



Comments

Electricity Distributors: Customer Service, Rate Classification and Non-Payment Risk

OEB File: EB-2007-0722

Introduction

This commentary is provided in support of the Board's efforts to establish and clarify the policies and policy flexibility LDCs may apply in these areas. The report is well organized and AMPCO's comments are organized in like fashion, in order to make Board's consideration of our input as efficient as possible.

General Comment

The Modified Prescriptive Approach is optimal, providing flexibility where needed while also setting some key standards to ensure that, at a minimum, customers across Ontario are treated fairly and in a way that makes recourse somewhat simpler than might otherwise be the case.

Consistent with support for this approach, it is important that there be standard definitions applied for policy application, whether or not specific LDC policies may vary in some parameters. For example, "billing date" should mean the same in all jurisdictions.

PART I: CUSTOMER SERVICE

1.1 Bill Payment

1.1.1 Due Date for Bill Payment

The time between billing and due date is a critical determinant of the working capital requirements for LDCs. With this understanding, allowing a due date that is as short as sixteen days from mailing (postmark) of the bill is sound business practice.

The proposed definitions of billing date and payment date are reasonable, if the shorter due date is used. If an LDC is using a longer period, it may be worth considering whether the payment postmark is always acceptable. For example, an LDC with a 21 day due date and 5 day postal delivery may face considerable cash flow cost. This can be aggravated for customers that reside out-of-province. In these circumstances, it would not be unreasonable for the LDC to place an allowance for postal delivery and thereby place some onus on customers to ensure payment is received in a timely manner.

Q1: There will be cases where greater than 16 days may be needed, for several reasons. This is an area where the LDC should be allowed flexibility to



forego the late payment charge. This latitude is common in all jurisdictions we are aware of.

- Q2: Payment periods longer than 16 days will adversely affect cash flow. LDCs wishing a longer period should be required to justify such in their rate applications, since the result is a burden on all customers.
- Q3: The definition of mailing date should be to treat an email date equivalent to a postmark.
- Q4: To our understanding, many if not most LDCs apply a short grace period to ensure that late charges are not applied inappropriately.
- Q5: Some utilities accept credit card payments, retail money orders (sold at convenience stores) and payments at money marts, although this seems to be more common in the USA.

1.1.2 Allocation of Payments Between Energy and Non-energy Charges

LDCs should have policy latitude in this area, where their specific knowledge may guide the approach to be followed.

However, as a general rule, payments should be applied to energy charges first, unless the LDC is specifically aware that these charges are in dispute.

It is difficult to understand the logic for allowing a customer to switch the energy account to a retailer without first fully closing out all account balances with the LDC. Such an approach would leave LDCs open to gaming of the account by the customer in order to avoid paying for non-energy services. In turn, this would ultimately expose the rest of the LDC's customers to the non-payment risk. Effectively, LDC customers could end up paying for an incentive to poor payment behaviour, in which the beneficiaries would be retailers and non-paying customers.

- Q6: We are not aware of technical limitations in billing systems regarding the allocation of partial payments. All large energy billing systems have provisions for such rules and all utilities have manual processes that are applied whenever the customer's wishes are in doubt. These mechanisms are needed to cover single payment – multiple account situations as well as single account allocation rules.
- Q7: NA, see above
- Q8: Guidance should be provided to the effect that payment must be applied against energy charges first unless the LDC has specific knowledge that the customer is disputing the energy charges. There may need to be a specific guidance to cover the application of a single



payment across multiple accounts, such that all energy charges are credited before non-energy charges are considered.

- Q9: LDCs have traditionally applied payments according to customer wishes, so this should not be a problem. The codicil is that, when transferring an energy account to a retailer, LDCs should fairly be allowed to demand that all charges be cleared.

1.1.3 Correction of Billing Errors

Some general comments may be useful on this issue.

With the exception of customer- caused billing errors, the distributor is the party with the responsibility to meter and bill accurately. Distributors need to have regular meter check procedures to limit the duration of any potential billing errors, as well as to discover and discourage interference by customers with metering and billing. With this in mind, asymmetrical treatment of billing errors in favour of the customer is entirely appropriate.

