbent and Elspot Sweden prices)
- The following typical household consumption categories were used as a basis of the analysis: 2 000 kWh/year, 5 000 kWh/year and 20 000 kWh/year
- Price information was collected through Energy Markets Inspectorate (distribution and local incumbent prices), Nord Pool Spot (Elspot Sweden) and Elskling AB (offer prices).

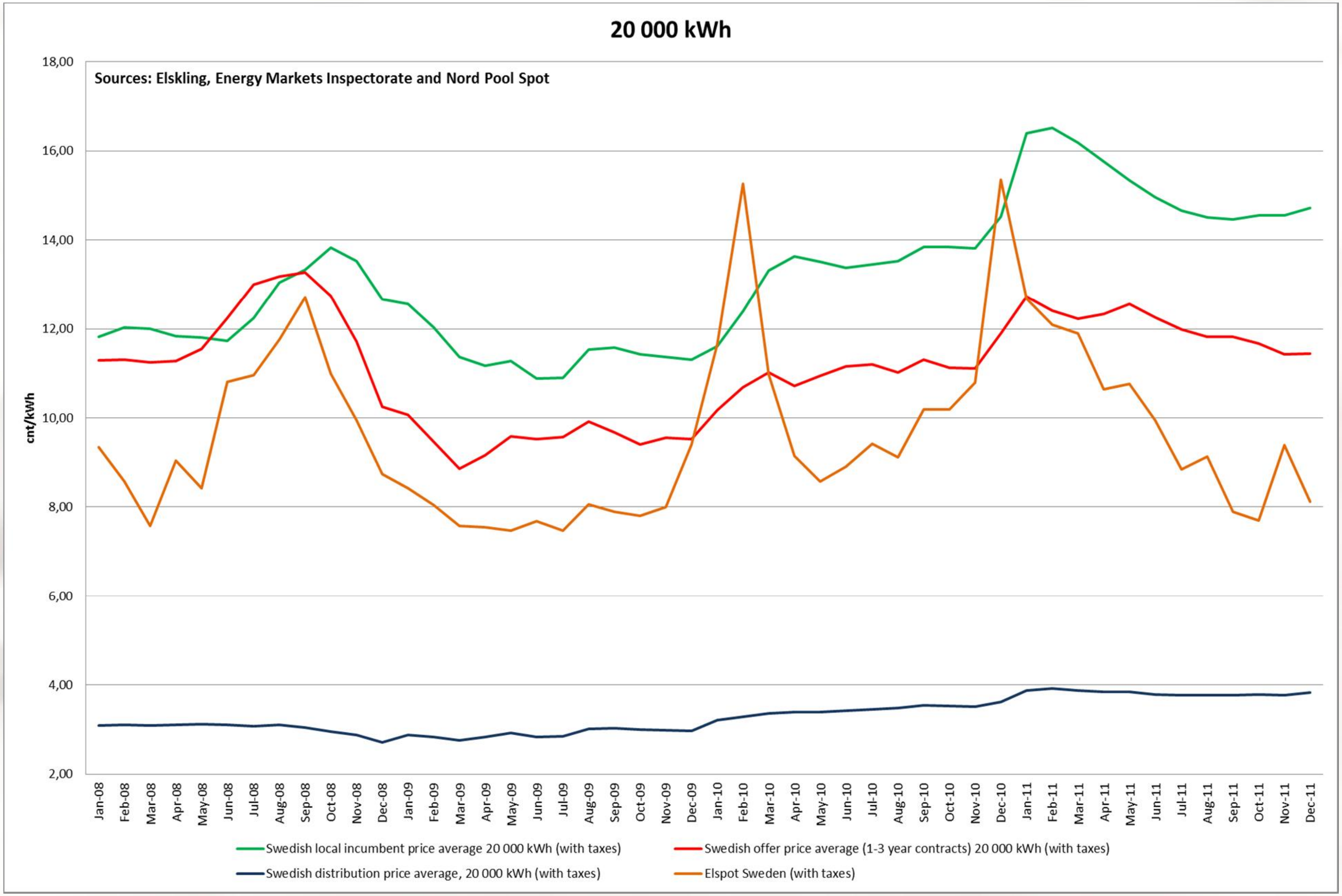
General trends 2 000 kWh



General trends 5 000 kWh



