



# MONITORING REPORT OF THE RETAIL ELECTRICITY MARKET

## JULY 2011- JUNE 2012

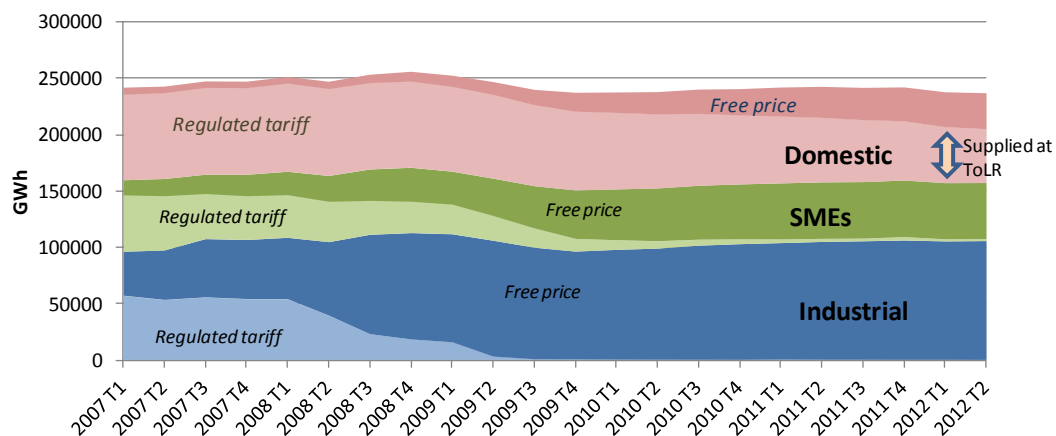
### *Summarised version*

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12 April 2013

**Degree of progress of liberalisation.** In June 2012, virtually all consumers without entitlement to the Tariff of Last Resort (ToLR) were being supplied by a free supplier. In November 2012, only 43,821 supply points without entitlement to the ToLR were being supplied transitionally by a Supplier of Last Resort (SoLR) at a dissuasive price. In contrast, in June 2012, only 28% of the consumers entitled to the ToLR (33% in terms of energy) were being supplied by a supplier different from the Supplier of Last Resort, which represents an 8-point increase with respect to one year ago.

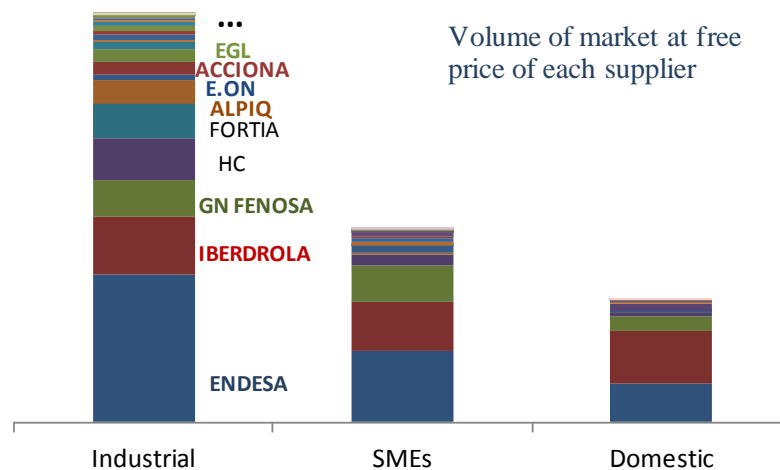


Note: Data in mobile years

**Number of active suppliers.** In the last mobile year, an increase is observed in the penetration of free suppliers in the distribution grids of the five large energy groups, which indicates the existence of new suppliers with a powerful customer-capture activity which are not associated with a particular distribution zone<sup>1</sup>. Specifically, the number of active suppliers with a significant volume of customers<sup>2</sup> in these zones has risen from 23 to 31, from 25 to 36 and from 19 to 25 in the domestic, SME and industrial segments, respectively.

Also in this period, the extinction of the certification of certain suppliers has been carried out, primarily due to never having performed their activity or failing to comply with the requirements laid down in Royal Decree 1955/2000 to perform it, and whose consumers, if existing, have been transferred to the corresponding LRSs.

