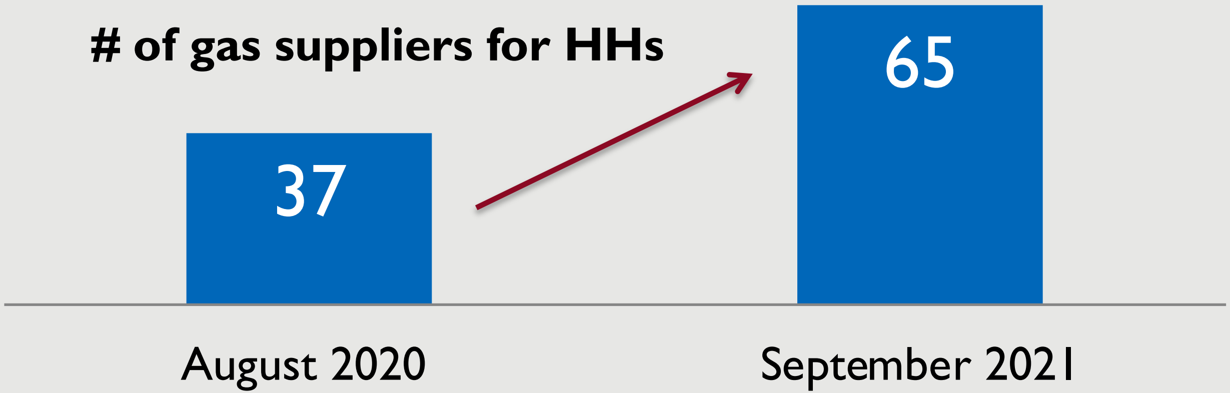
IS HOUSEHOLD GAS SUPPLIER SWITCHING IN UKRAINE FUNCTIONING EFFECTIVELY?

Energy Security Project (ESP)

December 17, 2021

Market overview and drivers of the study

- Gas market liberalization for HHs started in **August 2020**:
  - opening the market for new competition,
  - providing consumers with the option to switch to new suppliers who are competing on the basis of service and prices.
- 1 year after liberalization, the market size of HHs supplier offerings has almost doubled:



So competition increased, but the level of 'organic' switching was limited

What could be the barriers to switch supplier?

- lack of awareness?
- poor switching procedure?
- other barriers?

What actions were needed to improve switching?

What was ESP seeking to achieve in conducting the survey?

- **level of awareness** regarding possibility to switch supplier
- **share of consumers who** successfully switched
- determine the **intention to switch** gas supplier
- **problems** faced during / after switching
- verify **barriers**

Main hypotheses about barriers

- Anyone who changes gas supplier will **lose their subsidy**
- The service of switching gas suppliers is relevant for **private homeowners** only
- How can a new supplier deliver gas through the **same pipes**?
- Where and how to switch gas suppliers; the criteria for choosing
- Old suppliers **will prevent** switching

Main results

88% of the respondents are aware about switching (or believe that they are aware)

Hypothesis of low awareness was not confirmed

Only **1.5%** of consumers that tried to switch supplier failed (and **13%** switched successfully)

Hypothesis of poor procedure was not confirmed

The main reason for organic switching is price

Introduction of price cap in February 2021 had a negative impact on the level of switching

Significant **lack of understanding** of gas value chain was discovered. Leading barriers come from the lack of information

Hypothesis of low understanding was confirmed

'How can a new supplier deliver gas through the ***same pipes?'***

Methodology of the survey

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this document are the sole responsibility of Tetra Tech ES, Inc., and do not necessarily reflect the views of USAID or the United States Government. This document was prepared by Tetra Tech ES, Inc., USAID Contractor for the Energy Security Project (ESP), USAID contract 72012118C00003.

USAID
FROM THE AMERICAN PEOPLE

Methodology of the survey: combining Qualitative and Quantitative approaches

Qualitative survey

Extensive survey of households-gas consumers through Ukraine

2522 respondents took part in random telephone survey

to collect statistic data to demonstrate the effectiveness and gaps in supplier switching based on real experiences

\+

Quantitative survey

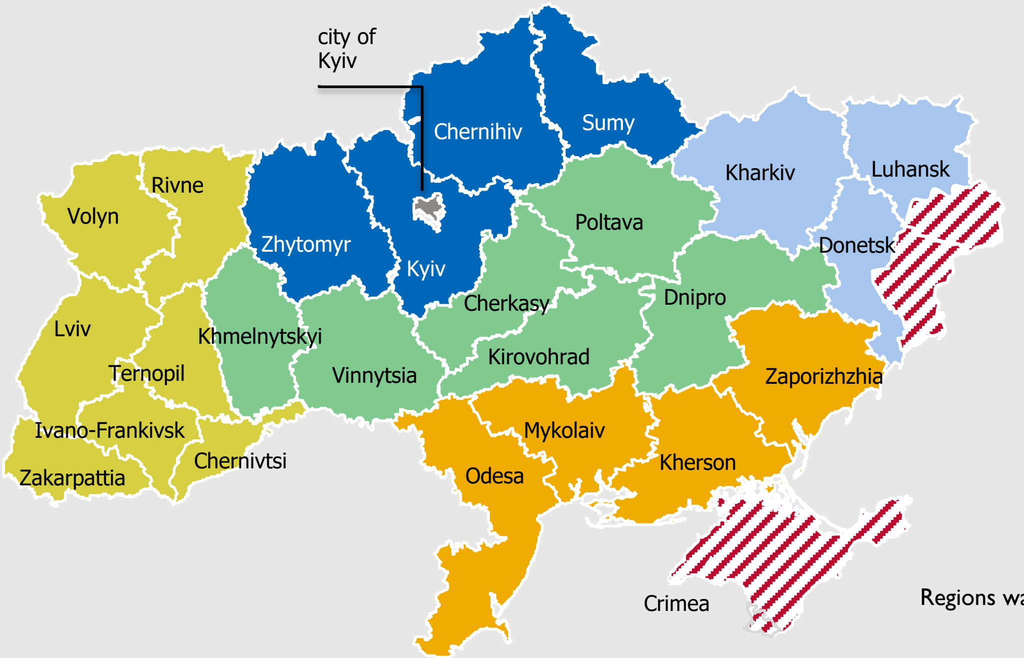
semi-structured in-depth interviews

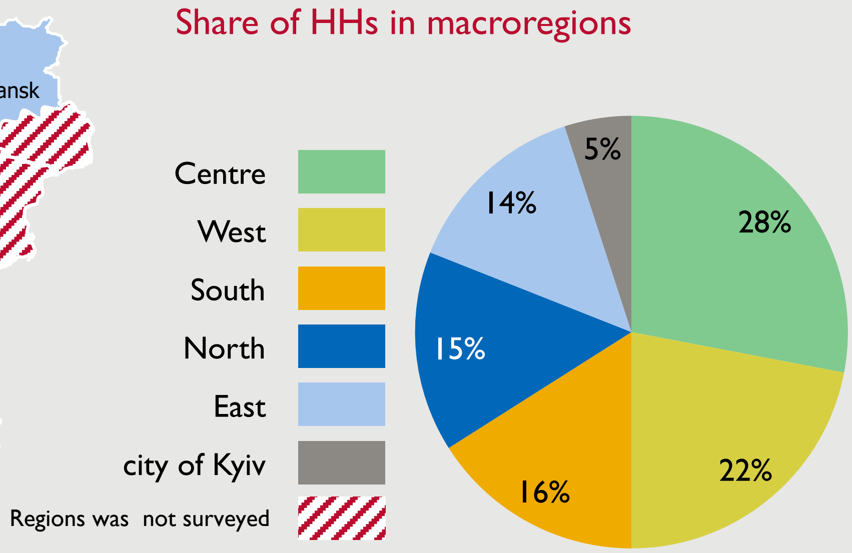
With **100** gas consumers who had the experience of switching supplier

to enhance the statistical data with real stories

Regional profile of households-gas consumers’ survey

- Surveys were conducted through Ukraine, all regions were covered;
- HHs distribution was representative to the households-gas consumers;
- The sample size allows to analyze the results in the regions split





