

Trend Report on Competition and Consumer Confidence in the Energy Market

First half of 2014



**Authority for
Consumers & Markets**





Summary

Misconceptions about the energy market result in non-switchers

Consumers that look around for other energy providers but who then decide not to switch do so because, in their perception, there is little difference between the various providers. In addition, they are worried that they will not get what they had asked for, and they think that switching involves a lot of time and hassle. In reality, the differences between providers are actually quite large. For an average household, price differences of up to EUR 390 have been found on price comparison websites. Also, consumers that have switched appear to be satisfied with the switching process. The most used sources of information are the websites of the energy providers themselves and price comparison websites. However, when taking out a contract, few consumers do so through a price comparison website. In most cases, consumers indicate they would rather do this with the energy provider of their choice directly. One of the most important misconceptions about the energy market is revealed here, and which may be a switching barrier: many consumers assume that, if they see their current provider in the search results when looking on price comparison websites for the lowest contracts, they do not need to switch. However, in most cases, their current contracts will not be among those deals found on price comparison websites. Furthermore, consumers tend to check the deals found on price comparison websites with the information on the providers' websites. And that is a second potential misconception: price comparison websites often have exclusive offers that cannot be obtained from the providers themselves.

The social environment and loss aversion play a huge role in the switching process

Most consumers prefer to keep their current contracts. They say they know what they have now, but that they do not know what would get if they switched. This form of loss aversion plays an important role in people's search for a new energy provider. In addition, few consumers say they have faith in energy providers they do not know. And, more in general, consumers have little faith in energy providers putting consumer interests first. One's social environment can be a stimulating factor, as consumers that are encouraged by friends or family to switch are much more likely to be willing to consider switching than consumers that are not encouraged to do so. However, a large majority of consumers say they currently hardly talk with friends or family about energy matters.

Switching costs less hassle, and does pay off

Between July 1, 2013 and July 1, 2014, 12.7 percent of all consumers switched energy providers. The percentage of switchers is thus at the same level as in the same period one year before. In the past three years, one third of consumers have switched at least once. In the past ten years, since the liberalization of the Dutch energy market, almost half of all consumers have switched at least once, and 9 percent has switched contracts with their current provider. Seven percent of all consumers has looked around, but never switched. An overwhelming majority of all switchers say they are very satisfied with their switch.



Introduction

Purpose of this energy report

This report lists the trends of a number of key indicators of the consumer energy market. Its purpose is to give you an up-to-date overview of the most important trends in the consumer energy market.

Approach and indicators

Using several key indicators, the report gives an overview of the market results, of the structure of the consumer energy market, and of consumer behavior.¹ The market trends are presented in several graphs and tables. The topics that are covered are consumer confidence in the energy market, the satisfaction with one's energy company's services, the demand for products, prices and price differences, switching behavior among consumers, and the concentration level in the consumer energy market.

¹ Two main sources were used for this report. On the one hand, information provided by energy suppliers was used, while on the other hand, ACM's regular consumer survey, which is carried out in June and December, was used.



Contents

1	Consumer satisfaction and consumer confidence.....	5
1.1	Confidence in and satisfaction with services	5
2	Switching.....	7
2.1	Share of switchers, and willingness to switch.....	7
2.2	Reasons for switching.....	9
2.3	Switching barriers	11
2.4	Consumer perceptions and the energy market	14
3	Information needs	17
4	Products	19
4.1	Sustainable products	19
5	Prices and price differences	21
5.1	Breakdown of energy bill	21
5.2	Energy prices: perception of consumers	21
5.3	Prices of electricity and natural gas.....	21
5.4	Price differences	23
6	Concentration	25

List of Figures

Figure 1	Consumer confidence in energy providers (% consumers)	5
Figure 2	Satisfaction with one's current energy provider's service (% consumers).....	6
Figure 3	Annual switching rates for electricity and natural gas through July 1, 2014 (Source: Energie-Nederland)	7
Figure 4	Switching behavior of consumers (% of total number of consumers)	8
Figure 5	Willingness to switch energy providers within two years.....	9
Figure 6	Reasons for considering switching (based on: all respondents that have switched or those that have switched contracts with their own provider).	10
Figure 7	Reasons for actually switching (based on: all respondents that have switched or those that have switched contracts with their own provider).....	11
Figure 8	Switching barriers for consumers (% consumers).....	12
Figure 9	Price barrier for switching energy providers.....	13
Figure 10	Estimated time investment in finding out the potential saving of switching.....	13
Figure 11	Statements about consumers and switching (% of all respondents n=526)	14



Figure 12 Statements about consumers and switching (% of all respondents n=526)	15
Figure 13 Information sources used by consumers (based on: all respondents that have switched (switched contracts with their current energy provider) or that have only looked around.....	17
Figure 14 Channel used to take out the new contract (based on: all respondents that have switched).....	18
Figure 15 Type of contract by term length, taken out by consumers (source: providers)	19
Figure 16 Green-power and brown-power contracts for households (source: providers).....	20
Figure 17 Breakdown of energy bill for an average household on July 1, 2014	21
Figure 18 Trends in average annual costs for brown power for households	22
Figure 19 Trends in average annual costs for natural gas for households	23
Figure 20 Price differences of dual-fuel contracts on two price comparison websites (in September 2014)	24
Figure 21 Trend of the C3-index since the liberalization of the market (source: providers).....	25
Figure 22 Trend of the Herfindahl–Hirschman Index since the liberalization of the market (source: providers).....	26

1 Consumer satisfaction and consumer confidence

1.1 Confidence in and satisfaction with services

Consumers that have never switched energy providers have significantly more confidence (19%) in energy providers than consumers that have switched (9%). In total, 27% of all consumers say they have no faith in energy providers keeping in mind customer interests (figure 1). Of those consumers who have looked around, but have not switched, a large majority (57%) says to have little or very little confidence in energy providers. In the second half of 2013, 44% of consumers said they had little or very little confidence in the energy market as a whole.

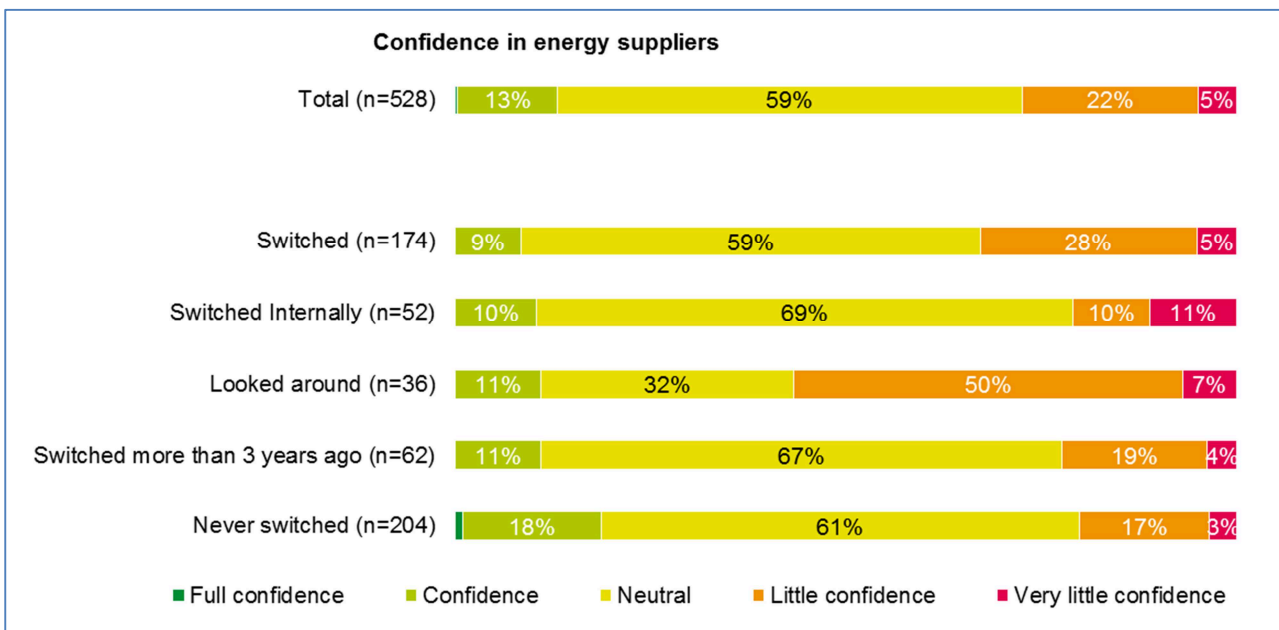


Figure 1 Consumer confidence in energy providers (% consumers)²

Like in previous years, consumers rate the service provided by their current provider as good. Of all consumers, only 1% is dissatisfied with their current provider's total service (figure 2). When looking at the different aspects, consumers are relatively the least satisfied with the price of their current provider. As with the question about confidence, those consumers that have looked around are less satisfied with their current provider's total service (65%) than are other groups of consumers.

² Question: To what extent do you have confidence in energy providers keeping in mind customer interests? For example, think about offering a good price-quality ratio, and providing good service.

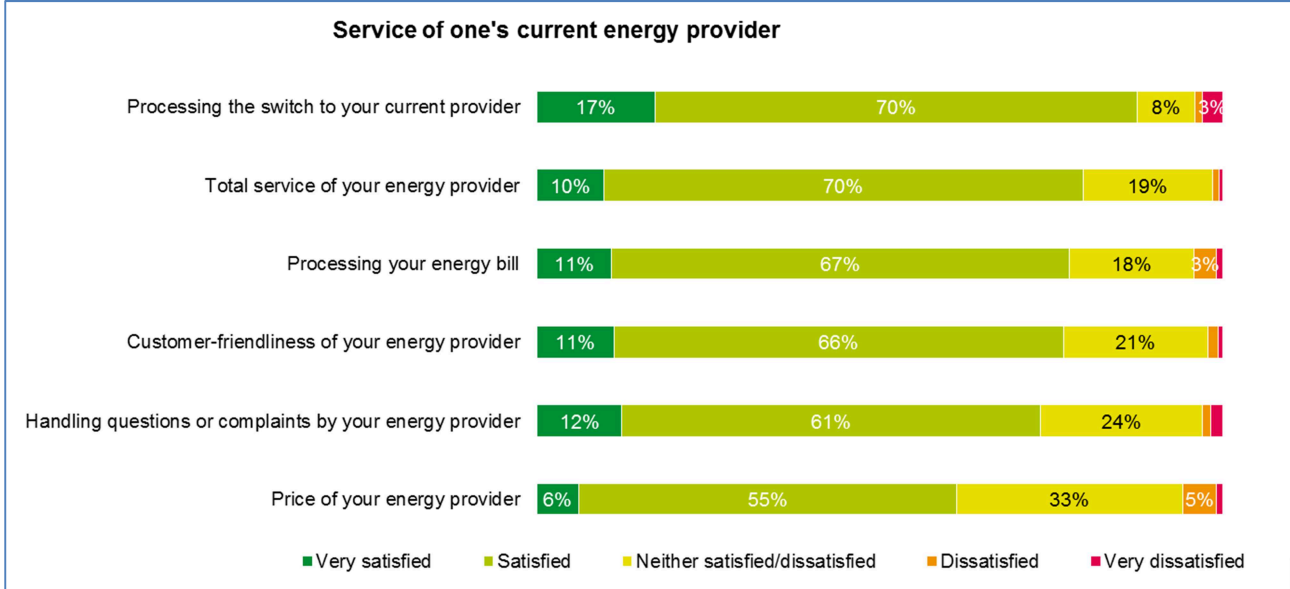


Figure 2 Satisfaction with one's current energy provider's service (% consumers)



2 Switching

2.1 Share of switchers, and willingness to switch

Between July 1, 2013 and July 1, 2014, 12.7% of all households switched energy providers (figure 3). In the same period in 2013, 12.8% switched providers.

