

Utility Customer Switching



Research Project

World Retail Energy Market Rankings

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PeaceTM
vaasaemg

Mr. Paul Grey, Chief Market Strategist, Peace Software
Dr. Philip Lewis, Group Director, VaasaEmg, University of Vaasa, Finland
Mr. James Griffin, Manager, Editorial & Research, Peace Software

EXECUTIVE SUMMARY

- The number of customers around the world able to choose their electricity and gas supplier grows year-on-year.
- Active customer switching between both electricity and gas suppliers is occurring in at least 10 markets.
- The Peace Software & VaasaEmg Utility Customer Switching Research Project has been established to monitor and analyse these utility customer switch rates and trends.
- Customer switch rate has been defined as the appropriate metric, being both objective and comparable between markets.
- By a clear margin the world's 'hottest' energy retail markets are Great Britain and the Australian states of South Australia and Victoria with an annual customer switching rate of over 12.5 per cent.
- A further seven markets are rated 'active' with an annual customer switching rate between five and 12.5 per cent.
- The research highlights that energy retail competition is thriving in a growing number of global markets, as indicated by the number of customers switching between suppliers.

Category	Market*	Rank
HOT	Great Britain	1
	Victoria (Australia)	2
	South Australia (Australia)	3
ACTIVE	Sweden	4
	Norway	5
	Netherlands	6
	New Zealand	7
	Texas (USA)	8
	Flanders (Belgium)	9
	New South Wales (Australia)	10
SLOW	Finland	11
	Denmark	12
DORMANT	Austria; Germany; Spain; Alberta, Ontario (Canada); California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, New York, New Jersey, New Hampshire, Ohio, Pennsylvania, Rhode Island (USA)	Not ranked

* Designated by country, province, or state

Figure 1: Ranking of the World's Most Active Utility Retail Markets in 2004

INTRODUCTION

The Peace Software & VaasaEmg Utility Customer Switching Research Project has been established to monitor and analyse utility customer switch rates and trends in competitive energy retail markets and rank the world's most active markets. The research aims to show how the measurable metric of customer switching - one of the key indicators of retail market development, which focuses on customers' behaviour and their exercising of choice - can help provide insights that will be valuable for successful competitive retailing.

Over 30 competitive energy retail markets have been analysed since the project commenced in 2004. The research has highlighted dramatic trends and differences between markets and has enabled both the ranking of markets and their classification into four categories: Hot, Active, Slow and Dormant. Figure 1 shows the full world energy retail markets ranking.

By a clear margin the world's 'hottest' energy retail markets are Great Britain and the Australian states of South Australia and Victoria. Eight markets are classified Active, having switch rates between five and 12.5 per cent during 2004. The Active category includes Texas, the only North American market to make the top ten. Two markets are classified as Slow, at between one and five per cent customer switching in 2004, and a further 18 markets are listed as Dormant; markets that are open for all customers for some form of retail competition, but which currently exhibit less than one per cent per year customer switching.

HOT MARKETS

Great Britain

Since May 1999, when both Great Britain's gas and electricity markets opened fully to competition, Great Britain has consistently been at the forefront of utility customer switching rates. The trend has been towards a steady increase in switching from the end of 2003, which can be attributed to energy retail price rises and the resulting EnergyWatch-led media campaign.

Price increases have impacted British Gas in particular, which has lost almost 1.5 million gas and electricity customers in the space of five quarters; 1.1 million in 2004 and 382,000 in the first quarter of 2005. EDF Energy also came under attack, losing 400,000 customers in 2004. The principal market share beneficiaries are believed to have been other major retailers such as Scottish & Southern Energy and Scottish Power.

Victoria & South Australia

Utility commentators in Europe and North America often overlook the markets of Asia and the Pacific in their market analysis. The Utility Customer Switching Research Project research shows clearly that these regions deserve attention, with two of the three hottest customer switching markets in the world being found in states of Australia.

In 2004, South Australia's gas and electricity markets exhibited a dramatic increase in customer switching pushing South Australia from being a new market with limited customer switching to one of the hottest energy retail markets in the world. Some of the foremost factors contributing to this striking increase in retail market activity include the divestment of the retail customer base by the state government, switching credits granted to a portion of the customer base, and price increases which led consumers to evaluate their retail energy supply options.

Victoria, with Melbourne its largest city, has also witnessed accelerated customer switching since the end of 2003, with the number of customers switching almost doubling between then and the end of 2004. Some of the principal reasons behind this acceleration include incumbent utilities launching targeted lifestyle products and ramping up sales and marketing activities, incumbents from other states successfully entering the Victorian market, and a healthy number of new entrants initiating selling campaigns in pursuit of critical-mass market share.