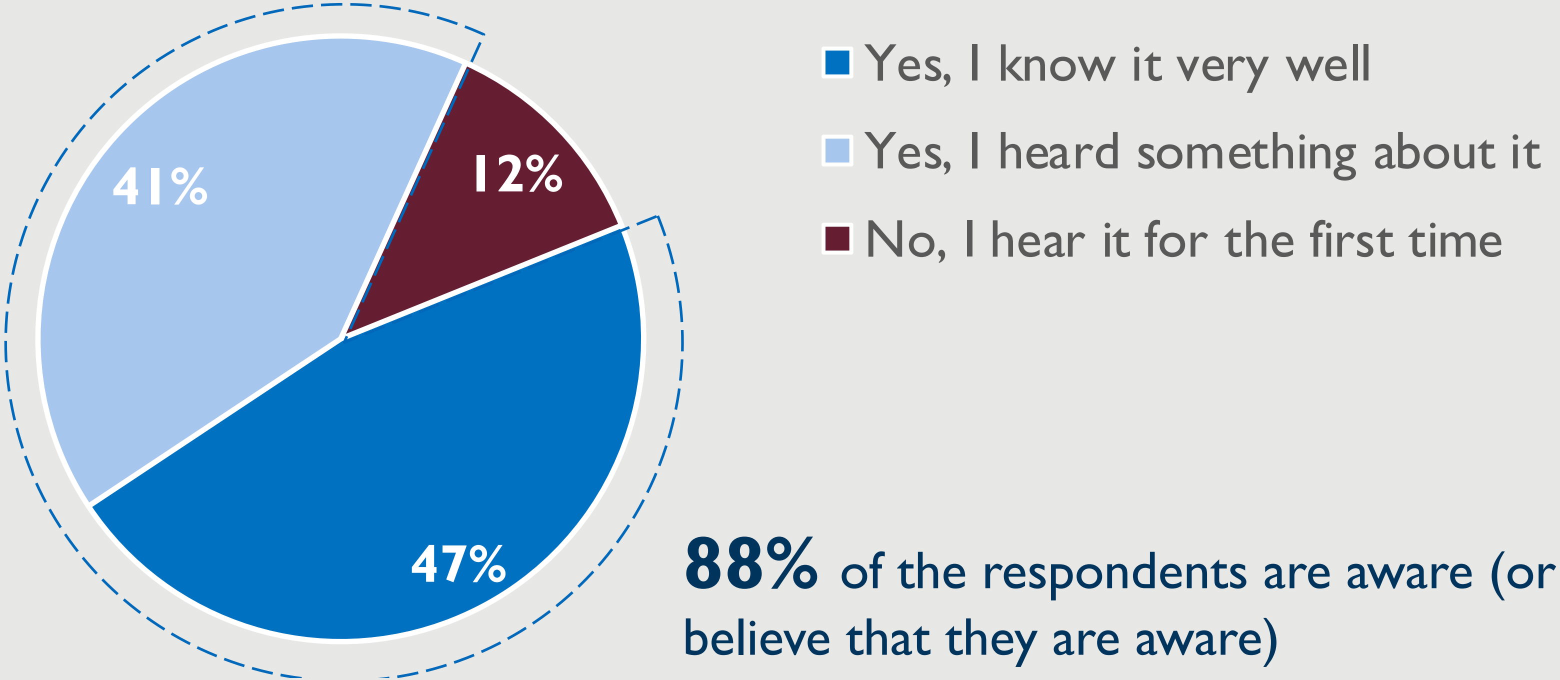
Key results

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this document are the sole responsibility of Tetra Tech ES, Inc., and do not necessarily reflect the views of USAID or the United States Government. This document was prepared by Tetra Tech ES, Inc., USAID Contractor for the Energy Security Project (ESP), USAID contract 72012118C00003.

USAID
FROM THE AMERICAN PEOPLE

A vast majority of consumers consider themselves as aware about possibility to switch gas supplier

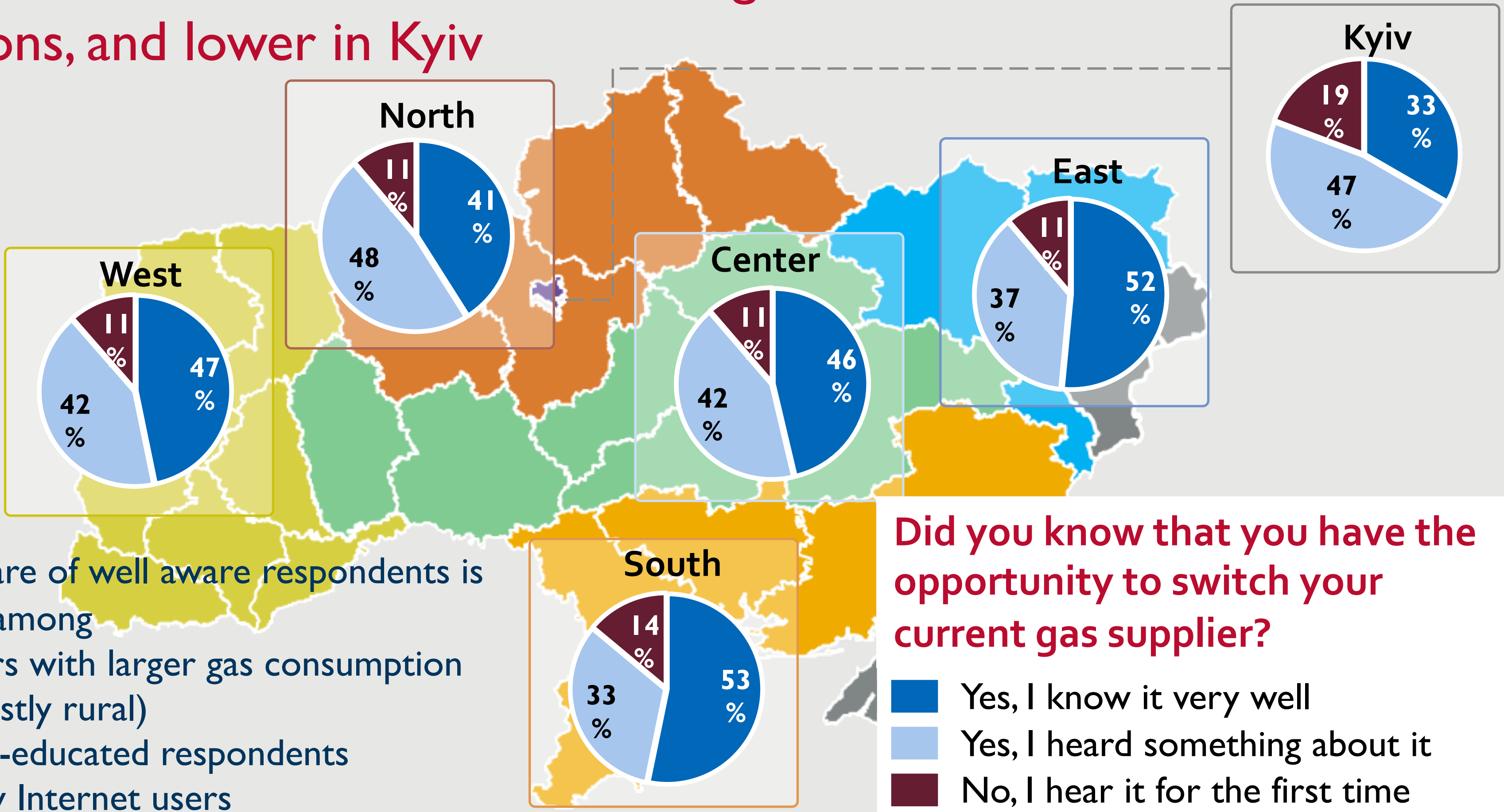
Did you know that you have the opportunity to switch your current gas supplier?



88% of the respondents are aware (or believe that they are aware)

Source: ESP Analysis – Supplier Switching Survey

The shares of well aware HHs are higher in the East and South regions, and lower in Kyiv



The share of well aware respondents is higher among

- users with larger gas consumption (mostly rural)
- well-educated respondents
- daily Internet users

Did you know that you have the opportunity to switch your current gas supplier?