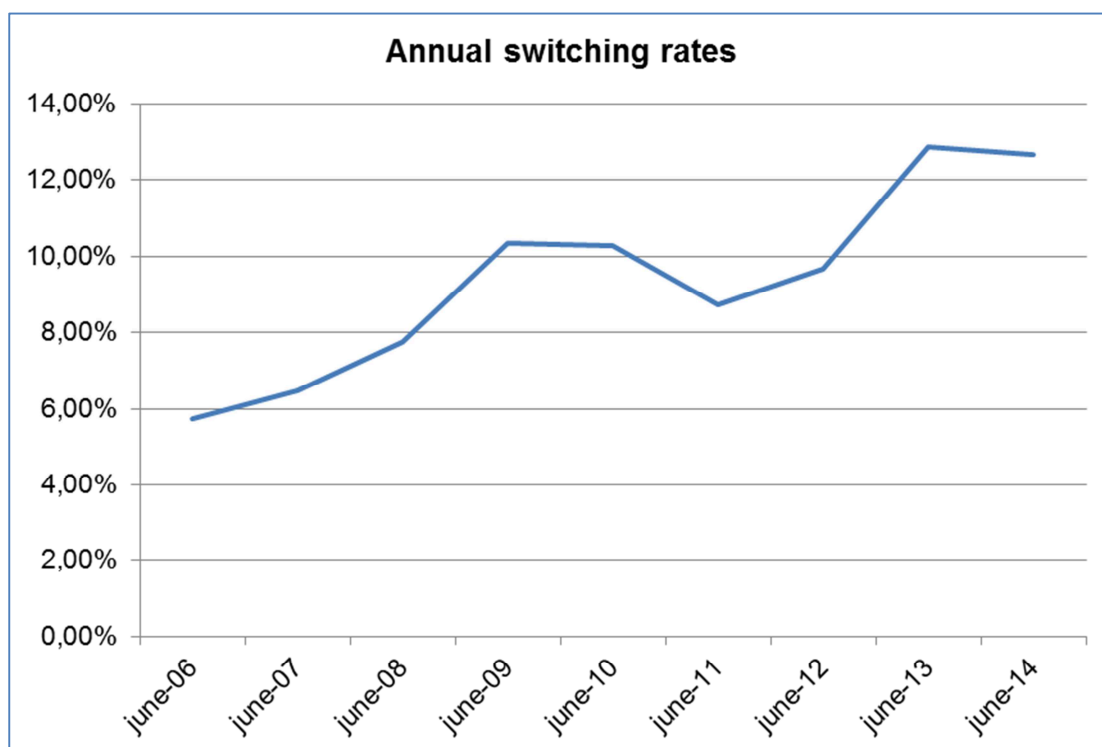


Figure 3 Annual switching rates for electricity and natural gas through July 1, 2014 (Source: Energie-Nederland)

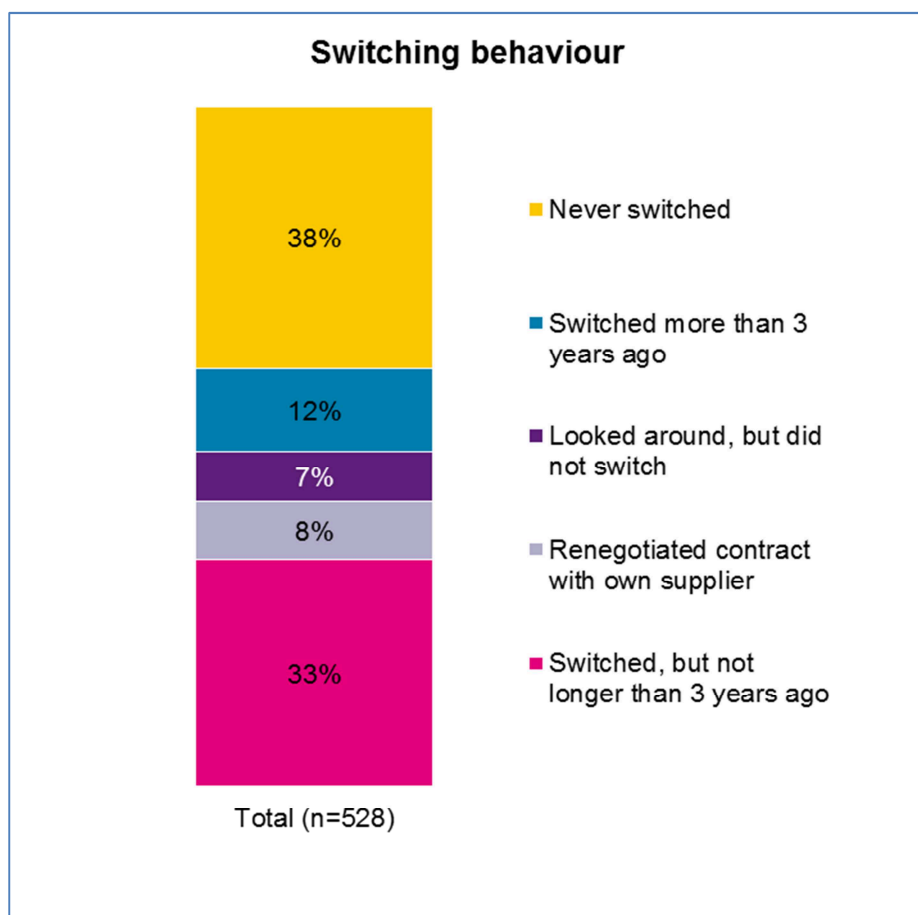


Figure 4 Switching behavior of consumers (% of total number of consumers)

By now, 62% of all consumers have been active in the energy market. Of all consumers, 33% recently switched energy providers, 12% did so more than 3 years ago, and 8% switched contracts with the same provider (figure 4). Seven percent of all consumers has looked around on the energy market, but eventually decided not to switch. Since the liberalization of the energy market, 38% of all consumers have never been active on the energy market.

Slightly over half of all consumers that have switched at all (53%) have done so once. A further 26% have done so twice, and 13% have done it three times. Almost one in ten switchers has switched four times or more. On average, consumers have been with their current energy provider for 12 years.

The willingness to switch in the first half of 2014 is roughly the same as in the second half of 2013. Thirty-nine percent of consumers say they will definitely switch or are likely to switch energy providers within two years (figure 5). Those consumers that have never switched are the least likely to switch, as 78% of this group says they will probably not, or will definitely not switch energy providers.

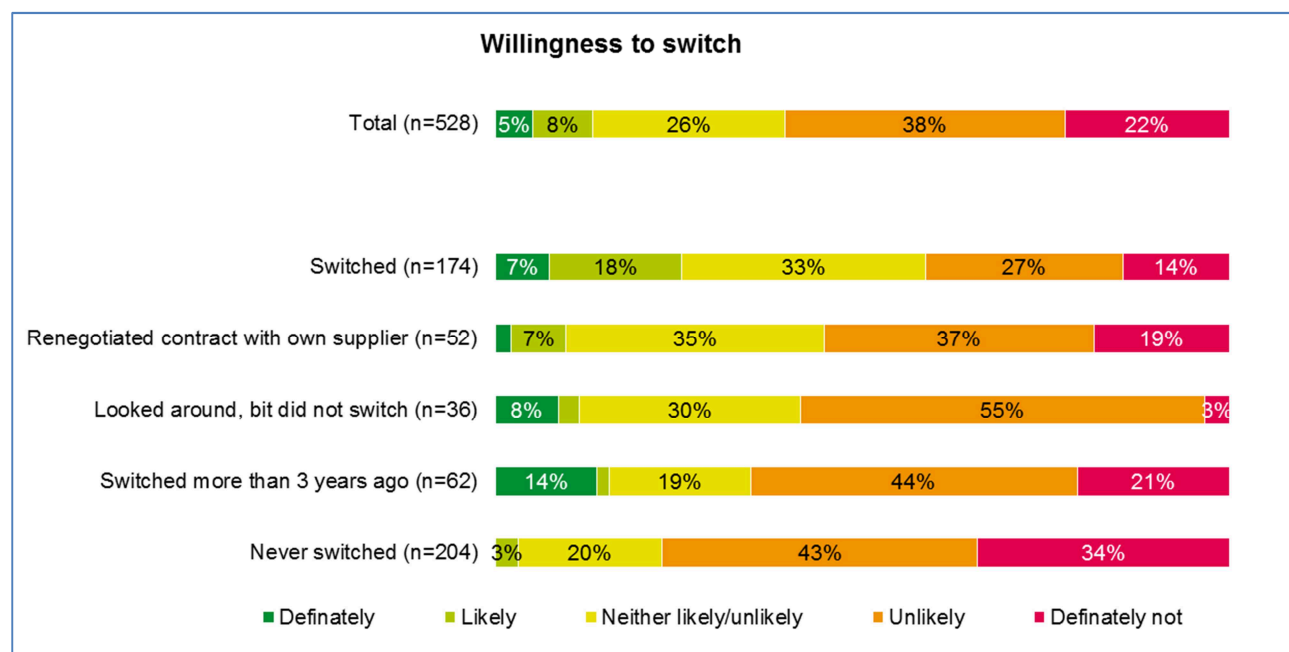


Figure 5 Willingness to switch energy providers within two years

2.2 Reasons for switching

Cost saving continues to be the most important reason for considering a switch (figure 6). This is the case for 45% of switchers. For a quarter of consumers that switched providers more than 3 years ago, the dissatisfaction with their previous provider was also an important factor. However, it also turns out that a personal offer of one's current energy provider for a different contract has been a reason to consider switching for 28% of the internal switchers.

The deciding factor for switching continues to be price (figure 7). This has been the reason to actually switch for 72% of those consumers that have switched. For 34% of the consumers that switched more than three years ago, the deciding factor was green energy (a sustainable energy provider). Of the internal switchers, 22% say they did so because of the trustworthy reputation of their provider.

