

6 February 2018

Joint statement on regulated retail prices

For the attention of the European Parliament and Council

The Clean Energy for All Europeans Package provides a unique opportunity to empower European energy consumers. It enables them to be more involved in the electricity system whilst ensuring that vulnerable consumers are not left behind.

Consumers will only be empowered through a combination of measures – such as efficient price signals, certified comparison tools and easy switching. **Should retail prices continue to be regulated in some Member States, the benefits brought by the Clean Energy Package would be severely weakened.**

Regulating retail prices impedes consumers from realising the true value of the electricity they consume, thus undermining the potential of demand response. Retail price regulation is also a serious obstacle to competition among electricity supply companies. It reduces the incentive on companies to become more efficient, it discourages the emergence of new market participants and it stifles the development of value-added services, including dynamic pricing.

In addition to their negative impact on retail markets, regulated prices also distort the functioning of the wholesale markets, limiting and partly undermining the price formation process. This implies higher electricity costs for all consumers – big and small. Given that the EU's internal energy market is interconnected and interdependent, regulated prices in one Member State also have an impact on the price formation in other Member States.

Regulated end-user prices aim to protect household - and even non-household - consumers from energy costs increases. However, the pricing methodology often lacks transparency and can prove counterproductive. Indeed, when prices are regulated below costs, tariff deficits are generally recouped through taxes and negatively affect all consumers, including those they are meant to protect. Other more structural measures, such as direct payments, dedicated tax breaks, enhanced social policy and energy efficiency measures should be promoted to protect and assist vulnerable consumers.

Finally, it is important to specify that phasing-out regulated prices does not imply the end of fixed-price contracts. Electricity suppliers will continue to offer such contracts. Contrary to regulated tariffs, market-based fixed-price contracts will reflect the true value of hedging price and volume risks in the market in order to guarantee the consumer a stable electricity price throughout the contracting period. Depending on their willingness or means to value the flexibility of their demand, retail consumers will therefore be able to choose between fixed-price contracts and dynamic-pricing contracts.

As the European Parliament is about to define its position on the recast Electricity Directive, and both Council and Parliament will then have to agree on a common text, **we kindly request you to make sure that the Electricity Directive enacts a clear process and timeline for the prompt phase-out of regulated prices.**

We thank you for taking our views into consideration.