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August 17, 2018

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

**Re: Review of Miscellaneous Rates and Charges – Energy Retailer Service Charges
OEB File Number: EB-2015-0304**

Dear Ms. Walli:

London Hydro is herein submitting comments on the Draft Report of the OEB on the review of energy retailer service charges.

Yours Truly,

A handwritten signature in black ink that reads "M Benum".

Martin Benum
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Introduction

London Hydro is herein responding to the OEB Draft Report of the Ontario Energy Board of July 19, 2018 on Energy Retailer Service Charges EB-2015-0304. London Hydro applauds the OEB for conducting this review. London Hydro would note that the timing of this review is well overdue.

London Hydro is of the opinion that electricity retailers in Ontario have been unwittingly allowed risk free profit making for too long. London Hydro is therefore discouraged by the OEB's draft response to this particular initiative. While the OEB has addressed the intent of its high level review of Energy Retailer Service charges, it overlooks an opportunity to address and correct the overarching retail structure that has been created and propagated since the 2002 electricity market deregulation. Back in 2002 with the advent of electricity deregulation the government and OEB opened up the electricity retail market in Ontario. There has been a lot of public outcry over the years about the wrongdoings of retailers and a myriad of consumer protection legislation put in place to fix the problems. London Hydro suggests that the utility, its shareholders, general rate payers and tax payers in Ontario have been unfairly burdened with the costs of supporting this system. London Hydro would suggest we need stronger action now to curtail and correct this immediately. The OEB along with the Ontario government have the perfect opportunity to resolve this situation and London Hydro would suggest that this could be done very simply. London Hydro presents its proposed simple solution at the end of this submission. London Hydro notes that the majority of customers today are default customers and that those with retailers are dwindling.

London Hydro is addressing this submission in two ways. The first is to address the Draft Report from the perspective of an electricity distributor. London Hydro would agree with the OEB where there is conclusions that interconnection of process with natural gas distributors is not warranted. Hence London Hydro expresses no opinion with respect to comments on natural gas distributors. The second is to address the electricity retail market as a whole.

London Hydro's Submission on Draft Report.

As indicated in the draft report, the scope of the review included an examination of the methodology to reset the energy RSCs, mechanisms for keeping these charges up to date, and whether it continues to be appropriate for the OEB to establish default charges for electricity distributors. The review also examined the establishment of a new service charge for electricity to recover the transactional costs of sending a "notice of switch" letter to low volume customers who signed a contract with an electricity retailer. The OEB established a small working group to assist with the energy RSCs review. London Hydro was a member of that working group. The draft report makes four recommendations with respect to electricity distributors.

First, the draft report highlights that through the review, it had become apparent that the current electricity RSCs do not recover the costs associated with providing services to electricity retailers. Hence, based on the data collected from the working group during the consultation, the OEB is **doubling** all electricity RSCs (except for the one-time Retail Service Agreement charge). The report notes that the OEB is of the view that default charges for electricity distributors continue to be appropriate. Further the report states that the OEB will implement the updated electricity RSCs in 2019. The energy RSCs for electricity distributors will subsequently be adjusted annually commencing on January 1, 2020 based on the OEB's inflation factor.

London Hydro's comment

London Hydro agrees in principle that immediate action is required to increase the electricity RSC's and that doubling the rates is a remedial step at best in slowing the continual incremental losses that the utility shareholder and the collective electricity consumers community is cross subsidizing. However, London Hydro would suggest that the doubling of rates will not recover the continuing escalating costs incurred by the utility, so that the utility shareholder and the collective electricity consumer's community will continue to cross subsidize the operation and maintenance of the retail market. As will be discussed further below, London Hydro notes that there is a continual decline of residential retail customer which escalates the costs associated with administering retailer customer's transactions. As much of London Hydro's retail customer administrative costs are fixed in nature (i.e. the repetitive daily costs of transacting the EBT system with our billing system), it is unlikely that London Hydro will receive the revenue recovery from the retailers needed to maintain our processes, meaning that those costs would be continue to be borne by either the shareholder or the general ratepayers. Further when taking into consideration the elimination of tracking RCVA's (discussed next) utilities will no longer be separately tracking the costs to provide these services to retailers, hence losing visibility. In conclusion, the point at hand is that with residential retail enrollment steadily declining at this time, utilities will continue to realize diminishing benefit from this action.

