NordREG recommendations concerning the future billing regime in the common Nordic Retail Market

Introduction

The Nordic Energy Regulators (NordREG) has been given the task by the Nordic ministers for energy to continue the work to implement a common Nordic retail electricity market. NordREG has for several years been working to facilitate a harmonised and efficient Nordic electricity market. This includes both the wholesale and the retail markets.

The focus for 2011 and 2012 is to develop and design the target market model for the Nordic market. This means making recommendations on a number of issues, including the future model for invoicing electricity customers, which is a very central part of the customer interface. The development of the target market model also includes mapping and studying the future data exchange (including the issue of hubs and databases) by the Business Process Task Force, further studies on customer protection and supplier of last resort schemes by the Customer Empowerment Task Force and looking into balancing issues and smart metering within the Metering Task Force.

Supplier centric customer interface model in the Nordic retail market

NordREG reiterates its stance that the preferred customer interface model in the harmonised Nordic retail market should be supplier centric. In this model most issues from a customer perspective are handled by the supplier.

The supplier centric model doesn't mean that all customer issues should be handled by the suppliers. There are also strictly network related issues which will remain the responsibility of DSOs. However, if a customer prefers to only be in contact with one party, it is possible to arrange a customer interface that the customer in practice would perceive as a single point of contact. This requires the customer's consent through a power of attorney that will allow the supplier to speak to the DSO on the customer's behalf. Development of efficient data exchange (such as data hubs) would most likely aid in the development of a more vivid free electricity market.

The purpose of the supplier centric model is to make it easier for the customers to operate in the electricity market, by, in most processes, providing them with the opportunity to only be in direct contact with the supplier. This will give the suppliers the main role in the market, while the DSOs have the role of neutral market facilitators.

NordREG finds that it is preferable for the common Nordic end-user market that the customer interface model is the same in all the Nordic countries. Different customer interface models would bring extra costs for market players and as such create market entry barriers.

The choice of billing regime is a key issue for the future common Nordic end user market. The combined billing regime in which suppliers are billing also the network charges to the customers is the long term vision for the billing of end users in the Nordic region.

Consultancy report

In the early stages of the project, NordREG decided to let a consultant look into what billing model would be the most suitable one for the Nordic market. The consultancy report was produced after several meetings with NordREG and the stakeholder representatives in the Market Rules Task Force. In addition, the consultant interviewed a number of stakeholders and other experts. The consultancy study recommended choosing mandatory combined billing as a first choice, and voluntary combined billing as a secondary choice. The report also concludes that "…to change nothing would ensure that competitive Nordic electricity markets, and an active trans-Nordic common electricity market, never occur".

The consultancy report was open for public consultation during May and June 2011. During this consultation more than 100 stakeholders submitted their comments to NordREG. Unfortunately the results from the consultation does not reflect the relevant stakeholders appropriately as only one stakeholder representing consumer interest chose to submit their comments to the consultancy report.

Recommendations

Billing regime

The consultancy report did not include estimation of the costs and benefits for each billing model. Therefore some stakeholders have expressed as their view during the public consultation that it is not possible to make any final decisions on the billing regime at this stage.

Since 2007 NordREG has made several attempts to make an analysis of the costs and benefits of the common Nordic retail market. The previous studies have, however, shown that a quantitative analysis of costs and benefits of the common Nordic retail market harmonisation with significant answers is very difficult to obtain. The main reason for this has been that so far the proposals of the target market model has been defined in very general level and therefore the costs of the necessary changes to processes and systems have been difficult to estimate.

A need for evaluating – at least to some extent – costs and benefits for the suggested changes in the billing regime is obvious before the final decisions on the harmonised Nordic model for the billing regime could be taken. Naturally, this is the case as the harmonisation of the billing regimes in the Nordic region would enquire changes in to the stakeholders' systems and processes.

NordREG will during the autumn finish a cost and benefit analysis of the billing regime for the common Nordic end user market. The study will be carried out by a consultant.