General trends 20 000 kWh

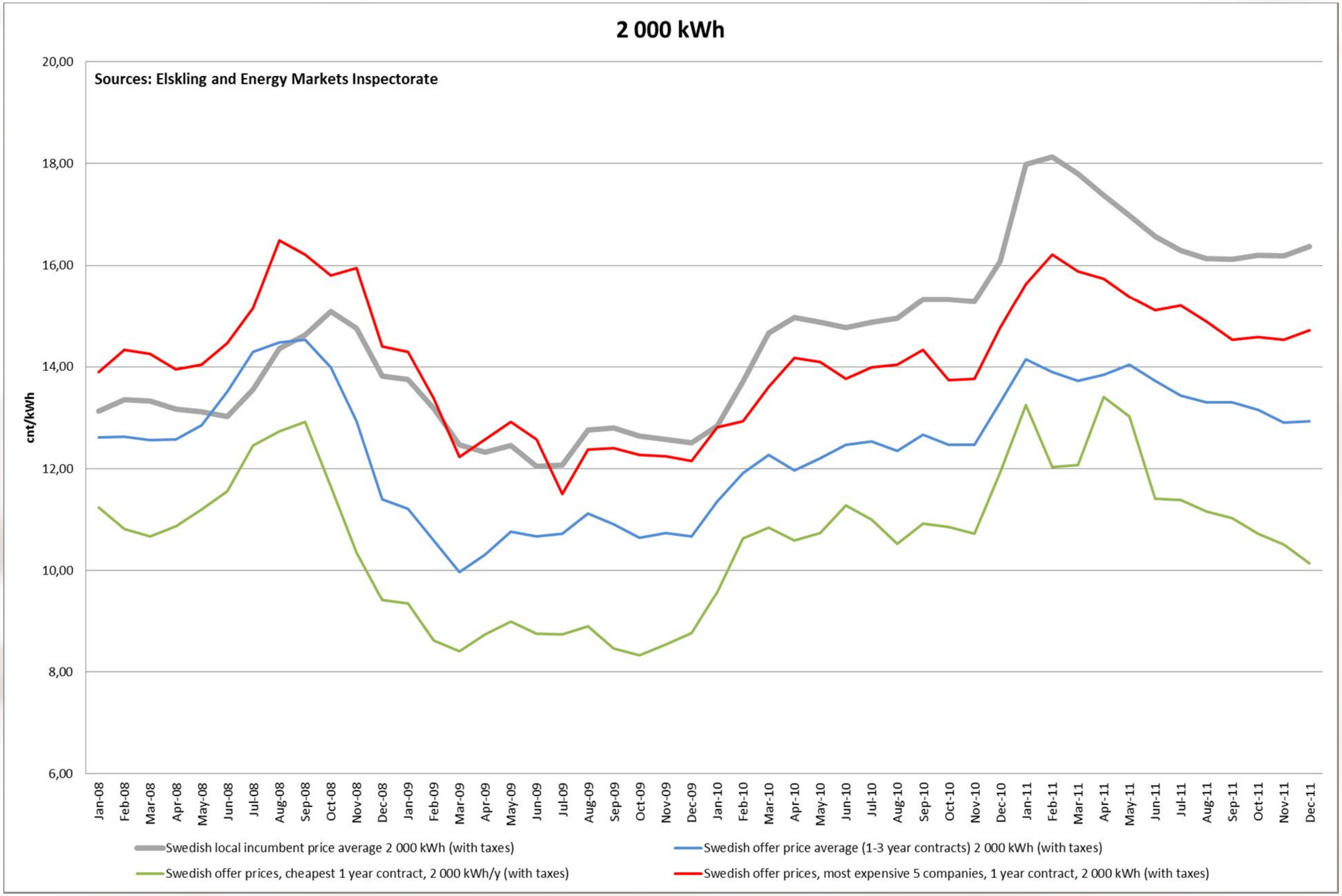


vaasa emg
University of Vaasa, Finland | www.vaasaemg.com

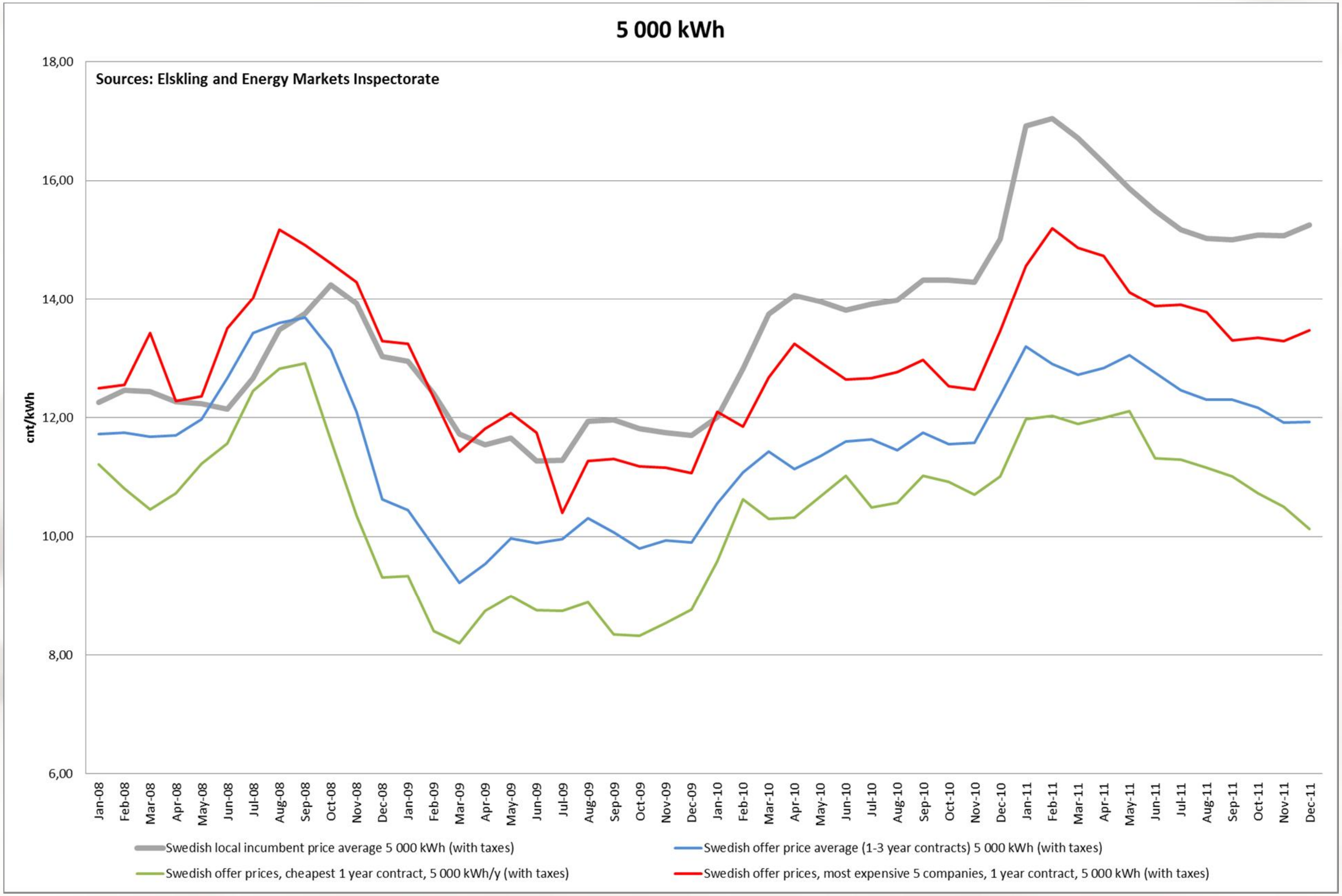
General trends

- In general Swedish electricity prices follow market prices closely and on a short notice
- Prices are volatile, perhaps partly because Swedish energy market law makes short term price changes possible
- During the last 3 years offer prices have reacted less to market price changes than local incumbent prices have
- Incumbent price is used mainly by inactive customers (skimming price policy)
- Relative price differences (cnt / kWh) between 5 000 kWh and 20 000 kWh consumption classes are marginal; there are no double time tariffs in Sweden
- In November 2011 Sweden was split into 4 price areas, which will probably have an impact on the suppliers' pricing policy in the future.

