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Competition in Energy Markets – Note by Romania

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More documents related to this discussion can be found at www.oecd.org/competition/competition-in-energy-markets.htm

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1. The energy crisis has brought into the spotlight two types of activities regularly conducted by the RCC: market monitoring and advocacy

1. The RCC has a quasi-sectoral organization, with the energy markets falling into the Energy and Industry Department's responsibility. At this department level, recurrent monitoring of electricity, natural gas and auto fuel markets has been introduced in mid-2016 as a regular activity. These markets were selected given their importance for the economy and the RCC, but also given that more data sources are available[1]. The relevant data are updated regularly by designated case handlers and monitoring reports are issued to RCC's top management (templated reports are communicated on a recurrent basis, while more detailed analyses are provided upon request).

2. This continued effort has proved to be particularly useful in late-2021 and during 2022, when analyses have shown that the high and volatile energy prices were not affecting only Romanian consumers, but the whole region, and that most factors behind those high prices were outside the control of the Romanian authorities. The analyses were useful internally but they were also communicated to third-parties, such as the Government, the Parliament, and the media.

3. Given the significant developments on the electricity, natural gas and auto fuels markets, the RCC was certainly under pressure to respond, with the pressure being two-fold, direct and indirect. The direct pressure came especially in the early stage of the energy crisis, when some observers have circulated the idea that the high prices were the result of a cartel (several cartels actually, one in each market with increasing prices). By using its internal analyses, which indicated the extent of the energy crisis and some of the factors behind the market developments, the RCC was able to alleviate these worries (but remained vigilant about the behavior of companies in such turbulent times).

4. The indirect pressure came later, as the crisis unfolded even further and some policymakers seriously considered regulating energy markets. Given its trust in the power of markets and having a decent understanding of the situation, the RCC offered advice to Romanian authorities in this complicated context. When commenting on the legislative projects issued over the past year, the RCC proposed measures in line with sound key principles[2]. We like to believe that RCC's involvement in this process has led to the adoption of strictly better measures than otherwise.

[1] For electricity we rely on sources such as the Romanian TSO, the national energy sector regulator, the operator of the centralized electricity markets, ENTSO-E, Eurostat, power exchanges in the region, and a couple of websites publishing commodity prices. For natural gas we rely on the Romanian TSO, the regulator, the operator of the centralized gas markets, Eurostat, and a few relevant gas exchanges. For auto fuels we use data from the national statistics agency, the Ministry of Economy, the European Commission's Weekly Oil Bulletin, S&P Global Commodity Insights, Bloomberg. We also benefit heavily from RCC's Fuel Prices Monitor, an online platform where fuel prices are uploaded by the major players on the Romanian fuel retail market.

[2] For example, we consider that the intervention should target a specific issue and be limited to what is absolutely necessary to deal with that issue, the intervention should avoid distorting market functioning (particularly wholesale), the support measures should target the most vulnerable consumers, the support measures should not remove the incentive to save energy, if windfall taxation is considered, it should be applied to those who actually make extraordinary profits, and such.

2. The impact of the energy crisis on the deregulation of the household gas market in Romania

5. The process of deregulation in the Romanian natural gas sector was a lengthy one. For industrial gas consumers, regulated prices were removed at the end of 2014, while for household consumers of natural gas the liberalization was supposed to be completed in 2018. A few changes of the calendar have occurred regarding the deregulation process for households[3] and, as a result, the supply of natural gas to household consumers was liberalized on July 1st 2020, with a one-year transition period until July 1st 2021[4].

6. In this context, in mid-2020, the RCC has started a sector inquiry with the aim to follow the development and results of the liberalization process (the final report is expected at the very end of 2022). The RCC team conducting the sector inquiry has kept contact with the energy sector regulator and has also collected relevant data, recurrently from the regulator and by means of several requests for information from natural gas suppliers active on the market.

7. Soon after the start of deregulation, the RCC has issued a preliminary report, after analyzing most of the offers put forward by gas suppliers for household consumers at the start of the process. The RCC has identified some potentially problematic contractual clauses, which could have misled household consumers, which seemed to impede the consumers' possibility to choose suppliers in an informed manner, or which could block consumers' possibility to switch suppliers. The preliminary report included a few recommendations for the energy sector regulator and for the consumer protection agency and was discussed with the two agencies (it was also posted on the RCC's website).

8. In the preliminary report and also in all of its public statements on the topic, the RCC has stressed the acute need for a sustained information campaign on the market deregulation process, so that household gas consumers fully understand the role of the various enterprises active in the natural gas sector, the components of the final gas price, how one can switch gas suppliers and other such important details. In RCC's view, a strong information campaign, conducted on all available communication channels, was essential for a successful gas market deregulation.