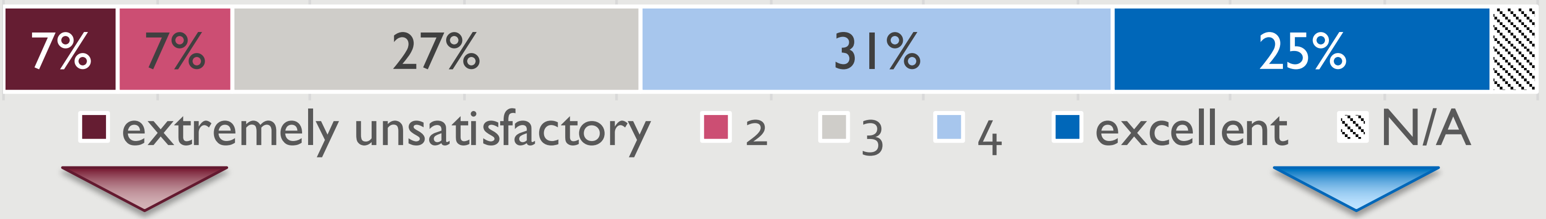
- Yes, I know it very well
- Yes, I heard something about it
- No, I hear it for the first time

Source: ESP Analysis – Supplier Switching Survey

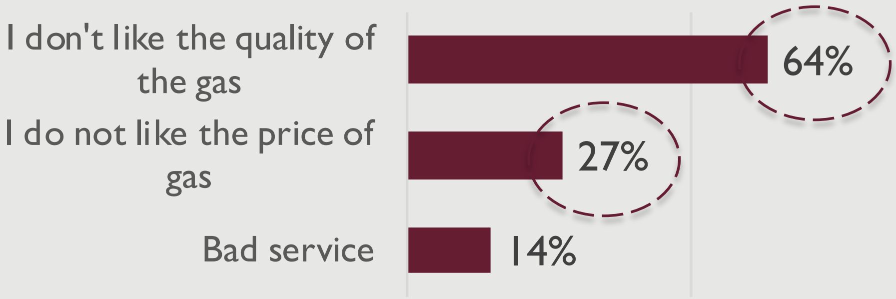
Consumers demonstrate significant lack of understanding of gas value chain based on their reasons for high and low satisfaction

- Although *Quality of gas* and *Uninterrupted supply* are not related to the supplier, consumers consider these factors as reasons for high or low quality of services

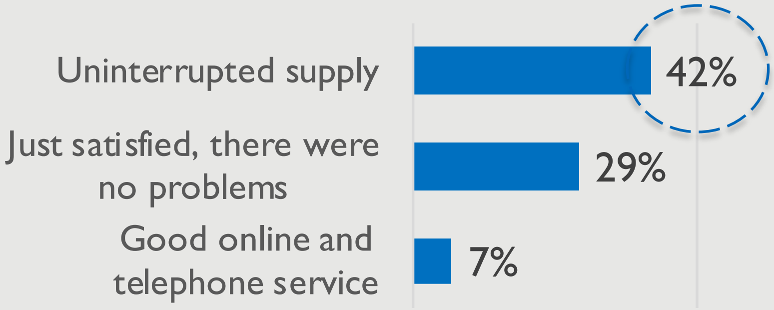
How can you assess the quality of services provided by your current gas supplier?



Top 3 reasons for low scores

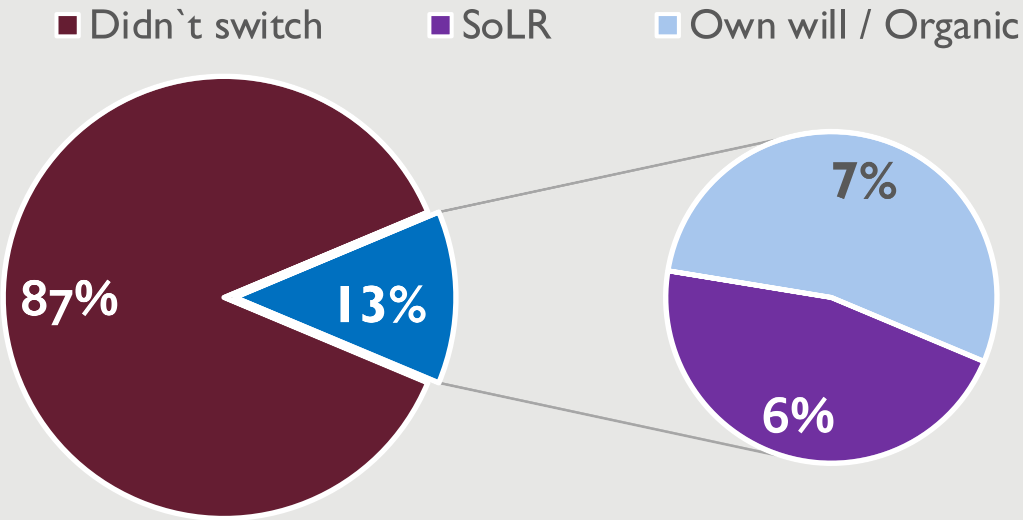


Top 3 reasons for high scores



Source: ESP Analysis – Supplier Switching Survey

As of the end of May 2021, 13% of households have switched, however about half was “forced” switching



Organic switchers:
consumers that have taken the deliberate decision to switch supplier, and there were no external factor that made the switching obligatory

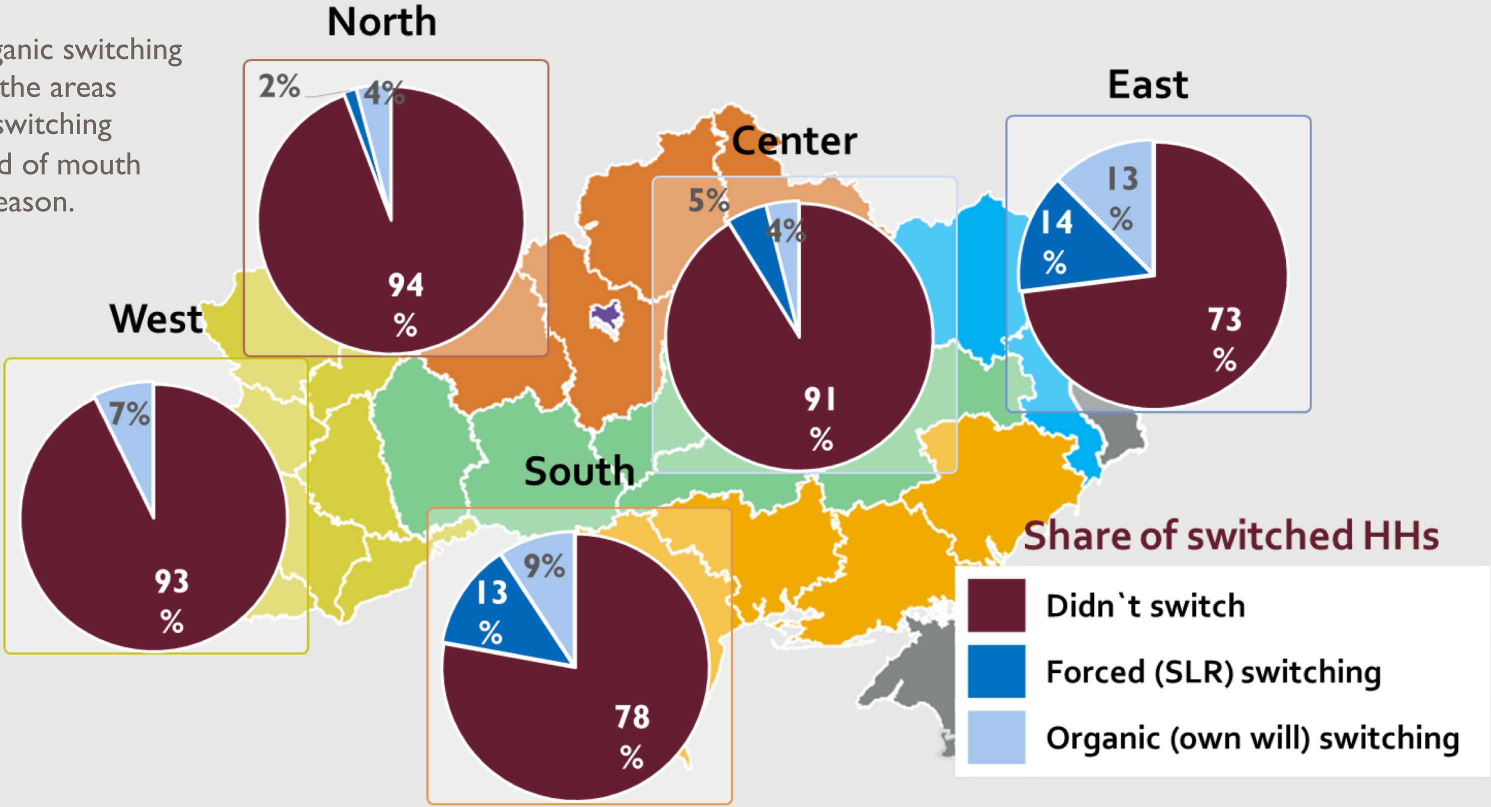
Forced switchers:
were obliged to switch because they were switched to SoLR and had to choose new supplier according to the procedure defined in legislation