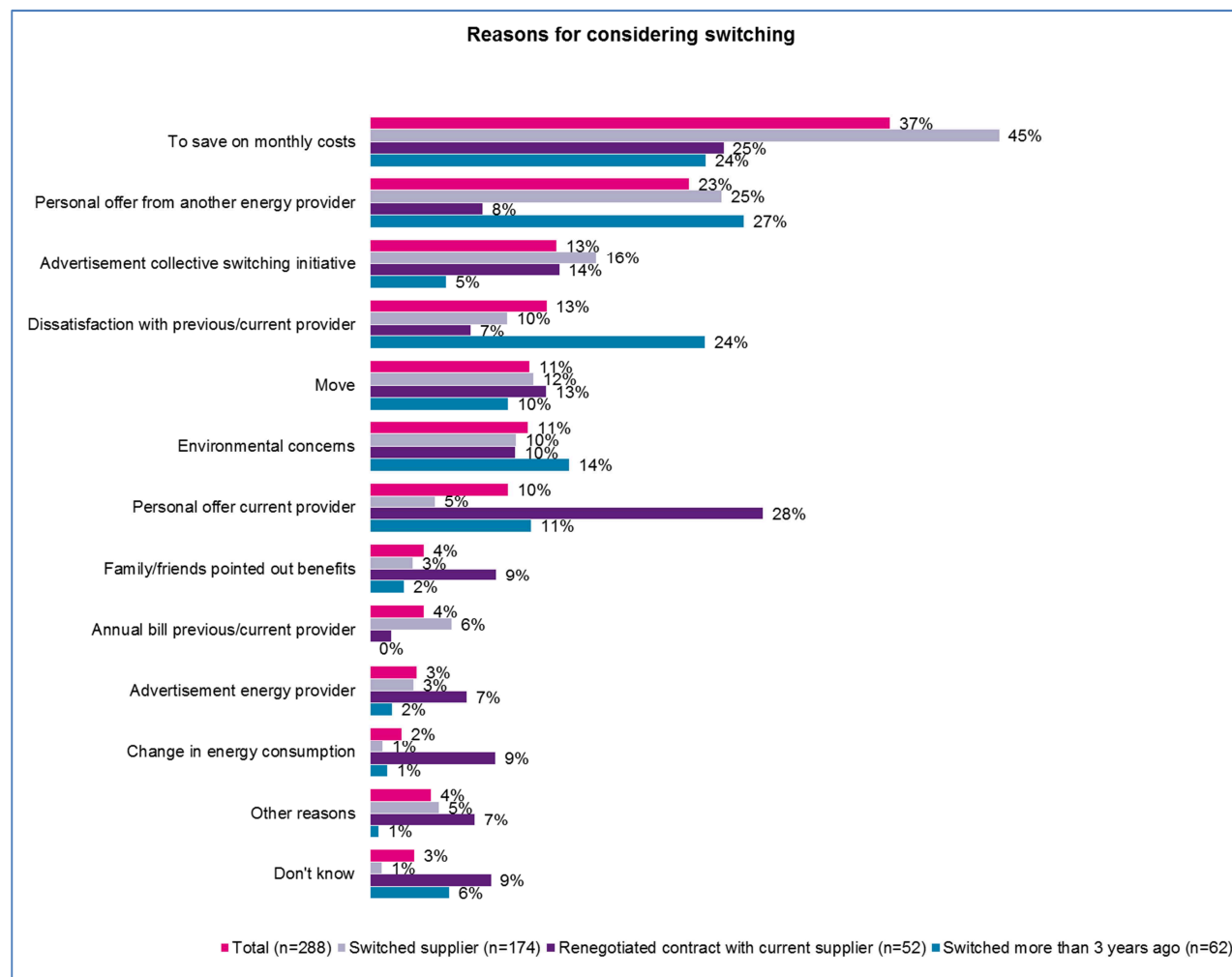


Figure 6 Reasons for considering switching (based on: all respondents that have switched or those that have switched contracts with their own provider).

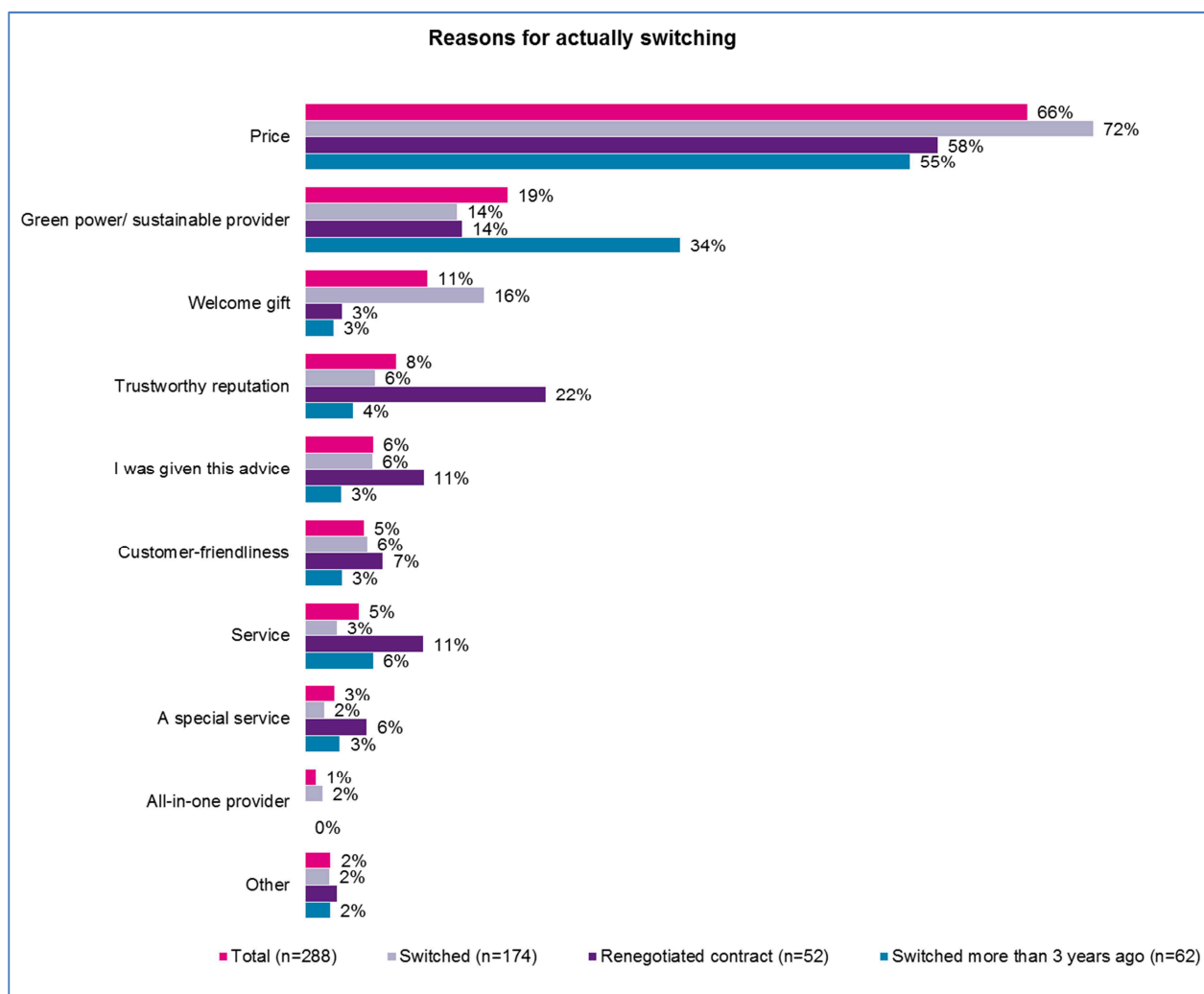


Figure 7 Reasons for actually switching (based on: all respondents that have switched or those that have switched contracts with their own provider).

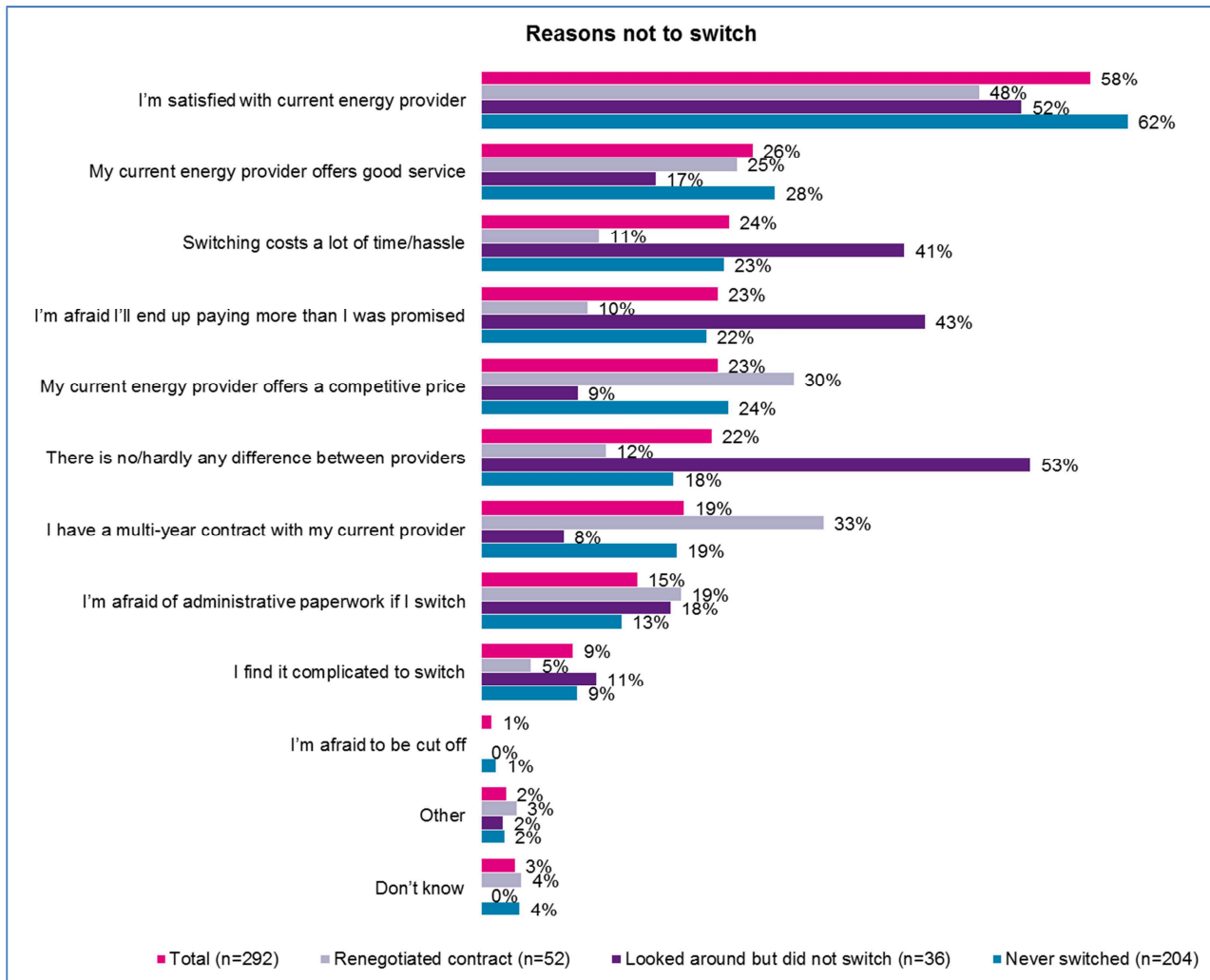
2.3 Switching barriers

An overwhelming majority of consumers are very satisfied with their own energy provider (see chapter 1). At the same time, this satisfaction is also a high switching barrier. Fifty-eight percent of those consumers that have never switched energy providers say never to have switched because they are satisfied with their current provider (figure 8). Remarkably, those consumers that have looked around but have not switched say, more so than other groups of consumers, they do not see any difference between energy providers, are afraid they end up paying more than they are promised, and think that switching involves a lot of time and hassle.