Second, the report goes on to disclose that the OEB will eliminate the electricity Retail Service Cost Variance Accounts (RCVAs). The report states that at market opening there was uncertainty about the cost of the settlement process with electricity retailers. This settlement process has now been an integral part of the operations of electricity distributors for more than 16 years. The OEB does not see merit in electricity distributors continuing to track these variances.

London Hydro's comment

London Hydro would agree in principle with discontinuing this particular exercise, based solely on its flawed nature. London Hydro notes that the handling of these variance accounts has been systematically flawed from the beginning in that policy has

misdirected settlement of differences to all consumers rather than being directed to the true responsible agent for settlement differences being the electricity retailer.

London Hydro would note that the timing of dissolution needs to be structured in that in our 2017 cost of service application included consideration for recovery using the existing RCVA's and hence there would need to be a transition plan in place for consideration in our next cost of service application. Similar consideration needs to be applied to other LDC's as well.

Third, the report identifies that the increase in the electricity RSCs in the midst of an incentive rate-setting term will result in revenues earned being greater than amounts previously approved in an electricity distributor's distribution rates. The report states that incremental revenues will need to be tracked by distributors in a new variance account, with the closing balance ultimately refunded to ratepayers in a distributor's future rate application. The report provides guidance on the accounting details for this new variance account.

London Hydro's comment

London Hydro would strongly disagree in principle with this proposal in that it creates unnecessary compounding regulatory burden in accounting and will be open to challenge in our future cost of service application. As discussed above electricity distributors are currently seeing continual decline in residential retail enrollment which puts escalating pressure on costs and hence growing losses in retail transaction processing.

Lastly, the report states that the OEB will establish a new one-time energy retailer service charge for electricity distributors of \$2.00 to recover the incremental cost of sending a notice of switch letter to low volume customers who sign a contract with an energy retailer. This new service charge is to be implemented in 2019 and will apply only to letters that are sent by standard hard copy mail. The new charge will be adjusted annually similar to all other energy RSCs commencing on January 1, 2020.

London Hydro's comment

London Hydro agrees in principle that immediate action is required to increase the electricity distributors cost recovery on this activity and this is a good first step in slowing the continual incremental losses that the collective electricity consumer's community is cross subsidizing. However the issue that is at hand is that, as will be discussed later in this submission, residential retail enrollment is steadily declining at this time, such that utilities will realize diminishing benefit from this action. In addition the cost to install a new process and to maintain a billing system (even a manual one) for the current quantum of letters sent is unlikely to be reasonably recovered. London Hydro would note that we averaged about 10 switch letters a month for the first 7 months of 2018. London

Hydro would conjecture that most electricity distributors would not engage this activity at this time.

London Hydro's Experience with Ontario Electricity Retail Market

London Hydro would draw on its more than 15 years of experience in dealing with the Ontario electricity retail market. In 2002 in concert with the deregulation of the electricity market in Ontario the Ontario Energy Board (OEB) rolled in the retail electricity market as per provincial legislation. With the introduction of the Retail Settlement Code (RSC) and Electronic Business Transactions (EBT) system, the retail market took form. As a mode of settlement the OEB prescribed two forms of settlement; Distributor Consolidated Billing (DCB) and Retailer Consolidated Billing (RCB). For London Hydro all retailers that enrolled elected DCB as the preferred settlement medium. Initially London Hydro saw a substantial quantum of customers, primarily residential, enrolled with retailers during the initial year post deregulation. However the retail market in Ontario was not without its tribulations. When the deregulated market opened in May 2002 the electricity price for consumers was based on the hourly Ontario electricity price (HOEP) and the weighted average HOEP. Unfortunately consumers did not accept this and the government initiated a flat rate of 4.3 cents on November 11, 2002 to be applied to low volume consumers. HOEP continued for the larger volume customers. Technically that action killed the retail electricity market in respect to the low volume customers. The flat rate morphed into the Regulated Price Plan (RPP) which in some variation has been maintained to today. Complicating this was the introduction of the Global Adjustment (GA) in 2007 which became an add on to the HOEP.

