CLEEN
Cluster for Energy and Environment

sgem
Smart Grids and Energy Markets

SGEM WP 5

5.3.3. Functioning of the electricity markets in different countries

Functioning of the electricity market in Finland - Customer's point of view

Short Version

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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 Finland in 2010.

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).

SAMPLE

Information about the survey sample

National questionnaire study

Random sample

Respondents 18-75 years, mother tongue Finnish

6000 questionnaires sent out, 1415 received back

Response rate 23,5 %

1384 questionnaires used

Expert interviews

INTERVIEWEES	
Matti Purasjoki, Dog Nap Consulting	Heikki Rantamäki, Pohjois-Karjalan Sähkö
Reino Huusko, E.ON Suomi / Ekosähkö	Maria Mustonen, Suomen Energiayhtiö
Antti Kivipuro, Energiamarkkinavirasto	Pertti Suuripää, Tampereen Sähkölaitos
Päivi Alaoja, Energiapolar	Arto Rajala, Työ- ja elinkeinoministeriö
Pekka Salomaa, Energiateollisuus ry	Risto Argillander, Turku Energia
Aki Koskinen, Fortum Markets	Hannu Linna, Vaasan Sähkö
Kimmo Tyni, Haminan Energia	Juha Lindholm, Vatajankosken Sähkö
Jukka Niemi, Helsingin Energia	Ilkka Salonen, Vattenfall
Valtteri Virtanen, Kilpailuvirasto	Jouko Kivioja, Vetelin Sähkölaitos
Jukka Kaakkola, Kuluttajavirasto	Nyrki Laine, Voimatori
Salla Annala, Lappeenrannan teknillinen yliopisto	Maija Ruska, VTT

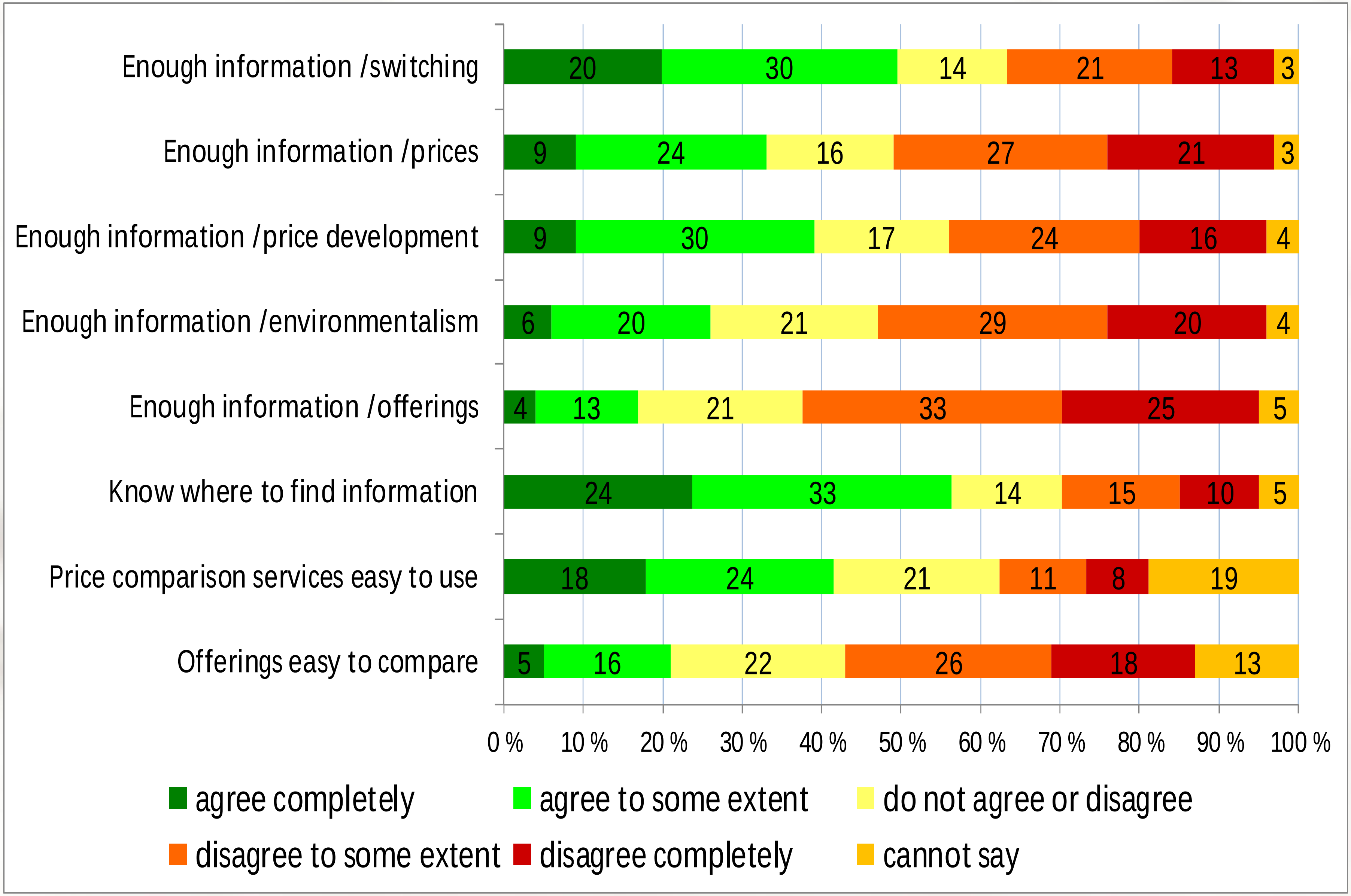
AWARENESS OF THE ELECTRICITY MARKET

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	74 %	39 %
Enough information /prices	50 %	25 %
Enough information /environmentalism	36 %	22 %
Know where to find information	75 %	50 %
Price comparison services easy to use	63 %	33 %
Offerings easy to compare	32 %	16 %

FUNCTIONING OF THE ELECTRICITY MARKET

A well-functioning electricity market?

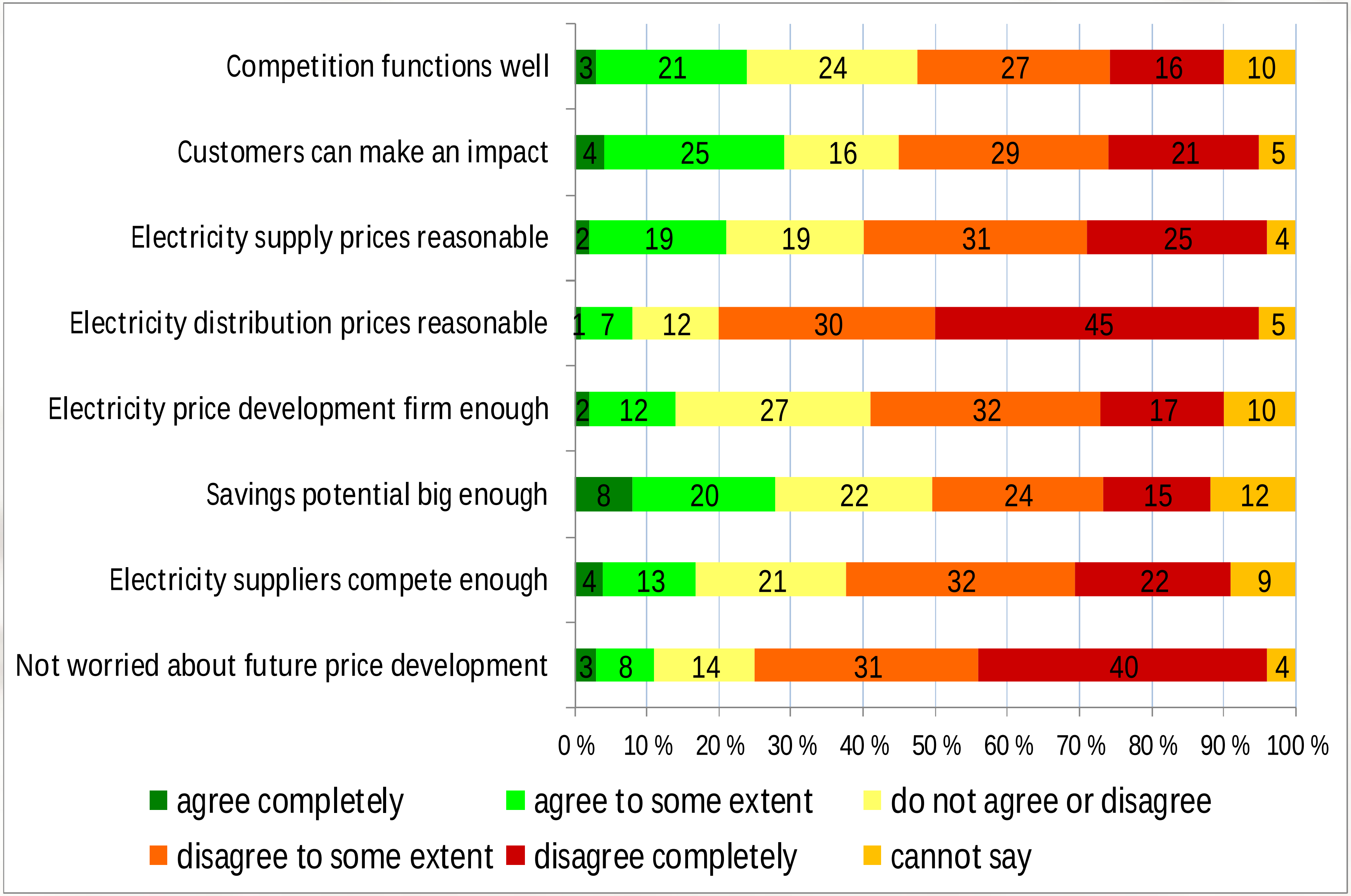
- the experts' point of view -

The experts were asked, how would they define well-functioning electricity market from the consumers' point of view. What are their essential features like?

