

April 18, 2008

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

Via Board's web portal and by courier

Dear Board Secretary:

**Re: Board File No. EB-2007-0722
Electricity Distributors: Customer Service, Rate Classification and
Non-Payment Risk**

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario.

The EDA's written comments on the Board staff's discussion paper issued on March 6, 2008 are attached to this letter. The EDA recommends prescribing minimum standards only for those issues which are not adequately addressed in the current legal and regulatory frame work because a prescriptive approach in general would eliminate the distributors' flexibility to address local needs and characteristics and this may negatively affect some customers.

Also, the distributors would be required to make revisions to the existing customer information and billing systems in order to implement some of the proposals put forward by Board staff. In addition, implementation of many of these measures would result in increased administrative cost to the distributors. Therefore the EDA requests that the Board recognize and provide for the recovery of these additional costs.

Yours truly,

"original signed"

Richard Zebrowski,
Vice President, Policy and Corporate Affairs

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EDA's Comments on OEB staff discussion paper
Electricity Distributors: Customer Service, Rate Classification and Non-Payment Risk

Bill Payment

Due Date for Bill Payment. The EDA does not oppose the proposed Board staff options in respect of 'due date for bill payment'. In addition, the following is provided in response to specific questions raised by the staff:

- Providing a longer payment period than 16 days would negatively affect the cash flow in the case of a large number of distributors. This in turn will have implications on the distributors' working capital.
- The bill is deemed to have been sent on the day distributors have sent an e-mail, where bills are delivered electronically either by e-mail or by allowing customers to access bills on the internet.
- Distributors receive a transaction record of electronic payments (made by customers) from their own banks and verify from this record if customers have made the payments electronically by the billing due date.
- Distributors accept payments over the counter at the distributors' offices in addition to accepting payments by mail, at a financial institution or by electronic means.

Allocation of Payments Between Energy and Non-energy Charges. The EDA recommends adopting the 3rd option proposed by the Board staff where distributors are allowed the discretion to allocate payments between energy and non-energy charges except where a customer has made a specific request to allocate the customer's payments first to energy charges.

There are technical limitations that would limit some distributors' ability to allocate payments towards energy charges first. Software changes to the customer information systems (CIS) would be required in order to be able to allocate payments as per customer request.

The available rules and guidance are adequate for the distributors to be compliant with section 31(1) of the Electricity Act, 1988

Correction of Billing Errors (Over-billing). In the case of over-billing, the EDA recommends adopting the 3rd option proposed by the Board staff where the method of refund is set depending on amount owed by the distributor. According to this proposal, distributors will refund amounts previously over-billed as a credit on the customer's account only where the amount owing to the customer is less than the expected charges for the next two billing periods. However, if the amount exceeds the threshold limit, then the distributors will provide the refund in the form of a cheque if the customer requests.

As regards calculation of interest on the amount over billed, the EDA submits that the rate of interest payable by distributors should be consistent with the interest paid by distributors on security deposits as approved by the Board.

Correction of Billing Errors (Under-billing). In the case of under-billing, the EDA recommends adopting the 3rd option proposed by the Board staff where the repayment period is set depending on amount owed by customer. The threshold is proposed to be set as 50% of the customer's average monthly bill for the last 12 months. The logic of setting the threshold limit is based on the OEB approved customer security deposit collection policy.

The amount of security deposit collected from a new customer is determined as 2.5 times the expected average monthly bill and the deposit is collected in equal installments over a period of 4 months. For example, if a customer's expected average monthly bill is \$100, then a security deposit of \$250 (=2.5 x monthly bill) would be collected from the customer over a period of 4 months amounting to \$62.50 per month which is equal to 60% of the average monthly bill. However, the threshold limit being proposed for the purpose of setting the re-payment period is only 50% of the average monthly bill.

According to this proposal, if the amount owed by the customer is less than 50% of the customer's average monthly bill over the last 12 months, the distributor could require the customer to pay the owing in full on the customer's next regular billing. If the amount owing is greater than 50% of the customer's average monthly bill, then the distributor would be required to allow the customer to pay in equal installments at the rate of not more than 50% of customer's average monthly bill until the amount is paid in full.