Secondly, many business customers factor the cost of energy into their decisions in real time; if there are required to retroactively pay more for their energy service than they originally experienced, they have no recourse to adjust the prices they received for their output. This reality can make the customer the victim of a distributor's errors or negligence, while the distributor is held whole.

Lastly, the implementation of smart metering and more complex energy billing for all customers makes it more important that billing errors are reduced to an absolute minimum. It will soon become very difficult to correctly estimate what should have been billed, when rates change seasonally, and vary by both time of day and day of the week.

- Q10: On principle, customers that have been over-billed are entitled to receive a check for the amount, including interest. It is, after all, their money. Practically, this might be available on special request, or as a "negative option" alternative to a credit when the amount is relatively small (i.e., less than two billing periods' worth). However, a principled approach must recognize that the amount in question is the customer's money.

- Q11: Where the under-billing in total is material (i.e., more than 50% of one average billing period amount), it is appropriate that the recovery period should be at least as long as the under-billing period. Aside from minimizing the burden on the customer for a problem not of their making, this process would provide added incentive to distributors to not allow long periods of under billing to occur in the first place. Where under-billing has been due to deliberate action by



the customer, the same principle should apply as suggested in Q9 above; the distributor should be entitled to full and immediate payment, including interest.

- Q12: Please note response to Q 10 above. It is difficult to see why one customer class should be treated differently than another.
- Q13: Allowing the repayment period to stretch out for as long as the under-billing period makes sense, subject to reasonable materiality.
- Q14: The asymmetry in the RSC is entirely appropriate, where the distributor is responsible for the under-billing.
- Q15: Yes.
- Q16: Ontario is a jurisdiction with a variety of billing periods, so a fixed duration for recovery of under-billing may not be appropriate. A workable solution may be to move to a limit of six billing periods for the service in question. This would place an incentive with the distributor to manage metering and billing carefully, while avoiding the pitfalls associated with what might be called “normal” billing errors due to estimated bills. Other than limitations imposed by other statute, there is no reason why customer-induced under-billing should have a period limit.

1.1.4 Equal Billing

Equal or Budget Billing is a value added service that distributors or others may provide (or not), depending on a number of factors. In other jurisdictions, budget billing plans often include features such as gradual true-up or monthly adjustments based on rolling average consumption (Texas) to smooth out variations in consumption or price. A prescriptive approach should be discouraged.

Q17: No.

- Q18: We do not know of any CIS that cannot handle at least simple budget billing.
Distributor cost probably washes out; customer service costs tend to increase during reconciliation, while they likewise tend to be lower the rest of the year.
Cash flow impact depends on the cycle dates; reconciliation can be random or on a fixed date. It should be the responsibility of the distributor to manage a plan that does not negatively impact cash flow over the full year.



Q19: It seems inherently discriminatory for a distributor to deny access to budget billing for the retailer's customers.

1.2 Disconnection for Non-Payment

1.2.1.1 Form and Content of a Disconnection Notice

Q20: Costs for disconnect/reconnect, along with expected delays before reconnect should be included in the notice.

Q21: Yes

Q22: Normally, a separate disconnect notice is preferred to one included with the bill. However in Texas (TXU), a special bill in a special envelope is allowed. The bill containing the notice of potential disconnection is pink, so it is not confused with a regular bill. This option should be open to distributors.

The timing issue is a matter of scheduling and is not a problem for robust billing systems. Off-billing cycle timing is actually a good means of capturing a customer's attention.

Distributor costs should be recoverable through the disconnect-reconnect charge.

Q23: Distributors should be required to make personal contact if at all possible. This should include the requirement for at least one attempt during non-business hours for residential customers.

1.2.2 Timing of a Disconnection Notice

Consistent with the staff suggestion, timing should be a matter of Board – set minimums, rather than hard rules. Aside from scheduling issues, distributors often have specific customer knowledge that may guide the maximum amount of notice a customer needs to avoid disconnection.

Q24: The “7 and 7” suggestion by staff seems appropriate.

Q25: It is hard to see many practical limitations that would be imposed by having a maximum time to disconnect, except for the odd case where the cost to disconnect may be higher due to the scheduling constraint. It is in the interest of the distributor to disconnect as soon as possible, to reduce risk of write-offs.