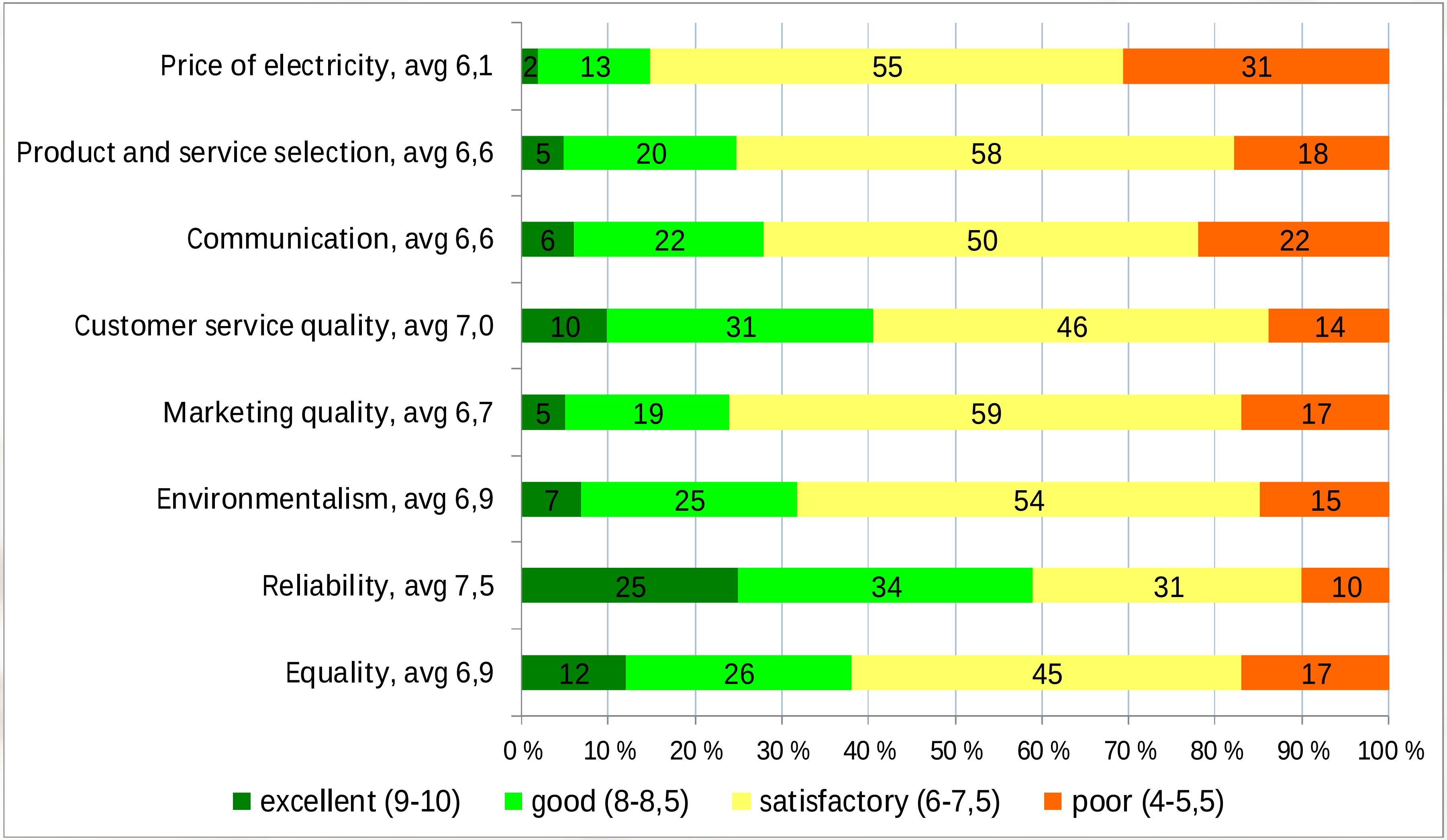
Most commonly mentioned features were:

- Easiness and simplicity in everything (comparing prices, products or contracts, switching supplier)
- Transparent and reliable pricing
- Reliable supply of electricity
- Enough active suppliers
- Enough product and contract alternatives
- All companies having same rules and clear roles
- Good customer service quality
- Market prices reflect to the end-customer prices

Functioning of the market Q3

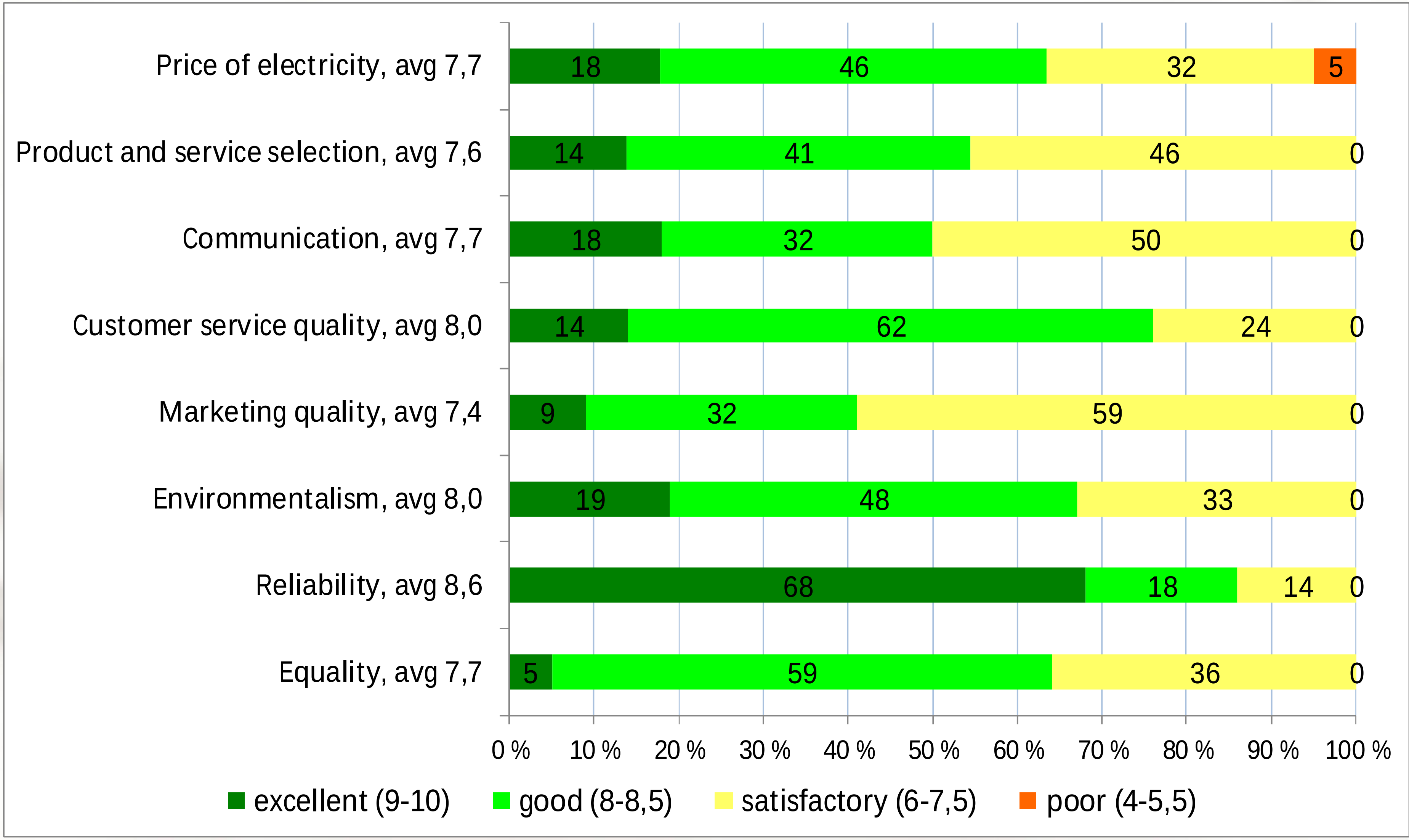


Grades for the suppliers Q4



Grades for the suppliers Q4

- the experts' point of view -



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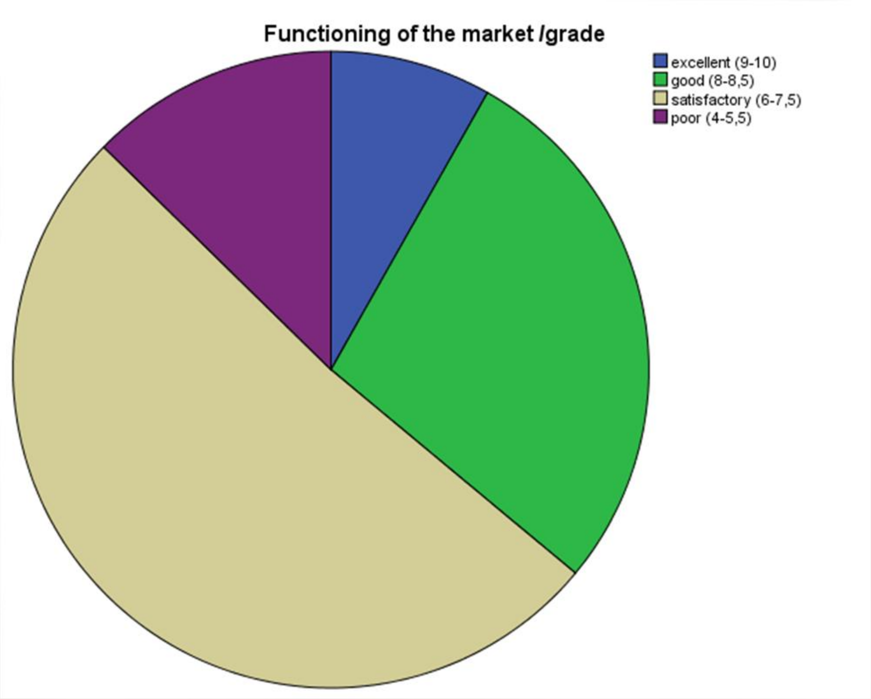
Grades for the suppliers Q4