ACTIVE MARKETS

Sweden

At number four is Sweden, which in 2004 finds itself at the head of the Active market category. Sweden has witnessed annual customer switching rates increasing year-on-year since full market opening in 1999, and in 2004 switching topped 11 per cent.

Sweden recently adopted a national web-based price information and switching service, which is believed to have boosted customer switching activity. A mix of widespread industry media coverage of the opportunities available for customers to switch and utility marketing activity that followed an extended period of price hikes in the winter of 2002/2003 has also boosted customer awareness and switching activity.

Norway

Ranked just below Sweden is its Nordic neighbour, Norway. In 2003 it was one of the most active markets in the world with customer switching around the 20 per cent level following a temporary but massive hike in wholesale prices, and extensive utility marketing activity. Norway has also seen pronounced seasonal activity, with much higher peak customer switching rates, including re-switching, during the winter months of each year.

Customer switching levels for 2004 stabilised around the 10 per cent level due in part to more wholesale price stability. This drop back from a switching peak to a stable but active level is an emerging trait of well-established markets. Norway has this in common with New Zealand, for example. Today, Norway is seen by many onlookers as a model for effective European retail competition.

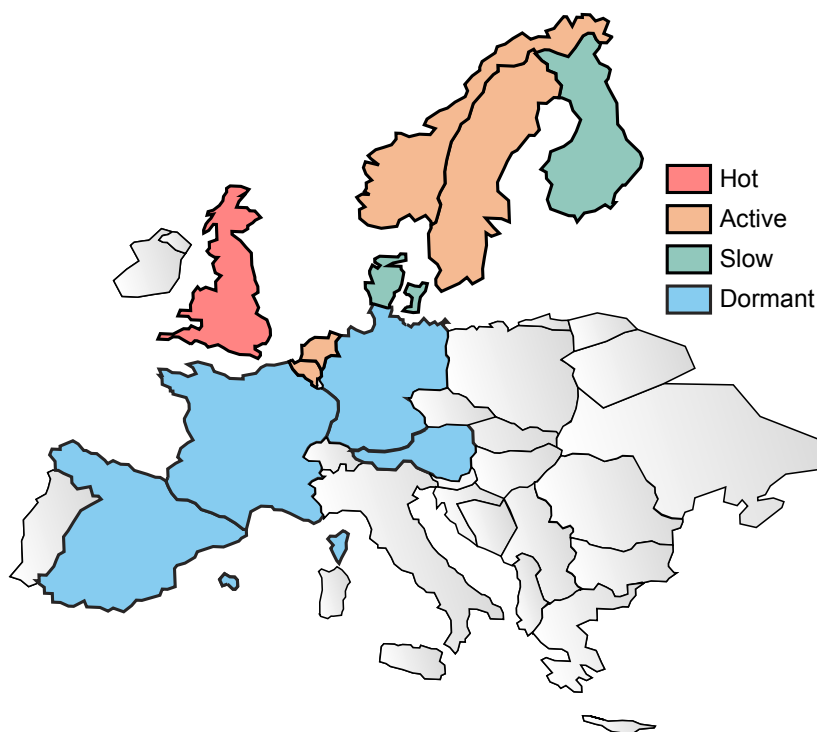


Figure 2: European markets in the Hot, Active, Slow and Dormant Categories

Netherlands

In at number six is the Netherlands market, which opened to full retail competition in July 2004 following periods of industrial competition and green energy marketing. There had been some expectation amongst market commentators that customer switching would start with a 'big bang', based on the earlier rapid take up of green offerings observed when the green electricity market opened to competition in July 2001, and that energy retailers would be under-prepared for market opening. The 'big bang' did not occur, partly due to the summer opening and the apparent lack of desire from some major incumbents to alter the status quo.

The market, however, experienced consistent switching levels of just under ten per cent during the last six months of 2004, boosted by various innovative marketing initiatives from some of the smaller non-incumbent players. A recent spate of public relations crises for a number of the leading players, as well as the market as a whole, also helped drive up customer switch rates.

New Zealand

Ranked number seven for 2004 is New Zealand, the market with the longest history of full retail competition. In a similar vein to Norway it has previously experienced extremely high peaks of customer switching - around 30 per cent per year in mid 2001. In 2004 the New Zealand market exhibited switching just below the 10 per cent level. Switching in the range of 5 to 12.5 percent per year is emerging as a stable active level for long-term retail market health and sustainable success.