Based on the survey we can estimate that from 1.45 to 1.78 million HHs have switched (13% +/- 1,3%)

Source: ESP Analysis – Supplier Switching Survey

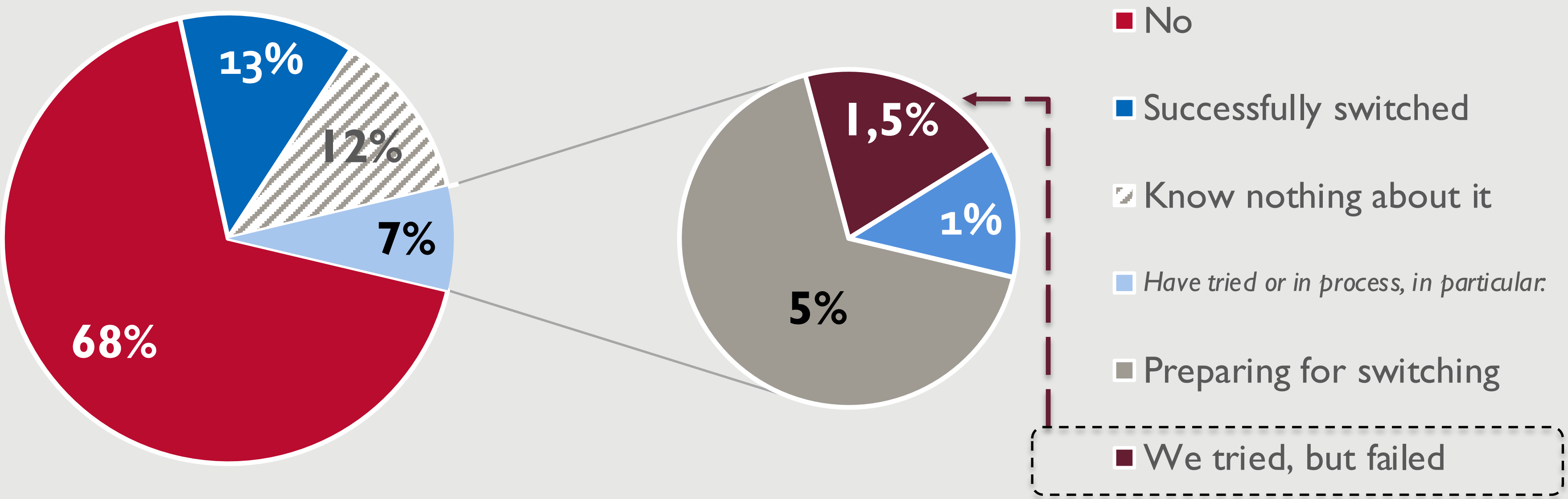
The share of organic and forced switching is higher in the Eastern and Southern macroregions

The higher organic switching is observed in the areas where forced switching occurred. Word of mouth could be the reason.



Only 1.5% of consumers that tried to switch supplier failed

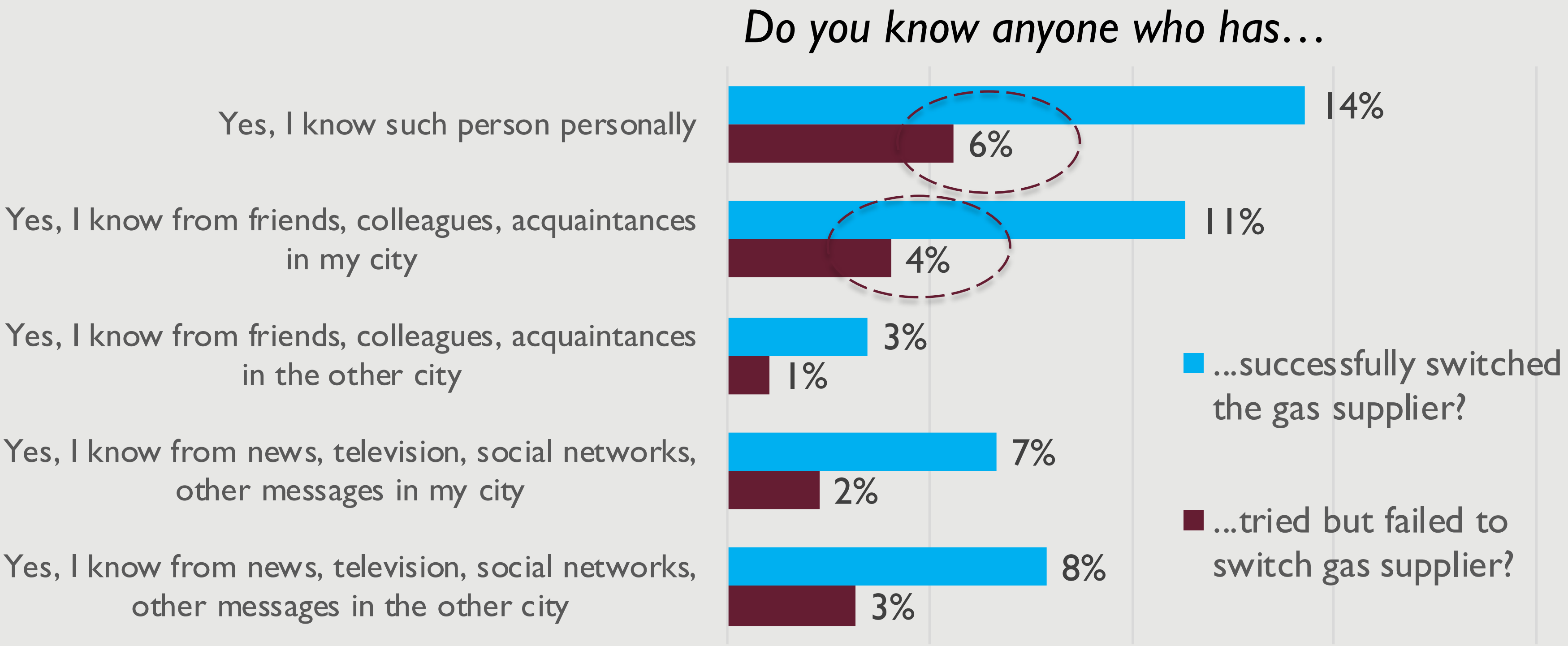
Have you personally tried to switch your gas supplier?



The reasons of failing are rather related to the individual consumer, like lack of willingness to fulfil all steps, gaps in documentation, etc