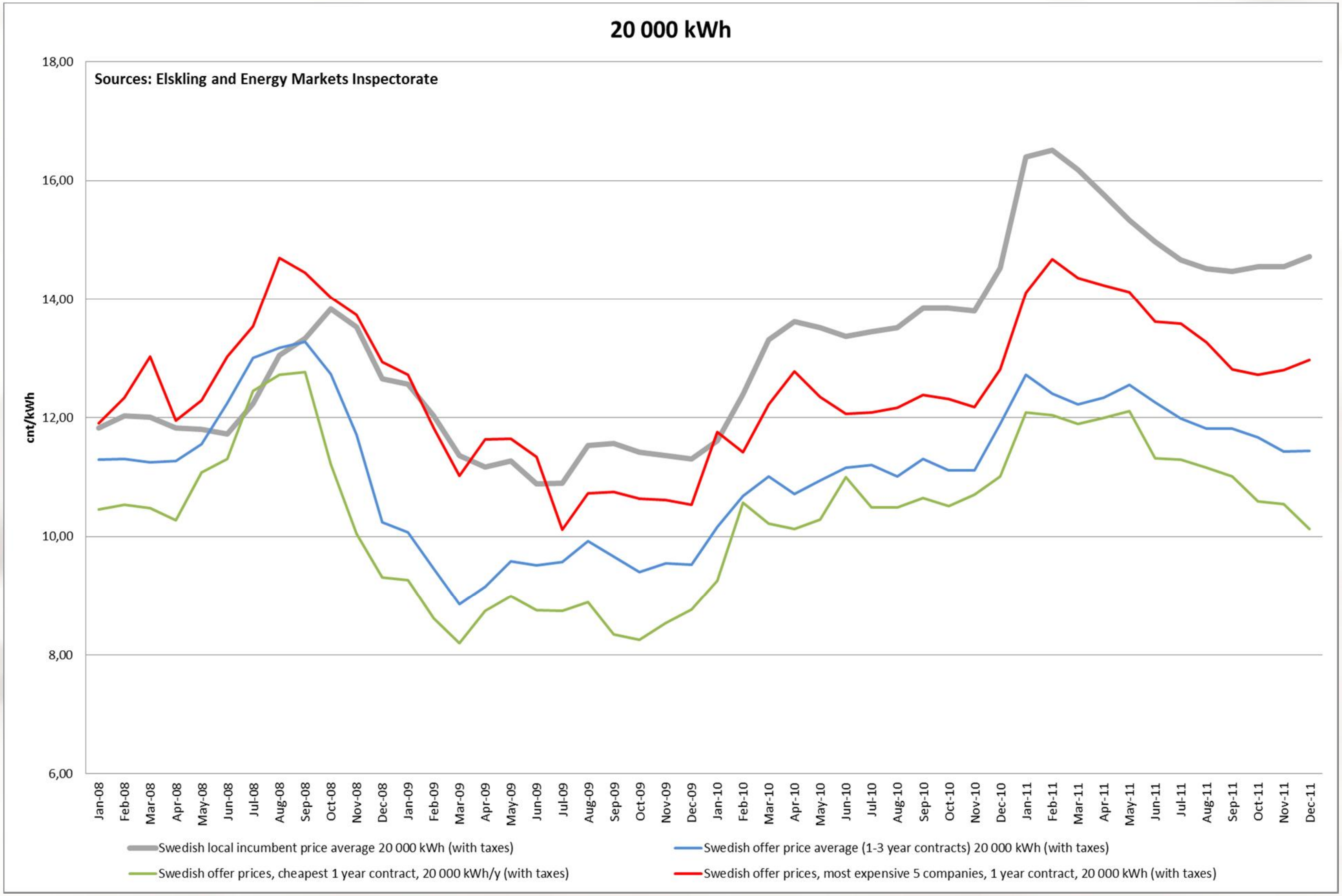
Price differences 2 000 kWh



Price differences 5 000 kWh



Price differences 20 000 kWh

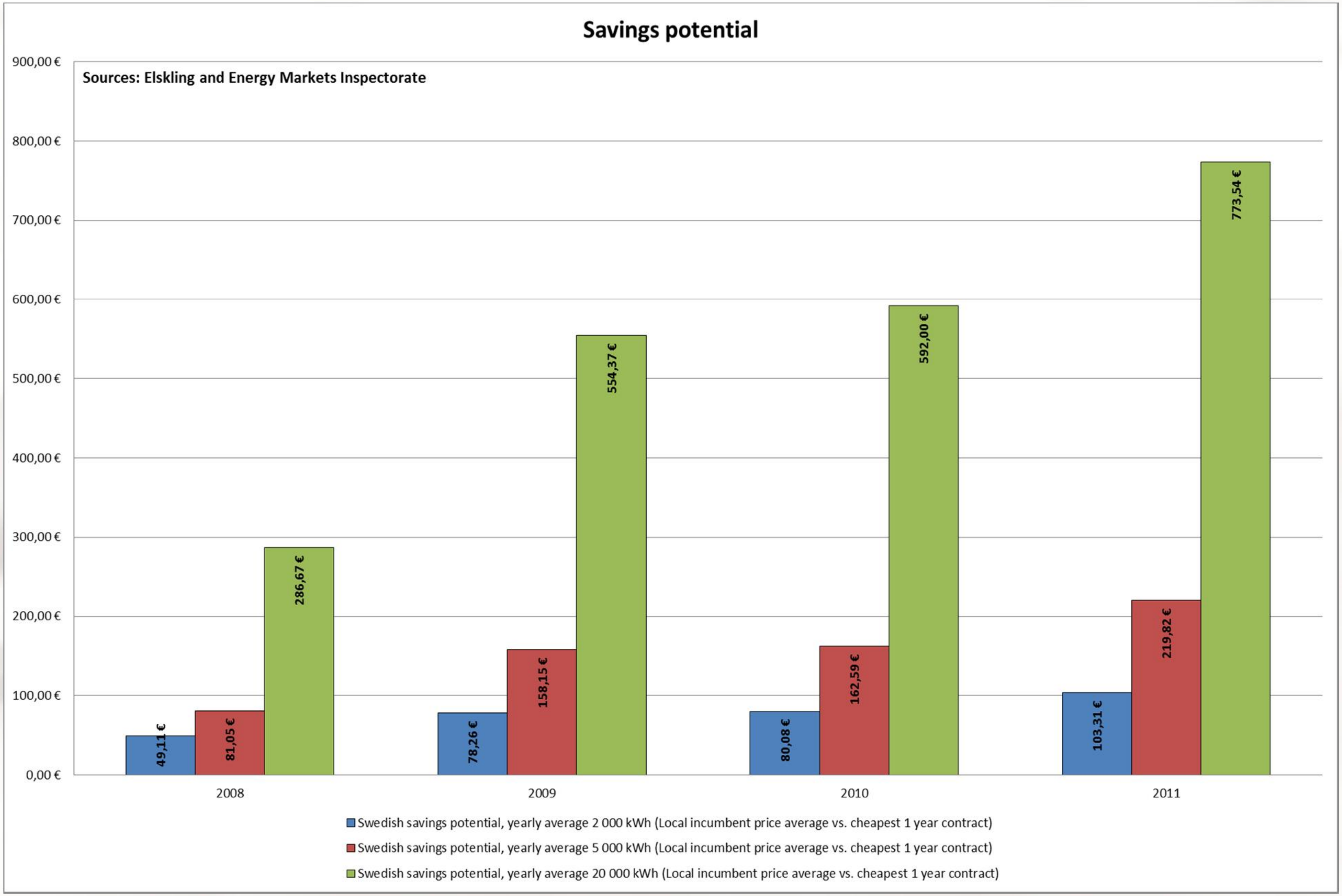


vaasa emg
University of Vaasa, Finland | www.vaasaemg.com

Price differences

- Differences between the cheapest companies are marginal: cheapest suppliers have similar pricing policies
- Partly due to financial crisis in 2008, prices started decreasing. Since 2010, the prices have increased again (due to market price spikes)
- Recently the difference between list and offer prices has grown
- Local incumbent prices have historically been expensive compared to offer prices. Even the most expensive offer prices are significantly below the incumbent prices.
- There are still around 1 million inactive households (the main reason for high incumbent prices), but the number is decreasing fast
- Due to increased competition and consumer awareness, offer prices have increased in popularity: in 2007 of all households 40 % used incumbent prices, at the end of 2011 the number was only 22 %
- Prices in all consumption categories follow similar trends
- Price differences between average priced and cheapest suppliers decrease notably for bigger households (20 000 kWh)
- Differences between suppliers are highest for small households (2000 kWh). Most of the inactive consumers are smaller households with small consumption.

Consumers’ savings potential



Consumers' savings potential

