



April 17, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

[Filed via RESS]

Dear Ms. Walli:

Re: Staff Discussion Paper on Electricity Distributors: Customer Service, Rate Classification and Non-payment Risk
Board File No.: EB-2007-0722

On March 6, 2008 the Ontario Energy Board (Board) issued and invited comments on the Staff Discussion Paper, *Electricity Distributors: Customer Service, Rate Classification and Non-Payment Risk*. In response to the Board's invitation these comments are filed on behalf of the Coalition of Large Distributors (CLD), comprising Enersource Hydro Mississauga, Horizon Utilities, Hydro Ottawa, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc.

Context for CLD Comments

The CLD welcomes the opportunity to comment on the questions raised in the Staff Discussion Paper. The CLD has provided information that it hopes will assist the Board in its decision-making; however, it is not always clear what underlying issues or needs the Board is attempting to address. The CLD has been guided by its consideration of the over-arching issue identified in the Discussion Paper, i.e. the question of how prescriptive the Board should be in regulating aspects of distributors' provision of service to customers¹. The CLD generally holds the view that codification of prescriptive Customer Service policies for Ontario LDCs is neither workable nor practical for the reason that LDCs require a measure of discretion to address local needs. The CLD also believes that embedding prescriptive Customer Service policies within the DSC or any other regulatory instrument is not necessary because it is in the interest of LDCs to exercise good business practice in providing customer service.

The Discussion Paper indicates that the issues under review in this initiative were identified from a variety of sources including customer complaints. In their daily management of customer service issues, LDCs work diligently within their respective organizations to resolve and implement workable solutions within existing guidelines. LDCs review and compare best practices on a regular basis and where practical, strive to

¹ Ref. Discussion Paper page 4

be consistent in their service offerings. In fact, it is for this very reason that a CLD Customer Service Forum was created; members meet monthly to discuss and address customer service issues and initiatives, and from this mutual sharing of experiences acquire a variety of tools to resolve customer service issues for application, as appropriate, within their respective utilities.

In a separate but related activity, many LDCs follow-up with customers or deploy surveys to gauge their customers' satisfaction with the services they have requested and received.

The CLD strongly believes that LDCs themselves, by the very nature of the relationship with their customers, are best equipped to define within guidelines provided by the Board, practices that work best in each LDC's particular circumstance. Such flexibility is of the utmost importance to LDCs in managing the customer relationship.

The CLD understands and appreciates, however, that the Board's consideration of a common approach by which to measure and regulate LDC customer service must consider the respective needs of LDCs and their customers and that these needs may not always converge. The CLD believes that an appropriate balance can be achieved by the implementation of clear guidelines in most cases and where appropriate this is the approach that the Board should take.

The Board is urged to refrain from implementing a prescriptive approach that may prove to be unworkable. A one-size-fits-all approach is not practicable because of the unique characteristics of electricity distributors; LDCs have different customer bases, load density and age of infrastructure, to name a few. It is the experience of the CLD members that the current modified prescriptive approach generally works well for both the LDCs and their customers.

Accordingly, the CLD recommends that the OEB:

1. maintain in place the existing approach so that LDCs are not constrained in delivering service options that reflect the needs and priorities of their customer demographics;
2. ensure that related guidelines are clarified;
3. structure related guidelines in a manner that will allow LDCs to negotiate on a case-by-case basis the most appropriate customer service options;
4. implement prescriptive requirements only for provision of services where it is conceivable that a mutually satisfactory arrangement between the customer and the LDC may not be achieved;
5. clearly establish that related customer service guidelines set out in the DSC prescribe a minimum level of service that can be exceeded at an LDC's discretion; and
6. ensure that a process is in place to allow LDCs to recover any incremental costs of implementing newly mandated and more stringent requirements.

CLD Responses to Questions in the Discussion Paper

Part I: Customer Service

1.1 Bill Payment

1.1.1 Due Date for Bill Payment

Question 1

Are there any reasons why a customer would need or should be allowed more than a sixteen day payment period before application of a late payment charge?

Response:

No. The payment period should be no longer than 16 days. LDCs have come to rely on this practice to manage their cash flow and have put in place supporting prudential arrangements. The CLD agrees with Board staff that there is no merit in adjusting the payment period based on the method of bill delivery.