The most important objective of the analysis is to find out relevant estimates of the additional investment and operational costs of a harmonised new billing regime. The analysis will cover each discussed option: voluntary combined billing, mandatory combined billing and mandatory separate billing. Also an analysis of benefits of each billing regime option will be carried out. However, it should be noted that exact monetary benefits of each alternative would be hard to define, but at least qualitative benefits will be evaluated during this analysis.

The results of this study will provide valuable input for NordREG and the Nordic energy ministers in order to make a decision on the most feasible model for the billing regime in the common Nordic end user market.

Information exchange and data hubs

NordREG recognises the need to decide on how to handle the information exchange in the common Nordic retail market. There is currently an on-going work within the Business Process Task Force, describing at the different possible solutions on this issue, such as data hubs. NordREG will await the report that is currently being produced by the Business Process Task Force before making any recommendations on the issues of information exchange and data hubs.

Single or dual contracts

NordREG recognises the need to decide if there should be a single contract between the customer and the supplier that also contains the DSOs responsibilities, or if there should be two separate contracts. NordREG will await the report that is currently being produced by the Customer Empowerment Task Force before making any recommendations regarding this issue.

Standard agreements

NordREG recognises the need to decide if there should be attempts to harmonise parts of the standard agreements on a Nordic level. NordREG will await the report that is currently being produced by the Customer Empowerment Task Force before making any recommendations regarding this issue.

Customer interface

The chosen market model by NordREG has earlier been defined as supplier centric. Since the supplier acts on the competitive market and thus has incentives to be proactive in customer relations the natural point of contact should be the supplier. This means that most, but not all, of the customers contact with the market should take place via the supplier. The DSO should be able to contact the customer regarding strictly network related issues such as metering systems, quality of supply, outages and disconnections. The exception is if the customer has, through a power of attorney, agreed to have the supplier as a single point of contact. The relevant contact information should be clearly visible for the customer in the bill. The DSO should remain neutral towards all companies operating in the free market. The customer should be able to contact their DSO directly for any DSO related issues if the Supplier hasn't agreed with the customer (in a contract) to take care of the DSO related issues. The DSOs role as a neutral market facilitator is vital for the market functioning, and if nationally deemed necessary, national legislation regarding DSO neutrality should be strengthened. Any concerns or complaints regarding the invoice by the customer should first be aimed at the sender of the invoice.

Tariff and tax standardization

NordREG does not find it necessary to require harmonisation of network tariff types or levels. There may be a need to harmonise the data format (including the format used to submit information about tariffs) but this will be further investigated in connection to the organisation of information exchange later on. NordREG does not find it necessary to require any harmonisation of taxes due to the Nordic retail market harmonisation. However NordREG recognises a need to look into whether national *tax structure legislation* will allow foreign suppliers to collect taxes and fees in each Nordic country (as already stated in NordREGs work programme for 2011, task 1.A3).

Risk management with combined billing

The issue of how billing and debt collection for DSOs and suppliers are handled in a common Nordic retail market will be of great importance to the competition. Therefore NordREG will launch a study which should look into what appropriate measures that could be taken to ensure that credit risk is allocated appropriately between suppliers and DSOs. The goal of the study should be to find a way to introduce combined billing without increasing entry barriers for suppliers. Furthermore, the study should highlight the consequences of different ways of debt collection, risk management and tax collection and whether the methods should be regulated or handled as voluntary industry standards. The study should also consider the pros and cons of introducing mandatory monthly backwards billing between all stakeholders (including customers). This study will be launched during the autumn of 2011.

Content of the electricity bill

NordREG recognises the possible need for regulated minimum information on the bill when a common Nordic retail market is introduced. This is due to the increased need for coordinated information exchange on a Nordic market and also the customers need for information and transparency. Therefore NordREG intend to review the possible need for regulation of minimum information in the bill to Nordic customers. This work will start when NordREG has published recommendations for the future model for information exchange and the future billing regime has been decided.