1.2.3 Recipient of a Disconnection Notice

Q26: The purpose of a disconnection notice is not to enable disconnection, but to avoid it. Avoiding disconnection by receiving payment is in the interest of all, including customers who pay their bills on time. Distributors should be required to ask if a customer wishes third-



party notification and then to notify the third party, if the customer so instructs.

Third part notification does not necessarily need to be by paper. Some billing systems are able to “copy – bill” agencies.

A variation on this problem is tenant notification when landlords fail to pay. Landlords have been known to cease payment in order to effectively make the distributor the eviction agency. Third party notification should be required in such landlord-tenant cases.

1.3 Management of Customer Accounts

The precedent cited of *Duong v. Waterloo North Hydro Inc.* appears to provide the correct guidance in this area. Fundamentally, an account is a contract between two parties and contractual relationships cannot be initiated by one party without either the knowledge or consent of the other.

The Newfoundland and Labrador Hydro approach appears to be a workable means of codifying in contract language the type of arrangements most distributors have traditionally applied or tried to apply.

Landlords cannot be held accountable for a tenant’s arrears. Distributors have other mechanisms to guard against skip losses, as do landlords.

Q27: There may be several possible consequences of a disconnection that is not known to the landlord, including flooding in springtime, theft from loss of security systems, fouling of pools and spas, etc.

Q28: A contract with the property owner should be the basis for continuity of service.

Q29: No. Given the cited precedent, it seems doubtful the Board has the latitude to approve such an action.

Q30: This is a very difficult question, where privacy meets prudence. As a general minimum, the distributor should require enough information to support a credit check of the person opening the account. If the credit check is suspect, more should be required.

PART II: EVALUATION AND RECLASSIFICATION OF CUSTOMERS

2.1 Definition of Demand

2.1.2 Use of Billing Demand



This section is best addressed by first understanding why kVA is used in many jurisdictions. Basically, low power factors result in reduced efficiency of the power system. The example provided for transformers is because, at a physical level, transformers convert kVA to kVA, changing the ratio of current and voltage. The lower the power factor, the less kW a transformer can process and the higher the losses incurred by the unit. This reality pervades the power system and includes lines, motors, etc.

So, if customer usage is to be driven by a charge determinant that reflects the actual use of the system, kVA is technically the correct measure to use, and kW should be viewed as an approximation that is useful most of the time.

The use of “kW or 90%kVA” formulae derive from the fact that it is generally economic to engineer an end use application up to a 90% power factor, but overly expensive (and sometimes risky) to move beyond 90%.

- Q31: The use of kW or 90% kVA for light industrial loads over 200kW makes sense, and all loads over 500kW. Use of a 100% PF is not appropriate. While it provides a mathematically correct way of setting a charge determinant, it places large loads on a different footing from smaller loads. Most small loads (commercial, residential, etc.) have PFs around 90% or slightly better and are implicitly billed on this assumption.
- Q32: No. Billing only on kW would remove the incentive for loads with low power factors to improve. Power factor correction is usually most economic when applied as close to the load as possible, so using only kW would uneconomically push the need for correction to the distributor/transmitter.
- Q34: Customers with power factor issues should already be aware of the problem: low power factor also causes problems for customer equipment. However, providing a customer with the opportunity to correct power factor before being reclassified makes good sense. If a customer is made aware of the problem by reclassification and then proceeds to raise its power factor so that kW demand drops below the class boundary, a second reclassification would be justified. Better to give the customer a chance for remediation first, to avoid reclassification.

2.1.2 Periodicity of the Calculation of Demand for Rate Classification Purposes

This problem is perhaps more complex than the staff discussion suggests. On principle, the measurement of demand should provide a reliable indication of how the customer uses distribution system assets; in short, demand measurement should be a measurement of cost causality.

Most distribution and transmission system components have relatively long thermal time constants. These components are ultimately limited in rating by their ability to absorb and dissipate heat without loss of service life. This characteristic also means that system load ratings are highest in cold weather and lowest in hot weather.



Most equipment can handle moderate temporary overloads (i.e., loading above nominal steady state rating) for about an hour. To this end, a peak demand measurement period of one hour is appropriate for relatively large transformers and conductors. A shorter period may also work if summer peaks are most important, but 5 minutes is likely too short.

For most intermediate and large use customers, annual average monthly demand (hour) should be a good and workable indicator of system use and therefore also of rate classification.