Question 2

If a distributor were to provide a payment period longer than sixteen days, how would this affect the distributor's cash flow?

Response:

A longer payment period would increase LDC working capital requirements and, by extension, rates for all customers. A longer payment period is not recommended.

Question 3

Where bills are "delivered" electronically, either by e-mail or by allowing customers to access bills on the internet, how should the date that the bill is deemed to have been sent be determined?

Response:

The CLD agrees with Board staff that the 16-day payment period (i.e. the deemed date of sending) should be determined by the day the notifying email is sent.

Question 4

What processes do distributors currently have in place to determine or verify whether payment was received by the billing due date, particularly where payment is made by electronic means (telephone or internet banking)?

Response:

Some LDCs rely on electronic records, e.g. the date of payment on transaction records received from the bank. Others rely on the date payment is posted to the LDC's CIS. It is a common practice among LDCs to allow a "grace period" to ensure payments are received with no late payment impact.

Question 5

In addition to payment by mail, at a financial institution, or by electronic means (telephone or internet banking), are there any other methods of payment that distributors accept? If so, how do distributors determine or verify whether payment was received by the billing due date?

Response:

Some LDCs accept payments at the counter located in the office of LDCs. In the case of some larger LDCs another payment method accepted is electronic funds transfer for large accounts and thus the payment date is known. As a last resort in cases of dispute, the customer is required to provide a copy of the payment transaction record showing the date of payment.

1.1.2 Allocation of Payments**Question 6**

Are there any technical limitations (e.g. billing systems) that would limit a distributor's ability to allocate payments towards energy charges first and non-energy charges second?

Response:

Not all LDC CIS systems have this functionality therefore some LDCs will need to make software changes which may be costly to implement and administer. The CLD recommends that the Board continue to allow LDCs to manage the requirement to disconnect only for non-payment of energy charges using the available tools within their respective organizations. For greater certainty, the CLD also recommends that as noted in the Discussion Paper (page 11), the Board make clear in the guidelines that the right to disconnect for non-payment of "energy charges" includes the right to disconnect for non-payment of charges for electricity; associated delivery and regulatory charges; the debt retirement charge; and any taxes on those charges.

Question 7

If there are technical limitations, what options are available to a distributor to ensure that a customer's payment is applied to energy charges first?

Response:

Please see response to question 6.

Question 8

If distributors were given discretion as to how payments are allocated, do distributors need guidance from the Board as to how payments should be processed to ensure that it is not done in a manner that would lead to action that is inconsistent with section 31(1) of the *Electricity Act, 1998* (in other words, to ensure that customers are only disconnected for non-payment of energy charges)?

Response:

LDCs do not require guidance from the Board in this regard; where disconnection will occur because of non-payment, LDCs are legally obliged to ensure that customers are disconnected for non-payment of energy charges only.

Question 9

What are the implications of distributors being required to allocate payments in accordance with customer requests?

Response:

This would result in increased administrative costs. See responses to questions 6 and 8.

1.1.3 Correction of Billing Errors

Question 10

Staff has suggested three options for how distributors should refund to customers amounts owing for **over-billed amounts**. What are the advantages and disadvantages of each option?

Response:

The CLD supports a modified version of option 3. See discussion below.

Option 1: Distributors could be required to refund amounts owing as a credit to a customer's account, regardless of the amount owing.

This option is cost-effective and easy to implement but is not always fair to customers.

Option 2: Distributors could be required to refund amounts owing in the form of a cheque, regardless of the amounts owing.

This option should be avoided. It is costly and labour intensive because it increases the possibility of fraud and because the cost of cutting a cheque may outweigh the amount over-billed.

Option 3: Distributors could be required to refund amounts previously over-billed as a credit on the customer's account only where the amounts owing to the customer are less than a certain amount, for example only where the credit could offset charges that would reasonably be expected to be incurred within the next 2 billing periods. If the amounts previously over-billed exceeded that threshold, then the distributor would be required to provide the refund in full in the form of a cheque.

This option would provide some flexibility to both the LDC and the customer. It is the experience of most LDCs that customers when aware they will receive a refund as a result of a correction, will specify how they wish the credit to be administered.

Question 11

Staff has suggested three options for how distributors should bill customers for **amounts under-billed**. What are the advantages and disadvantages of each option?