However, where the under-billing was the result of a customer's fault, (e.g., unauthorized electricity usage including meter tampering or theft of power by the customer), the customer should be required to repay the under-billed amount in full on the next regular bill.

The following is provided in response to specific questions raised by staff on the issue of 'correction of billing errors':

- The threshold amount for the purpose of setting the method of refund or re-payment period need not depend on customer class, because the proposed threshold amount is based on the customer's deemed ability to pay an additional amount over and above the regular bill similar to the threshold in the security deposit policies.
- The distributors consider it appropriate to pay interest to customers on the amounts that were over-billed, but not charge interest to customers on amounts under-billed except if the fault is attributable to customer such as in the case of unauthorized energy use, including meter tampering or theft of power. If under billing was the result of a customer's fault, the customer should be charged interest at the prevailing prime rate for the amount owed by the customer due to under-billing.

- Distributors are of the view that there is no merit in reconsidering the time periods set out in the Retail Settlement Code for over- and under-billing.

Equal Billing. The EDA's comments with respect to staff proposals on equal billing are as follows:

- The offer of equal billing should not be made a mandatory requirement for distributors but should remain at the discretion of the distributor. The offering of an equal billing plan is a distributor's business decision based mostly on the customer mix, the extent of electricity usage for space heating and the percentage of customers on fixed incomes in the distributor's area, etc. If the offer of an equal billing plan becomes a requirement, distributors that do not currently offer equal billing will have to incur additional administrative costs to offer equal billing plans. In addition, some distributors' billing systems will need to be changed in order to be able to offer equal billing plans. Further, equal billing plans may increase the working capital requirements as the cash flow is negatively impacted even though the equal payments could offer better cash forecasting.
- LDCs offering equal billing plans should not be compelled to extend the plan to customers enrolled with a retailer. Distributors are not aware of the prices retailers charge to their own customers. Retailers indicate only a dollar amount that is to be collected from their customers. As a result, it is difficult for distributors to establish a monthly average of retailer amounts without significant effort and some risk. Therefore, distributors will have to incur additional cost to administer equal billing plan to all the customers. Instead, retailers could be encouraged to offer equal Invoice Bill Ready (IBR) monthly plans.

Disconnection for Non-Payment

Form and Content of a Disconnection Notice. The EDA agrees to the staff proposal that requires a distributor to provide, at a minimum, the following information on a notice of disconnection, except as noted:

- Amount overdue including late payment charges.
- Actions that the customer can take to avoid disconnection and the deadline.
- Contact information of the distributor.
- Scheduled date of disconnection – distributors would be able to provide a period of disconnection but not the exact date of disconnection due to business priority scheduling considerations. For example, the notice could read as “Disconnection will be scheduled within 10 business days after the 7-day advance notice”
- after 7 days within 10 business days following the end of 7 day advance notice of disconnection”.
- Charges for reconnection, if any – distributors would not be able to provide the exact amount of charges that may be incurred for reconnection because charges

vary based on the time of day of reconnection and location of the meter. However, distributors would be able to provide the link to the distributor's website where such information is listed.

The following information is provided with respect to specific questions raised by staff on the issue of 'Form and Content of a Disconnection Notice':

- The minimum information suggested for the disconnection notice is considered sufficient.
- Distributors should not be required to send an overdue payment notice prior to commencement of the disconnection process because providing an additional notice is an administrative burden that imposes an additional expense.
- There are no implications in sending a separate disconnection notice apart from the bill - distributors currently follow the practice of sending a disconnection notice as a separate document from the bill, usually in the middle of a billing cycle so that customers can clearly identify the disconnection notice.
- In addition to delivering a disconnection notice, distributors should not be required to make personal contact with the customer (e.g. telephone call) prior to disconnection because this practice increases the distributor's administrative cost. In addition, customers faced with potential disconnection due to non-payment of energy charges often do not answer telephone calls from their distributor during the period.

