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Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

April 18, 2008

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
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Dear Ms. Walli:

EB-2007-0722 – Staff Discussion Paper on Electricity Distributors: Customer Service, Rate Classification and Non-Payment Risk - Hydro One Networks' Comments

Hydro One Networks (“Hydro One”) welcomes the opportunity to provide comments and responses to questions posed by Board Staff in its March 6, 2008 Staff Discussion Paper (“the Paper”) with respect to customer service, rate classification and non-payment risk.

Our approach in developing these comments and responses has been to answer the questions raised in the Paper through a discussion of our current practices and staff proposals where appropriate. These are appended to this letter.

As a general comment Hydro One Networks agrees with Board Staff’s objective of developing policy and, where appropriate, codifying such policies that are raised in the Paper. I would like, however, to raise a couple of points as overall context for our comments.

Hydro One Networks expects that the Board will keep an appropriate perspective on the customer subjects raised in the Paper in particular given the source of many of these questions including customer complaints, stakeholder enquiries, and a review by the Board's Compliance Office of a representative sample of distributors' Conditions of Service. Not all of the issues can be solved through regulatory vehicles, since some of them may fall into the areas of government policy or social agencies. Similarly, these issues should be looked at from a holistic customer care perspective. Generally, our current conditions and processes work well for the vast majority of our customers.

For Hydro One, the needs of our diverse and geographically dispersed customers have to be kept in perspective when considering changes. Other matters such as credit risk are mitigated to a great extent because of our diversity and size, so that some issues may not be as critical for utilities such as ours. Where appropriate we have indicated where we feel it would be helpful to ourselves and to our customers to have proscriptive code amendments, but also where we feel there should be flexibility so that we can deal with customers on a more personal level and be responsive to their individual circumstances.

Many of the questions are broad and have a wide range of implications requiring further work. Hydro One expects that the Board will treat this as a first step and continue the consultation so that the final product and potential code amendments are balanced and do not create contradictions.

As a next step, we suggest that some form of industry Study Group with a hands-on representation of customer service personnel be considered by the Board to pursue these matters so that the issues can be dealt with in a balanced and thorough manner. We would expect Hydro One to be represented on any such a group to ensure that the needs of both rural and urban customers, and of LDCs that serve them, throughout the Province are properly addressed.

Please find enclosed two paper copies of our filing. Should you have further questions please do not hesitate to contact Russell Smith at 416-345-5901 or myself.

Sincerely yours,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attachment

EB-2007-0722 – Staff Discussion Paper on Electricity Distributors: Customer Service, Rate Classification and Non-Payment Risk

Hydro One Networks' Reply to Questions and Comments

April 18, 2008

1.1 Bill Payment

1.1.1 Due Date for Bill Payment (page 6)

Q1 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?

A: Hydro One's customers are allowed 21 days to make payment, before a late payment charge is applied. The payment period was shortened to 16 days when the Customer 1 system was implemented in 1998. This caused significant customer negative reaction, customer complaints, increased call volumes including to local MPP and government. Our payment period was subsequently changed back to 21 days

The Hydro One service territory must be considered when establishing the length of payment period, including:

- . length of time for Canada Post delivery in rural and remote areas.*
- . proliferation of super-boxes, where mail is not delivered to a customer's door and, in some cases, may be days before it is picked up*
- . some service areas still have general mail delivery, where customers must visit the Post office in town to pick up mail, and*
- . length of time for customer to submit payment by the due date, including Post delivery.*

Q2. If a distributor were to provide a payment period longer than sixteen days, how would this affect the Distributor's cash flow.

A: Hydro One's payment period is currently longer than 16 days.

Q3. Where bills are "delivered" electronically, either by email 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?

A: The date of issue and day of payment required for electronic bills are established by the same approach as other non-electronic bill methods, and are based on the date the bill is generated. These dates should be determined in a consistent manner, regardless of which bill presentment and payment method the customer selects to receive the bill and remit payment.

Q4. 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)?

A: *Payments are coordinated by central processing agencies. These agencies collect payment from various methods – mail, bank teller, bank ATM, pre-authorized payment, bank telephone or internet banking, electronic billing – and post the funds daily to the Hydro One bank accounts and Customer Service System (CSS). The CSS matches the date the funds are posted to the payment required date, to verify payment was received within the payment period.*

Hydro One advises customers to allow up to 5 business days for payment processing before the date payment is required, and this is to allow for the various payment methods used and time for the banks to process and transfer funds.

Q5. 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?

A: *Hydro One also accepts credit card payment from customers in collection activity. The payment processing processes are the same as noted above; funds are coordinated by central processing agency and posted daily to Hydro One bank accounts and payment received is posted to the customer account in CSS.*

1.1.2 Allocation of Payments Between Energy and Non-energy Charges (page 10)

This does not apply to Hydro One.