**Structure of the retail market.** In spite of the increased number of suppliers, the structure of the Spanish free market continues to display a significant market concentration ratio, since in June 2012, the country's three largest supply groups control 72% of the volume of energy supplied in the free market. The increase in the quota of energy supplied by the suppliers who do not belong to the five large traditional energy groups observed in the industrial segment is not yet observed in the domestic-commercial segment.



Note: Electricity (GWh) supplied by each supplier in the mobile year July 2011-June 2012

**Degree of loyalty.** The last mobile year analysed continues to display, in general, the reduction in the degree of loyalty (tendency of consumers to be supplied by the company of the corporate group of the distribution grid of their zone) for all suppliers and segments. In June 2012, the percentage of the volume of energy supplied by the company belonging to the group of the distribution grid is 50% of the total of the energy supplied in the grids of the country's five large distributors, and a reduction of 2 basic points is observed with respect to the same data of one year before.

<sup>1</sup> In 2009 a significant number of suppliers were registered linked to supply in the areas of the distribution firms with less than 100,000 customers, whose activity tends to be oriented towards consumers connected to these distributors' grids.

<sup>2</sup> "Significant volume" has been considered to be those suppliers which on a certain date are supplying energy to more than 100 customers in the domestic and SME sectors and more than 10 customers in the industrial segment.

**Capture of customers outside of the group's distribution zone.** At the end of June 2012, an increase was observed in the diversification of the portfolios of the free suppliers (measured in both supply points and energy) outside of their distribution grid with respect to the values of one year before. Special attention is merited by the free suppliers of the Gas Natural Fenosa (GNF) group, with 64% of its portfolio of supply points (61% in energy) commercialised in the grid external to the group. However, the free suppliers of Iberdrola and Endesa continue to present a significant concentration of their portfolio commercialised in their distribution grids. In June 2012, they presented a commercialisation quota, in all the consumption segments, greater than 81% measured in supply points (77% in energy) in their distribution grid.

Moreover, GNF is notable for being the supply group most frequently chosen by domestic consumers and SMEs who switched suppliers in the mobile year analysed (34% of the domestic changes and 30% of the SME changes were made to a supplier of the GNF group). It is possible that these movements are being assisted by GNF's well-established channel of gas sales, in offering domestic consumer and SMEs twofold products with attractive discounts on the separate contracting of the two products. It should be noted that the percentage of dual supplies of the companies of the GNF group increased from 35% at the end of June 2011 to 40% one year later.

**Switching rate.** In June 2012, the switching rate<sup>3</sup> of the Spanish retail market amounted to 12% (9% one year earlier). This switching rate includes over 1.2 million changes from SoLR to free market and over 1 million changes between free suppliers. This fact reflects an increase in the degree of mobility of the Spanish retail market, which now is not only fed by movements from SoLR to free suppliers but is also experiencing a significant increase in the number of changes between free suppliers.

The switching rate of the retail market by segments amounts to 11% in the domestic segment, 27% for SMEs and 19% in the industrial segment.

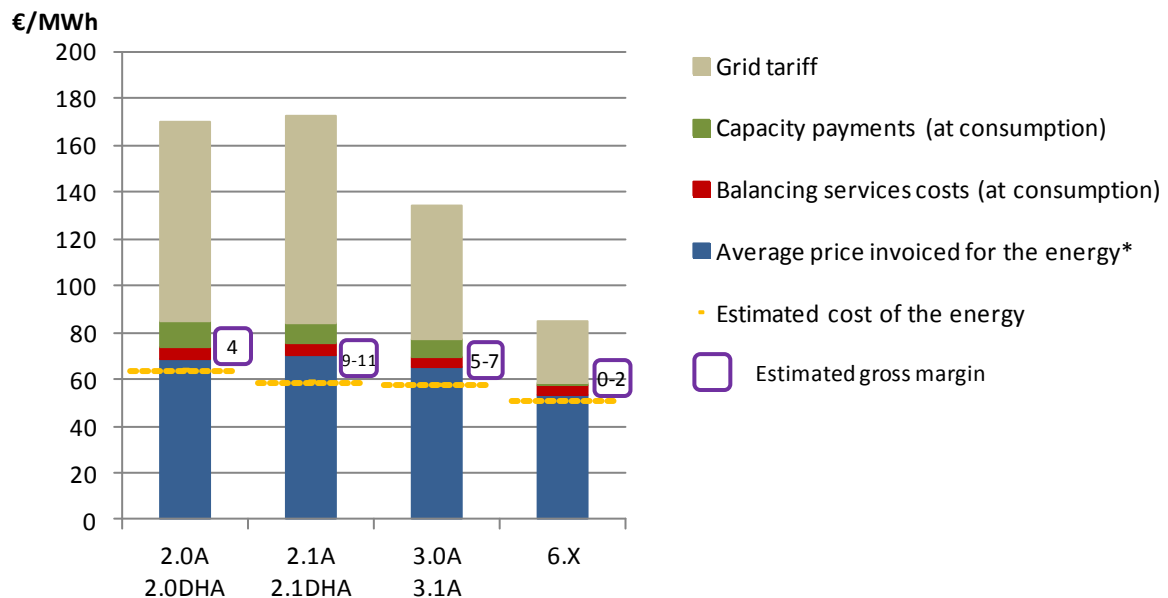
**Rejections in the process of change of supplier.** The rate of rejections in changes of supplier continues the downward trend observed in the previous reports: at the end of June 2012, 3.7% in movements from SoLR to free supplier and 7% in movements between free suppliers had been rejected (4.3% and 8% at the end of June 2011), due primarily to procedural errors.