- The number of inactive consumers is decreasing rapidly in Sweden. Savings potential presented in this research is only valid for inactive consumers – for active consumers it is more difficult to get similar savings
- In Sweden competition between suppliers is fierce and satisfactory savings potential exists for all customers (using incumbent prices)
- Savings potential is massive for bigger households; almost 800 € for 20 000 kWh. Probably due to higher savings potential bigger households are more aware and active than smaller households (2 000 kWh and 5 000 kWh)
- Savings potential for the inactive customers has grown steadily from 2008 because of the increased incumbent prices. However, it must be noticed that only a minority of the customers nowadays pay incumbent prices. Amongst the offer prices, the savings potential is significantly lower due to relatively small price differences between the suppliers.

Number of suppliers giving offers

- In Sweden there are ca. 130 suppliers and around 100 of them operate nationally. No historical data has been collected regarding the number of suppliers giving nationwide offers
- The introduction of 4 price areas drastically decreased the number of nationally operating suppliers (to around 10) but numbers were restored to previous levels after a few months (introduction of new Nord Pool products in Sweden re-activated the competition)
- Most of the suppliers are active in their marketing and sales mainly in their own area. However, price comparison services bring prices available to all consumers in Sweden.

SUMMARY

Awareness of the consumers

- There is still a great lack of knowledge among the consumers.
  - A continuous need for basic information: How to switch supplier, what it means, how to compare prices etc.
    - This information is available already, but mainly for consumers who make the effort to find it. Also, finding the information is usually not the problem; understanding it is.
  - However, the suppliers, authorities etc. are not the ones carrying all the responsibility of the consumers' awareness – also the consumers need to be active.
  - Many consumers are simply not interested in electricity issues, and it is very difficult to make them interested.

Functioning of the electricity market

- Easiness and simplicity for the customers, transparency, reliability, active communication and marketing, comprehensive selection of products and services, enough suppliers to choose from, customers having enough information… These things make the well-functioning electricity market.
- Customers are most happy with reliability of the electricity suppliers, but they often mean distribution business (quality of electricity).
- From the customers' point of view, most space for improvement is with pricing. They are very dissatisfied with the supply *and* distribution prices, as well as with the stability of pricing.