- experts vs. consumers -

Grade	Consumers (average)	Experts (average)
Price of electricity	6,1	7,7
Product and service selection	6,6	7,6
Communication	6,6	7,7
Customer service quality	7,0	8,0
Marketing quality	6,7	7,4
Environmentalism	6,9	8,0
Reliability	7,5	8,6
Equality	6,9	7,7

Grade: Functioning of the market Q5

Respondents were asked
to give a grade (4-10)
to the functioning of the
Finnish electricity market
on the whole.
The average of the
responses was 7,0.



Functioning of the market /grade

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	excellent (9-10)	108	7,8	8,2	8,2
	good (8-8,5)	367	26,5	27,8	36,0
	satisfactory (6-7,5)	676	48,8	51,3	87,3
	poor (4-5,5)	167	12,1	12,7	100,0
	Total	1318	95,2	100,0	
Missing	System	66	4,8		
Total		1384	100,0		

*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, good, satisfactory, poor).*

Functioning: Excellent Q5

Consumers:

+ Reliability (no electricity cuts),
switching is possible, switching is easy.

Experts:

+ One of the cheapest price levels in Europe,
enough alternatives, basic issues functioning well

- Level of service varies between different suppliers

Functioning: Poor Q5

Consumers:

- No real competition, lack of information, difficult to make comparisons, prices are high and increasing, distribution business being a monopoly, collusion between suppliers, common market increases prices, lack of customer orientation.

Grade: Functioning of the market Q5

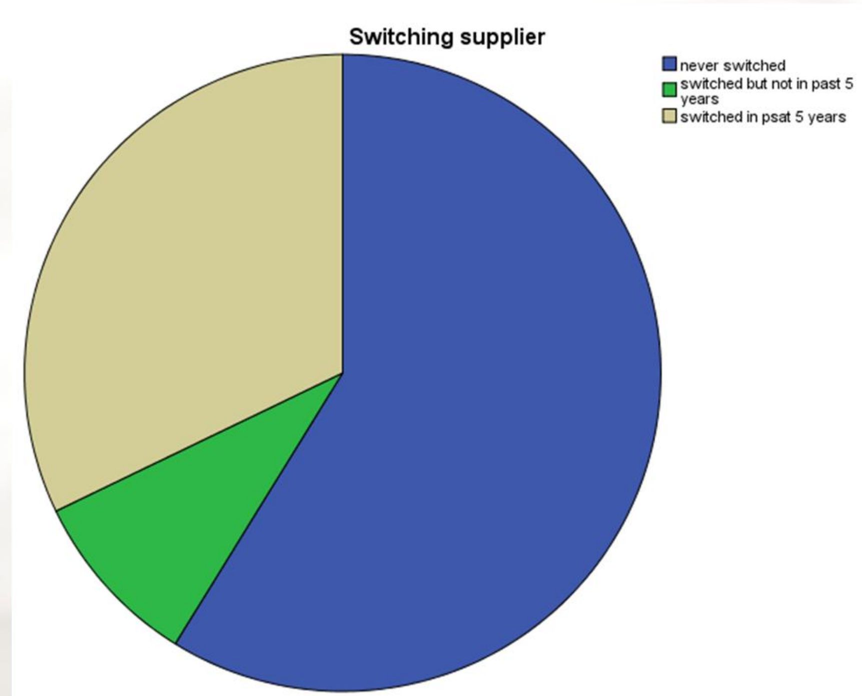
- experts vs. consumers -

Grade	Consumers	Experts
Average	7,0	8,0
Excellent (9-10)	8 %	14 %
Good (8-8,5)	28 %	59 %
Satisfactory (6-7,5)	51 %	27 %
Poor (4-5,5)	13 %	0 %

COMPARING AND SWITCHING ELECTRICITY SUPPLIERS

Switching supplier Q9

The respondents were asked whether they have ever switched electricity supplier. As many as 59 % of the respondents have never switched supplier. 32 % of the respondents have switched supplier in the past 5 years, and 9 % earlier than that.



Switching supplier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	never switched	787	56,9	58,8	58,8
	switched but not in past 5 years	121	8,7	9,0	67,9
	switched in psat 5 years	430	31,1	32,1	100,0
	Total	1338	96,7	100,0	
Missing	System	46	3,3		
Total		1384	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 8 to 30 %. Quite typical answer was around 10 – 15 %.

However, very many of the interviewees refused to state a percentage, because it is not a correct way, or at least the best way, to measure the functioning of the market.

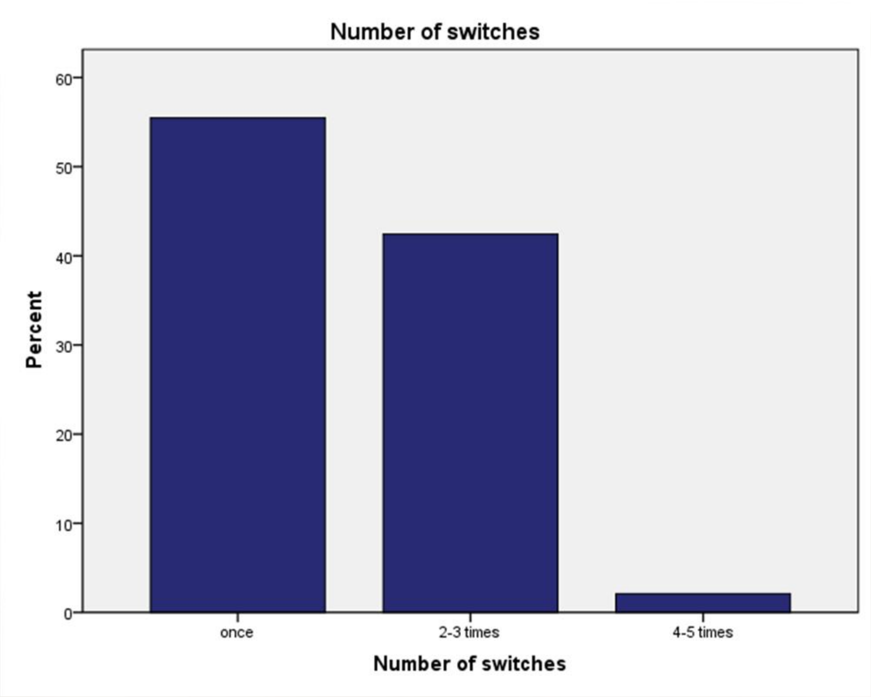
<u>Comments</u>

- When customers are more active, the suppliers get active as well → real competition
- Better ways to evaluate the functioning of the market: how many consumers have asked offers, what is the price level
- Customers don’t switch because they already have a good supplier
- The margins stay high when the switching rate is as low as 4 % → 10 % would make the suppliers more efficient