For consumers that have never switched at all, their satisfaction with their current providers continues to be the main reason not to switch. If these consumers did wish to consider switching, it would be mostly out of dissatisfaction with their current provider, and not so much because of a saving in their monthly energy costs.



The administrative paperwork and the complexity that consumers assume are involved when switching are increasingly less often named as reasons for not switching.

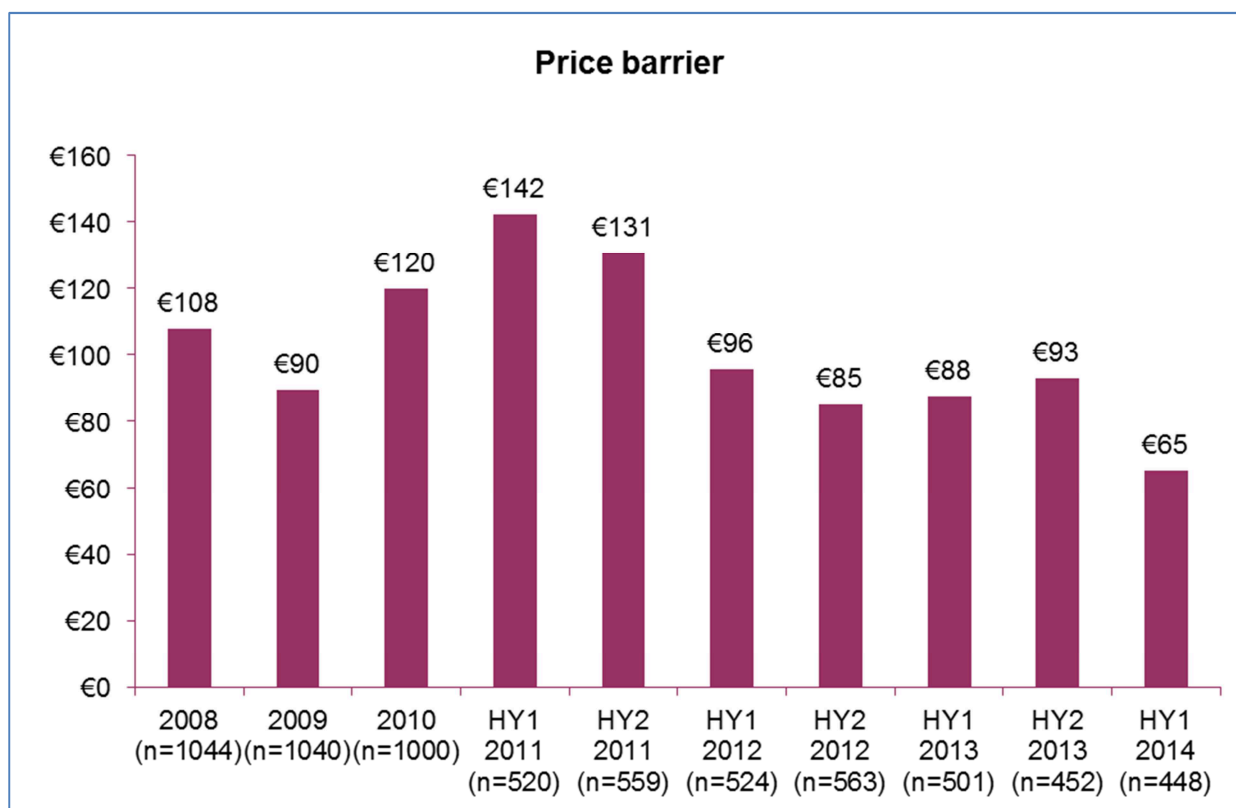


12/26

Figure 8 Switching barriers for consumers (% consumers)

In the first half of 2014, the price barrier to switch dropped considerably to €65 (figure 9). The price barrier is the difference between the amount that consumers wish to save (€187), and the amount they expect to save (€122). Although the price difference per year at which it becomes beneficial for consumers to switch has risen compared with six months earlier (€175), consumers also give a higher estimate of their potential saving than in the second half of 2013 (€82).

In certain situations however, the actual average price benefits can be much greater (see 3.4 Price differences).



13/26

Figure 9 Price barrier for switching energy providers

Another possible switching barrier is the time that consumers need to find the right energy provider. Consumers estimate they need, on average, two hours and 15 minutes (2.2 hours).

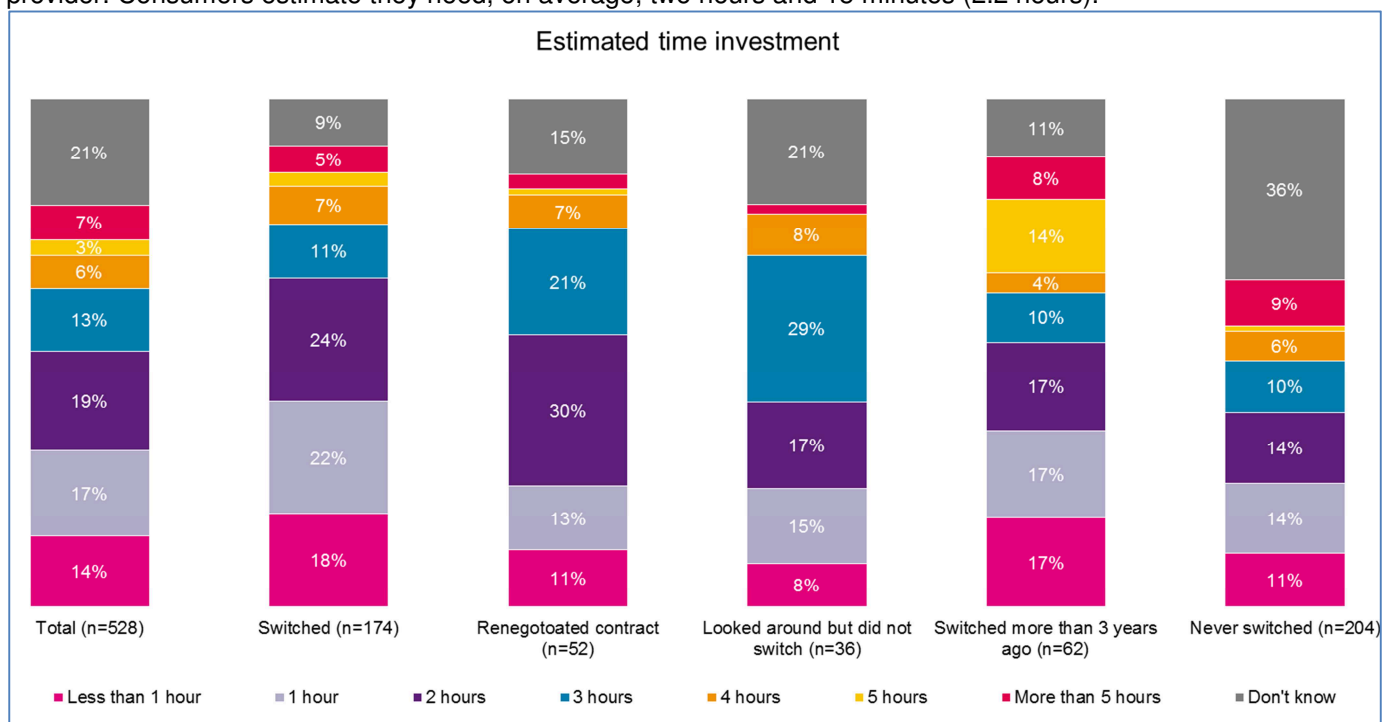


Figure 10 Estimated time investment in finding out the potential saving of switching



2.4 Consumer perceptions and the energy market

Heuristics or biases play an important role in consumer decisions about whether or not to switch energy providers. They enable consumers to make decisions in complex situations without having to carry out an extensive analysis of the situation first. If a bias in a decision gets the upper hand, consumers may decide not to look around on the energy market, and therefore keep their current contract. From a rational, economic point of view, that may be an unfavorable decision. Figures 11 and 12 list the responses of consumers to provocative statements related to a number of cognitive biases. In addition, several statements have been included that may be able to uncover potential misconceptions about the energy market.

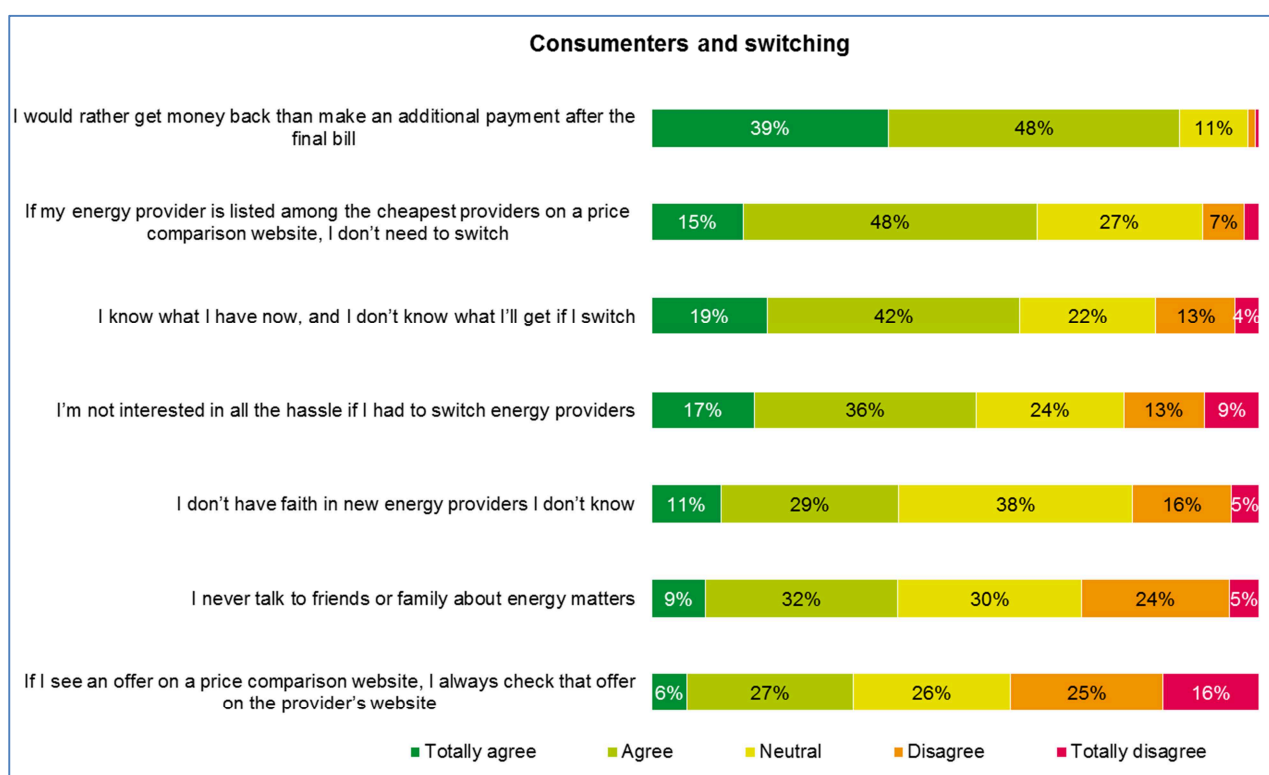


Figure 11 Statements about consumers and switching (% of all respondents n=526)