- Consumers need to be informed more about how the electricity market work and the price level in Sweden.
- Especially there seems to be a great need to inform the customers more about distribution prices and green electricity (justification, regulation), because they do not seem to understand these concepts.
- Information can be delivered by authorities but also by the suppliers and distribution companies themselves.
- It seems that all dissatisfaction by the consumers is not justified, but this is how they see things.
- Improved communication, more active marketing and clear information can influence in the consumers' opinions.

Consumers' activity

- In the past 5 years, 71 % of the consumers have compared the prices of different electricity suppliers. 54 % have asked or received offers, and 40 % have switched their supplier.
- It must be noted that these percentages are overestimated; active customers were more likely to respond to the survey.
- However, in Sweden the most important part of customer activity is not switching supplier but switching contract type. The most expensive option is to do nothing, due to the fact that the incumbent prices are extremely high.
  42 % of the non-switchers had switched the contract type within their current supplier.

- Those who have switched, were motivated mainly by a possibility to save money, by the ease of switching and by a desire to boost the competition.
- Monetary savings is the main reason to switch for 84 % of the consumers.
- Switching is technically easy and well handled by the suppliers. The challenge is in finding the information, making the comparisons and understanding the market.
- 79 % of the switchers are happy with their decision.

Consumers' passivity

- It is very common that the consumers think that switching supplier does not really bring them significant benefits compared to the effort required.
- Sometimes the consumers expect unrealistic savings.
- The consumers also feel a lot of uncertainty regarding switching, price level development etc.
- It seems to be rare that the consumers would have any problems with their electricity supplier, however, satisfaction & loyalty are not very strong either.
- Rejection (too much hassle, too small benefit) is the main reason for 54 % of the consumers not to switch supplier.

Consumers' satisfaction

- In total 66 % of the consumers are to some extent satisfied with their current electricity supplier. However, this means that as many as 34 % do *not* see themselves as satisfied with their supplier.
- Only 16 % of the consumers state to be ”very satisfied” with their supplier.
- The major reasons for satisfaction is good price, reliability (no electricity cuts → actually belong to distribution business) or the fact that there has never been any major problems with the supplier. Good customer service also plays a role.
- By far the most common reason for dissatisfaction is supplier's high prices and frequent price increases.

Consumers' switching intentions

- In total 29 % of the consumers feel that they are likely to switch supplier in the near future. However, intentions are never the same as the real action. Additionally, only 9 % of the consumers stated that they are *very* likely to switch.
- Likely switchers are searching for a financially better deal.
- Non-likely switchers do not believe in the benefits.
- Uncertain customers felt they know too little about the prices.

Critical unawareness

- Especially the non-switchers lack a lot of information that is crucial in order to understand the electricity market and gain benefits as a consumer.
- The consumers need to be constantly informed especially about the following issues

1) Switching does not cost them anything
2) Switching does not influence in their distribution prices
3) Switching does not influence in the quality of electricity they get
4) Switching is easy and does not involve a lot of bureaucracy
5) The consumer does not have to terminate his current contract.

Prices & offers

- In Sweden electricity prices are relatively volatile. They follow market prices closely and on a short notice.
- The incumbent prices are extremely high in Sweden. The customers usually gain most benefits by changing away from the incumbent contract (switching supplier is not necessary).
- Due to increased competition and consumer awareness offer prices have increased in popularity
- Competition is fierce and savings potential is satisfactory even for small households
- Differences between cheapest companies are marginal: they have similar pricing policies
- The consumers have enough alternatives to choose from (around 100 suppliers operate nationally).
- In November 2011 Sweden was divided to 4 bidding areas, which is expected to have long-term impacts on pricing.

VaasaEMG

Vaasan Yliopisto

PL 700

65101 Vaasa

www.vaasaemg.com