

## Summary of stakeholders' comments to Ernst & Young reports on tax collection and risk management

*Commissioned by NordREG, Ernst & Young delivered two reports on May 14<sup>th</sup> 2012: "Credit risk management in future billing regime" and "Tax collection in the common Nordic retail market". Prior to the finalisation of the reports, Nordic stakeholders were invited to provide comments in a public consultation of the draft reports. This is a summary of the written comments from Nordic stakeholders to Ernst & Young's reports.*

### KS Bedrift

*KS Bedrift* strongly opposes the idea of letting the supplier handle billing on behalf of the network operator. Instead, they suggest that the DSO should do the billing since the DSOs are able to provide security, low risk of bankruptcy and advanced IT-systems. The need for customer contact with the DSO is emphasised. An independent third party is also considered a better option than letting the supplier perform combined billing.

They also oppose the idea of letting suppliers invoice taxes and fees, while the DSOs are liable for these charges to the authorities. This will require high risk premiums for the supplier, and the financial burden will be too high for small suppliers. It is further pointed out that the complexity of VAT payment and related legislation dictates the need for suppliers to open up separate branches in each country.

### Common response from KS Bedrift (Norway), Paikallisvoima (Finland) and Forum for gemensam nordisk elmarknad (Sweden)

The group of organisations supports the idea of a common Nordic retail Market, but opposes the idea of letting the supplier handle billing on behalf of the network operator. It is seen as a weakness that an alternative where the DSO does the combined billing has not been included in any of the NordREG initiated studies.

The group considers scenario 6 seems as the most viable from a risk perspective. They strongly oppose scenario 1, as it will greatly increase costs for and threshold for new entrant suppliers. They have mostly the same objections with scenario 2 as to scenario 1, but find it even more complicated.

*KS Bedrift, Paikallisvoima* and *Forum for gemensam nordisk elmarknad* oppose the idea of letting suppliers invoice taxes and fees, while the DSOs are liable for these charges to the authorities. This will require high risk premiums for the supplier, and the financial burden will be too high for small suppliers. It is further pointed out that there is vast complexity of VAT payment and related legislation, and that if the regime becomes mandatory combined billing by the supplier, this will incur high costs for suppliers to handle taxes and fees. This will in turn increase customer's expenses.

### Energy Norway

In the comments to the report on risk management, *Energy Norway* expresses that the scenarios 2- 6 increases the complexity and make it difficult to define the roles and the responsibility for suppliers and DSO's regarding billing. They argue that sending two bills

"in one" (grid fee and energy), while both actors are still responsible for the customers perspective will not make communications with customer easy.

It is further commented that introducing a third party, a monopoly actor between the supplier and the customer, will be a serious threat for the retail market and reducing the diversity of offers to the market. This could lead to a situation where all the market actors only can offer products accepted by this new monopoly. Energy Norway therefore recommends that scenario 1 is investigated together with the "integrated combined billing model" suggested from TF Market rules in 2011.

Regarding the report on tax collection, it is commented that it is not a specialty for the electricity market to set up a company for sale and tax collection in each country. The task is to harmonize the markets in the Nordic area and we should not focus on problems that belong in a future work for integrated markets.

## Dansk Energi

*Dansk Energi* comments that responsibilities among DSOs and suppliers are very clearly defined. They argue that scenario 1 is very consumer friendly, and that it is the most simple and natural choice where electricity will be treated like other products. This alternative is the preferred solution among stakeholders, and it is also the solution expected to be implemented in Denmark. The downside of model 1 concerns credit risk. Therefore, it is natural to try to find other solutions to keep the advantages of model 1 while avoiding the downside. *Dansk Energi* therefore finds it surprising that the report is not ending up with a conclusion in favor of scenario 1 considering the benefits of simplicity and consumer friendliness.

They are also surprised that the recommendation of the tax collection report is that DSOs should be liable to energy tax, since it is more efficient to let suppliers take this responsibility..

## Finnish industries

*Finnish Industries* comments that the risk management report lacks quantification regarding risks and concrete solutions, which is necessary in order to find a simple and cost-effective solution.

The organization believes that it is unlikely to achieve combined billing successfully in short term period, and argues that mandatory monthly customer billing is in many cases not cost efficient. Furthermore, they state that billing frequency of supplier or customer is a competitive issue and should not be regulated. They also comment that there should be a mechanism to protect the market against irresponsible retailers.

*Finnish Industries* also question whether it is against DSOs' neutrality to agree on different terms regarding number of credit days with different suppliers.

In a comment to scenario 1, Finnish Industries argue that if the risk premium is market based, it might cause a bigger risk for small players and hinder their opportunities to act on the market.

Regarding scenario 2, they say that it is quite obvious that separate procedures for credit checks, prepayments, collaterals and billing frequencies will cause many practical problems and inconveniences for the market actors and also for the customers. Overall, the process seems to be quite complex and not very customer-friendly. They do not agree that scenario 2 does not imply great changes from the current billing regime, contradicting that there will be low implementation costs.

## **BKK**

The network company comments that there is a need for a solution which gives the DSOs a possibility to avoid losses caused by insolvent and rough players. They believe that introducing a mandatory third party would complicate the picture further, and recommend therefore a solution which handles the credit risk between the current actors.

## **Swedenergy**

Swedenergy comments that the reports are to a high degree based on a dual contract market. Since this particular issue has not yet been resolved, they recommend further analysis that covers a situation with only one contract, i.e. a contract with the supplier.

In their comments, Swedenergy agrees that scenarios involving third parties are not viable since they are complex, drive costs and are not customer friendly. They suggest that an alternative to scenario 1 should be presented, where the supplier fully takes all credit risk towards end-users. Swedenergy believes this extended Scenario 1 is the reasonable solution, and suggests introducing some kind of supplier certification as a way of reducing the DSOs' counterparty risk towards suppliers. However, there remains certain credit risk, which Swedenergy believes should be handled by a risk premium included in the network cost passed on to the supplier.

Swedenergy would like to emphasize the importance of standardisation of payment flows and contracts between DSOs and suppliers.

In principle, Swedenergy is in favour of transferring the responsibility and liability for energy tax to the Swedish DSOs, although they are uncertain if this change will help resolve the key issues in a Nordic perspective. They are also unsure how tax collection will be handled in practice in the future Nordic end user market given the current complexity and differences. A deeper mapping regarding the practical conduct should therefore be made before choosing taxation and fee regime. Swedenergy also recommends deeper analysis on the meaning of reverse charge.