SWITCHERS

Number of switches Q10

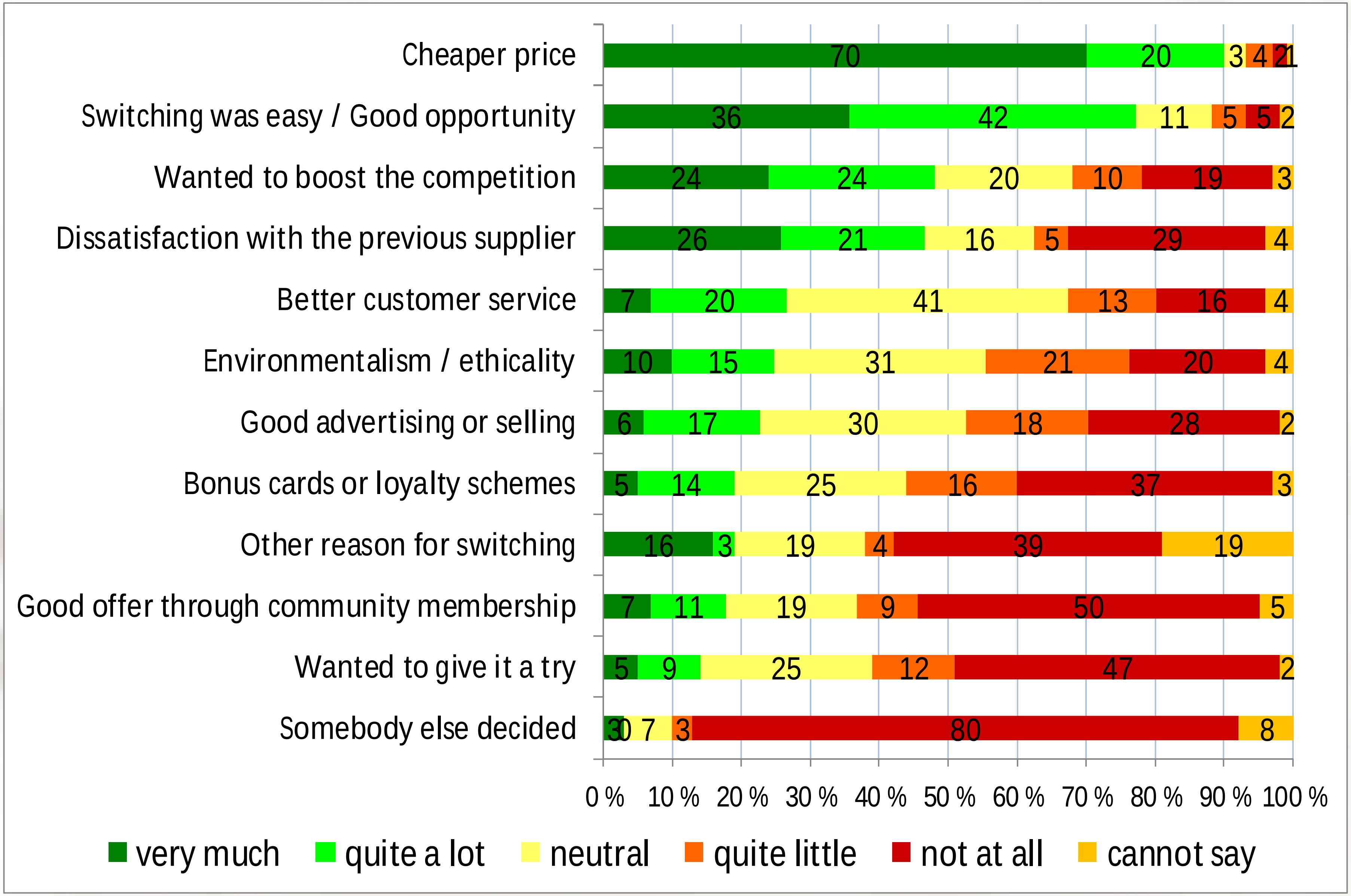
Of those respondents who have switched in the past 5 years, 56 % have switched only once.
As many as 42 % have switched 2-3 times.
2 % of the switchers have switched 4-5 times and none of them more frequently.



Number of switches

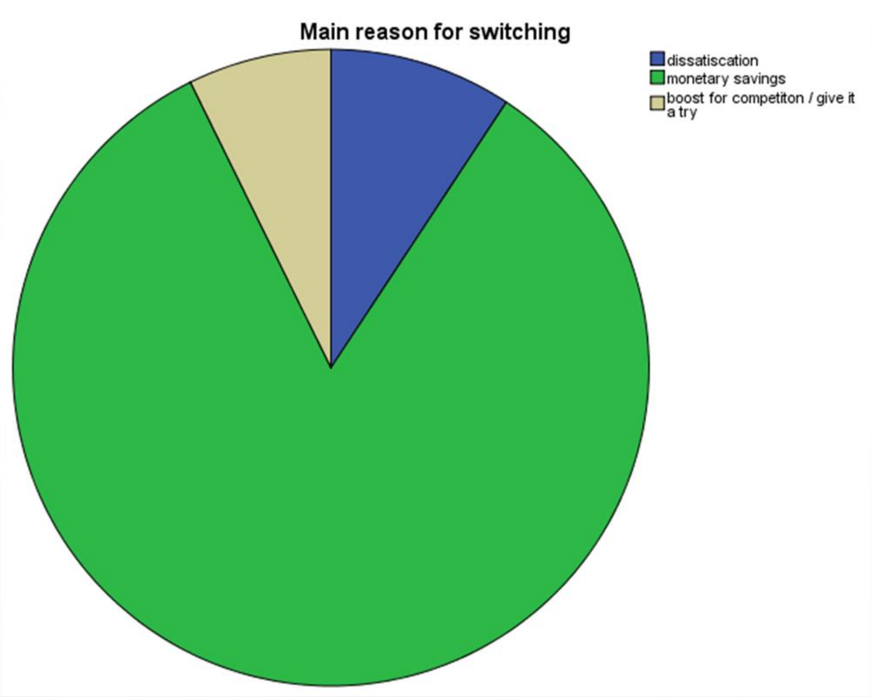
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	once	238	55,3	55,5	55,5
	2-3 times	182	42,3	42,4	97,9
	4-5 times	9	2,1	2,1	100,0
	Total	429	99,8	100,0	
Missing	System	1	,2		
Total		430	100,0		

Reasons for switching Q11



Main reason for switching Q12

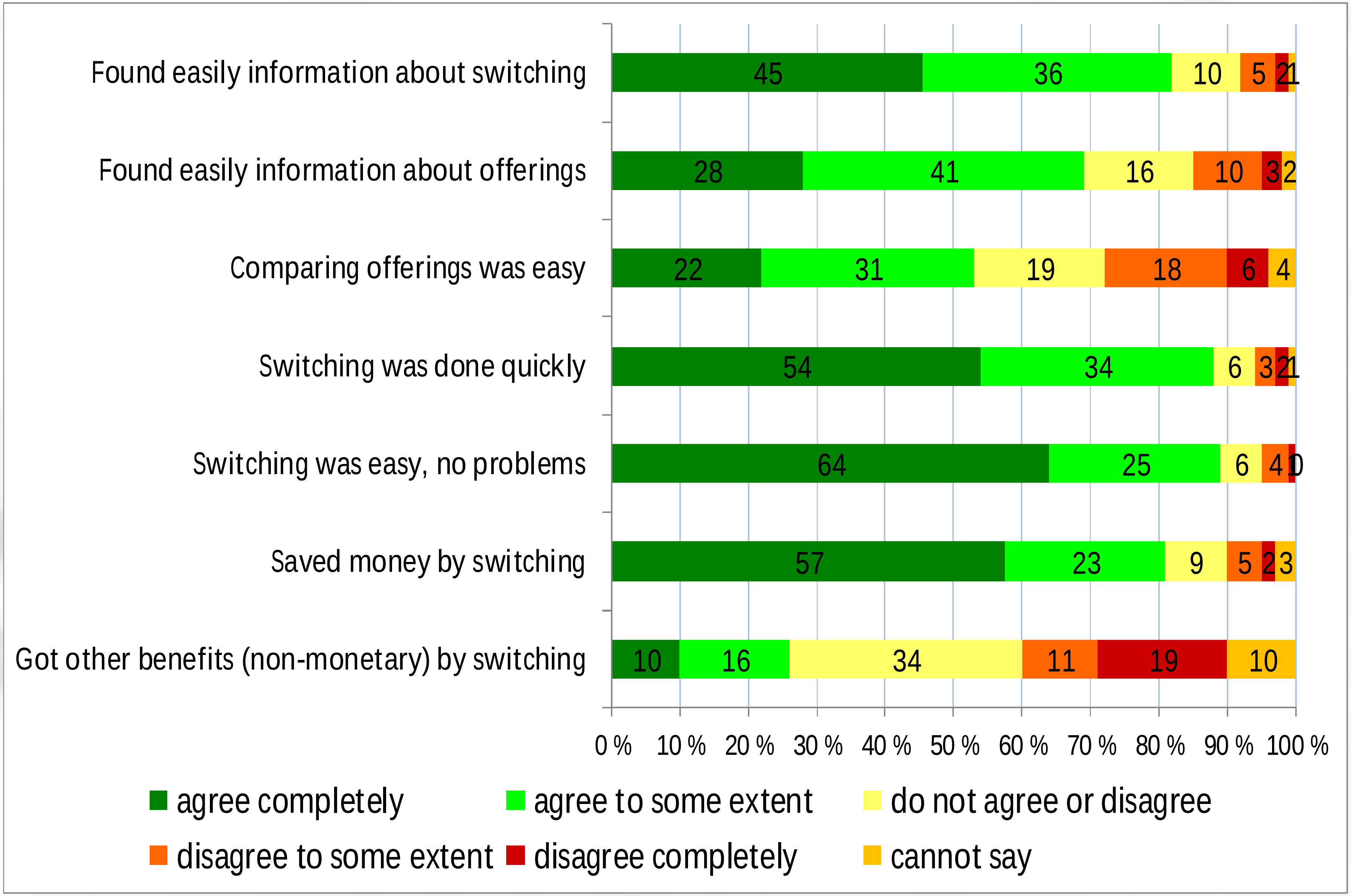
When the respondents had to choose one of these three main reasons to switch supplier, as many as 83 % of them chose monetary savings. 9 % chose dissatisfaction with the previous supplier and 7 % their willingness to boost the competition or just give switching a try.