Hydro One does not provide water or sewage services, nor charge for energy conservation or load management products on its electricity bill.

1.1.3 Correction of Billing Errors (page 14)

Q10. 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?

A: *Option (1) is less costly for a distributor as it does not require issuing a cheque.*

Option (2) should be available as an option to customers, only in cases where consumption will not exhaust the credit for a substantial period of time. Please also bear in mind that it may be confusing to a customer to receive a refund cheque and a bill for current balance owing. Option (2) may also burden the utility with excessive costs.

Regarding Option (3), Hydro One guidelines are established at two months, where if the credit is greater than two months of average consumption then a refund cheque may be issued. This is implemented on a reactive basis upon customer requests, to manage costs of operations.

Q11. Staff has suggested three options for how distributors should bill customers for amounts under-billed. What are the advantages and disadvantages of each option?

A: By delaying payment of the amount underbilled to the same period as the duration of the billing error, payment could be over an extended period of time, which delays revenues due to the utility. Payment arrangements should be available to the customer and negotiated on an individual basis, depending on the underbilled situation and the capability of the customer to make the payments.

Requiring payment in full on the next bill would be a hardship for some customers, depending in the length of time of the underbilling, and the customer's financial circumstances (eg., those on fixed incomes).. Payment arrangements should be made available to the customer and negotiated on an individual basis, depending on the situation and the capability of the customer to make the payments.

It would be difficult to establish the threshold for option (3). The amount underbilled could vary from a few dollars, to thousands of dollars, and will depend on the situation, length of time of the underbilling, and size of customer load. Flexibility should be available to manage each individual situation.

Q12. 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?

A: The threshold should differ depending on customer class, but also should differ depending on amount of consumption, which will vary greatly among customers even in the same rate class. There will always be situations that will fall outside any prescribed threshold, which will generate complaints. Distributors should have some flexibility in their policies to adjust to individual situations.

Q13. 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?

A: See Q12.

Q14. 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?

A: *This situation – where a customer has been underbilled and must address an outstanding amount they didn't expect – is a difficult situation as it is. Adding interest will increase the customer's displeasure.*

However, in circumstances where the customer is, or should be, well aware of the underbilling error, interest would be appropriate and would discourage any notion of a "windfall."

In addition, once payment has been established with the customer to address the underbilled amount, billing will be established appropriately, and if the customer defaults on a payment a late payment charge will be added to the subsequent billing.

Q15. 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?

A: *In situations where the customer is responsible for the underbilling, or, where the customer has been aware of underbilling issues but has not taken action to address, distributors should be permitted to collect interest from the customer on the amount owing.*

Q16. 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?

A: *The time periods set in the RSC were established at market opening through industry discussions and past utility experience and practice in Ontario. We are not aware of issues in Ontario experiences requiring a review of the time periods.*

1.1.4 Equal Billing (page 19)

A budget billing plan is available to Hydro One Standard Supply Service Customers and retailer-enrolled Customers on Distributor Consolidated billing. To help smooth electricity costs over the year, the plan bills an equal portion of the previous year's charges per bill period and then reconciles the balance owing in the anniversary month. Periodic adjustments may be made to the regular budget bill amount due to Rate or usage changes.

The budget billing plan is not available to Customers who are demand-billed or whose meters are read monthly.

1.2 Disconnection for Non-Payment

1.2.1 Form and Content of a Disconnection Notice (page 26)

Q20. 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?

A: *The minimum information suggested is sufficient.*

Q21. Prior to commencement of the disconnection process, should distributors be required to send an overdue payment notice?

A: *There is no need for an overdue payment notice. Hydro One places messages on the customer bill notifying of over due amounts, and if amounts are not addressed then a letter of disconnection notice is sent to the customer.*

Q22. 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?

A: *Sending the disconnection notice separate from the bill gives it more prominence. Disconnection notices contain different messages than the normal bill, and it is important the customer to be aware of the schedule for disconnection due to non-payment.*

Q23. 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?

A: *A phone call is made to Hydro One customers when disconnection is imminent. This is done to attempt to collect funds. Personal contact should not be made mandatory prior to disconnection as making personal contact is not always possible and could delay, or stifle, collection activity, and increase the financial exposure of the distributor.*

1.2.2 Timing of a Disconnection Notice (page 28)

Q24. 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?

A: *An appropriate length of time before a second disconnection notice is required to be sent should be 4 to 6 weeks.*

Q25. 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?