However, there should also be consideration of the differences between types of loads. For example, industrial customers with significant energy usage tend to exhibit fairly high load factors year-round, while commercial and MUSH loads may exhibit higher monthly demand in the summer, when most distribution systems in Ontario are likely to be highly stressed.

There are also a few examples of large loads with low average monthly demand but with very high annual peaks. Ski resorts fall into this category when snow making is at its peak in December and January and gravel pits may peak in summer with very low demand in winter.

Q35: Using only average monthly demand may provide seasonal loads such as ski hills or gravel pits with demand estimations that are too low. It may also underestimate the cost causality for loads that are highest when systems are least able to handle them (e.g., if a high proportion of load is for space cooling).

The optimum solution may be to determine the average monthly demand during the distributor's four or five peak months of the year. For Hydro One, some geographical deconstruction of system peaks may be required, given the extent of its service territory.

2.2 Classification and Reclassification of Consumers to Classes

2.2.1 Assignment of New Consumers to Classes

The staff discussion provides a good description of the issues and problems involved. However, it is not clear that the need for codifying a specific practice has been established.

Q36: Codifying a standard of 80% of service size may be correct on average, but the exceptions may drive significant under or over-investment in assets. Service size can be a poor indicator of actual load, especially in those cases where a customer's electrical contractor does not have a good understanding of the way in which equipment will be used. Many services are designed for "worst case" situations, and designed by well over the 25% margin suggested by such a rule.

Expected billing demand characteristics are the better guide, since they require some actual study and analysis of energy use, not equipment capacity.



In the end, if the customer is made aware of the consequences of making a wrong estimate, the result is most likely to be a useful guide for the distributor.

- Q37: Classification on the basis of 80% of service size is a poor guide. If it were applied to residential customers where contributed capital is less common, the result would be very inefficient use of distributor assets. Even if customer diversity is unavailable, sizing to 80% will generally result in an inefficient use of assets and higher than necessary electrical losses and life cycle asset cost into the future. Recovering the cost of an oversized asset does not turn bad design into good; it just leaves the distributor whole while the customer over-pays. The solution for the sizing problem is for customers to be fully informed of the consequences of their estimates on both present and future costs and for the distributor to engage the customer openly on the issue.

2.2.2 Evaluation and Reclassification of Existing Customers

Fundamentally, the fact that boundary issues are important is an indication that current rate designs and cost allocation are insufficient to correctly charge customers according to their use of the distribution system. In turn, this likely derives at least in part from having significantly different charge determinants for different classes.

One of the best ways to address the boundary issue would be to more faithfully set charge determinants based on cost causality. As an example of the issue, one need only look at the fixed charges applied to different customer classes within a single distributor, and to the different fixed charges for the same class in different distributors. Until these issues are sorted out, the best that can be done is to mitigate the number of boundary changes customers are exposed to.

- Q38: Limiting classification changes to one per year for the distributor and one per year for the customer makes sense.
- Q39: Using a 12 month average billing demand will reduce but not eliminate reclassifications. Also, it will not adequately address demand patterns with high seasonality.
- Q40: It should not be necessary to notify all customers in advance of reclassification. This should normally only be necessary when the impact is upwards or significant. For example, changing residential customers from low to high density should not require advance notice.
- Q41: It may be hard to define abnormal. Perhaps the best strategy is to provide distributors some flexibility in determining an abnormal condition. Customers always have recourse to complain to the Board.

PART III: MANAGEMENT OF CUSTOMER NON-PAYMENT RISK



Management of non-payment risk for large customers should not be confused with managing the risk that the customer will cease to be a customer of the distributor. In all discussions, this distinction must be maintained.

Q42: Accelerated billing should be one of the options a distributor can use where there is legitimate concern for non-payment. This alternative does not need to be limited to very high value customers. However, customers should have other options available should this be unattractive from their perspective. Supplier risk may also be mitigated by providing increased surety or by the customer becoming a wholesale market participant and providing prudentials to the IESO.

PART IV: Next Steps

Staff has done an excellent job of highlighting the issues in this area and any of the options for addressing them. AMPCO looks forward to continued involvement in this process.

Prepared for AMPCO by:

A handwritten signature in black ink, appearing to read "C. W. Clark", is positioned above the printed name.

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