Main reason for switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	dissatiscation	37	8,6	9,3	9,3
	monetary savings	332	77,2	83,4	92,7
	boost for competiton / give it a try	29	6,7	7,3	100,0
	Total	398	92,6	100,0	
Missing	System	32	7,4		
Total		430	100,0		

Switching ease Q13



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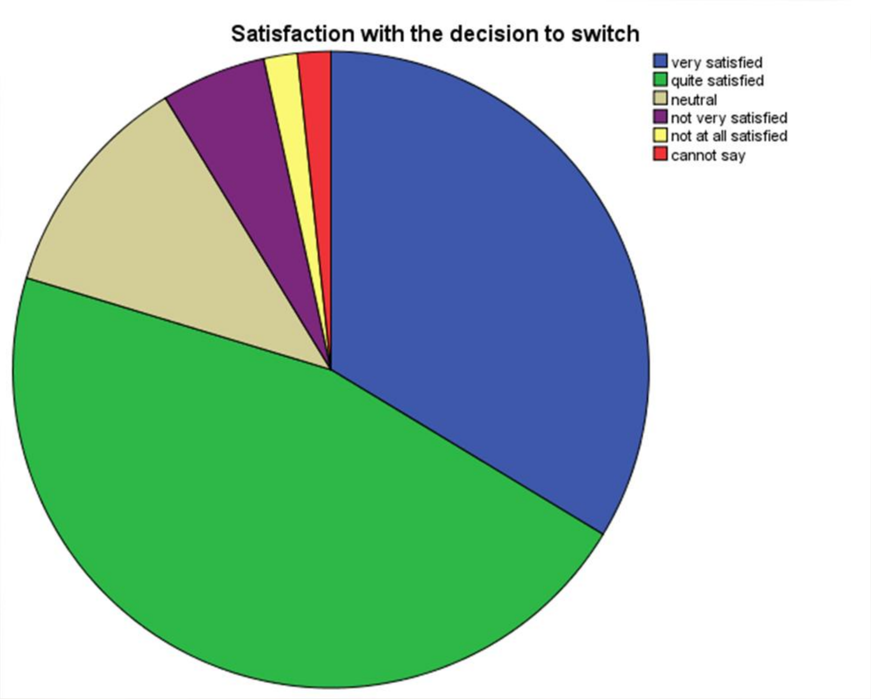
Satisfaction for switching Q14

In total 80 % of the switchers are happy with their decision to switch electricity supplier.
Only 7 % of them are dissatisfied with their decision.



Satisfaction with the decision to switch

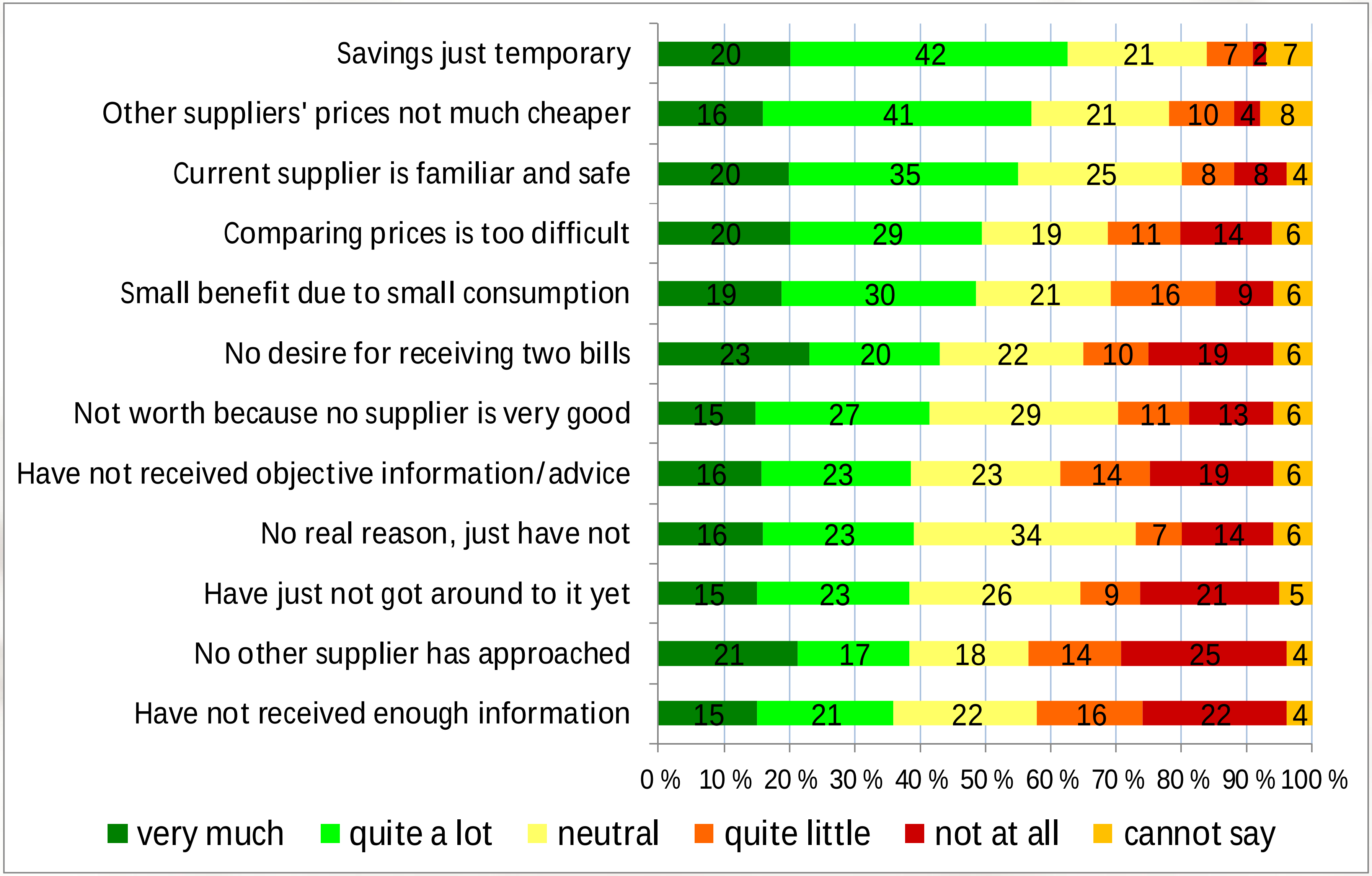
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very satisfied	139	32,3	33,7	33,7
	quite satisfied	190	44,2	46,0	79,7
	neutral	48	11,2	11,6	91,3
	not very satisfied	22	5,1	5,3	96,6
	not at all satisfied	7	1,6	1,7	98,3
	cannot say	7	1,6	1,7	100,0
	Total	413	96,0	100,0	
Missing	System	17	4,0		
Total		430	100,0		

NON-SWITCHERS

Experiences of non-switching

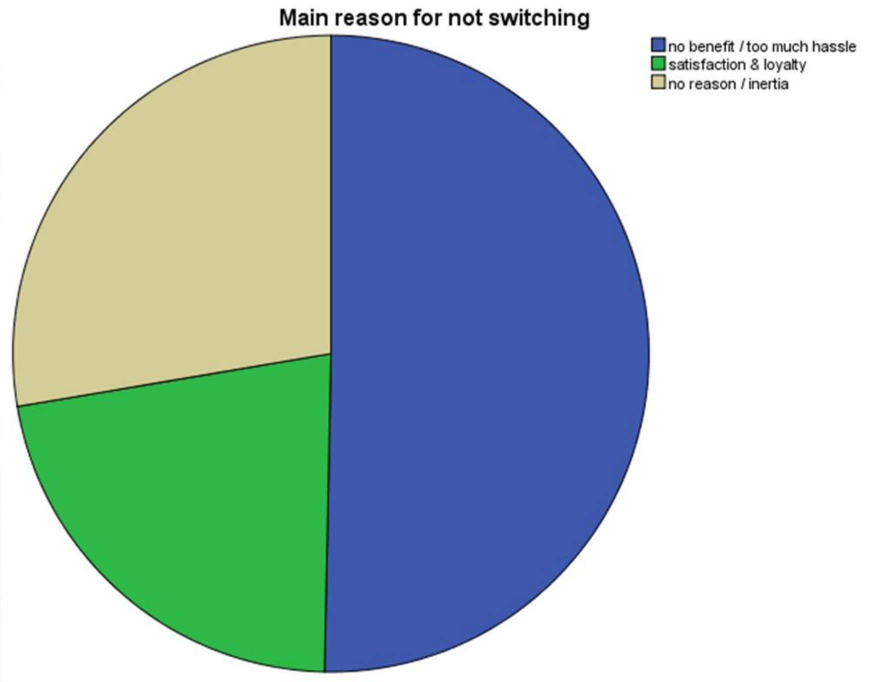
Those respondents who have
never switched their electricity supplier
or at least have not done it in the past five years,
were asked questions regarding
their reasons for staying passive.

Reasons for not switching Q15



Main reason for not switching Q16

When the respondents had to choose one of these three main reasons to not to switch supplier,
50 % of them chose that there is not enough benefit compared to the hassle.
28 % chose inertia as a main reason and 22 % 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	393	43,3	50,3	50,3
	satisfaction & loyalty	172	18,9	22,0	72,3
	no reason / inertia	216	23,8	27,7	100,0
	Total	781	86,0	100,0	
Missing	System	127	14,0		
Total		908	100,0		

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Main reason for not switching Q16

- 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.