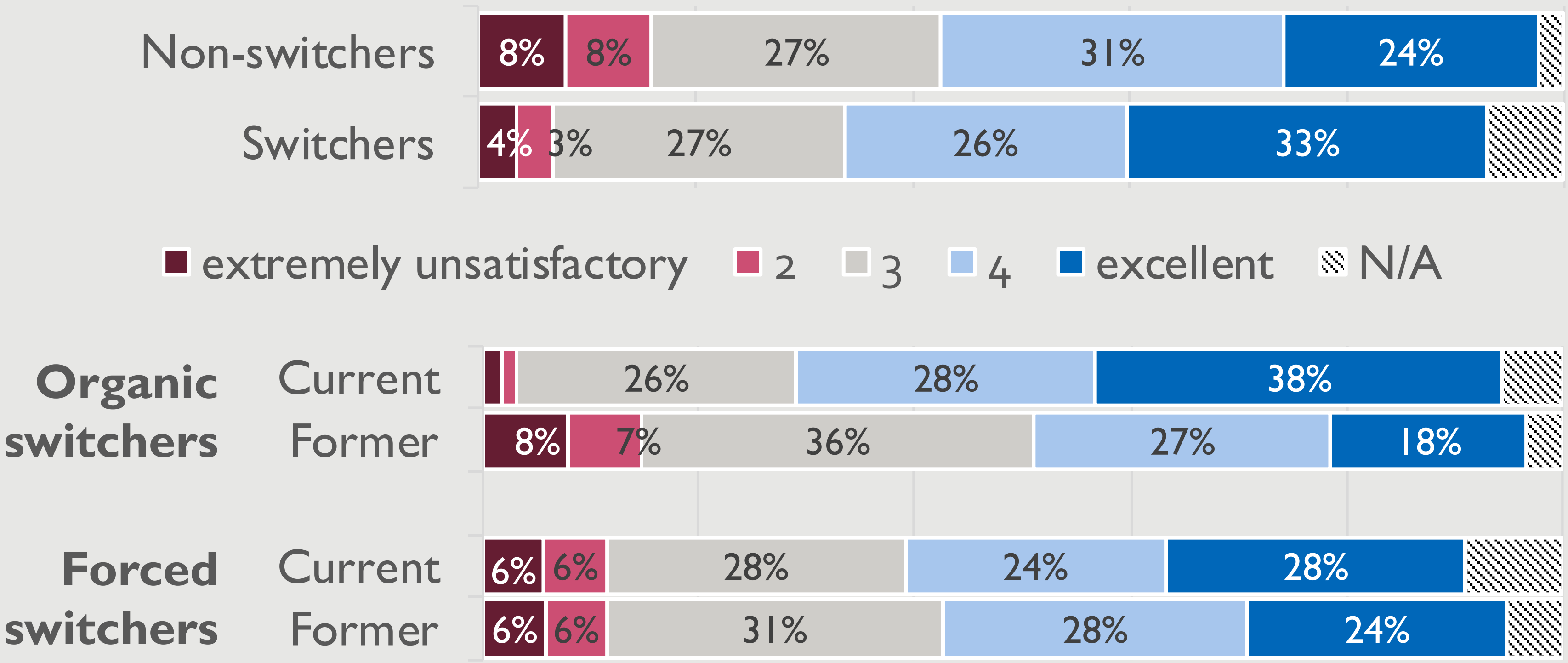
Source: ESP Analysis – Supplier Switching Survey

…however the information about the unsuccessful switching is much more widespread: 15% of the respondents have heard about such cases (bad news travels faster)



Source: ESP Analysis – Supplier Switching Survey

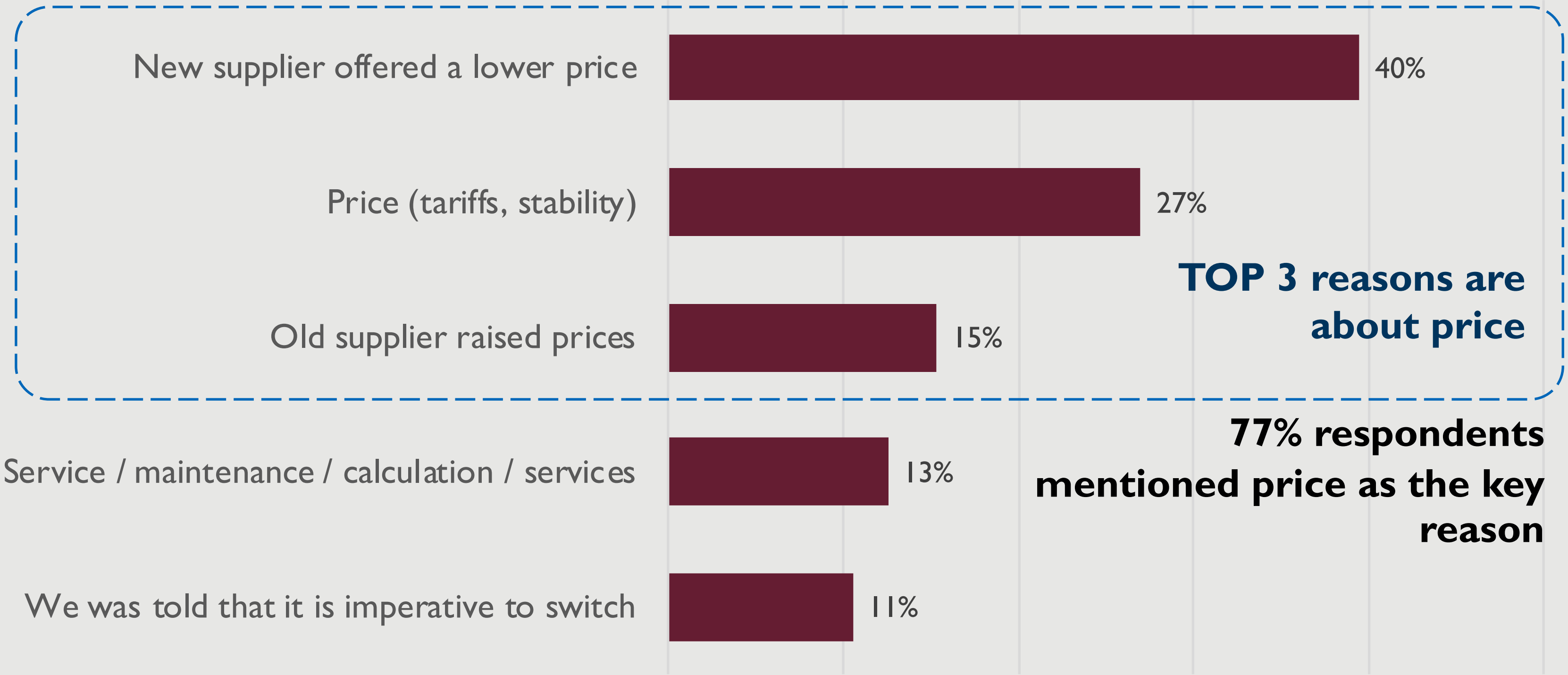
HHs that have switched gas supplier are more satisfied with the current supplier's services



Source: ESP Analysis – Supplier Switching Survey

The main reason for organic switching is price

What motivates you to switch your gas supplier? *(open question for those who considering switching)*