Response:

LDCs currently negotiate with customers, mutually agreeable terms of repayment of under-billed accounts and the CLD recommends that this practice be allowed to continue. Where under-billings are the result of application of an incorrect rate, the impact to the LDC and the LDC's inability to recover these amounts from the IESO have to be considered, as does the customer's ability to pay these amounts. As such, billing should be arranged on a case-by-case basis. In cases of fraud, LDCs should be able to retain the right to require repayment immediately. Permitting LDCs to negotiate mutually agreeable billing arrangements, therefore, would provide maximum flexibility for both

LDCs and customers. The payment terms in proposed Option 3 can be one of a variety of payment option tools from which the LDC and the customer are able to select.

The CLD notes that prescribed implementation of any of the options in the Discussion Paper would require modifications to the CIS of most LDCs. Advantages and disadvantages are discussed below.

Option 1: Distributors could be required to allow customers to pay back the amount owing for previously under-billed amounts in equal installments over the same duration as the billing error.

This option is not recommended. In addition to the costs associated with billing system programming, this option could prove to be costly for refund of amounts below a certain threshold.

Option2: Distributors could be permitted to require payment from the customer in full, on the customer's next regular bill.

This would be least costly for LDCs but may not be fair to customers depending on the amount owed and the customer's ability to pay.

Option 3: Distributors could be required to set the duration of the repayment period depending on the amount owing as a result of under-billing. If the amount owing was less than a certain amount, the distributor could require payment in full, on the customer's next regular billing. If the amount owing was greater than a threshold amount, then the distributor would be required to allow the customer to pay in equal installments over the same duration as the billing error. The question then becomes one of defining the threshold amount.

This is the most balanced of the options proposed.

Question 12

With regards to the option where refunds would be provided in the form of a cheque if the amount owing was greater than a certain amount, what might be an appropriate threshold or criterion for determining the form of refund? Should the threshold or criterion differ depending on customer class?

Response:

As noted in response to question 10, most customers when aware they will receive a refund as a result of a correction, will specify how they wish the credit to be administered. The CLD recommends that the Board allow each LDC the discretion to accommodate customers on a case-by-case basis and to set a threshold based on its own costs and exposure to this activity.

Question 13

With regards to the option where the repayment period for under-billing would depend on the amount owing by the customer, what is an appropriate threshold or criterion for determining the repayment period? Should the threshold or criterion differ depending on customer class?

Response:

For the reasons noted in response to question 11, the CLD's preferred option is that LDCs continue to negotiate with customers, mutually agreeable terms of payment of under-

billed amounts. Also as noted in response to question 11, a variety of repayment options can be made available. It is conceivable that certain payment options may be more suitable for one customer class than another and an element of reasonableness should be exercised. The CLD strongly believes that LDCs should be given the discretion to implement related policies on a case-by-case basis.

Question 14

The RSC requires that distributors pay interest on amounts that were over-billed, but does not allow distributors to charge interest on amounts under-billed. Is this asymmetry appropriate?

Response:

This asymmetry is not appropriate in all cases. LDCs should not be required to carry customer costs without interest where amounts were under-billed because the customer engaged in culpable behaviour, e.g. meter tampering or theft of power. In such cases the customer should be required to pay interest on the under-billed amounts.

Question 15

Where the customer is responsible for the under-billing, such as in the case of unauthorized energy use, including meter tampering or theft of power by the customer, should distributors be permitted to collect interest on the amount owing by the customer?

Response:

Yes. Please see response to question 14.

Question 16

In light of the time periods for over- and under-billing that apply in other jurisdictions, is there merit in reconsidering the time periods set out in the RSC?

Response:

The time periods set out in the RSC are adequate.

1.1.4 Equal Billing

Question 17

Should all distributors be required to offer some form of equal billing? If so, what might be appropriate criteria for participation by customers?

Response:

The CLD notes that the term “Equal Billing” refers to an Equal Payment Plan and offers its response in this context. LDCs should not be required to offer an Equal Payment Plan (EPP). Rather, the decision to offer EPP to customers should be at the discretion of each LDC based on a prudent determination of the associated costs. EPP can be costly for LDCs, where:

- billing format and CIS systems would need to be modified;
- monthly bills would need to be rendered;
- LDCs are likely to incur costs associated with carrying debt; and
- collection activity and annual write offs could increase especially if the customer’s annual consumption had been under-estimated by a significant amount

(customers removed from the plan at the time of final billing are required to pay the full balance).