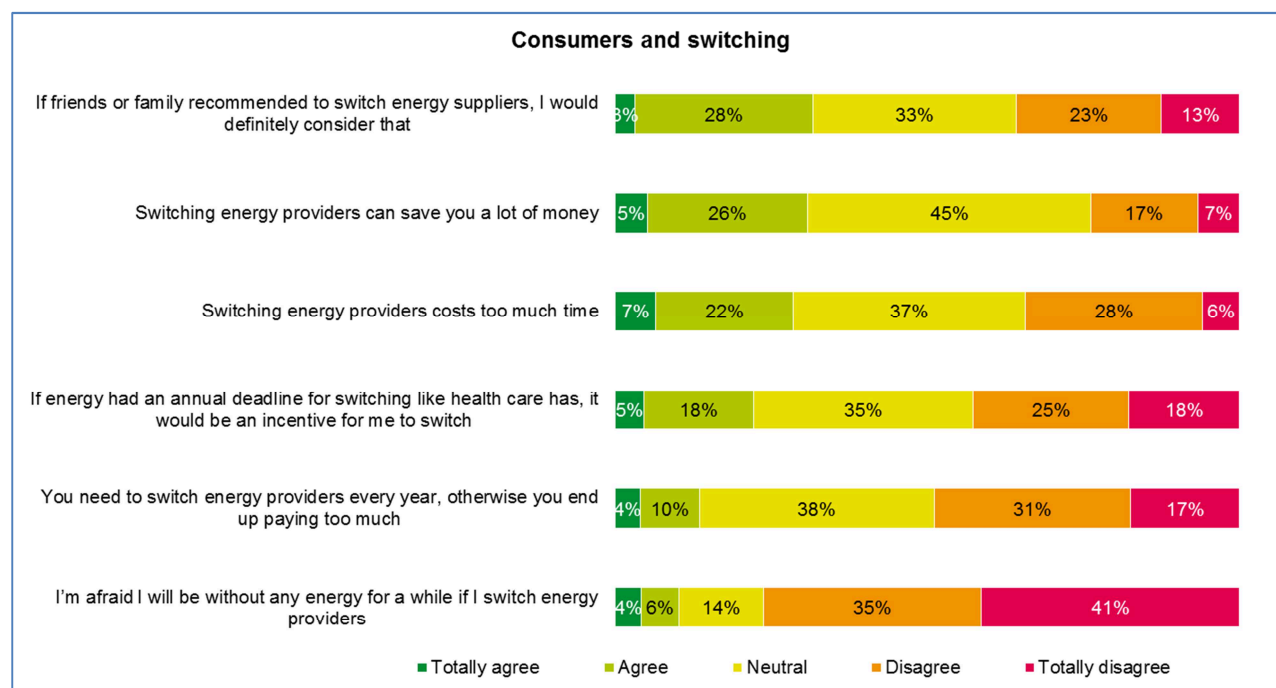


Figure 12 Statements about consumers and switching (% of all respondents n=526)

A very common cognitive bias is loss aversion. Consumers generally prefer avoiding loss over choosing an unknown benefit. The loss aversion bias is uncovered by the statement *'I know what I have now, and I don't know what I'll get if I switch.'* Sixty-one percent of all consumers agree or completely agree with this statement. Another cognitive bias that can have a major effect on switching behavior is the social norm bias. The assumption is that if one's social environment makes switching the norm, it will have repercussions on that consumer's actual switching intention. The responses of consumers to the statement *'If friends or family recommended me to switch I would definitely consider that'* supports that assumption. Thirty-one percent of all consumers say they agree with this statement. The social norm thus raises the switching intention from 13% (the share of consumers that are likely to or will definitely switch – see section 2.1) to 31%. However, judging from the responses to the statement *'I never talk to friends or family about energy matters'* it does seem that the current social norm is not to talk about energy matters – a majority of consumers say they agree with that statement.

With regard to price comparison websites, another misconception appears to exist among most consumers. A majority of consumers agree with the statement *'If my energy provider is listed among the cheapest providers on a price comparison website, I don't need to switch.'* In reality however, this is not the case. For most consumers, and certainly for those consumers that have never switched, their current contract will not be one of the cheapest contracts, and will thus not be among the cheapest selection of price comparison websites. A possible switching barrier may be the habit of one third of consumers of checking an offer on price comparison websites with the provider's website. Thirty-three percent of consumers agree with the statement *'If I see*



an offer on a price comparison website, I always check that offer on the provider's website.'

Offers found on price comparison websites are often exclusively available through that channel. If consumers try to find that same offer on the provider's website, they will usually not find it. At that particular point in the process, consumers may give up, and decide not to switch.

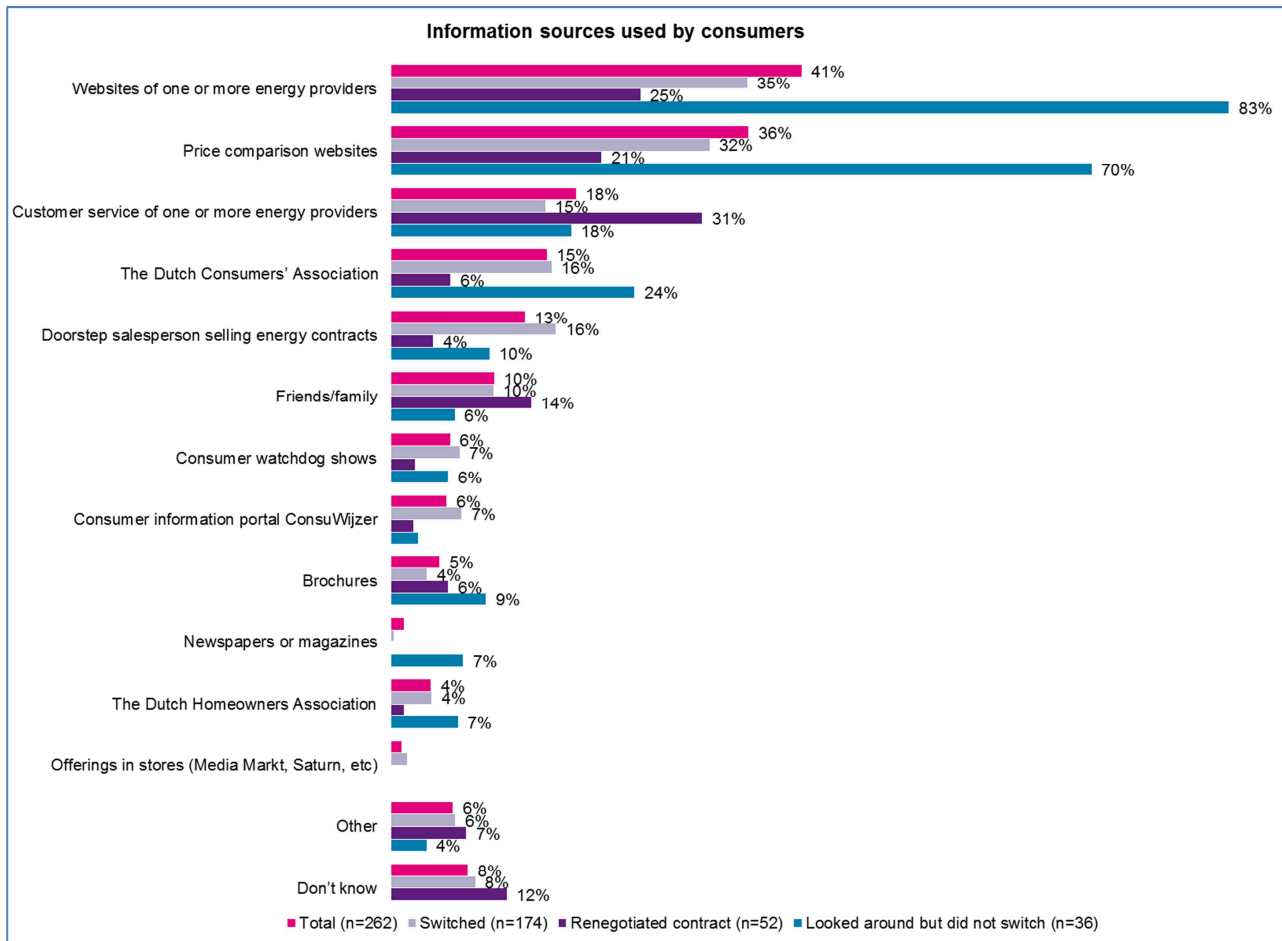
With regard to switching, the misconception about being cut off from energy is no longer an issue among most consumers. A minority of 10% of consumers agree with the statement *'I'm afraid I will be without any energy for a while if I switch energy providers.'* Almost one quarter of consumers say that creating an annual deadline for switching, such as with health insurances, is an incentive to switch. Twenty-three percent of consumers agree with the statement *'If energy had an annual deadline for switching like health care has it would be an incentive for me to switch.'*

Finally, consumers have a remarkably strong preference for getting a refund following the annual energy bill over having to make an additional payment. Of all consumers, 87% agree with the statement *'I would rather get money back than make an additional payment after the final bill.'* From an economic perspective, this is an illogical preference. After all, energy companies return those overpayments without any payment of interest. The other way round would have been much more attractive – if consumers need to make additional payments, it means that energy companies had prepaid their energy consumption at an interest rate of 0%.



3 Information needs

The information sources that consumers use the most are the websites of energy providers and price comparison websites (figure 13). For consumers that have only looked around, the Dutch Consumers' Association (*Consumentenbond*) is also an important source of information.