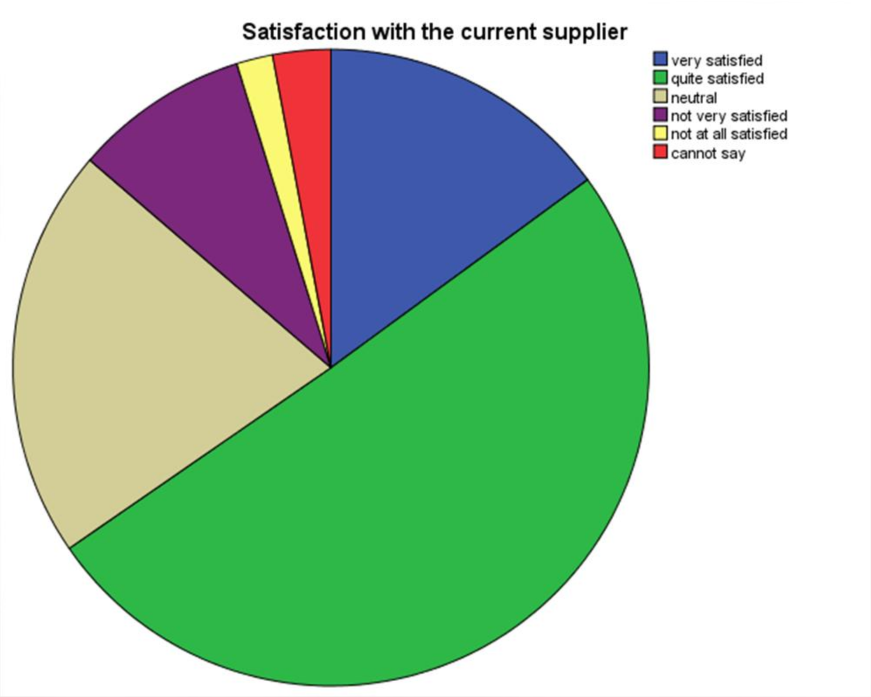
It is interesting to see that all the experts assume rejection (too small benefit, too much trouble) to be much less significant reason for the consumers' passivity than the consumers evaluate themselves. The estimated share of loyalty and inertia are closer to the reality.

Reason	Consumers (average)	Experts (average)	Experts (variation)
Rejection	50 %	20 %	5 – 35 %
Loyalty	22 %	38 %	10 – 60 %
Inertia	28 %	42 %	10 – 80 %

SWITCHING & LOYALTY

Satisfaction with the supplier Q17

In total 65 % of the respondents are somewhat satisfied with their current electricity supplier.
11 % are not satisfied.



Satisfaction with the current supplier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very satisfied	203	14,7	14,9	14,9
	quite satisfied	685	49,5	50,4	65,4
	neutral	284	20,5	20,9	86,3
	not very satisfied	121	8,7	8,9	95,2
	not at all satisfied	25	1,8	1,8	97,1
	cannot say	40	2,9	2,9	100,0
	Total	1358	98,1	100,0	
Missing	System	26	1,9		
Total		1384	100,0		

\- switchers vs. non-switchers –

It seems that the switchers are slightly more satisfied with their electricity supplier than the non-switchers. 22 % of switchers stated to be "very satisfied" with their supplier, whereas this percentage was 11 % for the non-switchers.

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Satisfied customers Q18

Almost on third of the satisfied respondents stated their current suppliers good price as their reason for satisfaction.

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

- Reliable delivery of electricity
- Everything has worked well, no problems
- Locality of the supplier (support to local companies and / or easiness to deal with)
- Environmentalism
- Good customer service
- Good billing system
- Good communication
- Familiarity & safety

Dissatisfied customers Q18

More than one third of the dissatisfied respondents stated their current suppliers high electricity price as their 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 billing system
- Bad customer service
- High distribution prices
- False promises
- Frequent price increases

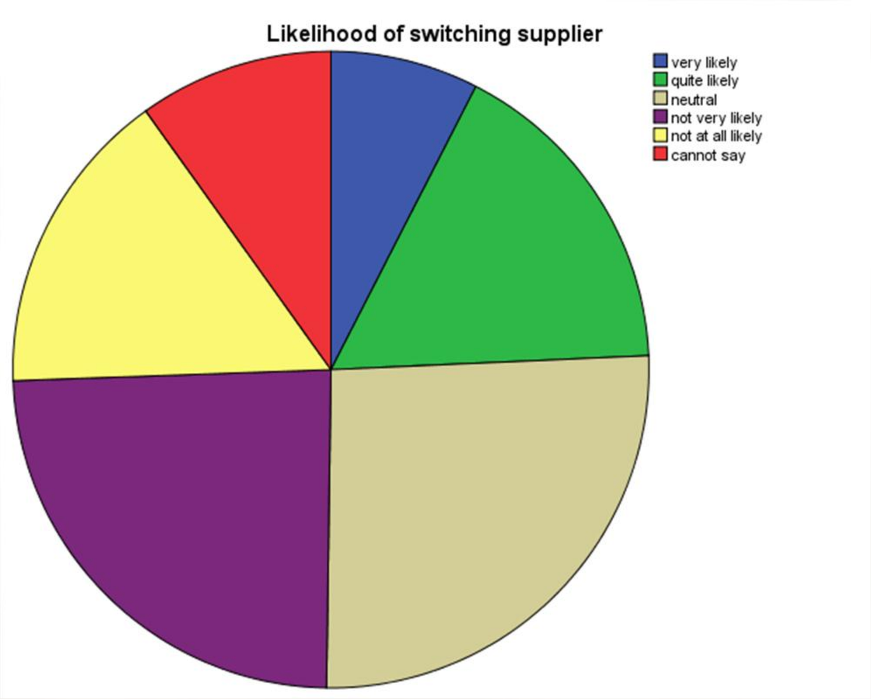
Required savings potential Q19

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

Electricity consumption of the respondents household	Required savings potential (average)
2 000 kWh / year	103 € / year
5 000 kWh / year	111 € / year
10 000 kWh / year	164 € / year
18 000 kWh / year	192 € / year
All respondents	153 € / year

Switching intentions Q20

24 % of the respondents feel that they are likely to switch their electricity supplier in the near future. 40 % are not likely. A significant proportion of the respondents (36 %) had a neutral position or they could not say about their intentions.



Likelihood of switching supplier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very likely	102	7,4	7,5	7,5
	quite likely	227	16,4	16,8	24,3
	neutral	351	25,4	25,9	50,2
	not very likely	328	23,7	24,2	74,4
	not at all likely	212	15,3	15,7	90,1
	cannot say	134	9,7	9,9	100,0
	Total	1354	97,8	100,0	
Missing	System	30	2,2		
Total		1384	100,0		

Switching intentions Q20

- switchers vs. non-switchers -

Likelihood to switch supplier in the near future	Switchers	Non-switchers
very likely	16 %	4 %
quite likely	27 %	12 %
neutral	24 %	27 %
not very likely	15 %	29 %
not at all likely	9 %	19 %
cannot say	9 %	10 %

AWARENESS OF SWITCHING RELATED ISSUES

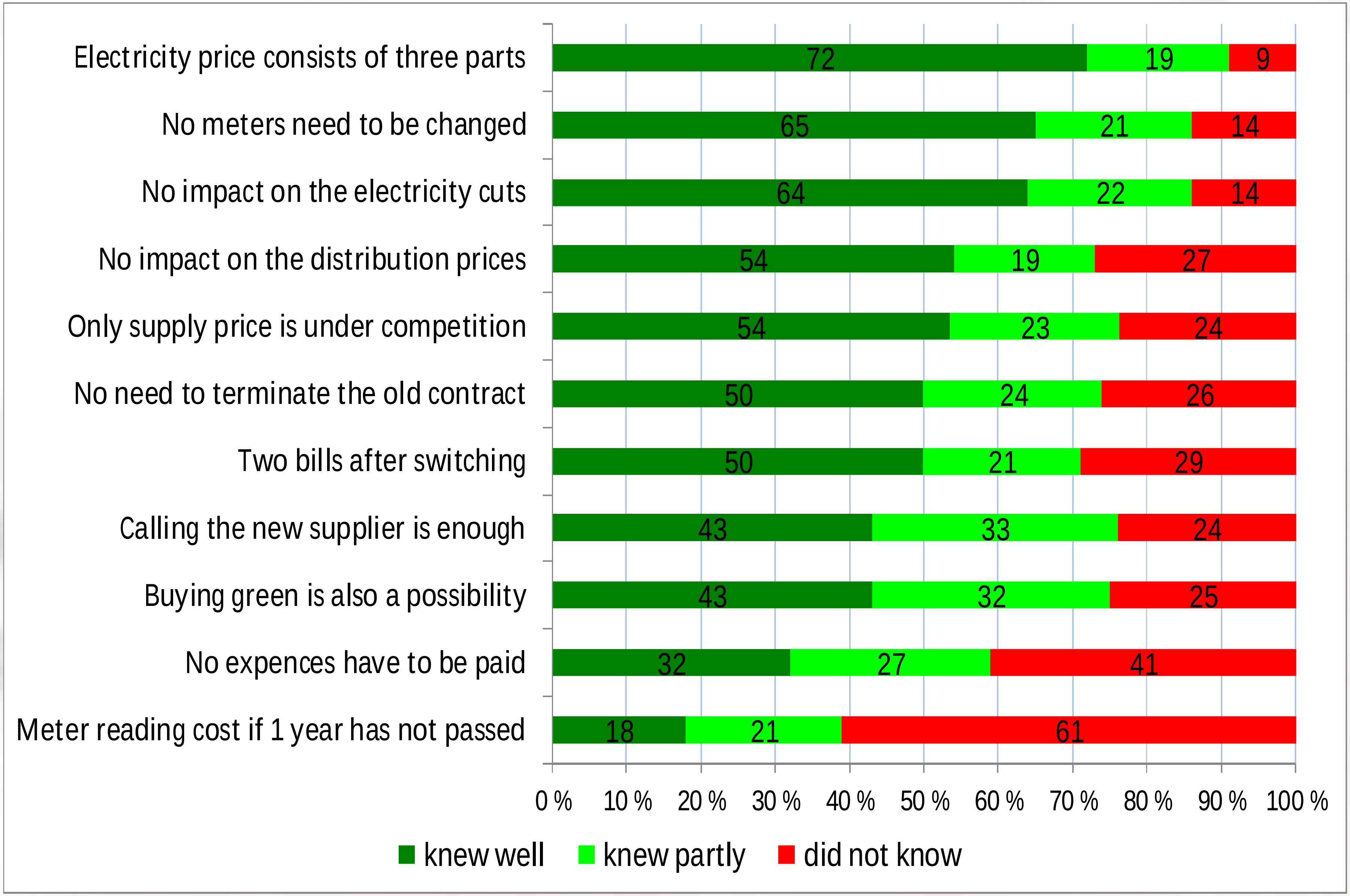
Awareness regarding switching

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 wills.