Texas

The Texas electricity market opened in January 2002 and at number eight is the only North American market to make the ranking. Research shows that it is no coincidence that Texas leads the way in North America as it stands alone amongst US state markets having separated its utility retail operations from distribution, a market structure that has more in common with markets in Australia and Europe than other US markets, which tend to employ a hybrid coexistence of regulated and competitive utility operations. In 2004 Texas showed an annual customer switching rate around the seven per cent level. The Texas market is notable for the sheer number of participants, with over 40 energy retailers actively competing for customers.

Flanders, Belgium

Despite its reputation for low customer switching activity and the fact that most customer activity has been limited to changing contracts with existing suppliers, the Flanders region of Belgium has sufficient switching to call itself an Active market, albeit at the lower end of the category. In fact the Flanders market may be more active than official customer switching figures indicate, as the official statistics ignore switches between incumbents. Switching activity has also been boosted by market interest from utilities in neighbouring countries.

New South Wales

Completing the top ten is New South Wales, which has witnessed a steady increase in customer switching levels since its market fully opened in January 2002. In 2004 New South Wales had an annual customer switching rate just above five per cent, much lower than its Australian counterparts, but clearly active and showing a distinct uptrend towards the end of the year. The lesser activity relative to its neighbouring markets has been attributed in varying degrees to the continuing state ownership of New South Wales incumbent utilities and the lower retail margins in the State.

SLOW MARKETS

Finland

Just outside the top ten and the first in the Slow market category is Finland, which has witnessed fairly slow customer switching since the market opened in 1998. The number of residential customers no longer with their incumbent supplier stands at just under 20 per cent, despite relatively large price saving potentials. It has only been since 2003 that switching rates have shown any significant upward trend and in 2004 the annual customer switching level was a shade below five per cent.

Switching for 2005 is expected to put Finland in the Active category for the first time since market opening, but activity has historically been inhibited by a lack of customer awareness, direct marketing activity and new market entrants.

Denmark

Denmark, the last Nordic market to experience full market opening, completes the Slow market grouping. Switching in the Danish market has been inhibited by a wide variety of factors including small savings potentials, a lack of customer awareness and a dearth of appropriate competitors for incumbents.

DORMANT MARKETS

Dormant markets are those that have reached full retail competition, with all customers having choice of retail energy supplier, but which do not exhibit any significant customer switching activity. In fact there are more fully open Dormant markets than Active ones. Eighteen of the 30 markets considered in the research reside in the Dormant category and exhibit customer switching levels below one per cent per year.

This includes a large number of North American state markets such as New York, Pennsylvania, Massachusetts and Ohio, which have taken similar structural approaches to market opening and energy customer choice, and a number of European markets such as Germany, which are considered to lack a consistent method for switching or any centralised market registry infrastructure.

CONTRASTING CATEGORIES

Figure 3 is an example of switching trends revealed by the Utility Customer Switching Research Project. The markets shown are a selection from each of the four market categories: Hot, Active, Slow and Dormant, being Victoria, Texas, Finland and New York.

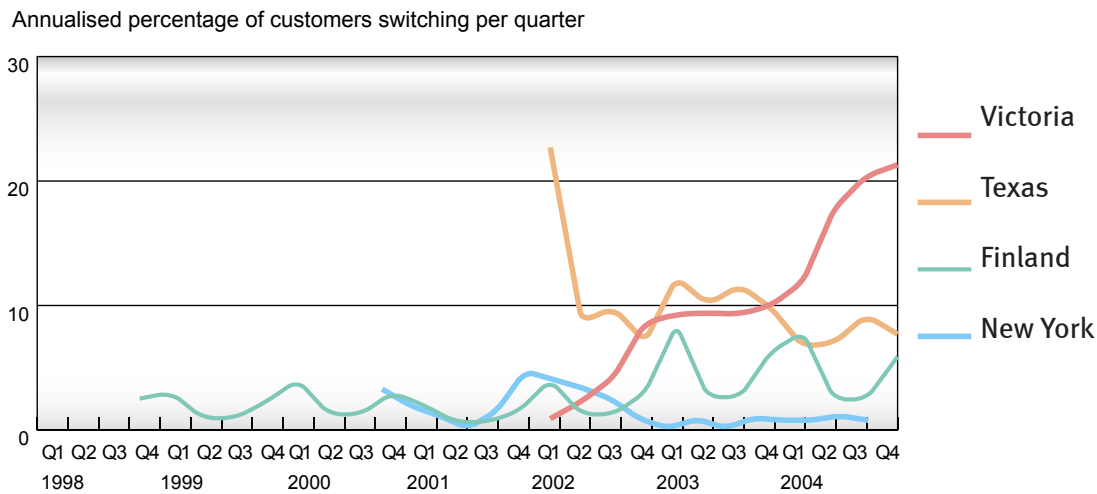


Figure 3: Customer switching examples of Hot, Active, Slow and Dormant category markets

DISTINCT GROUPINGS

As well as defining markets as Hot, Active, Slow and Dormant, the research also reveals two distinct groups; the 12 ranked markets with material customer switching and the others with relatively little switching activity. The diversity of the 12 ranked markets emphasises that energy retail competition can thrive in a variety of markets around the world as indicated by the numbers of customers switching supplier. New markets starting out on the competitive path can leverage these results to aid their own success by following the examples of established successful competitive energy retail markets.

