

## Retail pricing for a cost-effective transition

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### Abstract

Empowered consumers are expected to have a crucial role in the transition towards a decarbonised power system and in addressing the related challenges, including the increasing need for flexibility. Efficient retail electricity pricing is crucial to incentivise consumers to invest in electric appliances and is a key enabler of demand response. Today, a couple of regulatory inefficiencies hinder those and also have important consequences for the evolution of the system: The first problem, namely the rising levies and taxes or the so-called “wedge”, is known but far from being solved. The second issue – the “mismatch” between the structures of regulated charges in customers’ bills and their underlying costs – remains however overlooked.

The paper explains how both “the wedge” and “the mismatch” have negative impacts on electrification and on the flexibility potential of demand on the one hand, while they create distorted investment signals that result in social welfare losses on the other hand. If these issues are not adequately addressed, retail unit prices will keep on rising as the growing costs of the electricity system will be charged over a progressively shrinking demand base. Such a vicious circle would fuel further distortions, resulting in a diminishing potential for active retail customers to participate in the market.

EURELECTRIC believes that addressing these regulatory inefficiencies is a prerequisite for creating the basis for the cost-efficient decarbonisation of the power sector and should become a priority of the EU energy policy reform.

More info: [http://www.eurelectric.org/media/282159/retail\\_pricing\\_for\\_a\\_cost-effective\\_transition-lr-2016-2500-0008-01-e.pdf](http://www.eurelectric.org/media/282159/retail_pricing_for_a_cost-effective_transition-lr-2016-2500-0008-01-e.pdf)