A: *The implications include: delay to collections activity; increased bad debt; increased utility cost to reissue communications and notices. Would also increase the amount owing by the customer, which in some cases increases a bill that is already difficult or impossible for a customer to pay.*

1.2.3 Receipt of a Disconnection Notice (page 31)

Q26. 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?

A: *The implications of allowing customers to designate a third party to receive copies of collection notices include:*

- . *cost to make billing system changes, which could be considerable for this situation*
- . *minimal cost increased for increased volume of printing notices and postage*
- . *impact on call centre processes to identify 3rd party, confirm addresses, update, remove 3rd party etc.*
- . *some 3rd parties may choose not to participate, due to policy or discretion.*

This could be a customer satisfier, especially for seniors or customers in hardship situations and eligible for social assistance. The benefit should be considered with the cost to implement and number of customers who would take advantage.

1.3 Management of Customer Accounts

1.3.1 Distributor Policies – Landlord As Default Account Holder (page 35)

1.3.2 Distributor Policies – Third Party Requests (page 36)

Hydro One's process is to establish an account in a landlord's name after a tenant has advised us they will no longer accept responsibility for the property and a new tenant has not called to assume responsibility for the account. A letter is sent to the landlord to notify them we have not heard from a subsequent tenant and are opening the account in the name of the landlord. The landlord has the option to ask us to close the account and have the connection equipment removed.

Hydro One will not open an account on third party request, but requires the person who is taking responsibility to call and establish the account. This includes the landlord/tenant situation; we will not open an account with information from a landlord, but require the tenant to call.

Q27: 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?

A: *There are other implications:*

- . a person may have moved in but not yet called to set up the account. Disconnection of electricity could affect all home services, including security, computers, appliances.*
- . increased Distributor cost to send crews to disconnect power, and then reconnect when a new account holder moves in.*

Q28 When an account is closed, what are a distributor's criteria for determining whether to:

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

A: *When an account is closed, Hydro One will not automatically terminate service, given that in almost all instances a new customer will follow shortly. However, if a new customer has not called to claim responsibility for the account within approximately 2 weeks, disconnection will take place.*

Q29 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.

A: *Due to privacy legislation, an account should not be opened in a person's name without the consent of that person. An exception is the landlord/tenant situation, where a tenant has left and there is no subsequent account holder. In this instance, the landlord, as the owner of the property, is assumed to be responsible for electricity supplied to the premise.*

In situations where a person has consumed electricity before requesting an account, Hydro One will argue that there is an implied contract.

Q30 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?

A: *The following is a minimum recommended amount of information to open an account and confirm identity:*

- . name*
- . address*
- . phone numbers (home and alternative)*
- . mailing address*
- . date of birth*
- . drivers license number*

Evaluation and Reclassification of Customers

2.1 Definition of Demand

Hydro One policy is to install a kW and kVA meter on any installation over 50 kW where the power factor may be low. A billing determinant of kVA is used as an economic signal to the customer to improve power factor, and therefore the efficiency of the delivery system.

Hydro One does not use the kVA calculation to reassign customers to another rate class; the annual demand monitoring reclassification decision is made on kW.

2.1.1 Use of Billing Demand (page 41)

Q31: What are the advantages and disadvantages of each of the options identified above?

A: *With respect to defining demand and the concept of billing demand, there is a need to ensure that such definition is consistent with corresponding definitions in Federal regulations, administered by Measurement Canada, under the Electricity and Gas Inspection Act. Measurement Canada currently has active consultation underway regarding “legal units of measure” under the Electricity and Gas Inspection Act.*

Hydro One’s policy is to establish the billing determinant as the higher of either 100% of kW or 90% of kVA, as this sends an economic signal to customers with poor power factor, to encourage efficient use of the power infrastructure.

A poor power factor is demonstrated in a higher kVA compared to kW. This requires a larger current flow to supply this customer. A larger current flow requires

larger system investment in equipment. Following rate design principles of cost causality and customer fairness, charges should be applied to a customer with poor power factor.

It is unclear what “specified circumstances” would be in the first option. Power factor varies depending upon the electrical characteristics of the customer’s equipment that was used in the billing period. The approach of establishing the billing determinant, as described above, takes into account the varying nature of equipment usage.

Q32: Should the general rule be that billing demand be determined on the basis of a consumer’s measured kW?

A: Hydro One’s policy is the billing demand shall be taken as 90% of kVA or 100% of measured demand in kW, whichever is greater. We do not recommend a change from this approach. Following rate design principles of cost causality and customer fairness, charges should be applied to a customer with poor power factor requiring larger current flows. This approach also takes into account that a customer’s power factor can change over time depending upon the nature of their business and the electrical characteristics of the customer’s equipment.

Q33. Under what circumstances should a distributor be permitted to assign a consumer on the basis of kVA as opposed to kW?

