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**Opinion of KS Enterprises and The Norwegian regional energy association (Defo) on the NordREG report “Payment requirements with combined billing”**

*When establishing mandatory combined billing done by electricity suppliers (Supplier Centric Model - SCM), it is important to protect utility companies (DSOs) towards greater economic risks, while maintaining the existence of both small and large suppliers, so that the diversity among suppliers continues. This will help to avoid higher prices for end-customers.*

*It is important that the risk of the DSOs does not become greater than today. At the same time the requirements for suppliers and DSOs cannot become so complicated or costly that there will be only a few large suppliers left, and with increased costs for DSOs. This must be avoided as it will cause effects that are not in line with the intensions of introducing SCM. A system that is too complex and expensive will give less competition and higher prices for customers, regarding both network services and electricity supply.*

KS Enterprises and The Norwegian regional energy association want to note that so far we are not convinced that a move to a SCM is going to benefit the end customer. However, we see that this is a development that the DSOs and suppliers most likely have to adapt to, and with this as a starting point, we have a number of comments on this report.

Initially, we note that the report seems to confirm our skepticism that a SCM will limit the number of small and medium suppliers. We do not want a situation where we are left with a few large suppliers. The diversity among suppliers must be maintained. If not, the competition in the market will be undermined, and this will not benefit the end customers. To avoid this trend, it is important to take into account that payment requirements cannot be costly and complicated, something the report seems to imply.

Another subject that we are very concerned about is securing the DSOs assets. With an implementation of a SCM the DSOs loses control of their revenue by having to hand over the collection of private debts to the supplier. This is not something the DSOs have decided themselves, and "quid pro quo" in the regulations must be that the DSOs do not get additional credit risk. If the payment requirements do not take this into account, we argue that demanding the DSOs to let others collect their debts is in fact expropriation, which must be authorized by law and compensated for.

Below we provide specific feedback on the submitted report.

**Support Model 1**

It is unclear how the contractual relationship would be between the stakeholders in the two models. It must be described more closely how the different contractual relationship between the supplier, DSO and end customer is going to be. To our understanding, the legal requirements are easier in Model 1, where the DSO is a subcontractor to the supplier, and the end customer has a contract for both network services and electricity supply, with the supplier. The agreement should be a standard agreement and defined in the concession of the supplier.

It is also our understanding that end customers will still have a contract for the connection with the DSO, and that all technical requirements and conditions are regulated here. We therefore support Model 1 with the DSO as a subcontractor for the supplier.

It must be further studied how the flow of information will take place between end customers, DSOs and suppliers. It is especially important to define how and from whom the end customer will get help on technical issues, in terms of technical challenges and requirements for network operation. This must be handled in a way that does not confuse end customers, or can be experienced as very bureaucratic. There should be introduced minimal management between stakeholders.

**Data flow between stakeholders**

It is important for all parties to be certain that all data exchanges are accurate. There should be further discussions on which data to be sent. In our view it is not necessary for the DSO or HUB to produce invoice lines. It is sufficient that DSOs send meter data and updated tariff rates (tariffs and classification for taxes and fees). It must be possible to check the invoice from the DSOs against invoices submitted by the suppliers, and compare the invoiced volume. This must be looked further into.

It should be examined whether the tariff structure should be harmonized, within countries and between countries.

**The time slots for data exchange must be reviewed**

Invoice lines must be produced by the supplier, not by the HUB or DSO. This will give an effective flow of information that eliminates the need for a large and complex HUB. It also eliminates the risk that the supplier must wait for all the DSOs to finish their invoices. A HUB will effectively be able to achieve economies of scale. This must be balanced against the challenge that more tasks placed on the HUB give more implementation risk. We support the report in that the HUB should not send invoices. There could also be complications when monthly invoice tops occurs. The billing cycle should be decided by the supplier.

**Taxes**

Suppliers must deal with taxes. It is important that the suppliers who are responsible for billing the end customers are able to respond to all billing questions, also the basis for billing of taxes in the different countries. And because of this, the suppliers might just as well be responsible for paying the governments, instead of letting the cash flow go through the DSOs. The DSOs would also not have the ability to monitor payments and collections from end customers.

There is one detail that may apply only in Norway, related to customers that have "free electricity supply agreements". Who and how should this be handled in a SCM?

**Risk handling**

The consultant recommends that the supplier should take on the risk management for invoicing both network services and electricity supply. The recommendation is that the supplier will be compensated by being given an extra 2-3 days before passing the payment on to the DSO. We believe that there are greater challenges to risk management than discussed in the report. We need to assess how big the risk is, and how much can get lost and gained by transferring the cash flow from the DSO to the supplier. The report also points to the possibility of providing a reduction in payment from the supplier to the DSO, to compensate for the increased risk for the supplier of non-payment by the customer.

KS Enterprises and The Norwegian regional energy association states that the economic risk of the stakeholders must not change compared to the current situation. However, the risk question must be adjusted through new legislation. We agree with the consultants that further analysis is needed. Is it, for example, a possibility that DSOs and suppliers share the losses caused by the customer? What economic advantage comes from the supplier controlling the cash flow? Since this also can be a great economic advantage for the supplier, it needs to be included in further analysis. These factors must be considered, and as an example it must be contractually settled how payment reminders and debt collection is handled.

**Collateral**

Another risk is that the supplier goes bankrupt. In this case the report suggests that the DSO must be protected against financial loss. The report discusses several issues concerning collateral, credit, credit insurance and guarantees. We agree that the DSO must be protected against supplier bankruptcy. Collaterals and guarantees have a cost, and how this affects the market and stakeholders needs to be analysed further in terms of costs and benefits.

Collateral from suppliers should be handled by establishing a central unit. It is inefficient for all the DSOs to manage collaterals and guarantees. Requirements for collateral could, for example, be related to turnover. The Danish model is also interesting for further analysis. There, the cost of supplier insolvency is distributed to all the DSOs, relative to the number of metering points. It is not known how this affects the market or the stakeholders.

It must be taken into consideration requirements regarding credit rating from the rating agencies. The largest companies more easily get good credit rating and thus less expensive loans. This can quickly become an expensive scheme and must be analysed.

**Debt collection**

It should be further analysed whether the supplier should be able to shut down metering points. This is at the time being not allowed in Norway, for instance.

**Supplier of last resort**

Suppliers will probably take on the responsibility as supplier of last resort. It should be further analysed how this should be done in Norway. It must also be considered how customers that go bankrupt should be handled and by whom.

**Collection of fees**

The report suggests that the DSO shall classify customers regarding taxation. KS Enterprises and The Norwegian regional energy association suggest that this responsibility should rest at the supplier, since the supplier will actually collect taxes from the customers. The party with the greatest incentive to have correct customer classification and less customer complaints should be in charge. Furthermore, customers could even themselves make sure that they are in the correct tax class. Except for household customers who most often are easy to classify, the business customers can be a challenge. But these professional customers should be able to handle tax classification by themselves.

**Further work**

To summarise: More cost-benefit analysis must be done to identify significant changes and challenges related to risk management, collaterals and collection of taxes and fees.

Kind regards,

KS Enterprises The Norwegian regional energy association

 

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