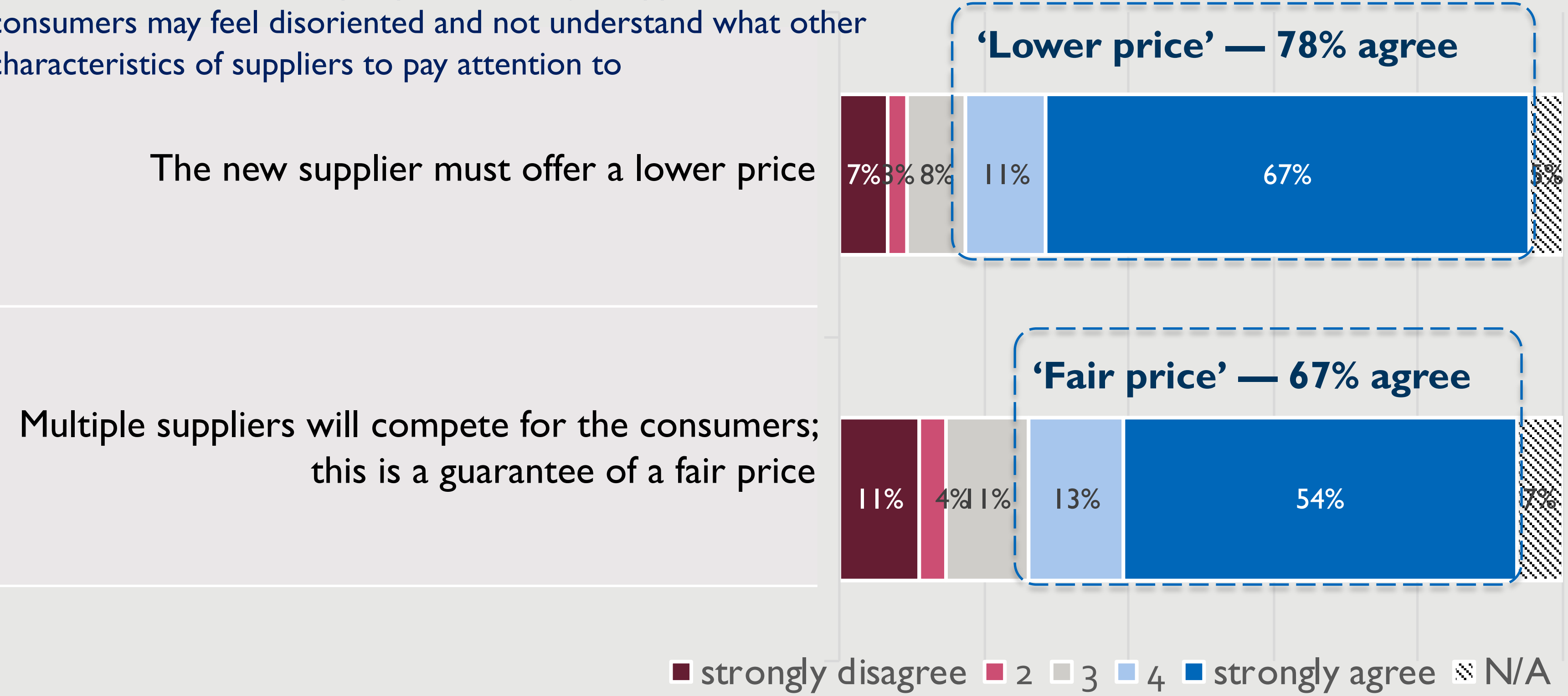


77% respondents mentioned price as the key reason

Source: ESP Analysis – Supplier Switching Survey

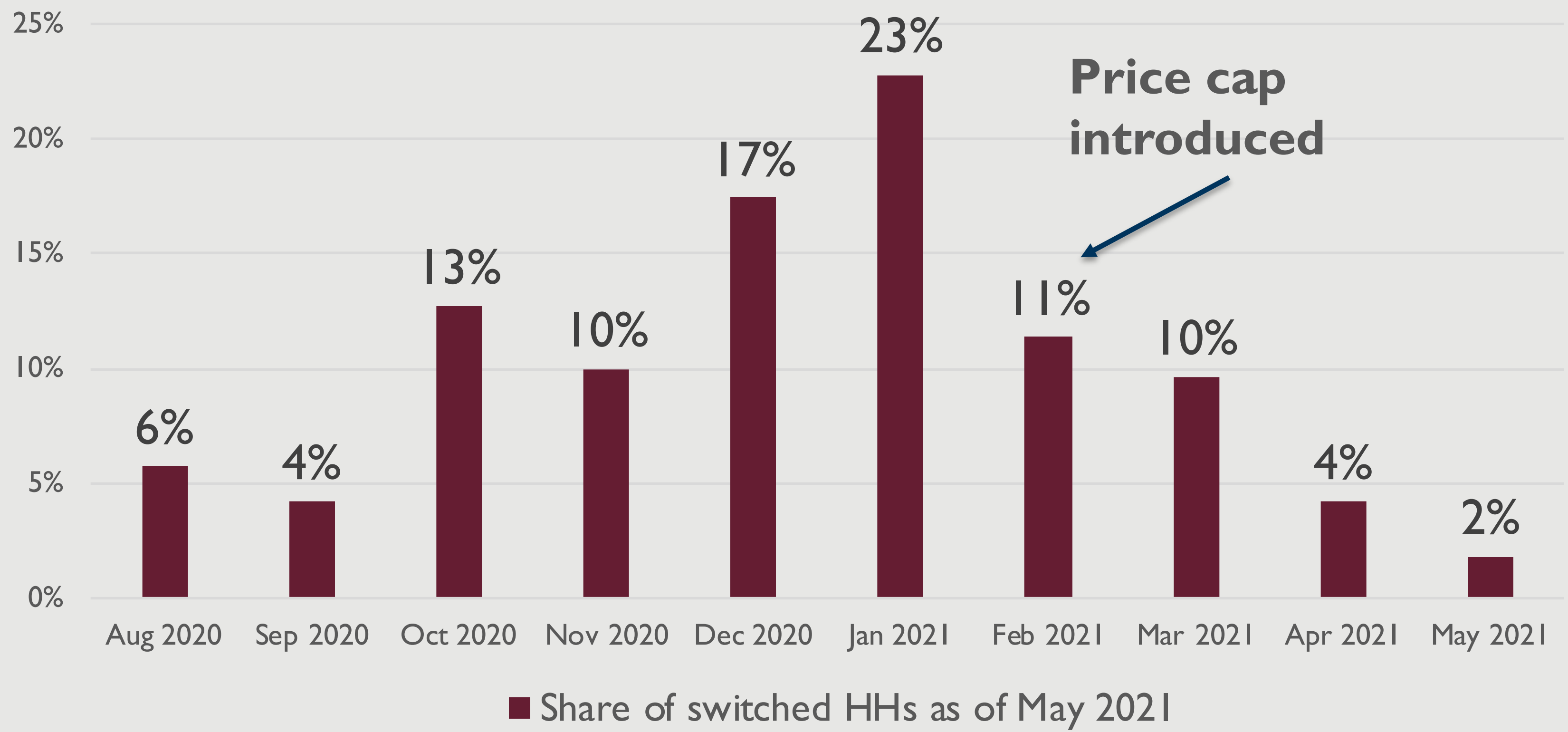
The leading driver for all categories of consumer is also price

In conditions of almost equal prices amongst suppliers, consumers may feel disoriented and not understand what other characteristics of suppliers to pay attention to



Source: ESP Analysis – Supplier Switching Survey

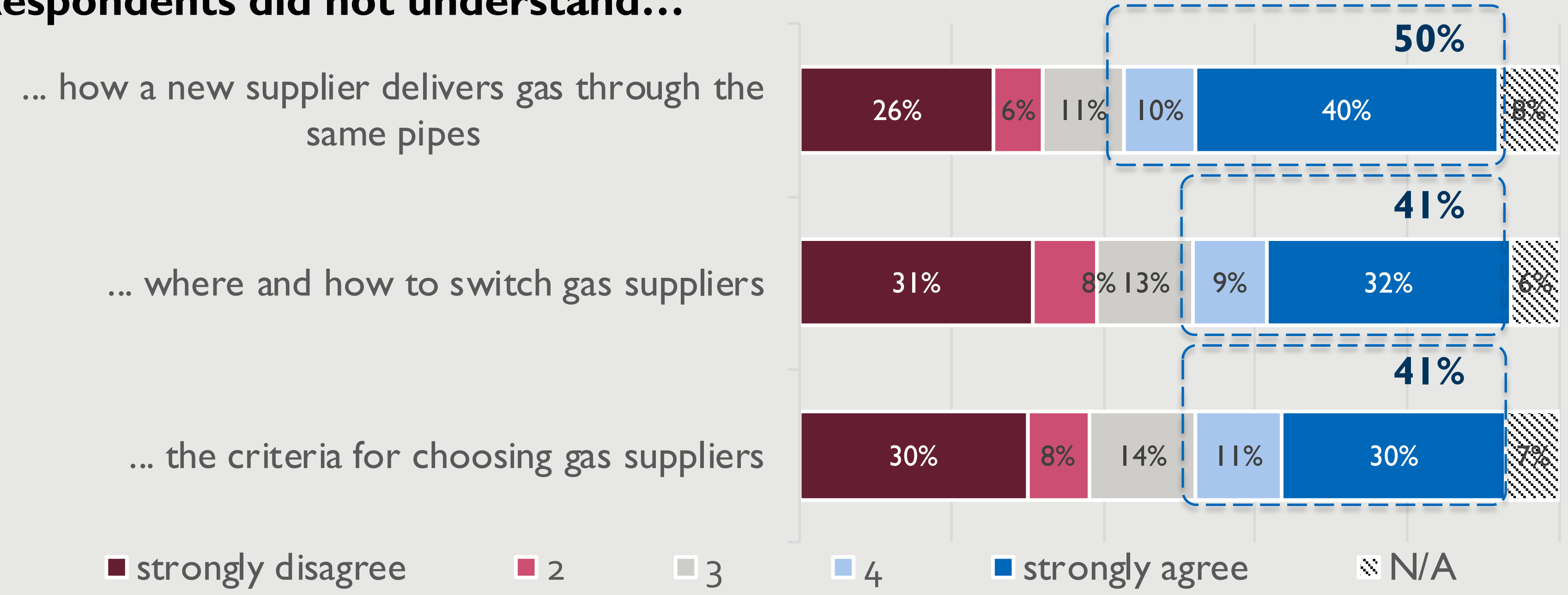
Introduction of a price cap in Ukrainian gas retail market in February 2021 had a visible impact on the level of switching