17/26

Figure 13 Information sources used by consumers (based on: all respondents that have switched (switched contracts with their current energy provider) or that have only looked around.

The channel used to look around is not necessarily the channel used to actually take out the new contract. The largest group of consumers that have switched took out their new contract using the website or customer service of their new energy provider (figure 14). Almost one fifth of all switchers take out their new contract through a doorstep salesperson, and 15% through a collective buying initiative. Only 5% take out their contracts using price comparison websites, whereas these *are* an important channel in the research phase of consumers.

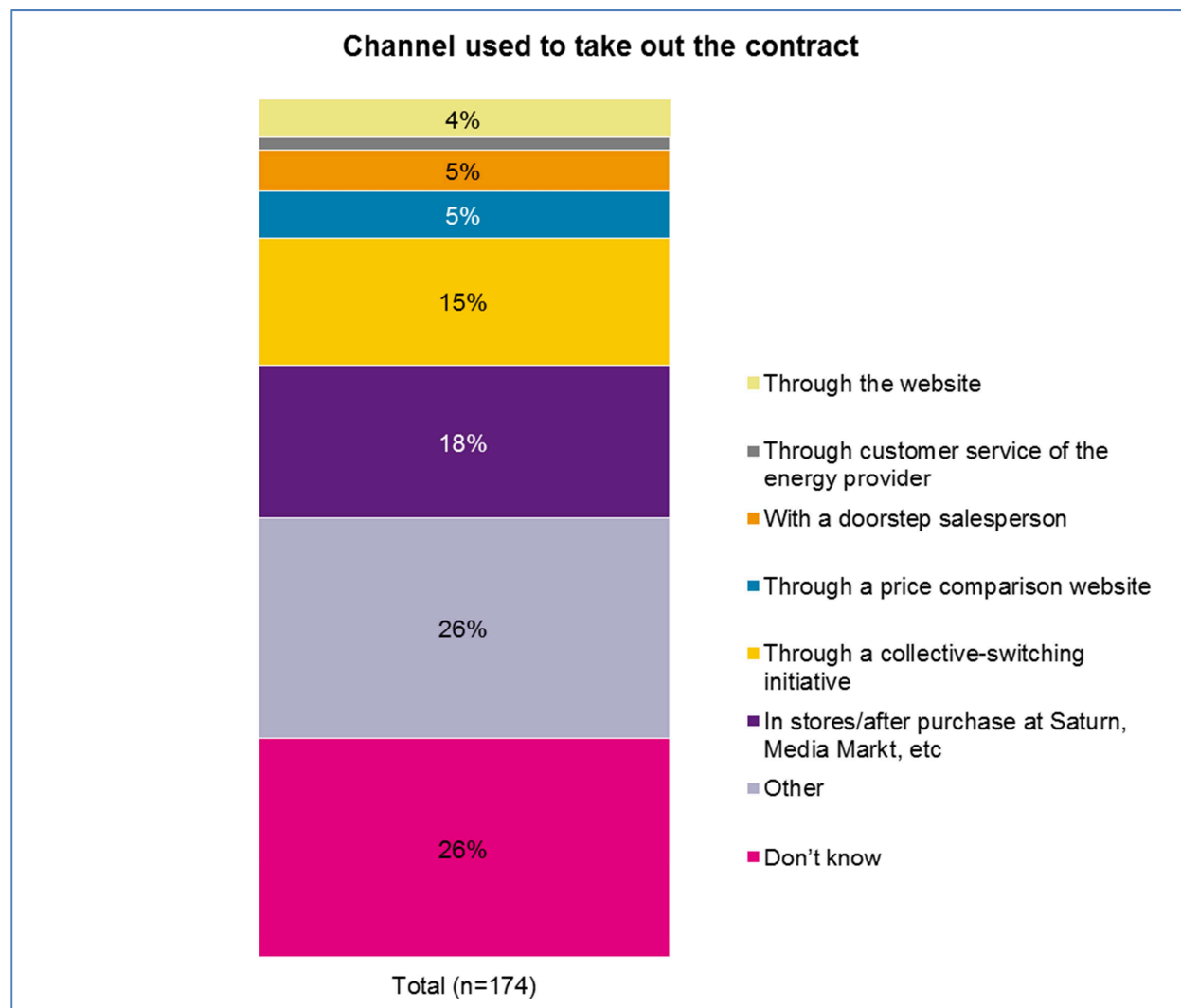


Figure 14 Channel used to take out the new contract (based on: all respondents that have switched)

When taking out contracts, ease and confidence are important factors. Consumers that ultimately chose a different channel than the one they used to look around say, among other reasons, that they wanted to check the presented information and to double-check it with another channel before taking out the contract. In addition, personal interaction, for example through customer service, is appreciated.



4 Products

On July 1, 2014, a majority of consumers (58%) have permanent contracts for natural gas and electricity, and have a variable tariff (figure 15). This distribution has remained virtually unchanged since the first half of 2012: 2-year and 5-year contracts are rarely taken out, whereas 1-year and 3-year contracts are each taken out by 16% and one fifth of consumers, respectively.

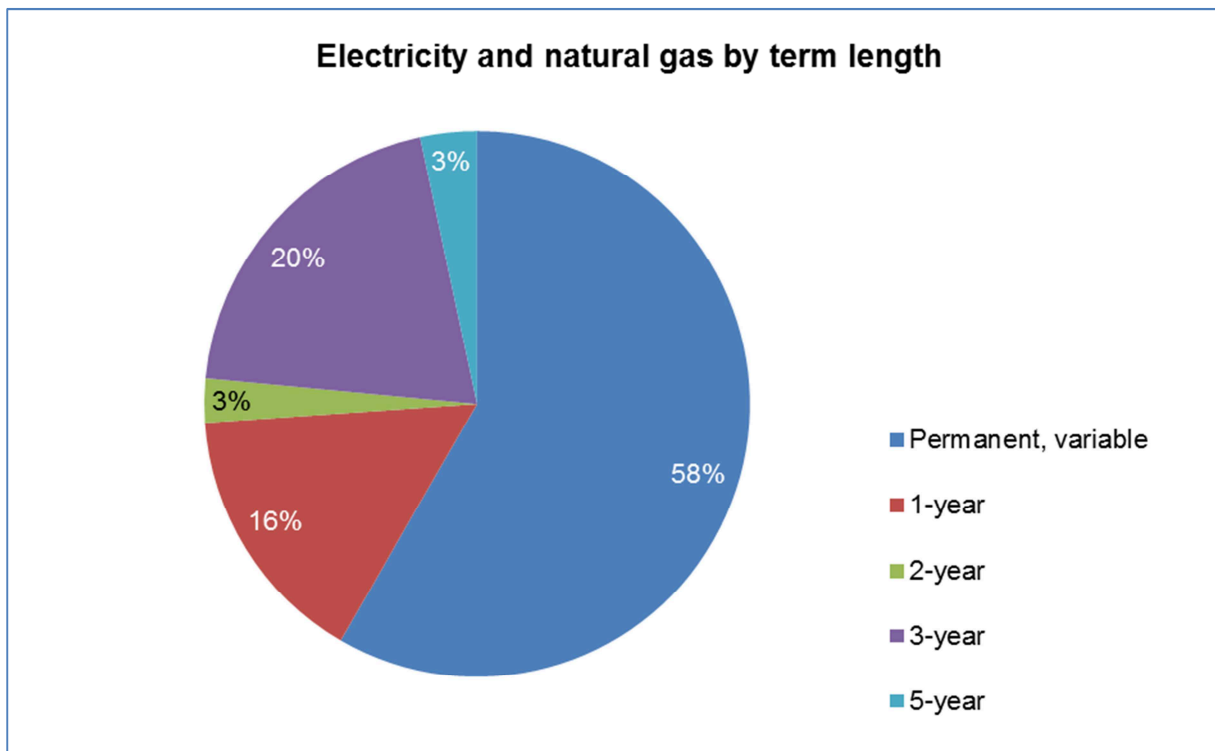


Figure 15 Type of contract by term length, taken out by consumers (source: providers)

Of the 1-year and 3-year contracts, most have a fixed tariff. For 1-year contracts, 14 percent have variable tariffs.

4.1 Sustainable products

The number of consumers in the Netherlands with green-power contracts continues to grow. On December 31, 2013, 63 percent of all electricity contracts were green-power contracts, and on July 1, 2014, it was 64% (figure 16). This contrasts with the reasons consumers give of why they switch. To a lesser extent, consumers say that green energy is an important reason for switching.

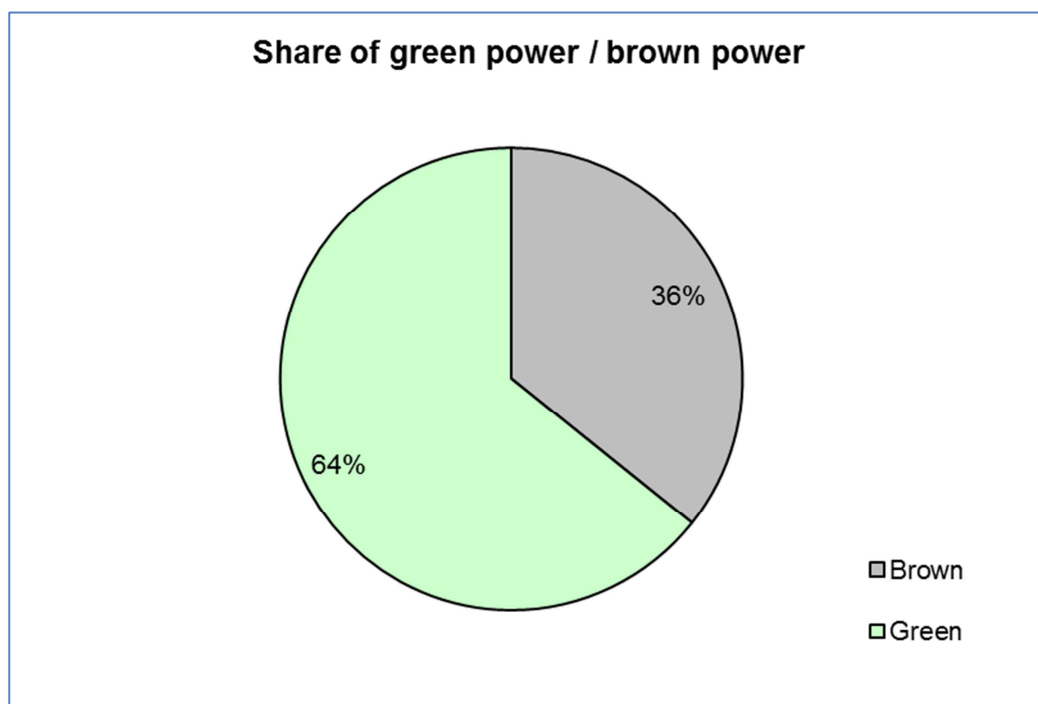


Figure 16 Green-power and brown-power contracts for households (source: providers)



5 Prices and price differences

5.1 Breakdown of energy bill

On July 1, 2014, Dutch households³ paid on average EUR 1,715 for electricity and natural gas (figure 17). Six months prior, they paid on average EUR 1,727. The breakdown of the energy bill is practically unchanged, where 45 percent concern supply costs, 19 percent network and metering costs, and 36 percent taxes.