Question 18

If all distributors were required to offer equal billing, what are the implications for:

- Customer information / billing systems?
- Distributor's costs?
- Cash flow?

Response:

For the reasons set out in response to question 17, the CLD believes that the OEB should not require LDCs to offer Equal Payment Plans. Not all LDC customer information and billing systems are able to support EPP and requiring LDCs to build this functionality into customer information systems can be costly.

Question 19

For those distributors that currently offer equal billing, but not to customers enrolled with a retailer, what are the implications of being required to offer equal billing to customers enrolled with a retailer? Specifically, what are the implications for:

- Customer information / billing systems?
- Distributor's costs?
- Cash flow?

Response:

Significant changes would be required to the existing billing system logic of LDCs who do not currently extend this option to customers registered with a retailer. The associated costs are significant. In addition, cash flow and losses due to non-payment could increase unless retailers were to submit Equal IBRs to LDCs. (LDCs do not have information of the prices charged by retailers to retailer customers and rely on retailers to indicate the dollar amount to be collected). The CLD notes that LDCs should be permitted to apply a charge for the added cost and assumed risk where this service is provided.

1.2 Disconnection for Non-Payment

1.2.1 Form and Content of a Disconnection Notice

Question 20

Is the minimum information that staff has suggested should be contained within a disconnection notice sufficient? What information should be added? Should any information be removed?

Response:

Staff has recommended that the following minimum information be provided:

- The amount that is overdue, including any late payment charges that have been,
- or may be, incurred;
- Scheduled date of disconnection;
- Any action(s) the customer can take to avoid disconnection (e.g., provide payment), and the deadline for taking such action(s);
- Any charges that may be incurred for reconnection; and

- Contact information for the distributor.

The CLD recommends the following exceptions to the proposed minimum information:

- reference to reconnection charges rather than a statement of the exact amount of charges. Reconnection charges vary based on time of day and location of the meter so it is not possible to accurately quantify the applicable charges at the time the notice is sent; and
- reference to a “scheduled date of disconnection” to be “on or after” rather than on a specified date in order to provide the customer with more surety of the LDC’s intent should the disconnection not occur within the first disconnection period.

Question 21

Prior to commencement of the disconnection process, should distributors be required to send an overdue payment notice?

Response:

Additional notice unnecessarily increases the collection period and incurs additional administrative expense. Although it is the practice of some LDCs to deliver additional notices, they should not be required to do so, particularly where the volumes are high. This should be done at the discretion of the LDC.

Question 22

Should the disconnection notice be a separate mailing from the bill, or is it sufficient that it be a separate document sent with the bill? What are the implications of requiring a disconnection notice to be a separate document from the bill? Specifically, what are the implications for:

- Communications with a customer?
- Timing of notices and bills?
- Distributor’s costs?

Response:

Regardless of the cost, the disconnection notice should be separate from the bill so the customer is clear of the intent of the notice. Also, disconnection notices are always based on arrears of outstanding balances and have no correlation to current bills.

Question 23

In addition to delivering a disconnection notice, should distributors be required to make personal contact with the customer (e.g. through a telephone call) prior to disconnection?

Response:

No. Personal contact may be attempted but is not always possible nor is it cost effective especially when dealing with large volumes of accounts. Some LDCs use an automated telephone system to advise customers before the Disconnection notice is issued.

1.2.2 Timing of a Disconnection Notice

Question 24

What would be an appropriate length of time following delivery of a disconnection notice for a second notice to be required if disconnection has not occurred?

Response:

The CLD agrees with Board staff that seven (7) calendar days is an appropriate minimum notice period prior to disconnection and suggests that this notice indicate disconnection will occur within 10 business days after the 7-day advance notice.

The CLD also agrees with Board staff that if disconnection has not occurred within the 10 business-day disconnection period indicated, a second notice should indeed be provided. However, the CLD does not agree that this second notice should be required to be a "minimum period" notice. Distributors should be allowed to disconnect at any time following the second notice if payment still has not been made.

The CLD further recommends that the requirement to send a second notice should not apply in instances where customers have broken previously negotiated payment arrangements, where there have been ongoing discussions with the debtor and where the timing of disconnection has been specifically communicated to the customer.