To survive a few of the retailers initiated various unsavory means of enrolling low volume customers and were able to hide behind loose consumer protection rules that were put in place in 2002. During this period the volume of retail customers grew. However consumer complaints also escalated and various ministries and the OEB initiated several consumer protection rule reforms and compliance review proceedings. The result is that the level of residential customers enrolled with retailers is declining significantly. In 2011 14.4% of London Hydro's residential customers were with a retailer where today less than 3% of residential customers are with a retailer. London Hydro estimates that retailers are losing 120 London Hydro residential customers a month and based on that decline the potential is that there will be little to no residential retail customers in three and a half years.

However that is not to say that the retailer market is failing completely for the commercial customer's enrollment is still maintaining relative stability. London Hydro GS<50 kW and GS>50 kW have exhibited some decline but are more constant of late. In 2011 11% of commercial customers were with retailers where today approximately 6% of commercial customers are with retailers. This is based on the fact that these customers can or are required to transact on HOEP and not RPP. London Hydro would suspect that commercial retail customers will continue to remain in the market in the future.

London Hydro observations from experience with OEB working group review

London Hydro was a participant in the OEB working group review of retailer charges. From this review London Hydro noted several issues.

It was London Hydro's observation that customer enrollment in the residential electricity retail market is in significant continued decline and that London Hydro would suggest that the current Distributor Consolidated Billing (DCB) and Electronic Business Transaction (EBT) exchange system facilitating the market has reached a point where the current system is no longer economically feasible to be maintained. London Hydro's experience suggests that we continue the same daily processes to transact fewer daily transactions. In essence our daily processes are a fixed operating cost against which we see declining recovery from retail charges. The energy retailer service rates currently approved on London Hydro's tariff sheets do not recover the costs for operating the DCB retailer transactions system. With the declining retail volumes being experienced London Hydro's under recovery of costs continue to grow. London Hydro would suggest that even with the proposal that retailer rates be increased annually pegged to the OEB inflation factor to address this, the reality is that the current declining enrollment will always exceed the pace of the increases.

The current Retail Cost Variance Accounts (RCVA) settlement mechanism for retail true ups historically has been applied to all of the customers of London Hydro, which is in truth common customer cross subsidization. That is to say all customers cross subsidize retail transactions. London Hydro would suggest that to be fair the RCVA settlement mechanism needs to be changed to be applied to retailers directly. The OEB has suggested in its draft report to terminate this requirement, which London Hydro supports under the principle of reduced regulatory burden.

London Hydro conjectures that the current EBT system is now a legacy system, experiencing continuing revenue declines based on declining retail volume and being run with marginal resources. London Hydro would suggest that the OEB recognize that any significant structural changes will result in significant costs to be recovered by the EBT providers and thereby from electricity distributors. London Hydro would therefore recommend that no structural changes be required when adjusting the retail rates. This would include any direction to the EBT providers to transact "switch" letters.

London Hydro notes that the Distributor Consolidated Billing (DCB) structure by design enables the retailers to be held harmless from customer bad debt. London Hydro suggests that this exposure is also being cross subsidized by London Hydro customers.