Source: ESP Analysis – Supplier Switching Survey

The leading barriers come from the lack of information

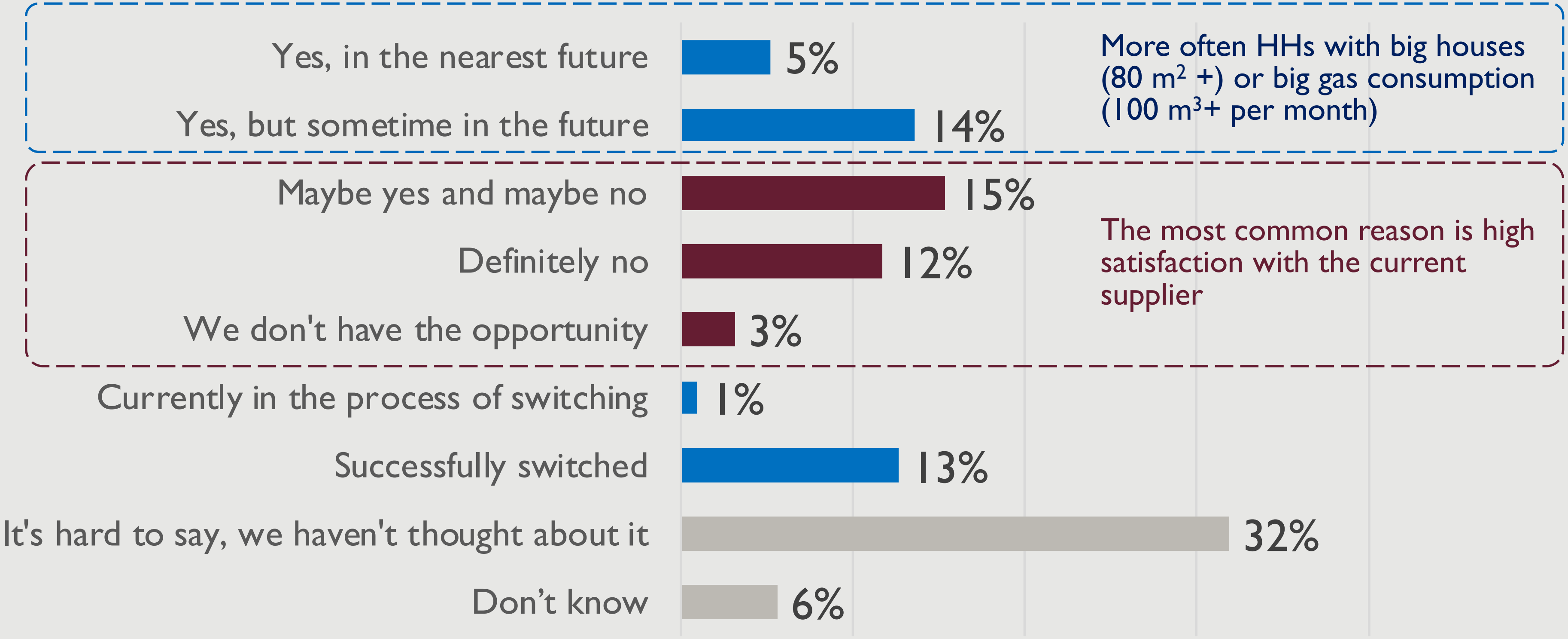
Respondents did not understand…



There is also a lack understanding of how the transition to/from SoLR works and whether there is a need to choose a new supplier after a certain period of time

Source: ESP Analysis – Supplier Switching Survey

In May 2021, about 20% of audience were considering switching, 5% were considering it in the nearest future, 13% had already switched



Source: ESP Analysis – Supplier Switching Survey

Conclusions

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this document are the sole responsibility of Tetra Tech ES, Inc., and do not necessarily reflect the views of USAID or the United States Government. This document was prepared by Tetra Tech ES, Inc., USAID Contractor for the Energy Security Project (ESP), USAID contract 72012118C00003.

USAID
FROM THE AMERICAN PEOPLE

Hypothesis of low awareness and poor switching procedure was not confirmed

Awareness of the possibility of switching gas suppliers is high and the hypothesis of low awareness was not confirmed.

The hypothesis of poor switching procedure was not confirmed. Consumers rated the procedure as convenient, and no significant barriers were recorded.

People have problems understanding the gas value chain and market, which impacts perception of the gas supply industry.

Low understanding of the gas value chain is the main intellectual obstacle for gas supplier switching, consumers do not know which criteria they should use to choose a new supplier.

The best way to promote switching is increasing awareness of the gas supply value chain and gas suppliers' responsibilities

A possible future program can focus on:

- Raising awareness about gas supply value chain and gas suppliers' responsibilities;
  - including an educational campaign for shaping customers' expectations from gas suppliers.
- Supporting switching:
  - Promoting the sources of information about suppliers and their offers through physical booths in particular regions and cities;
  - Education campaign for deeper awareness of the possibility and procedure of switching;
  - Online page with answers on frequently asked questions, which could address consumers to relevant sources of information;

- The narrow audience of consumers who faced the problems during the process of switching could be supported by a special program of personal consultations in the each particular case, or by a consumer champion or ombudsman.

Thank you!

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this document are the sole responsibility of Tetra Tech ES, Inc., and do not necessarily reflect the views of USAID or the United States Government. This document was prepared by Tetra Tech ES, Inc., USAID Contractor for the Energy Security Project (ESP), USAID contract 72012118C00003.

USAID
FROM THE AMERICAN PEOPLE

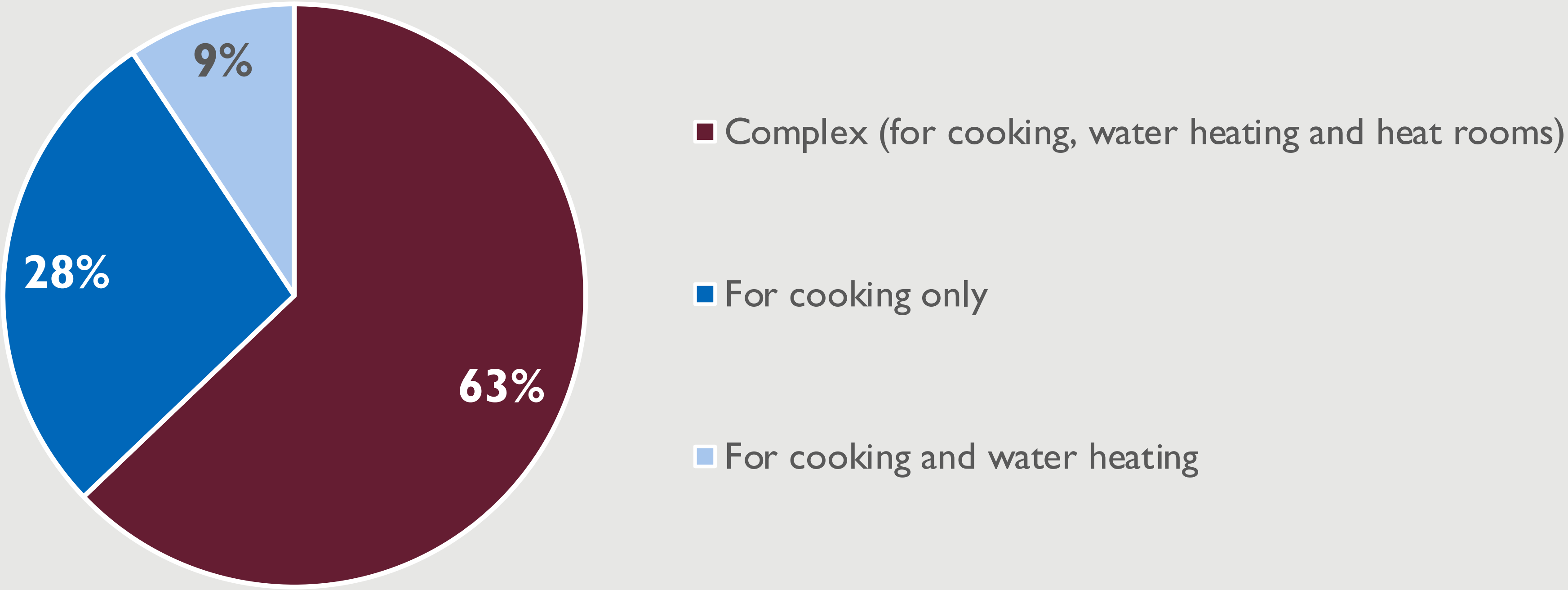
Appendix: gas consumption profile

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this document are the sole responsibility of Tetra Tech ES, Inc., and do not necessarily reflect the views of USAID or the United States Government. This document was prepared by Tetra Tech ES, Inc., USAID Contractor for the Energy Security Project (ESP), USAID contract 72012118C00003.