**Commercialisation margin<sup>4</sup>.** On the basis of the different risk exposure strategies which the free-price suppliers could be using, it is estimated that the prices oriented to the SME segment are those which present a greater gross margin (in July 2011-June 2012, €5-7/MWh against €4/MWh of the domestic segment with entitlement to ToLR and €0-2/MWh of the industrial segment).

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<sup>3</sup> This switching rate considers the movements from LRS to free supplier and between free suppliers, and is calculated by summing the total of the changes from LRS to free market (FM) and from FM to FM in the mobile year analysed (July 2011 – June 2012), divided by the total number of supply points at June 2012. Returns from FM to LRS are not considered.

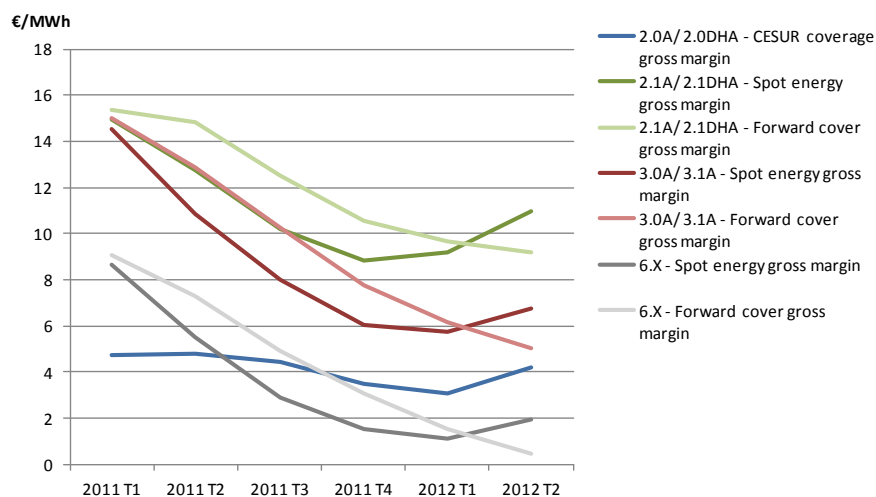
<sup>4</sup> See the full version of the Report for the details of the methodology used in estimating margins.



In the previous retail market report, it was said that these greater margins could be indicating either that the offers of these segments are conditioned by the dissuasive tariff or a lesser development of the market, or a lesser capacity of information and negotiation of these segments with respect to the industrial segment. However, the evolution displayed by these margins from the €15/MWh of early 2011 to the €5-7/MWh of June 2012 could be reflecting a greater maturity in this market (it must be recalled that until June 2009 40% of the energy of this segment was supplied at a regulated tariff). This fact, together with the substantial rate of changes of suppliers registered by this type of consumers (25%) could be considered an indicator of an increase of competition in this segment.

In the segment of domestic consumers with entitlement to the Tariff of Last Resort, the offers in the free market are conditioned by the existence of this tariff. In fact, the estimations made show that if the recognised commercial margin in the ToLR is included, the margins disappear for this segment, all taking into account the hypotheses of coverage expressed in this report. In the industrial segment (consumers with general high-voltage access tariffs), the existence of a greater volume of consumption and greater competition could permit the existence of more appropriate offers by the suppliers.

