

Electricity retail pricing

Commission's study on cost & prices (Staff Working Document)

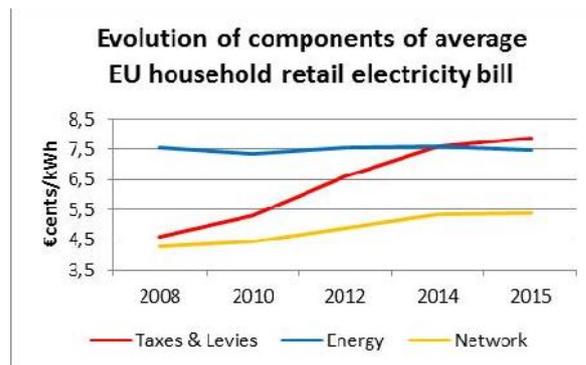


Electricity Directive



The Commission acknowledges that taxes and levies drive retail prices up

The Commission's study on cost & prices recognizes that **taxes and levies have been a major driver for retail prices while the energy component of the bill has been steadily declining**. Between 2008 and 2015, **policy support costs (levies) increased on average by 71% for households** across Europe. Today, the weight of the taxes and levies' component equates the energy and supply component on the bill of a residential consumer. Yet, the package does not offer any tangible solution to address this crucial problem. **It is urgent to encourage Member States to make taxes and levies less of a burden on the final electricity bill.**



Source: Eurelectric (2014)

Volumetric vs Fixed: the way regulated costs are charged to consumers can be discriminatory

Another issue has been left unaddressed: **the way regulated costs (network charges and levies) are charged to consumers is exacerbating the price increase**. Most of these charges are volumetric: they are linked to the amount of energy consumed by consumers – despite the fact that the amount that needs to be recovered, grids and policy costs, is largely “fixed” and unrelated to consumption.

These two issues have significant consequences on retail prices for consumers

If these issues are not tackled, retail prices will continue to rise and **aggravate energy poverty**. The fact that consumers in most European countries pay regulated charges mainly based on their consumption, (€/kWh), even though the costs underlying these charges are largely independent of the volumes consumed, **discourages consumers from investing in electric heating and cooling appliances**. In addition, this contributes to increasing electricity prices for consumers who cannot invest in self-consumption or energy efficiency solutions. This **creates incentives to switch to other forms of energy at the expense of electricity, which is increasingly decarbonized**.

What are the solutions?

Addressing these regulatory inefficiencies is a prerequisite for a cost-efficient decarbonisation of the power sector. This should become a priority of the EU energy policy reform. Member states shall **bring down the share of policy support costs in the electricity bill and finance decarbonisation in a less distortive way**. The **introduction of tax credits or spreading the costs over other energy carriers could be ways forward**.

Proposed amendments

Proposal for a new article

Member States shall ensure that electricity prices do not hamper cost-efficient decarbonisation and may enable that network charges and policy support costs evolve along the following principles in order to enhance demand side flexibility, while improving the system's efficiency:

- a) A set of tariff structures with different shares of standing charges (€/client) capacity-based (kW) and energy-based (kWh) components may be defined by the NRA based on consumers contracted and absorbed capacity and consumption level and patterns.
- b) These regulated charges may be conveyed by retailers to their customers with flat or more time-differentiated options
- c) Policy costs and levies may be recovered through other means than the electricity price

Electricity Directive

Justification

Regulated costs must be charged in an efficient way, progressively removing cross-subsidisation. Determining a detailed charging structure for both network tariffs and policy support costs that may still remain in the bill is a matter of subsidiarity. However, the EU legislation should allow suppliers to make alternative offerings to consumers that will provide flexibility to adapt to the changing uses of electricity, following these principles:

-) *A "tiered approach" to regulated charges: the NRAs may define a set of tariff structures with different shares of capacity-based (kW) and energy-based (kWh) components based on consumers contracted capacity, consumption level and patterns.*
-) *Different levels of granularity for regulated charges: these regulated charges may be conveyed with flat or more time-differentiated options, depending on consumers' choice.*

Article 16.1

Charges applied by network operators for access to networks, including charges for connection to the networks, charges for use of networks, and, where applicable, charges for related network reinforcements, shall be transparent, take into account the need for network security and flexibility and reflect actual costs incurred insofar as they correspond to those of an efficient and structurally comparable network operator and are applied in a non-discriminatory manner. **Grid tariffs should also not include unrelated costs supporting other policy objectives, such as taxes and levies, as this would distort production, consumption and investment decisions.**

Electricity
Regulation

Justification

Those principles should be complemented by the following key missing element: grid tariffs should also not include unrelated costs supporting other policy objectives, such as taxes and levies, as this would distort production, consumption and investment decisions. Should this happen, such taxes and levies should not be scattered across the tariff components and be charged/collected via clearly defined and separate mechanisms in order to provide transparency to both markets and consumers.