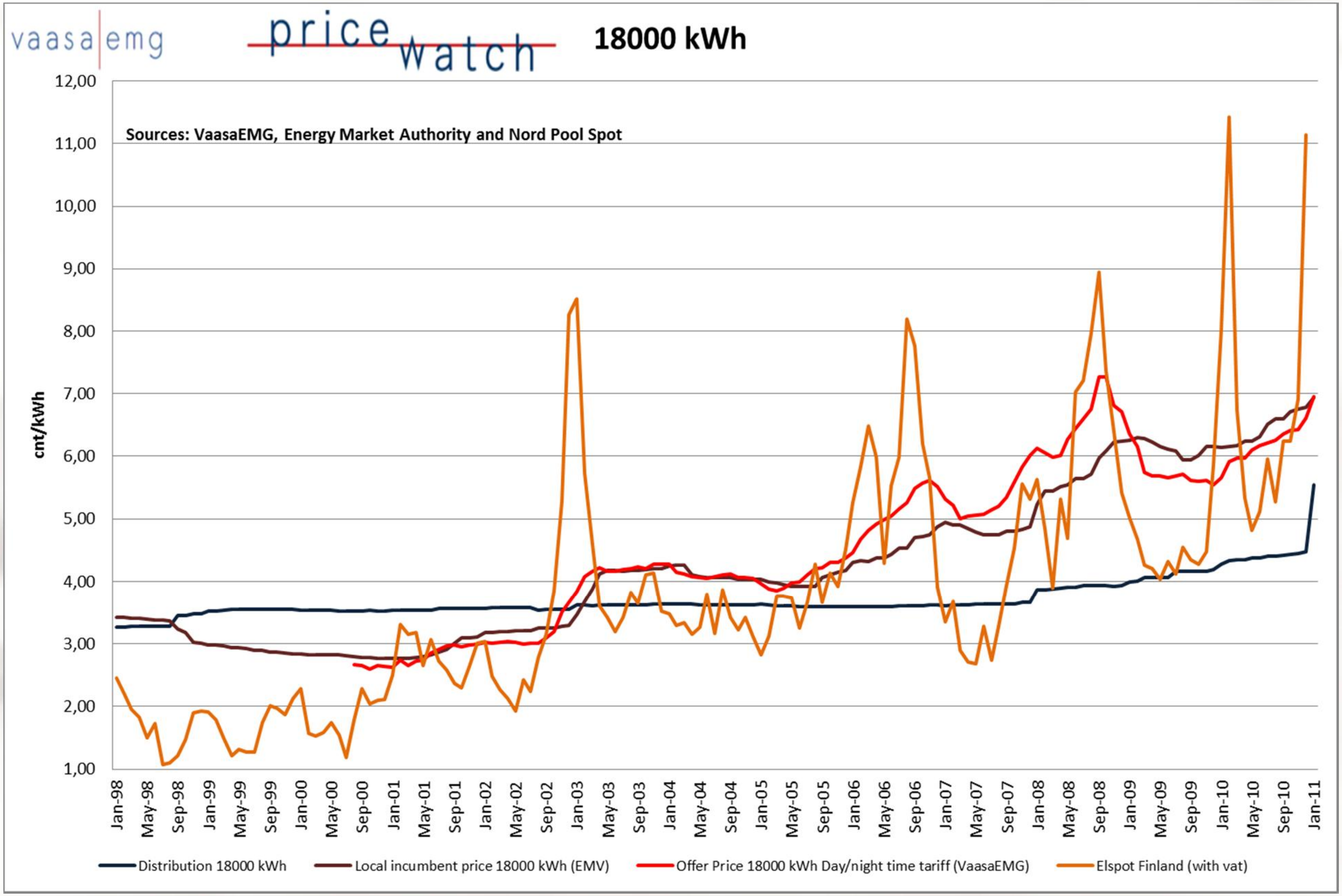
If the consumers are not aware of the pros and cons at the electricity market, they will always have doubts about switching, and they will never use their chances to gain benefits at the electricity market.

Awareness regarding switching Q22



PRICE ANALYSIS
1998-2011

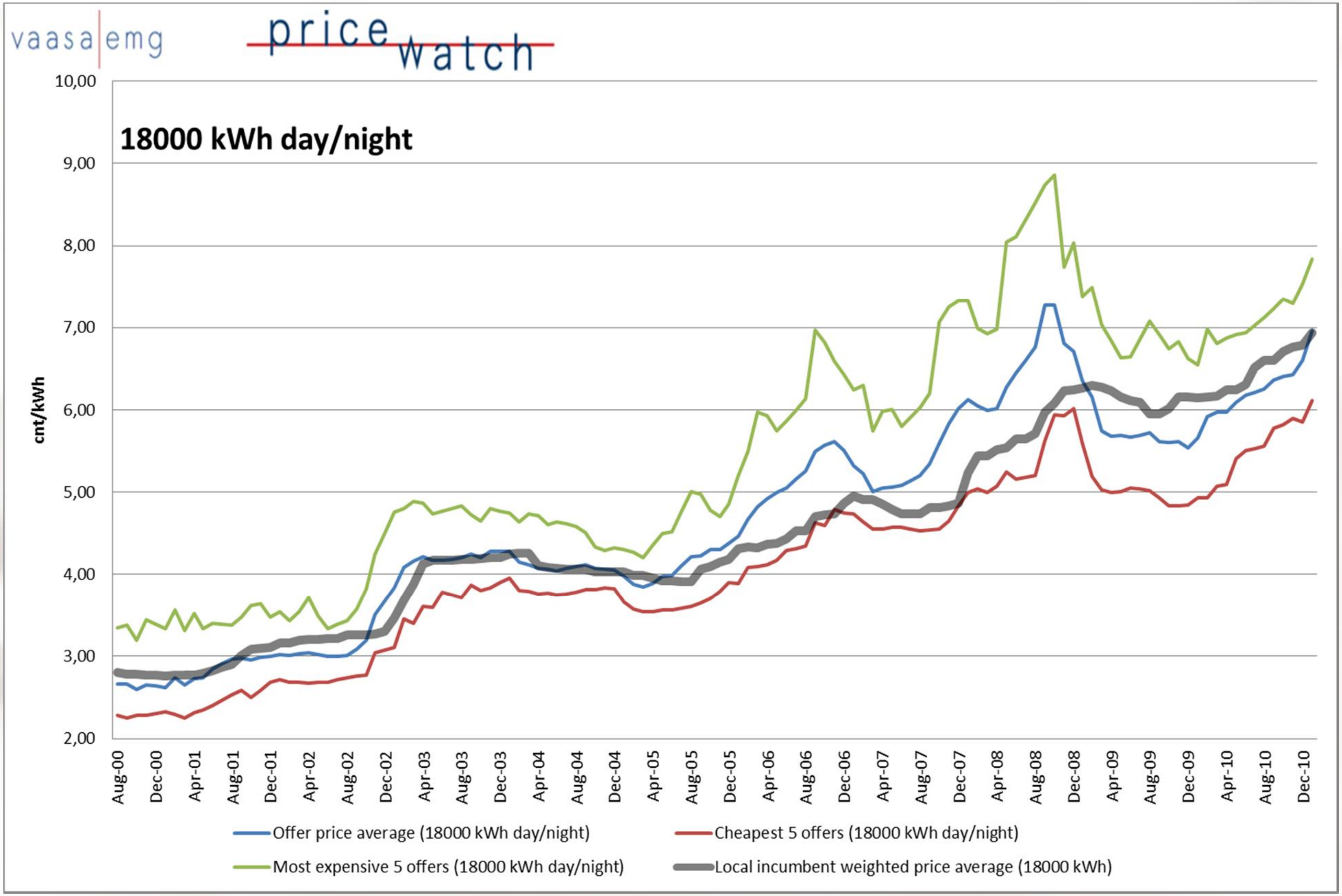
General trends 18000 kWh



General trends

- Since deregulation (September 1998) local incumbent prices have risen on average 93 %.
- Since January 2001 the local incumbent prices have increased on average 126 % and the offer prices 144 %.
- Price increase has been highest for the households with electric heating. These customers already pay / consume most electricity.