A: A Hydro One customer is not initially classified as a particular rate class nor reassigned to another rate class based on kVA. The analysis and decision to reclassify customers is based on a review of the previous 12 months average peak monthly kW demand. In the case of a new customer, the rate classification is based on the expected usage based on information provided by the customer.

Q34. Should use of 90% of kVA demand as billing demand be limited to cases where a determination of below standard power factor has been acknowledged to the customer. This would give the customer an opportunity to correct the situation at its own cost before being reclassified.

A: Hydro One customers are aware of kVA readings and their billing determinant, as this information is included on the bill they receive monthly. Based on that information, the customer can take immediate action to correct the situation.

Providing notice to the customer, and a period for correction, would require additional processes handled manually, system changes to suppress kW billing until completion of the monitoring period, and establishing guidelines on length of monitoring period, size of kVA customer to quality, and other parameters to implement.

2.1.2 Periodicity of the Calculation of Demand for Rate Classification Purposes (page 44)

Q35. What are the advantages and disadvantages of each of the options identified above?

A: *Hydro One reviews demand consumption annually, and will reclassify customers based on average monthly demand over the previous 12 month period, and this approach allows for seasonal variations in accounts. The other option, to reclassify customers based on one monthly peak amount, would affect certain businesses or industries that have seasonal patterns, such as ski hills and farms.*

2.2 Classification and Reclassification of Consumers to Classes

2.2.1 Assignment of New Consumers to Classes (page 47)

Q36. What are the advantages and disadvantages of each of the options identified above?

A: *Currently, Hydro One classifies customers based on the customer's designed/installed service size. There is no justification for discounting the customer's expected installation size, and artificially reducing the load prediction will reduce revenue required to operate the higher voltage system. While in some cases the customer's load may be less than the planned installed service size, it may also be higher. Hydro One must size the system to meet customer power demand, without delay, and the initial installation service size is the guideline for establishing the required power infrastructure.*

Q37. 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 oversized assets by customer contributions?

A: *If an expansion customer is placed on a demand rate based on 100% of the service size and the demand rates are higher than energy rates then the DCF calculation used to determine the amount of the capital contribution, if any, would have higher revenue to support the connection costs. When the actual load is less than 100% of the service size the actual revenue received would be less than the amount used in the DCF calculation and the distributor would be under compensated for the over-sized assets unless a true-up mechanism was used after the actual load was known. If the customer was reclassified after actual load information is available the shortfall amount would increase (assuming that demand rates are higher than energy rates).*

For "lies along" customer connections, the distributor may have charged the customer using a basic connection charge. In Hydro One's case, we provide a basic connection for "lies along" customers and recover the costs of connection through rates.

In both cases, Hydro One would under-collect from the customer.

2.2.2 Evaluation and Reclassification of Existing Customers (page 48)

Q38. What are the advantages and disadvantages of each of the reclassification options identified above?

A: Hydro One monitors demand, and reclassifies accounts accordingly, once per year. Hydro One will act on a customer-initiated review where data is being established on a new account and after 12 months data is available.

Q39. 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?

A: Restricting the number of reclassifications is necessary as this is a manual process to implement both the distributor-initiated and customer-initiated re-evaluations.

Q40. Should all customers be notified prior to a rate class change, regardless of the bill impact?

A: Hydro One notifies demand customers before reclassification according to consumption data under or over 50 kW. With advance notice the customer can prepare for any changes in electricity billing costs.

Q41. 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?

A: Given the large variety of business and industry in Ontario, it would be difficult to identify appropriate abnormal conditions and align appropriately. How would this be monitored, evaluated and a decision made? By adopting average monthly demand over a 12 month period, this will allow for periods that a customer may consider “abnormal”.

Part III: Management of Customer Non-Payment Risk (page 54)

Q42. Should the DSC be amended to expressly provide for accelerated billing?

- 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)?
- Should customers have the option of negotiating an alternative arrangement prior to being placed on accelerated billing?
- Are there other customer non-payment risk management tools that should

be considered along with accelerated billing?

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

A: No, the DSC should not be amended to expressly provide for accelerated billing. In Hydro One's case there would be no discernable benefit to the Company or our customers and would actually increase collection and billing costs significantly. In fact, to allow a distributor to increase billing frequency on the basis of the customer's relative size to utility revenue base or some other utility basis could actually be challenged by a customer as being discriminatory.

Hydro One has been able to manage its non-payment risks through the variety of mitigating tools currently available. Hydro One understands that the other distributors, particularly those with a narrow customer base, have concerns regarding the viability of the current variety of risk mitigating tools in their particular circumstances, however, that is not the case with large, diverse customer bases.