Timing of a Disconnection Notice. The EDA does not object to the Board staff proposal to codify the minimum number of days of advance notice that a distributor must provide prior to disconnection. This minimum could be 7 days in most cases, however, the EDA requests the Board to provide discretion to the distributors in deciding how much advance notice to be provided for disconnection especially in the following situations:

- In situations where the customer's property is anticipated to be under a 'power of sale' and the customer has defaulted in payments for electricity provided to that property;
- In situations where the customer is closing the sale of the property and the customer has defaulted in payments for electricity provided to the said property; and
- When a distributor becomes aware of a customer's plan to vacate without a notice and the customer has defaulted in payments for electricity.

In these situations, the distributors typically provide at least 24 hours of advance notice prior to disconnection.

Further, the EDA agrees with the Board staff proposal that if disconnection has not occurred within a certain time after delivering the first disconnection notice, distributors should be required to provide a second notice of disconnection. However, the EDA recommends that the distributors should be allowed to disconnect at any time following the second notice if payment still has not been made. The second notice is only for the

purpose of informing the customer that disconnection will occur any time after the second notice.

In addition, the following information is provided in response to specific questions raised by staff on this issue:

- The appropriate length of time available to the distributor for disconnection of a customer should be 10 business days. A second notice of disconnection will be required to be provided if disconnection has not occurred within 17 business days after the original disconnection notice (i.e., 10 business days after the first 7-day advance notice of disconnection).
- The implications of requiring an additional notice (second notice of disconnection) would be increased administrative burden for distributors besides causing potential customer confusion with increasing number of communications.

Recipient of a Disconnection notice. The EDA is agreeable to the Board staff proposal that distributors be required to provide disconnection notices to third parties but only if specifically requested by the account holder and as long as provision of third party notice is not a condition of disconnection.

The implications in allowing customers to designate a third party to receive copies of disconnection notices are as follows:

- The process of sending third party notices increases administrative burden and administrative costs to distributors.
- Most billing systems are not capable of providing third party notices. Therefore distributors would have to provide third party notices using a manual procedure where specifically requested by customers. Making changes to billing systems is a concern for some distributors as it incurs additional costs and the costs vary from system to system.

Management of Customer Accounts

The following information is provided in response to specific questions raised by staff on this issue:

- The implications of disconnecting a property when no new request for service has been received (other than property damage from frozen pipes) are:
 - disconnection and re-connection costs incurred by distributors
 - inconvenience for a new customer of not having electricity when moving into the property that has been disconnected
- When an account is closed, the criteria used to determine whether to continue to provide service to the property in the absence of a new request for service are:
 - if the landlord, when approached, agrees to become a new customer
 - when a notice from a lawyer is received stating that the property is undergoing a sales transaction
 - if a prior agreement with the landlord exists on file to accept the responsibility in the event of a tenant vacating premises

- service is terminated in the absence of any arrangement as described above
- Distributors propose to collect the following information pertaining to a person requesting to open an account: Name; Date of birth; Contact phone numbers; Other persons allowed to access customer information; Two pieces of ID; Mailing address if different from the billing address; and Authority of the person requesting service. However, the information provided by the customer requesting a new service over a telephone cannot be confirmed that it belongs to the same person that has originally requested the new service as the customer does not show up in person at the distributor's office to permit visual verification.

Evaluation and Reclassification of Customers

Use of Billing Demand. The EDA agrees with the Board staff suggestion that greater clarity around the determination of billing demand would benefit both consumers and distributors. Further, the EDA recommends adopting the option of determining billing demand based on either consumers' measured kW demand or 90% of kVA. The general rule would be to determine billing demand based on consumers' measured kW demand. The use of 90% of kVA demand as billing demand would be limited only to circumstances when the consumer's power factor is below the power factor of 90%. This option would encourage customers to correct their power systems at their own cost before being reclassified.

Periodicity of the Calculation of Demand for Rate Classification Purposes. The EDA agrees with Board staff that using an annual average demand measure for rate reclassification purposes would solve a significant source of customer complaints. This approach is considered fair to customers and also would lead to very infrequent reclassification of customers.