Why Measure Customer Switch Rates?

By standardizing what is meant by customer switching, the Utility Customer Switching Research Project has for the first time provided like-for-like comparisons of retail utility markets and data that can be transferred into knowledge for competitive energy retailers. Paul Grey, chief market strategist, Peace Software, says: "Customer switch rates are an important dimension of energy market competitiveness and have the advantage of being measurable and comparable between markets. Many utility market commentators focus primarily on the wholesale part of the utility value chain. Retail and wholesale markets must both be successful for competitive markets to deliver all their benefits to consumers. The annual customer switch rate is our preferred metric for measuring energy retail market activity."

The customer switch rate is calculated by dividing the number of customers switching suppliers in a period by the total number of customers in the market. This is then converted to an annual customer switch rate.

Two of the other most widely reported statistics are percentage of 'load switched' and the accumulated percentage of customers who have switched energy supplier since market opening. The 'load switched' metric is appropriate for analysis of large commercial and industrial account activity and wholesale market operations, but these customers typically represent a very small percentage of energy consumers in a market. It is of little use for measuring customer switching in a fully competitive retail market or the impact, positive or negative, of retail competition on end consumers.

The second metric, 'cumulative total switched', can be useful during the early stages of retail competition, but rapidly loses relevance over time as the market moves from a transitional state to one of relative maturity. For example, to measure the health of the auto industry, the number of cars produced in the last year, quarter, or month is far more relevant than the total number of cars manufactured since Henry Ford's first Model A. The same principle applies to energy retail markets.

About Dr. Philip Lewis

Dr. Lewis is a leading expert in energy customer behaviour and psychology. In 1997 Dr. Lewis established VaasaEmg (The Nordic Centre for Expertise in Energy & Utilities Marketing) at the University of Vaasa in Finland after formerly being head of Marketing Research and Analysis for Beacon, the UK-based energy retailing subsidiary of Amoco and Seaboard.

Dr. Lewis and his VaasaEmg team have conducted extensive research into energy customer loyalty dynamics and switching patterns in competitive energy retail markets around the world. He is also chief editor of the Energyforum Global Report and heads the Global Round-Table of Energy & Utilities Marketing Experts, an association of 100 industry experts.

About Paul Grey

At the centre of Peace Software's technology strategy since 1988, Paul Grey has 17 years experience developing and deploying utility billing and customer information systems.

Paul's widely published articles and papers focus on the application of information technology to utility business problems, and on the evolution of competitive energy retail markets in the Asia-Pacific, North America and Europe. He is a regular speaker at utility industry conferences around the world, makes contributions to industry reports, and serves on a number of editorial and advisory boards.

About James Griffin

James Griffin manages Peace Software's research and editorial covering both regulated and competitive energy markets. He was previously editor of leading industry publication, Energy International, and today contributes articles to other publications including Utility Week and Power Economics.

James has chaired sessions at utility industry conferences around the world and serves on a number of conference advisory boards.

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Utility Customer Switching Research Project

The Peace Software & VaasaEmg Utility Customer Switching Research Project was initiated in 2004 to monitor and analyse utility customer switch rates and trends in competitive utility retail markets around the world with the objective of providing valuable insights into successful competitive retailing.

www.peace.com/customer-switching

VaasaEmg

VaasaEmg is the world's leading, largest established university-based research centre specialising in electricity, gas & related utilities marketing to end customers. Based in Finland, the group's leading edge research focuses on predicting and influencing customer behaviour and value through a deep understanding of customer psychology. It has researched over 300,000 customers in 45 countries around the world, providing research and consultancy to over 250 energy and utility organisations including Shell, ABB, Fortum, the European Regulators Group for Electricity and Gas, Nokia and the Finnish Parliament.

www.vaasaemg.com

The logo for VaasaEmg, featuring the word "vaasaemg" in a lowercase, sans-serif font. The letters "vaasa" are blue and "emg" are red.

Peace Software

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