**Evolution of gross margins.** In the period analysed, a downward trend is observed in the estimated gross margin for the majority of consumption segments. This means that the increase in the cost of energy in the markets experienced in this period with respect to that estimated for one year ago is not transferred in its entirety to the consumers, but a part of this increase is absorbed by the suppliers' own margin. A more or less stable evolution of the estimated gross margins is only notable for consumers with entitlement to the ToLR, which is logical taking into account that, in general, their offers are defined as a discount on the ToLR price, and the variations of the regulated components of this price are transferred directly to the consumers.



Note: In the calculated margins, consideration has only been given to incomes deriving from the billing of the electricity supply, and therefore consideration has not been given to incomes which could derive from the sale of other additional services included in the offer, such as maintenance of the gas boiler or home insurance, or margins deriving from the supply of gas in the case of twofold offers.

### Relevant data of the retail electricity market

|  | June 2011                       |         |            |            | June 2012                       |         |            |            |
|--|---------------------------------|---------|------------|------------|---------------------------------|---------|------------|------------|
|  | Domestic                        | SMEs    | Industrial | Total      | Domestic                        | SMEs    | Industrial | Total      |
| Number of supplies in SoLR   | 20.749.311                      | 88.120  | 318        | 20.837.749 | 18.663.288                      | 59.827  | 234        | 18.723.349 |
| Number of supplies in free market  | 5.941.689                       | 745.030 | 20.574     | 6.707.293  | 8.148.906                       | 776.293 | 21.355     | 8.946.554  |
| Percentage (%) of supplies in free market  | 22%<br>≤10 kW > 10kW<br>20% 83% | 89%     | 98%        | 24%        | 30%<br>≤10 kW > 10kW<br>28% 87% | 93%     | 99%        | 32%        |
| Percentage (%) of volume of energy in free market  | 32%<br>≤10 kW > 10kW<br>24% 87% | 95%     | 100%       | 75%        | 40%<br>≤10 kW > 10kW<br>33% 91% | 97%     | 100%       | 79%        |
| Suppliers active <sup>1</sup> in free market   | 97                              | 97      | 59         | 110        | 102                             | 107     | 59         | 116        |
| Suppliers active with significant volume in free market in the grids of the 5 large distributor groups | 23                              | 25      | 19         | NA         | 31                              | 36      | 25         | NA         |
| Quota (GWh) in free market of suppliers not belonging to the 5 large groups                            | 4%                              | 8%      | 23%        | 16%        | 2%                              | 9%      | 26%        | 17%        |
| Quota (GWh) in free market of the 3 largest free suppliers   | 88%                             | 83%     | 64%        | 73%        | 92%                             | 81%     | 61%        | 72%        |
| Loyalty (measured in volume of energy)   | 74%                             | 58%     | 44%        | 52%        | 70%                             | 56%     | 41%        | 50%        |
| Changes from SoLR to free market (mobile year)   | 1.875.369                       | 91.040  | 376        | 1.966.785  | 2.089.588                       | 40.276  | 307        | 2.130.171  |
| Changes between free suppliers (mobile year)   | 394.719                         | 161.733 | 2.923      | 559.375    | 885.387                         | 184.487 | 3.850      | 1.073.724  |
| Switching rate   | 9%                              | 30%     | 16%        | 9%         | 11%                             | 27%     | 19%        | 12%        |
| Switching rate between free suppliers <sup>2</sup>   | 10%                             | 25%     | 15%        | 12%        | 15%                             | 25%     | 19%        | 16%        |
| Retail price per supply <sup>3</sup> (€/MWh)   | 76 77<br>≤10 kW > 10kW          | 72      | 55         | NA         | 85 84<br>≤10 kW > 10kW          | 77      | 59         | NA         |
| Estimated gross margin (€/MWh)   | 5 13-15                         | 11-13   | 6-7        | NA         | 4 9-11                          | 5-7     | 0-2        | NA         |

(1) The concept "active" refers to the fact that on a specific date, power is being supplied to their clients.

(2) The switching rate between free suppliers refers to the ratio between the total number of switches carried out between free suppliers in a rolling year with regards to the number of supplies in the free market at the beginning of the rolling year analyzed.

(3) Price invoiced by free suppliers after discounting the amount of the access tariff, ET and VAT.