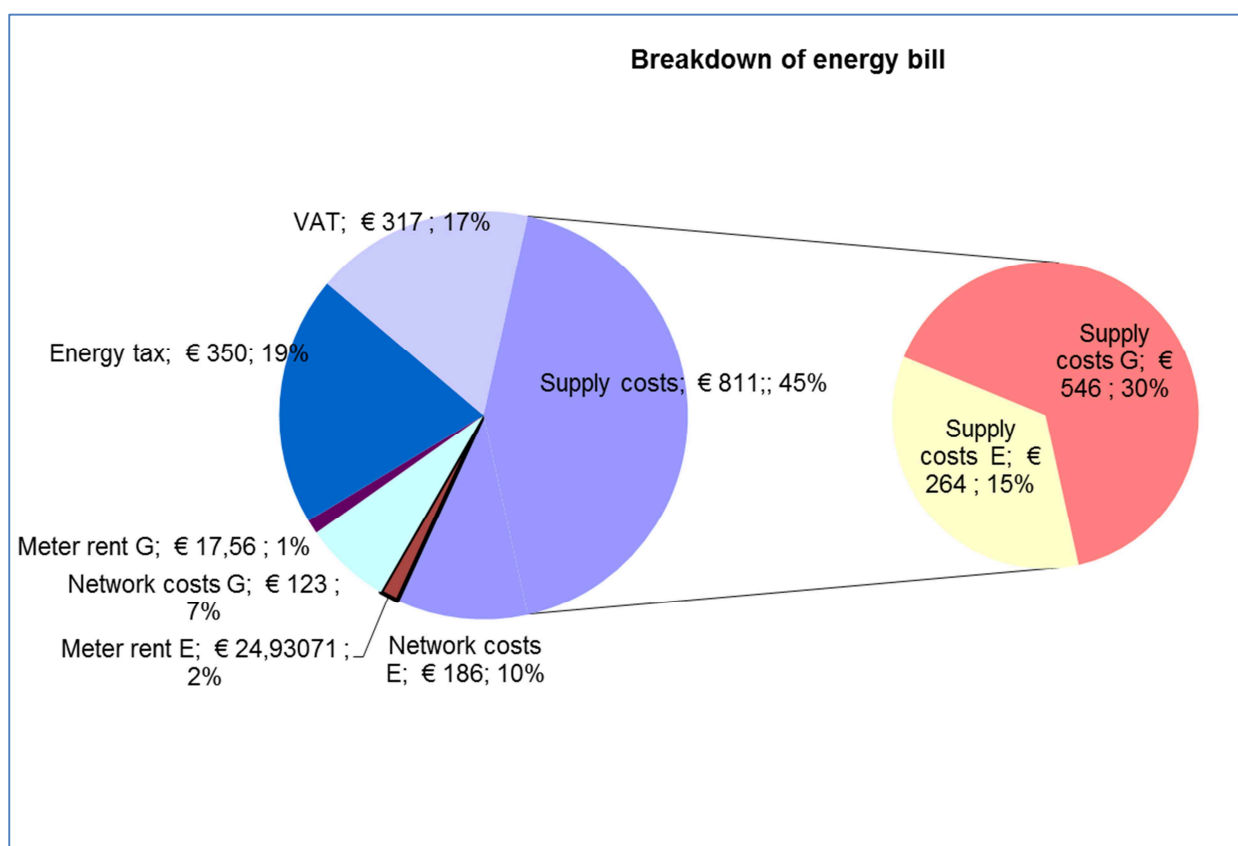


Figure 17 Breakdown of energy bill for an average household on July 1, 2014

5.2 Energy prices: perception of consumers

A majority of consumers (71 percent) consider their energy price to be high or very high. Particularly consumers that have switched less than three years ago say so. Consumers that have never switched tend to consider energy prices to be reasonable or just right.

5.3 Prices of electricity and natural gas

Between January 1, 2014 and July 1, 2014, prices for permanent contracts have remained

³ Annual average consumption for households is 3,312 kWh electricity and 1,484 m3 natural gas (Source: Statistics Netherlands)



virtually the same⁴. On January 1, 2014, an average household paid EUR 259, and EUR 256 on July 1, 2014. The prices of fixed-term contracts for electricity slightly dropped (figure 18). On July 1, 2014, average annual costs for electricity for all contract types (1-year, 2-year, 3-year, and 5-year contracts) decreased between EUR 4 and EUR 7, compared with six months ago.

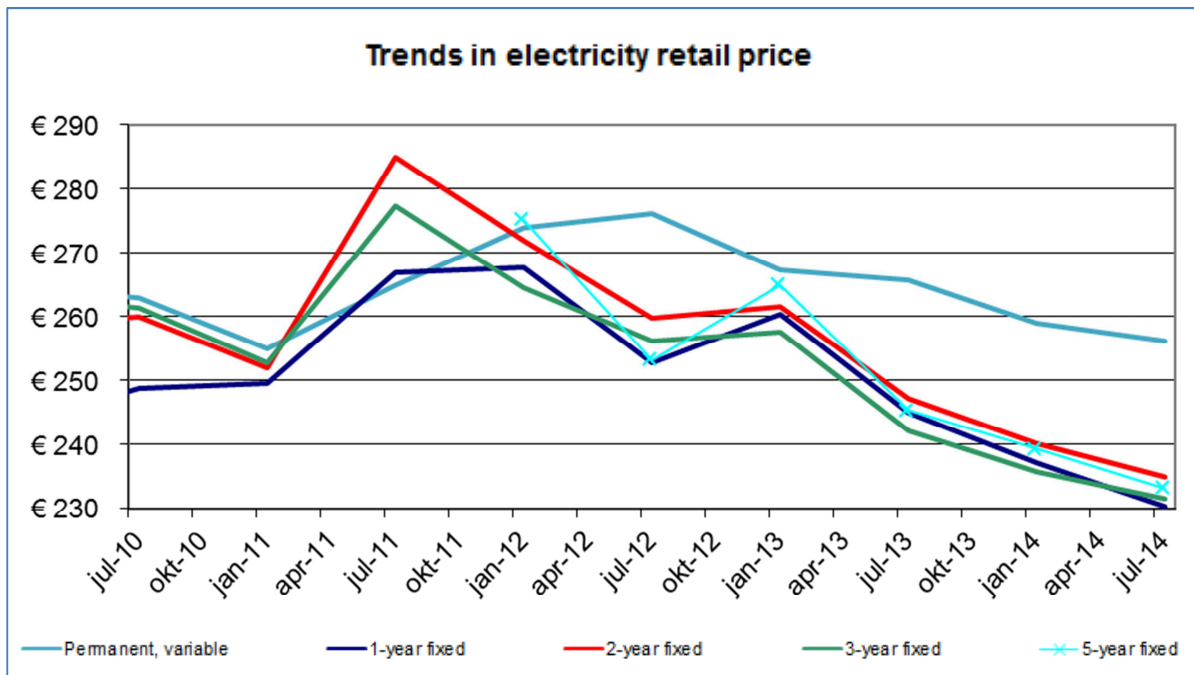


Figure 18 Trends in average annual costs for brown power for households

The average price of permanent contracts for natural gas was EUR 481 on July 1, 2014, which is slightly lower than on January 1, 2014, which was EUR 489 (figure 19). The average price of fixed-term contracts dropped, except for that of 2-year contracts. The price of 1-year contracts dropped, on average, by EUR 27. The price of 2-year contracts increased, on average, by EUR 10.

⁴ Electricity and natural-gas prices are expressed as costs per year for the average annual consumption for households. The presented annual costs are the distribution tariff excluding taxes.

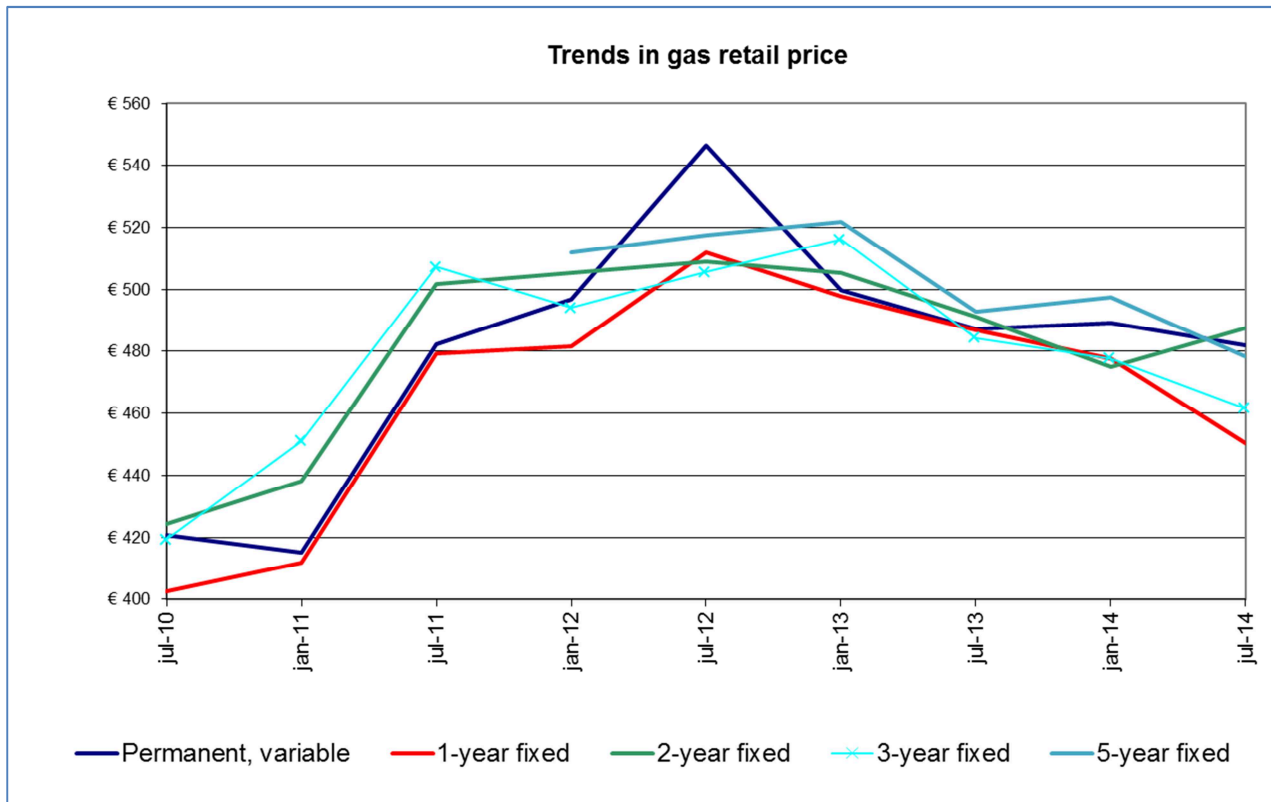


Figure 19 Trends in average annual costs for natural gas for households

23/26

5.4 Price differences

In the second half of 2013, two in three consumers consulted energy price comparison websites as their first source of information about the energy market. For many energy companies, these websites are therefore an interesting channel to promote their contracts on. As a result, the largest price differences are usually found on price comparison websites. These are price differences for dual-fuel contracts (contracts in which both electricity and natural gas are consumed). Most households in the Netherlands have dual-fuel contracts.