Question 25

What are the implications of requiring additional notice where a customer has not been disconnected within a certain length of time following delivery of the first notice?

Specifically, what are the implications for:

- Communications with customers?
- Customer information / billing systems?
- Distributor's costs?

Response:

Additional notice can be beneficial as it can reduce the potential for actual disconnection. It should be noted, however, that additional notice has cost increase implications for LDCs due to a corresponding required increase in field activity and the inevitable delay in collecting funds. These costs are subsequently borne by all customers. Some LDCs may also experience additional costs associated with modifying billing systems to accommodate the requirement to send an additional notice.

1.2.3 Recipient of a Disconnection Notice**Question 26**

What are the implications of allowing customers to designate a third party to receive copies of notices of disconnection? Specifically, what are the implications for:

- Communications with customers?
- Customer information / billing systems?
- Distributor's costs?
- Communications with social service agencies?

Response:

Communications would be improved particularly for elderly customers or customers with disabilities. This would also expedite communications with social agencies and other third party stakeholders as they would then be aware of the pending disconnection and may wish to intervene. The CLD agrees with Board staff that the provision of third party

notice should not be a condition of disconnection nor should it render the third party liable for the arrears of the account holder.

In communicating with third parties who intervene on behalf of customers, however, the CLD believes that the manner in which this communication occurs should not be codified. The CLD cautions that any requirement to provide third party notice through LDC customer information systems will require costly modifications to software; in addition, administrative costs will be incurred related to managing customer authorizations, personnel changes, postage etc. For these reasons it may be more effective for LDCs retain the flexibility to address local communication issues on a mutually agreed, case-by-case basis.

1.3 Management of Customer Accounts

Question 27

In addition to the potential for property damage (e.g. from frozen pipes), are there any other implications of disconnecting a property when no new request for service has been received?

Response:

Yes. For some LDCs significant implications are cost and access. At present many LDCs do not disconnect between tenants where the LDC has not been advised of the new occupant. Instead, attempts will be made to track down the new tenant before pursuing the disconnect option. Requiring immediate disconnection could result in significant additional annual costs including recovery of the invested capital in servicing the property. Equal cost considerations apply for associated reconnection when customers subsequently require immediate service.

To reduce exposure to these situations, many LDCs have initiated with key landlords within their service territory, agreements that specify what action is to be taken when accounts remain closed.

Smart metering technology will eventually address these shortfalls; however, in the interim, intermittent disconnections are not recommended. Should the Board find differently, the Board should also find that LDCs are able to recover the cost of disconnecting/reconnecting a service on departure of a customer in cases where a new contract for service has not been established.

Question 28

When an account is closed, what are a distributor's criteria for determining whether to:

- continue to provide service to the property in the absence of a new request for service, or
- terminate service to the property?

Response:

Continuation of Service

Many LDCs continue to provide service in the absence of a new request so long as usage at the property is minimal. This is based on past practice and the cost to LDCs of disconnecting and reconnecting these services. Distributors also continue to provide

service to the property in the absence of a new request for service if the landlord agrees to become the new customer; based on lawyer's notice of sale transaction; based on previous agreement with landlords to accept responsibility in the event of a tenant vacating the premises etc. (Please see also, response to question 27).

The Discussion Paper suggests that when an account is opened in the name of the landlord and the landlord is billed going forward, "the landlord may not become aware of this until significant amounts are owing on the account" (page 33). However, the CLD believes that the landlords do indeed know the status of the tenancy of their buildings and receive invoices so that significant amounts do not become owing. Additionally, vacant buildings have little consumption and therefore do not account for much cost.

The Discussion Paper also notes a single incident in the Ontario experience where a distributor continued to provide service despite having no customer of record and despite receiving no payment. This appears to be an isolated incident and statistically insignificant when compared to the total number of accounts managed in the province. The CLD believes that regulatory policy should not be developed based on an isolated incident that does not reflect the practices of Ontario LDCs. For some LDCs, more than 20 percent of their customer base moves in a given year.

Termination of Service

It is the practice of many LDCs to initially make attempts to avoid disconnection of a property in the absence of a new request for service. However, some LDCs will disconnect on written request from the property owner. Others will disconnect if the landlord refuses to accept the account. The practices of LDCs vary based on the amount of churn experienced and the CLD believes that the Board should refrain from codifying policies that will be difficult for all LDCs to implement.