USAID
FROM THE AMERICAN PEOPLE

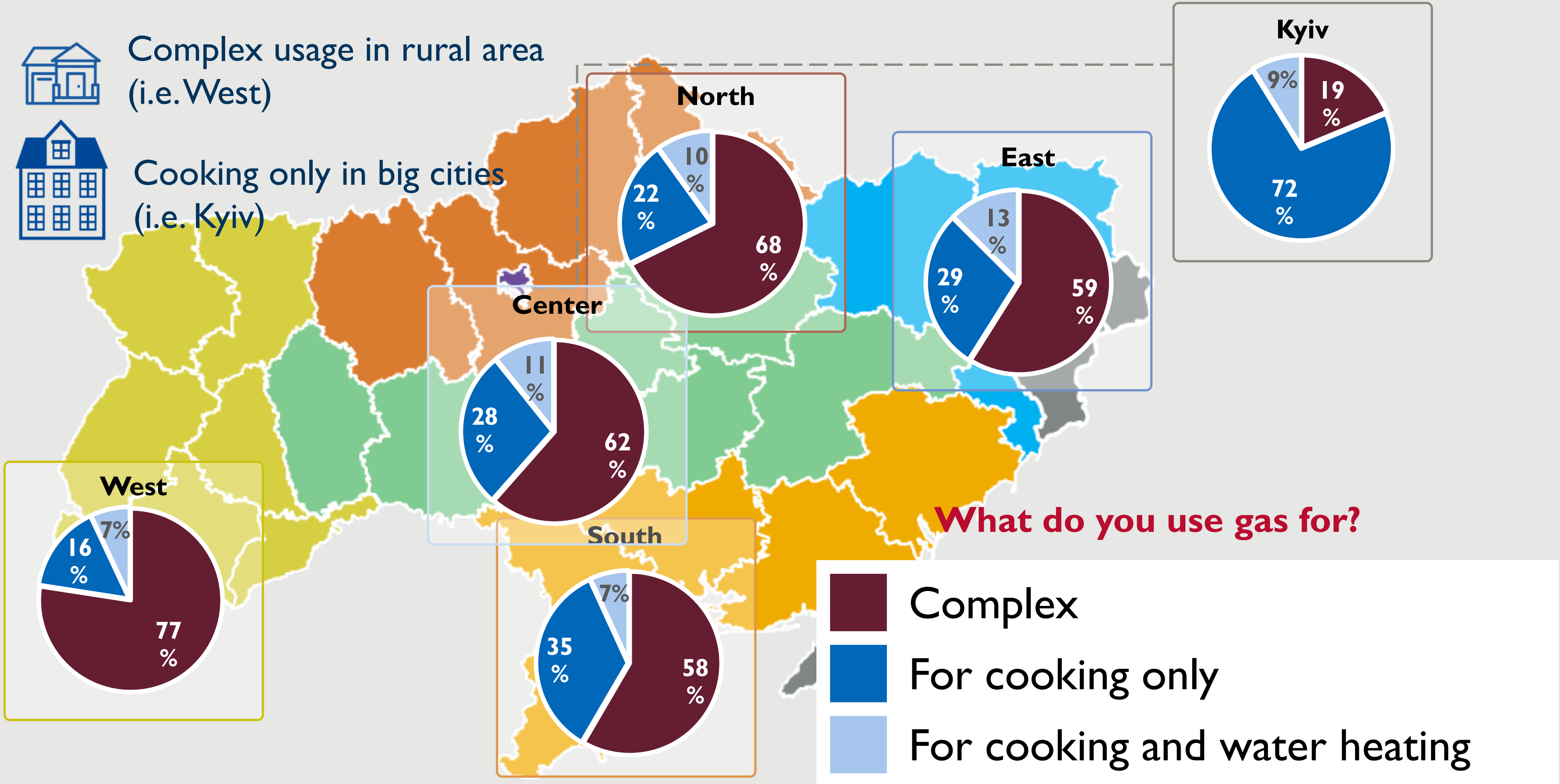
The most HHs use gas for complex purposes

What do you use gas for?

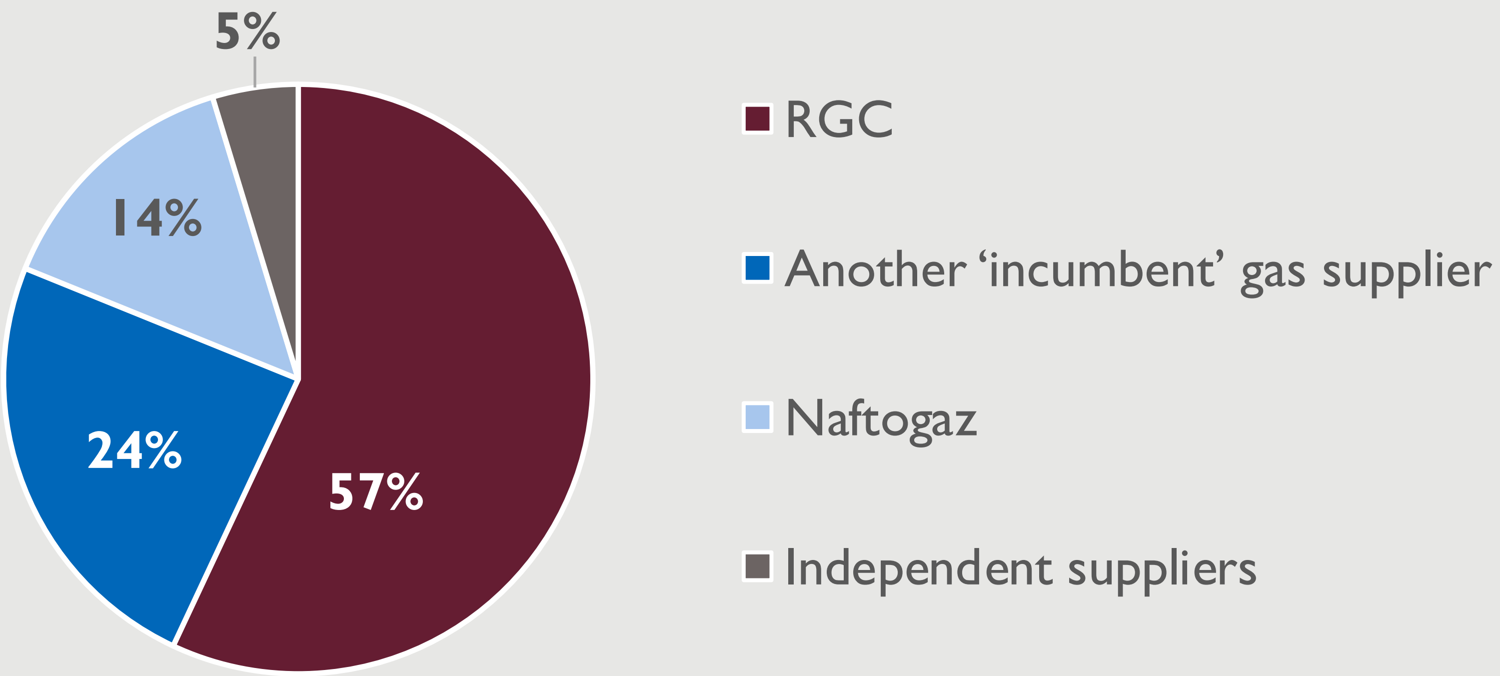


Source: ESP Analysis – Supplier Switching Survey

The type of consumption depends of region and size of city



RGC is the most powerful market player, Naftogaz ranks second with 14% of HHs



Source: ESP Analysis – Supplier Switching Survey