

NordREG recommendations on implementing combined billing

The purpose of this note is to provide a harmonised Nordic approach to facilitate national decisions concerning payment requirements and risk management in the individual Nordic countries.

The level of harmonisation proposed in this note is as far as NordREG deem it feasible to go at this stage. In order to reach a deeper level of harmonisation more explicit engagement is needed from all national Governments.

Background

NordREG has previously issued a recommendation that states that the supplier should be obliged to invoice the cost for supply of electricity as well as the cost of the grid services, i.e. combined billing. In connection with that recommendation NordREG also clarified that the successful implementation of mandatory combined billing is dependent on the development of payment systems, information exchange, tax collection and risk management schemes.

Since combined billing will affect the distribution of costs and risks between suppliers and distribution system operators (DSOs) NordREG commissioned GAIA Consulting Oy from Finland to carry out an analysis of two alternative models for combined billing. The goal of the study was to determine which model promotes the objectives of Nordic harmonization best. The two models which were subject to analysis in the study were:

1. Supplier invoices the total claim, including network charges. The end-user is in debt only to the supplier.
2. Supplier invoices the total claim, including DSO's claim in the name of and for the account of the DSO. However, the end-user is in debt both to the DSO and the supplier.

These models were further developed by Gaia Consulting on the basis of desk study and feedback from stakeholders. Tentative solutions were then suggested regarding billing cycle, billing and debt collection process, tax collection and risk management.

The conclusion from GAIA Consulting was to recommend model no 1 since it was assessed to better fulfil NordREGs criteria's of achieving a market which is more customer friendly, better functioning, has improved competition and efficiency at the same time as it complies with the development in the EU and ensures DSO neutrality.

GAIA consulting presented their preliminary findings in a stakeholder hearing at Helsinki airport on the 18th of April 2013. The stakeholders were also given the opportunity to provide written input to NordREG on the topic. In total 20 stakeholders (individual companies and industry organisations) attended the hearing and 12 stakeholders sent written comments.

Based on the GAIA report and on the feedback from the stakeholders on this topic NordREG makes the following recommendations:

Recommendations on payment process and risk management

In line with previous recommendations the cost for electricity supply and the cost for the grid shall be combined in a single invoice and sent to the customer by the supplier. If nationally required the invoice shall separate what costs that derive from supply and grid respectively.

The Distribution System Operator (DSO) and if established also the national point of information¹ will submit billing information based on the customer's consumption and the respective tariff components to the electricity supplier at a date defined nationally.

When the billing information has been submitted to the supplier the DSO has a claim against the electricity supplier that corresponds to the grid tariff.

The supplier shall forward the payment for the grid tariff to the DSO on a monthly basis. Still, NordREG recognise that there may be need for further analysis at national level of how payment forwarding should be implemented.

If the supplier fails to pay the DSO for the grid cost there should be a possibility to exclude the supplier from the market. The criteria for excluding a supplier should be harmonised. The exact procedure of exclusion should be defined in each country.

It is essential that the number of counterparts that the customer has to be in contact with in a debt collection process is kept at a minimum, to avoid customer confusion. Therefore the national regulation should be designed in such a way that the supplier is responsible for debt collection of both supply and grid cost.

Apart from monthly billing between DSOs and suppliers NordREG will not at this stage issue further Nordic recommendations on how financial risks related to combined billing should be allocated or mitigated. Any further analyses and decisions to mitigate risks through collaterals or other solutions therefore have to be carried out at national level, but should have the Nordic harmonisation in mind.

NordREG has also discussed the need for harmonisation of regulation of tax collection. NordREG recognises the need for such harmonisation in order to harmonise the Nordic end-user markets and urge the Nordic energy ministers, in cooperation with the appropriate authority, to take necessary action in order to achieve such harmonisation.

Contracts

In 2012 NordREG commissioned Henrik Bjørnebye and Ivar Alvik of the University of Oslo to study the most optimal contract model in a supplier centric market. It was initially assumed that issues governed by the grid connection agreements will still be entered into by DSOs. The study presented two general options:

A subcontractor model where the customer enters into a contract with the supplier governing both energy supply and grid use. The supplier then enters into a separate contract with the DSO for grid use, making the DSO a subcontractor for this service.

¹ Point where market actors can access information, for example a database or a hub.

A power of attorney model where the supplier acts as a customer representative, and the customer and the DSO will still formally be contract parties to the grid use agreement, but the supplier will act with a power of attorney from one of the parties in order to facilitate combined billing.

The consultants concluded that from a legal perspective a subcontractor model is better suited than a power of attorney model for the implementation of a supplier centric model with mandatory combined billing and they recommended the subcontractor model is further explored for possible implementation in the Nordic countries. NordREG will therefore not at this stage issue a Nordic recommendation on the contractual arrangement. Any decisions to change the current contractual arrangement has to be taken at national level, but national decisions should have regard to the Nordic harmonisation.