Question 29

Are there circumstances in which it would be appropriate for a distributor to open an account in a person's name, and thereby seek payment from that person, where the person has not made a request for service? If so, please identify.

Response:

It is the practice of many landlords and rental offices to gather the necessary information from new tenants and communicate it to LDCs to ensure that the correct party is billed for service. Builders/developers also provide this information, as do solicitors when property sales occur. LDCs assume these parties are acting as authorized agents for the new customer. Some LDCs use land registry records to bill the owner, where the information is not otherwise available. The CLD believes that these practices serve the expectation of the vast majority of incoming customers that electrical service is available. Please also see response to question 28.

Question 30

What types of information should a distributor collect from a person that is requesting the opening of an account in order to confirm the identity and, where applicable, authority of the person?

Response:

LDCs are able to confirm the identity of customers who open accounts in person. For LDCs that process large volumes of transactions annually, in-person registration is not feasible and customer information is accepted via the telephone. In doing so, LDCs take the position that the service requester provides accurate information for the opening of the account and in most cases, information provided is legitimate. The CLD notes that this is also the practice of other utilities including telephone, internet, cable and gas service companies.

To open a new account, LDCs typically require full name, mailing address, owner/tenant status, phone numbers and three additional pieces of information that may include name of employer, birth date, driver's licence etc. for confirmation of identity in the event of future contact. LDCs also use legal documents such as lawyer letter, land registry and credit check data to confirm the customer's identity.

Part II: Evaluation and Reclassification of Customers**2.1 Definition of Demand****2.1.1 Use of Billing Demand****Question 31**

What are the advantages and disadvantages of each of the following options?

The Board should define demand and include the concept of billing demand:

- allow billing demand to be determined on the basis of either kW or 90% kVA. Use of 90% of kVA would be permitted, but only in specified circumstances; or
- billing demand be expressly defined as kW demand.

Response:

LDC distribution systems are built to meet customers' maximum kVA demand and as such, kVA represents and tracks costs incurred by a distribution utility better than either kW or kWh. Basing distribution charges on kVA better reflects cost causality therefore kVA is a logical basis for volumetric distribution rates.

The CLD notes that the practice of determining billing demand based on the higher of 100% kW or 90% kVA has its roots in bundled rates and that it became possible to base distribution charges on kVA when transmission and distribution charges were unbundled. However, basing charges on 100% kVA for all customers would be costly as LDCs would be required to install kVA meters and modify customer information systems.

The CLD believes that LDCs should not be required to install kVA meters where they do not currently exist and where the existing practice to base billing demand on the higher of kW or 90% kVA continues to work well for both LDCs and customers.

Question 32

Should the general rule be that billing demand be determined on the basis of a consumer's measured kW?

Response:

Where the current practice of basing billing demand on the higher of kW or 90% of kVA continues to work well for LDCs, the Board should not require LDCs to change their basis of billing demand. Rather, the Board should provide guidelines permitting LDCs to exercise choice in this regard.

Question 33

Under what circumstances should a distributor be permitted to assign a consumer on the basis of kVA as opposed to kW?

Response:

As discussed in response to question 31, it is possible base distribution charges on kVA. If, however, the Board finds that kW should be the general rule, the Board should allow LDCs to assign a customer on the basis of kVA as opposed to kW if a distributor determines the customer has certain equipment that would lead to below standard power factor. The CLD notes that this issue is under active consideration in the Board's Rate Design for Recovery of Electricity Distribution Costs proceeding (EB-2007-0031).

Question 34

Should use of 90% of the kVA demand as billing demand be limited to cases where a determination of below standard power factor has been acknowledged to the customer (as with Nova Scotia Power)? This would give the customer an opportunity to correct the situation at its own cost before being re-classified.

Response:

Please see response to question 33.

2.2 Classification and Reclassification of Consumers to Classes**2.2.1 Periodicity of the Calculation of Demand for Rate Classification Purposes****Question 35**

What are the advantages and disadvantages of each of the following options?