Price differences 18000 kWh



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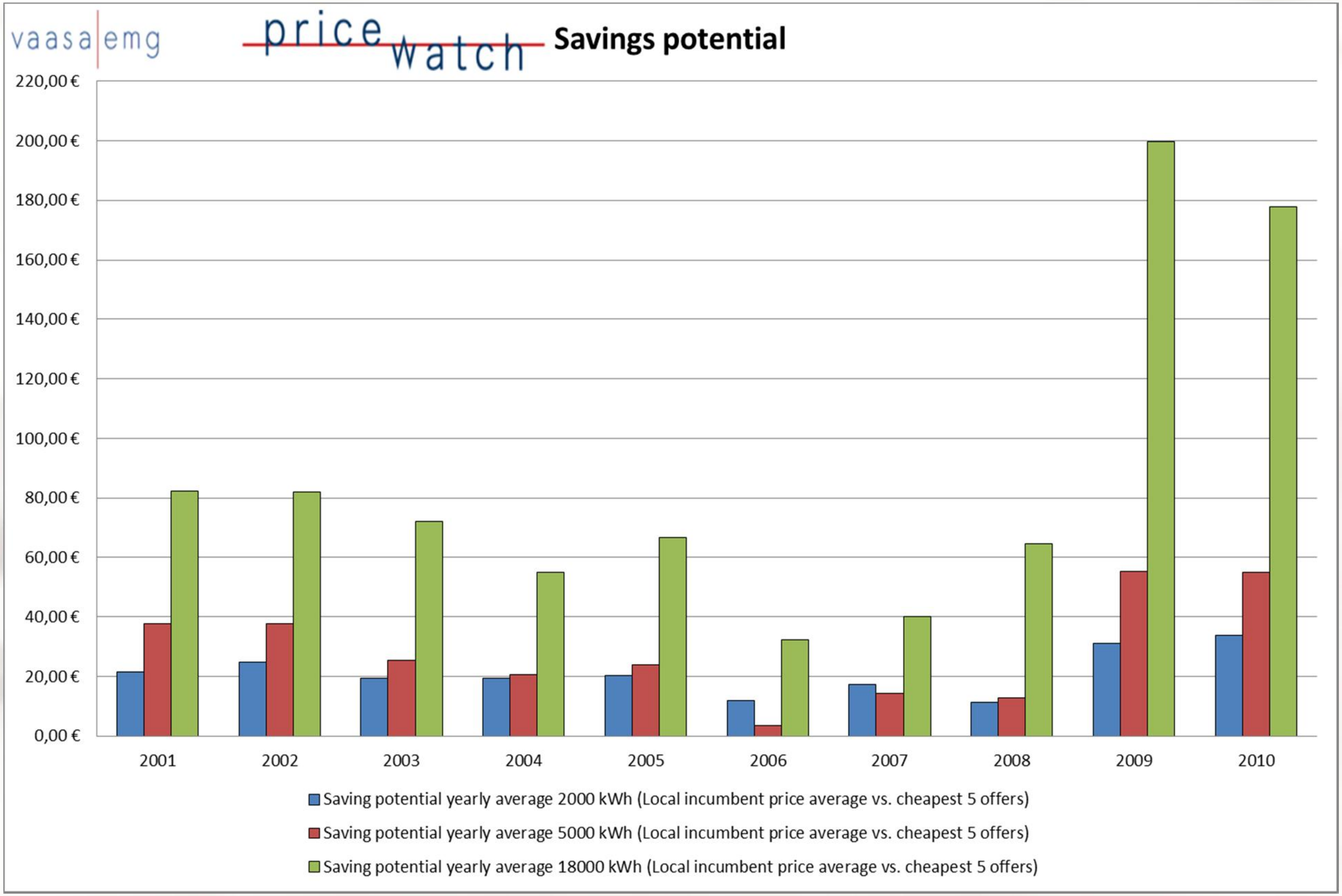
Price differences

- Price trends are now more volatile than they were e.g. 5 years ago.
- The prices nowadays follow market prices more closely.

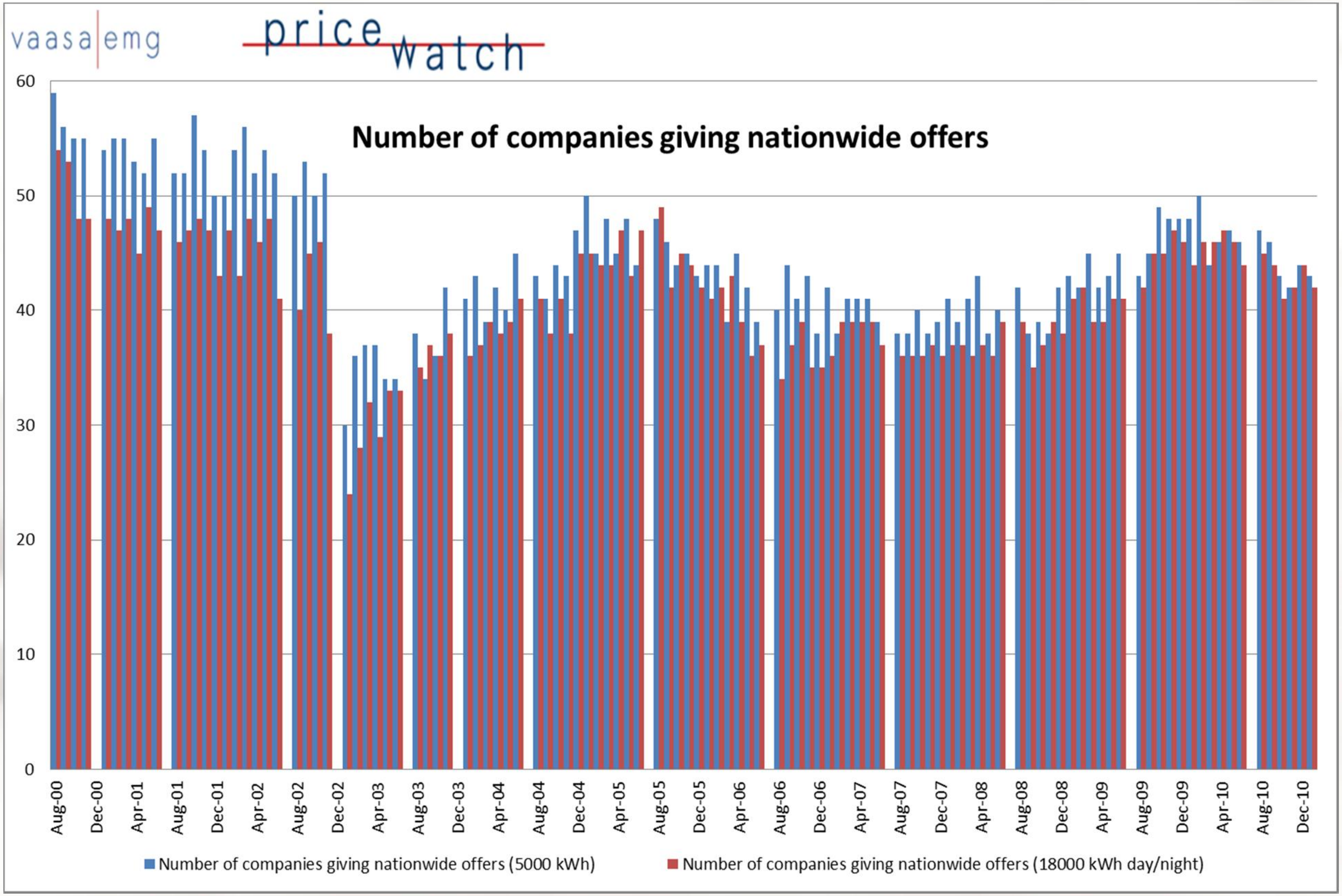
Consumers' savings potential



Consumers' savings potential

- Only on few occasions (December 2006 and 2008) switching electricity supplier has not been beneficial to consumers (customers' savings potential has been almost non-existent at those points).
- However, most of the consumers' require more (even unrealistic) savings than normally available.
- Since deregulation the savings potential has been highest in 2009-2010. This is explained mainly by the market price plunge during 2009 and stirred competition caused by a few new entrants to the Finnish retail market.

Number of suppliers giving offers



Number of suppliers giving offers

- Over the years the number of companies giving nationwide offers has varied greatly.
- However, most of the times there have been approximately 40 suppliers giving offers to all consumers.

SUMMARY

Awareness of the consumers

- 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.
- 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, high quality customer service, enough suppliers to choose from… 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 especially dissatisfied with the distribution prices as well as they are worried of the future price development of electricity.

- Consumers need to be informed more about how the electricity market work and the price level in Finland.
- 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, 60 % of the consumers have compared the prices of different electricity suppliers. 57 % have asked or received offers, and 32 % have switched their supplier.
- It must be noted that these percentages are overestimated; the active customers were more likely to respond to the survey.
  - 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 83 % 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.
  - 80 % 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 50 % of the consumers not to switch supplier. Inertia also plays a significant role.
- How to make these consumers interested? This is a huge challenge for the marketing.

Consumers’ satisfaction

- In total 65 % of the consumers are to some extent satisfied with their current electricity supplier. However, this means that as many as 35 % do *not* themselves as satisfied with their supplier.
- Only 15 % 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.
- Most common reasons for dissatisfaction are suppliers’ high prices and bad billing system.

Consumers’ switching intentions

- In total 24 % 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 8 % of the consumers stated that they are *very* likely to switch.
- Likely switchers are searching 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

- Since deregulation the local incumbent prices as well as offer prices have more than doubled.
- Price increase has been highest for the households with electric heating.
- Price trends have become more volatile over the years. The also follow the market prices more closely.
- The consumers have enough to choose from (40+ suppliers give offers to the whole country).
- The savings potential exists for the consumers most of the times – however, it is not large enough for many consumers.

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