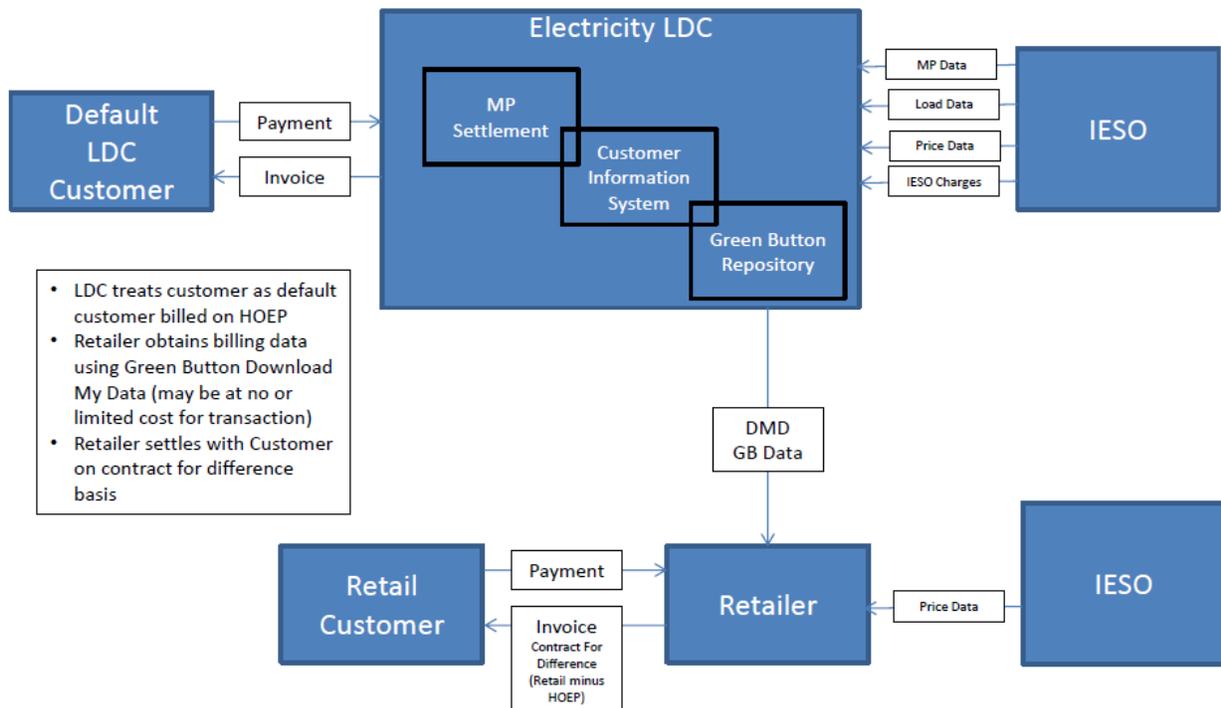
London Hydro also notes that the Distributor Consolidated Billing (DCB) structure by design encumbers the retail customer from seeing the true transaction costs to which they are a party to. There is no transparency afforded to the customer on the bill as it is presented today. The customer is held hostage to a system to which they have no clue if they are beneficiaries of any value on the transaction. London Hydro would reference the fact that we have had numerous

customers confused as to why their bill was so high. After investigation it was determined that the increase compared to their typical bill was because of signing with a retailer.

London Hydro's suggestion

In summary London Hydro notes that retail electricity system as exists today in Ontario is in essence a failed experiment. Over the last 15 years of its operation it has proven to be of greater cost and harm to multiple parties than the benefits derived. London Hydro recommends that the DCB retail electricity system as exists today be **terminated**. In the alternative London Hydro suggests that the retailers transact directly with their customers on a commercial third party basis in respect to the financial exchange of contracts for difference. The retail customer would remain with London Hydro as a default consumer being charged for electricity consumption at wholesale (HOEP and Global Adjustment) rates. As the electricity distributor is the custodian of electrical consumption data, the distributor should only be required to disclose consumption and cost data to the retailer for a fee. The current EBT system could continue to facilitate that exchange, however London Hydro would strongly suggest that the Green Button Platform is a much more suitable and cost effective solution for this purpose. Below is London Hydro's illustrated proposal for the retail transaction process.

Proposed New Retail Transaction Process



There would need to be a timeline in which the transition took place. London Hydro would suggest three years as we estimate that is the remaining time span for the termination of current

residential contract remaining. This would ensure retailers the time required to provide all the back office support.

London Hydro would be very interested in continuing this conversation with the OEB and Government of Ontario.

ALL OF WHICH IS RESPECTFULLY SUBMITTED