The demand level for customer classification purposes could be defined as:

- the average monthly peak billing demand calculated for the most recent 12-month period (rolling 12 months); or
- the maximum monthly peak demand occurring within the year, (in this case customers would be reclassified whenever their monthly usage crosses the threshold)

Response:

The CLD recommends a modified Option 1 – the annual review period should be the most recent 12-month period and not a 'rolling 12 months' as 'rolling 12 months' implies the requirement for a monthly calculation. Changing rates frequently is labour intensive and costly, therefore the issue of 'stability' ought to be considered in the assessment.

Whereas the maximum monthly peak demand better reflects the costs a customer imposes on the distribution system, this peak could vary significantly from month to month and would cause frequent changes in rate classification.

The annual average demand would be more stable than annual maximum demand and would eliminate customer flip-flop between rate classes. As well, distribution costs are usually allocated based on 12 NCP and rates are determined based on allocated costs divided by the sum of customers' 12 monthly demands. Therefore, classifying customers based on annual average would be consistent with cost allocation and rate design.

Accordingly, the demand level for customer classification purposes should be defined as "the average monthly peak billing demand calculated annually for the most recent 12-month period". The CLD understands that this issue may need to be revisited on completion of the Board's Rate Design for Recovery of Electricity Distribution Costs proceeding (EB-2007-0031).

2.2.2 Assignment of New Consumers to Classes

Question 36

What are the advantages and disadvantages of each of the options identified [below]?

- Initial classification is based on 80% of the customer's design/installed service size; or
- Initial classification is based on the customer's expected billing demand characteristics and service size (this is as stated in the PBR Handbook).

Response:

The CLD believes that codification of rules for the initial classification of customers is not required. Actual customer demand may be as low as (or even lower than) 20% of the installed capacity so some discretion and judgment should be allowed. LDCs should be given the discretion to negotiate with the customer, a mutually agreed expected demand and, therefore, the resulting classification.

Once set, the classification level should be reviewed at the end of the first 12-month period when the annual billing quantities will be available to reassess the assigned classification.

Question 37

How does classification on the basis of 80% of service size relate to customer contributions for connection costs? In other words, is the distributor already compensated for over-sized assets by customer contributions?

Connection costs are calculated based on design/installation size therefore LDCs would be compensated by customer contributions for assets installed to the extent that the anticipated load materializes. As discussed in response to question 36, it is in the best interest of both customer and the LDC to base initial classification on 100% of expected demand.

2.2.3 Evaluation and Reclassification of Existing Consumers

Question 38

What are the advantages and disadvantages of each of the following reclassification options?

- One distributor-initiated and one customer-initiated re-evaluation per year for classification purposes. As an exception, if the customer or the distributor can show a persistent, ongoing change, the distributor should be able to waive the once-per-year rule; or
- LDCs continue to re-assign customers as required based on demand, as is the current practice.

Response:

The CLD supports distributor-initiated re-evaluation for ease of administration as re-evaluation can be done for all customers at the same time. Customer-initiated re-evaluation, on the other hand, would be more difficult to administer because such requests could come at any time. Customer-initiated re-evaluation should be allowed only if the customer can demonstrate the change in load is permanent and is corroborated by an historical actual change in demand over a number of successive months (minimum four (4) months which generally covers two billing cycles).

Question 39

In section 2.1.2, Board staff has suggested a 12 month average billing demand as a definition of demand. If that were to be adopted, would restricting the number of reclassifications become unnecessary?

Response:

No. There will always be a number of customers who transition between small commercial and interval metering so reclassifications will occur. Also, if a 12-month average billing demand is adopted, the distributor-initiated re-evaluation would be limited to one per year.

Question 40

Should all customers be notified prior to a rate class change, regardless of the bill impact?

Response:

From a customer service point of view, yes. Customers should be notified prior to a rate class change, regardless of bill impact. Doing so would provide the customer with time to understand the impact to their business of the rate class change. For example, if the LDC-initiated re-evaluation were to take place annually at the end of January each year, this would meet the requirement for providing the necessary notice.

Question 41

Is there a need for the Board to establish parameters around the application of the concept of an “abnormal condition”? If so, what parameters would be appropriate?

Response:

In the consideration of re-evaluations more than once per year, abnormal conditions when customer-initiated, could include:

- Instances where a customer has installed new, verifiable equipment

- Increase or decrease in operations that are permanent and verifiable
- Permanent removal or shutdown of self-generation

Any parameters established by the Board around the application of the concept of an “abnormal condition” should be in the form of guidelines only, and should not be prescriptive.