The largest price differences were found in fixed-term contracts of 36 months to 48 months (figure 20). The difference between the most expensive and the cheapest contract for an average household is EUR 390 per year⁵. In September 2013, the largest price differences could still be found in contracts of 12 months to 24 months, which was EUR 451. The average price of a contract for 12 months to 24 months was the lowest: EUR 1,628.

⁵ For this calculation, an average annual consumption for households of 3,331 kWh electricity and 1,314 m³ natural gas was used.

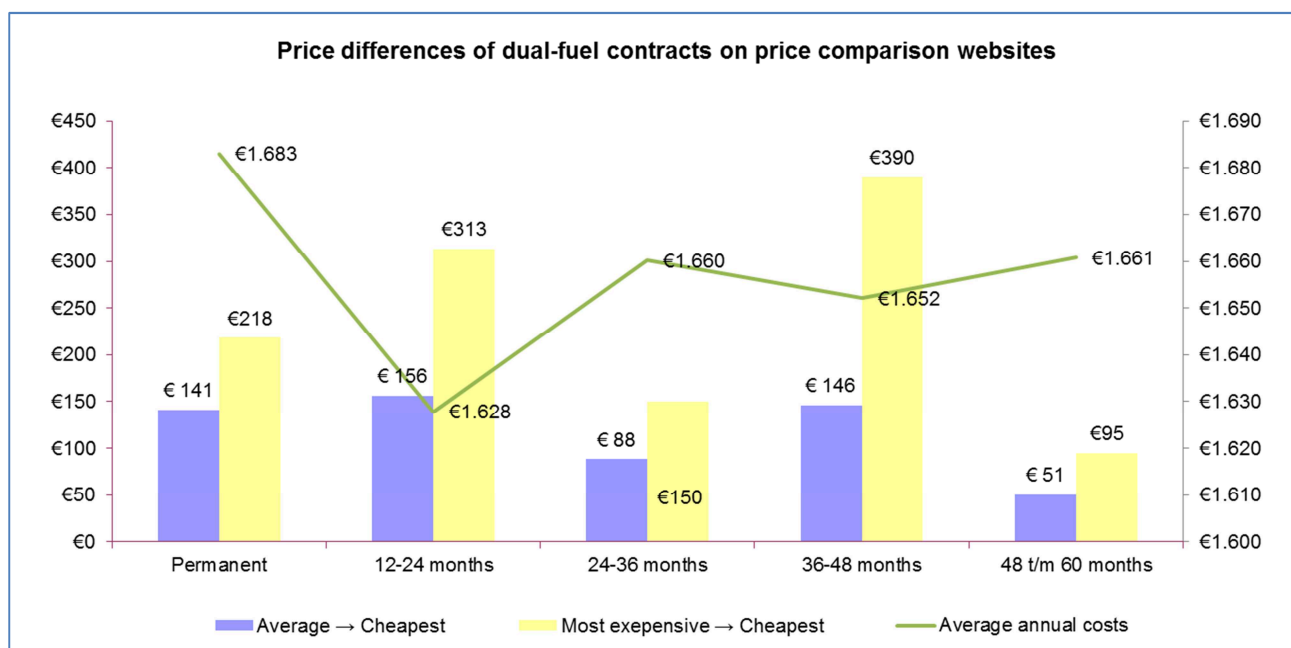


Figure 20 Price differences of dual-fuel contracts on two price comparison websites (in September 2014)



6 Concentration

The electricity and natural-gas market for consumers continues to be a concentrated market. However, both the C3-index⁶ and the HHI⁷ for electricity and natural gas dropped further in the first half of 2014 (figure 21 and 22). On July 1, 2014, the C3-index for electricity was 80.6 percent for electricity (was 81.5 percent on January 1, 2014) and 79.3 percent for natural gas (was 80.0 percent on January 1, 2014). On July 1, 2014, the HHI was 2230 for electricity and 2171 for natural gas respectively.

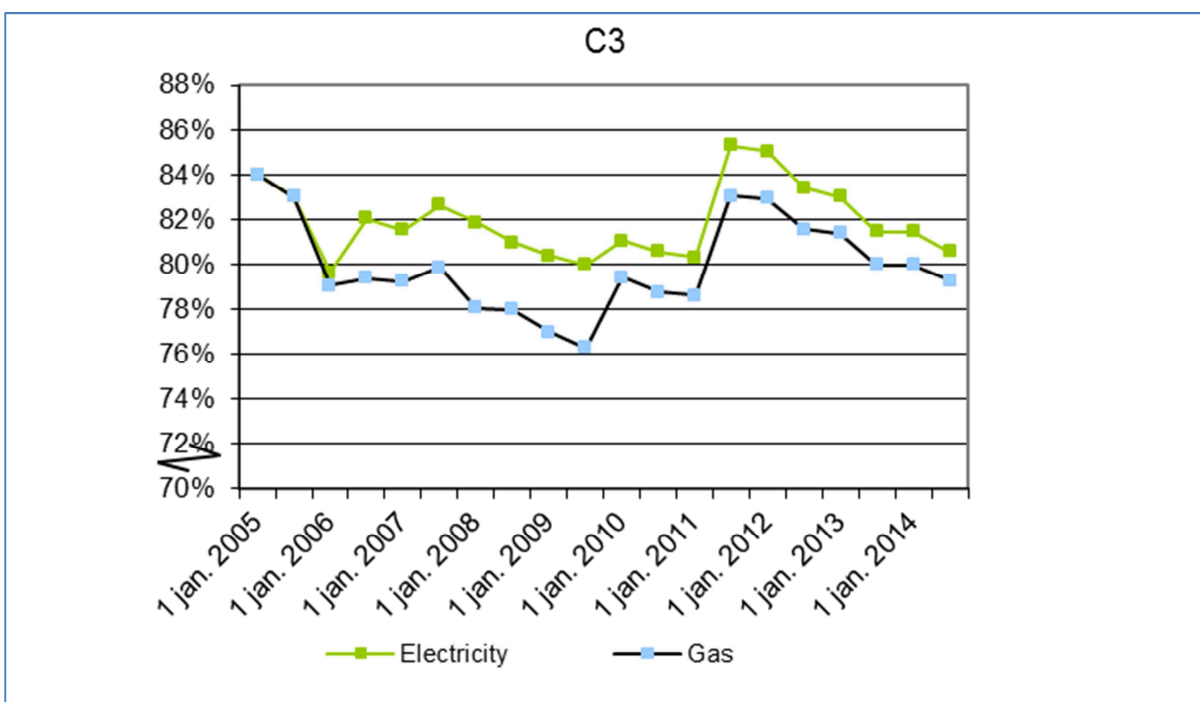


Figure 21 Trend of the C3-index since the liberalization of the market (source: providers)

⁶ The C3-index is the combined market share of the three largest companies (at holding level) in the energy market for consumers and small-scale users.

⁷ The Herfindahl-Hirschman index is equal to the sum of the squares of the market shares in percentages. An increase in the HHI may indicate a decrease in competition, whereas a decrease in the HHI may indicate increased competition. For the calculation of the indices on the small-scale user market for electricity and natural gas, the market shares of the parent companies were used. Suppliers that fall under the same parent company have been grouped into the same parent company.

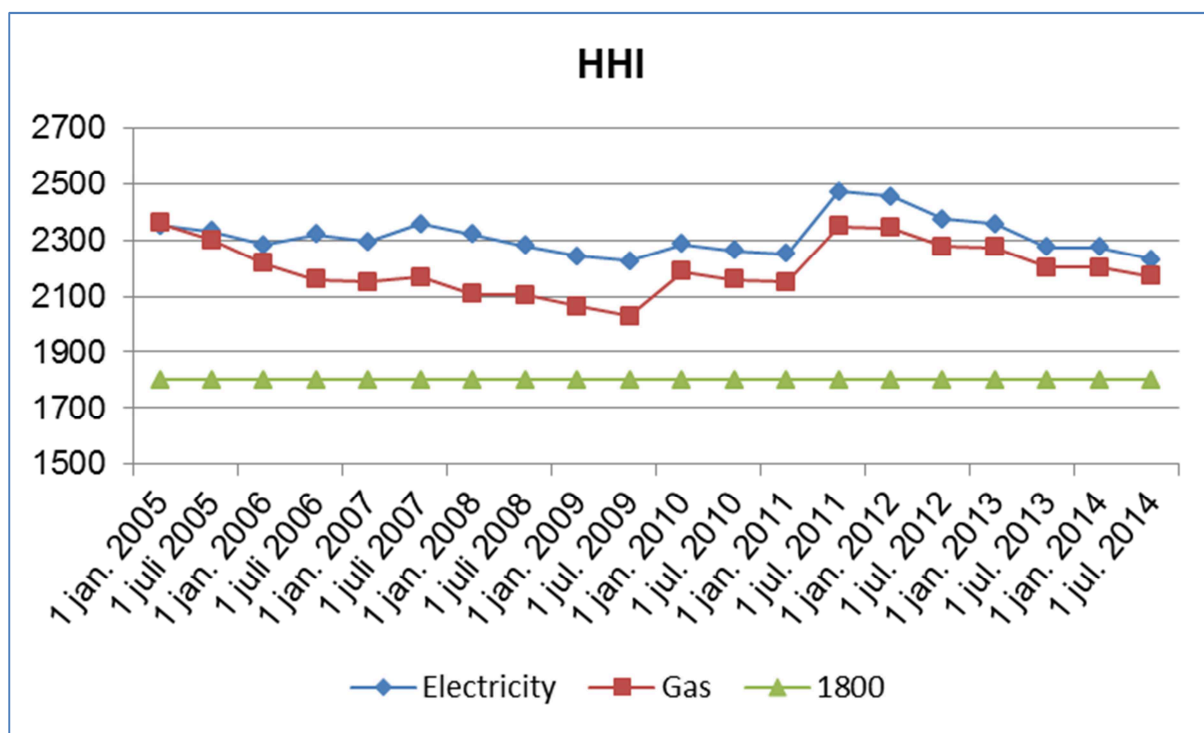


Figure 22 Trend of the Herfindahl-Hirschman Index since the liberalization of the market (source: providers)