9. This is because our preliminary findings, which were later confirmed by data gathered throughout the sector inquiry, have not shown a spectacular involvement of the household consumers in the liberalization process. In particular, results seem to indicate that Romanian household consumers are rather detached from the process, with a large share of them remaining passive after July 1st 2020: the share of households with a competitive contract was 12% at the start of the liberalization[5], a share which has increased to about 25% in the first six months and to 38% one year into liberalization. In addition,

[3] After discussions in 2015 with the IMF, the WB and the EU, the deregulation process for household consumers was extended until June 30th 2021. At the end of 2018, the Romanian Government took some steps back by re-instating an obligation for local producers of natural gas to sell at an administered price. At the beginning of 2020, the Government put the liberalization process back on track and set June 30th 2020 as the last day of regulated prices for household consumers.

[4] For one year, passive household gas consumers were moved into a transitional regime, with a price communicated by the current supplier replacing the regulated price and a supply contract with standard clauses set by the energy sector regulator.

[5] Competitive contracting was available also prior to July 1st 2020, when the final stage of the deregulation process has started, but it was rather limited due to the fact that the regulated price was lower than the available competitive offers.

data collected by the RCC indicate that only about 8% of household consumers switching from regulated to competitive regime have also selected a different supplier in the process, the vast majority of consumers thus preferring to remain with the current gas supplier.

10. However, the apparent disengagement of the Romanian household gas consumers does not mean the deregulation did not produce positive effects on the market. First and foremost, gas prices in competitive contracts were generally below the previously regulated price and were closer to the market reality of that time (low natural gas prices during 2020). In essence, this means that those households who switched to a competitive offer during the first year of liberalization were able to pass the cold seasons of 2020/21 and 2021/22 with gas prices that, considered retrospectively, seem ridiculously low. In addition, the number of gas suppliers posting offers for household consumers has increased rapidly in the first months of liberalization, reaching about 60 companies, from about 45 prior to July 2020[6]. It is worth noting that some of the new players on the household gas market were incumbent suppliers on the electricity market. Such companies were able to come up with combined offers (electricity and gas), while some have also added ancillary services to the package, in an attempt to better respond to consumers' needs.

11. All in all, we consider that the deregulation process, which has started at a rather low pace, was on the right track and could have yielded even more positive results for the Romanian gas consumers, provided that the sector would have remained within the boundaries of normality. As everybody is fully aware, the conditions on the gas sector have changed drastically in late 2021, with the crisis unfolding in an impressive manner in 2022. While we do not comment here on the factors that have brought the massive changes on the European energy sector, we only indicate that the Romanian market participants were not shielded from the regional situation.

12. Consequently, the liberalization process has been profoundly affected by the rapid development of the crisis. For example, the number of suppliers with offers addressing household consumers has declined quite fast from October 2021 (60 suppliers) to February 2022 (45 suppliers, basically the pre-deregulation situation) and October 2022 (37 suppliers). In addition, some gas suppliers could not withstand the harsh market conditions characterized by high and volatile prices and have collapsed[7]. This has put extra pressure on the remaining suppliers, who have received an unexpected number of household consumers in their portfolios, in a time of unprecedented volatility.

13. At the end of 2021, the Romanian Government stepped in trying to shield the household gas consumers – by a series of ordinances, a price ceiling for natural gas was set and a compensation mechanism was put in place for gas suppliers. While definitely lowering the burden on household consumers, this decision has also removed any incentive to search for alternative gas suppliers (indeed, given the rather low price cap, one could not identify better competitive offers on the market).

14. Observing the high gas prices of 2022, some politicians and (surprisingly) some specialized journalists, have unfortunately blamed the liberalization process, claiming that the deregulation itself is the cause of the energy crisis. Consequently, it is reasonable to expect that a significant share of the rather uninformed consumer base has adopted this erroneous view.

[6] But the consumer base of most new suppliers has remained limited, given the low consumer migration rate,

[7] Between October 2021 and February 2022 8 gas suppliers have asked the energy sector regulator for their license to be removed.

15. When the current crisis will be over, and hopefully the liberalization will be back on track, we expect the consumers' shaken confidence in the process to act as an additional hurdle that will need to be surpassed. At that time, proper information of household consumers will be essential, and the RCC will need to be deeply involved. We will need to defend the principle of deregulation, to disseminate the expected benefits of liberalization, and to convince the general public that historic-high gas prices were not caused by deregulation, but rather by decisions made further East.