Part III: Management of Customer Non-Payment Risk

Question 42 – Should the DSC be amended to expressly provide for accelerated billing?
Question 42 a)

If yes, how should accelerated billing provisions be structured (e.g., triggers, notification process, conditions for returning to the distributor’s normal billing cycle, timing of disconnection notices, other customer service implications)?

Response:

The CLD believes that the DSC should be amended to expressly provide for accelerated billing. While there necessarily will be ongoing communications relating to collection issues associated with customers who are moved to accelerated billing, there is not likely to be a large number of accounts in this category. As such, the LDC should retain the flexibility to determine associated accelerated billing provisions.

It should be noted that the customer has already consumed the electricity which is being billed and that the LDC has incurred costs in providing that consumed electricity and related services; the LDC is simply rendering a bill to collect on amounts owing, albeit at an accelerated rate.

The triggers should be determined by the LDC and need not be pre-specified because this is not a billing option that will be applied indiscriminately. There are sufficient natural checks and balances making it unnecessary to codify triggers and other conditions. It is costly for a distributor to use accelerated billing due to the increased frequency of bill calculation, delivery and payment processing, and a distributor therefore has an incentive to return to normal billing as soon as practical. Distributors have an incentive to use accelerated billing only when there is significant risk and threat of default.

A distributor need only notify the customer in advance of the first accelerated bill being rendered in order that the customer may make arrangements for payment processing. This could be specified in the DSC if it is feared that some distributors might not do so.

Customers should have the option of providing credit security in lieu of accelerated billing; however, this need not be stipulated in the DSC because it is an obvious available option.

Question 42 b)

Should customers have the option of negotiating an alternative arrangement prior to being placed on accelerated billing?

Response:

Yes. Customers should be allowed the option of posting an appropriate security deposit.

Question 42 c)

Are there other customer non-payment risk management tools that should be considered along with accelerated billing?

Response:

The Discussion Paper suggests that the risk mitigation measures currently available to LDCs are generally adequate (p. 56). The CLD does not agree. The CLD stands by its submissions filed on July 16, 2007 in response to a staff discussion paper on the Management of Customer Default Payment Risk (EB-2007-0635). In its submissions, the CLD proposed the following recommendations to reduce default risk for large customers:

- *Existing restrictions on risk mitigation measures should be changed as follows:*
 - *Under the current Distribution System Code, for “new” large customers, distributors may collect a deposit that is reduced depending on the customer’s credit rating. After seven years of “good payment history”, 50% of that deposit may be retained by the distributor indefinitely, however the other 50% must be returned to the customer regardless of the actual state of the customer’s finances and creditworthiness. Further, for “existing” large customers who have a “good payment history”, a distributor is precluded from collecting a security deposit at all, regardless of their creditworthiness. Distributors should be able to retain the full security deposit (adjusted per the company’s credit rating) for large customers indefinitely, and not return 50% after seven years, and, most importantly, this should apply equally to both existing and new large customers. Currently, LDCs are required to treat their existing and new large customers differently and this practice is discriminatory.*
 - *Alternatively, LDCs should be permitted to obtain security using security deposit measures similar to the IESO’s market rules.*
- *The distributor should be able to require a customer who has unsatisfactory creditworthiness to pay bills in advance or pay on an accelerated billing schedule. LDCs could provide notice of this intention, to the Board and the customer, one week prior to commencing the advance or accelerated billing.*

Question 42 d)

If accelerated billing should not be considered, how should the large customer non-payment risk referred to above be addressed, if at all?

Response:

Accelerated billing should indeed be considered. Please see response to question 41. The CLD further notes that past payment histories and credit ratings of large customers are not necessarily an indication of future performance. Where deposits are returned after

a good payment record has been established, the distributor will be exposed to potentially significant losses should the customer experience a major downturn in its business activities or performance. The existing risk mitigation provisions do not allow distributors to proactively manage such risks. To address this gap, LDCs should be allowed to use alerts from bond rating agencies to initiate accelerated billing, or request or maintain adequate security.

Two paper copies of these submissions have been mailed to the Board as required. Please contact the undersigned if additional information is required about anything in this document.

Yours truly,

[Original signed on behalf of the CLD]

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