The EDA recommends that the demand level for customer classification purposes could be defined as the average monthly peak billing demand calculated over a year but not the average for a rolling 12 months. Calculation of 12 months rolling average would not only necessitate changes to billing systems but also would require distributors to keep track of the rolling average every month which in turn would create administrative burden.

Assignment of New Consumers to Classes. The EDA is of the opinion that classification of new customers should be based on their expected billing demand characteristics and service size. The initial classification should not be based on 80% of the customer's design/installed service size as this leads to potential overestimation of demand and misclassification of customers in a majority of cases and would result in dissatisfied customers.

The EDA is opposed to framing prescriptive rules with respect to initial classification of customers. Instead, the EDA recommends that the initial classification should be based on mutually agreed (between the distributor and customer) customer's expected billing

demand characteristics and service size. And where there is no mutual agreement, the distributor should then have the flexibility to use 80% of service size as the basis of classification of a new customer.

However, the EDA agrees with Board staff that a customer's classification be re-evaluated based on actual billing demand at the end of the first 12 months of billing.

Evaluation and Reclassification of Existing Customers. The EDA does not object to the Board staff suggestion that provision should be made for one distributor-initiated and one customer-initiated re-evaluation per year for reclassification purposes. Further, distributors should be allowed to waive the once-per-year rule, as an exception if a persistent ongoing change in customer demand is evident.

With respect to re-classification of existing customers based on their abnormal consumption during the measurement period, the EDA is of the view that it is difficult to identify and make rules about the exact nature of abnormal conditions that result in abnormal usage of electricity by a customer. However, if consumption pattern becomes consistent for a period of 4 months (or 2 billing cycles), the EDA recommends that the customer be reclassified.

The EDA concurs with the Board staff suggestion that the distributor should be required to notify the customer before the change in classification takes effect, if the bill impact is 10% or more of the customer's average monthly bill.

Management of Customer Non-Payment Risk

The EDA believes that the risk mitigation measures currently available to distributors are not adequate and as a result the distributors are being penalized for bearing the risk of non-payment. Mitigation measures such as the ability to impose security deposits, frequent billing and other mitigation measures should be considered.

On average, a distributor's net income is only about 2.5% of the total revenue that they collect including revenue from commodity. Therefore, if a large customer with annual electricity purchases amounting to 15% of the distributor's total revenue does not pay the bill for one month, the distributor is at risk to lose half of its net income for the entire year. For example, if a distributor with total revenue of \$10,000,000 is unable to collect the monthly bill of \$125,000 from one large customer, the distributor's net loss would be half of its net income during the year. This situation is more likely with small distributors. Therefore, the EDA recommends providing distributors with the flexibility to address the customer non-payment risk not in just one circumstance quoted by OEB (where the value of a customer's annual purchases of electricity exceeds a certain % of distributors distribution revenue) but in respect of all the larger volume customers.

Therefore, an amendment to the Distribution System Code is recommended to clarify that a distributor can unilaterally increase the frequency of billing to weekly or bi-weekly not

only for customers whose annual consumptions exceeds a certain % of distributor's distribution revenue but also for all large volume customers.

The EDA also supports the staff proposal to provide distributors the flexibility to negotiate alternative arrangements with customers in lieu of bi-weekly or weekly billing (e.g., a lesser frequency of billing and/or giving or retention of security deposits). This would greatly enable the distributors to serve the individual business needs of customers locally.

The EDA believes that a re-examination of security deposit policy is warranted in the case of all large volume customers. The inability to impose security deposits until a customer receives a disconnection notice or a returned cheque is an impediment to managing customer non-payment risk. Once a customer defaults, it is typically too late to require a deposit, as the customer is usually unwilling or unable to provide these funds. Further, the customer's past history is not necessarily a reflection of the future payment ability. In addition, significantly increasing the efforts to monitor the credit worthiness of customers would increase administrative costs for a distributor. Therefore, distributors would prefer adopting a new security deposit strategy for all large volume customers. This is of particular importance in the difficult economic situation that Ontario is experiencing.

The EDA recommends adopting accelerated billing in conjunction with holding security deposits in the case of large volume customers in order to address risk mitigation more completely.