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October 9, 2014

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

Dear Ms. Walli:

Re: EB-2014-0198 – Policy Review of Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance - Written Comments of the London Property Management Association

I. Introduction

The Ontario Energy Board ("Board") released a Draft Report of the Board on the Residential Billing Practices and Performance of Electricity and Natural Gas Distributors ("Draft Report") on September 18, 2014.

The Draft Report provided an analysis of the billing practices of the natural gas and electricity distributors in Ontario, including billing frequency and the use of estimated billing.

The Board issued a letter on June 27, 2014 announcing the commencement of a policy review of the natural gas and electricity distributors' residential customer billing practices and performance. In that letter the Board indicated that it was increasingly focusing on ensuring that households and small businesses are well served by their distributor and provided with improved customer billing service to help them manage their energy costs.

These comments are provided on behalf of the London Property Management Association ("LPMA") and are divided into two sections. Section II includes general comments on billing practices. Responses to the questions posed in the Draft Report are provided in Section III.

II. General Comments

a) Monthly Bills Preferred - If There is Value for the Money

LPMA believes that customers would prefer to receive monthly bills as compared to bi-monthly bills. This is because customers find it easier to manage their cash flow with monthly bills that are smaller than bi-monthly bills.

However, this preference is based on no material increase in costs in order to receive a monthly bill. Customers want value for their money but the value associated with monthly billing as compared to bi-monthly billing is quickly eroded if there is a net increase in costs associated with providing monthly billing.

b) GS < 50 kW Customers, Not Just Residential

LPMA is concerned that the Draft Report appears to be focused only on residential customers, when the original September 18, 2014 indicated that the Board was increasingly focusing on ensuring that households and small businesses are well served by their distributors and provided with improved customer billing to help manage their energy costs. LPMA notes that many distributors that bill their residential rate class on a bi-monthly basis also bill the GS < 50 kW customers on a bi-monthly basis. LPMA assumes that the recommendations that result from this policy review will also apply to these customers. If not, they should.

c) e-Billing and Costs

LPMA supports the emphasis on e-billing as a concrete way of reducing costs. However, the Board does not appear to have reliable information on the cost differential between billing costs associated with standard billing (printing, mailing, etc.) and e-billing. LPMA submits that this information would be extremely useful and could be used to encourage more customers to move to e-billing.

Many companies already charge a fee for a paper invoice or offer a discount for an electronic invoice. LPMA submits that currently customers that receive an electronic invoice are subsidizing the cost associated with those customers that receive a paper copy.

It is submitted that this subsidization should be ended, either through a charge for a paper bill or a discount for an electronic bill. Knowing the differential in costs between these options would enable distributors to provide a tangible cost or benefit to customers to encourage them to switch to electronic billing.

This again relates to customers receiving value for their money. Those that value receiving a paper bill would pay for it (through a fee or through no discount), while those that value less paper and/or a reduction in their costs more (fee avoidance or receiving the discount) would opt for the electronic option.

<u>d) e-Billing Options</u>

LPMA notes that there are a number of ways that customers can receive an electronic invoice. There are two primary ways that customers get an electronic invoice. The first is the receipt of an e-mail from the distributor advising that a copy of the invoice is now available on the distributors website and the customer can log in through their account and access their invoice. The second is receiving a copy of the invoice attached to the e-mail from the distributor (usually a PDF file).

LPMA submits that customers should have the option of which option they want to choose. Many customers do not want to be burdened with yet another account and password that they have to remember in order to access their bills. This is a disincentive for them to move to e-billing.

Further there is unease on the part of many residential and small business customers with respect to the security of information. Recent revelations concerning data systems that were breached at Home Depot, Target and others also give pause to customers.

<u>e) Timely Information About Energy Usage</u>

LPMA notes that one of the objectives is to assist customers in better understanding their energy consumption so that they can manage that consumption and control their costs. LPMA submits that moving customers from bi-monthly to monthly billing is not likely to accomplish this.

While moving to monthly billing is a step in the right direction, the lag between the meter is read and the customer receives their bill will not change because of this change.

With bi-monthly billing, the billing period is roughly 60 days long. The billing lag from when the meter is read to when the customer receives the invoice from an electricity distributor is typically more than 30 days. This means that the customer has trouble remembering why his or her consumption may have been high that far back (60 to 90 days).

Moving to monthly billing will reduce the billing period to roughly 30 days, but with the same 30 plus days in receiving the billing, the customer will be looking at consumption that occurred between 30 and 60 days. Again, it is unlikely that the customer is going to remember what circumstances that may have existed that influenced their consumption that far back.

This is unlike the gas industry, where the lag between the meter read and when the customer receives their bill is typically in the 6 to 10 day range.

LPMA submits that the Board should investigate how to decrease the billing lag in order to get invoices to customers in a more timely basis.   This would involve an investigation into why it takes so long for the billing data to be verified by the various parties involved in the process before an invoice can be issued.

f) Working Capital Allowance ("WCA") Policy

LPMA strongly submits that before the Board mandates all distributors to move to monthly billing, it needs to correct its working capital policy, which for regulatory efficiency is currently a default of 13% and is clearly not applicable to distributors that bill all of their customers monthly.

The reduction in the WCA percentage is the largest cost saving area available to ratepayers as the result of monthly billing and is often large enough to offset, or nearly offset, the increased costs associated with monthly billing.

The Board's current policy with respect to the WCA was set out in the letter issued on April 12, 2012, where the Board indicated that the default percentage for 2013 and subsequent filing would be 13%. The policy also indicated that distributors would have the option of completing and filing a lead/lag study as part of a cost of service rate application for determination by the Board. Unfortunately, that letter was based on lead/lag studies that had been filed at that point in time. The unfortunate part was that all of the studies were from distributors that billed a significant proportion of their customers on a bi-monthly basis.

In setting a default of 13% the Board failed to recognize and take into consideration the substantial impact of monthly billing as compared to bi-monthly billing on the WCA percentage. The service lag associated with customers billed on a monthly basis is 15.21

days (365 divided by 12, divided by 2) while the service lag associated with customers billed on a bi-monthly basis is twice this figure, or 30.42 days (365 divided by 6 divided by 2). The difference of 15.21 days, when divided by 365 days in a year results in a difference of more than 4 percentage points in the appropriate WCA percentage.

On October 18, 2012, the Board released the Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE") in which it found that rate setting should be based on an outcome based approach. The Board further indicated that the following four outcomes were appropriate:

* Customer Focus: services are provided in a manner that responds to identified customer preferences;
* Operation Effectiveness: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;
* Public Policy Responsiveness: utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and
* Financial Performance: financial viability is maintained and savings from operational effectiveness are sustainable.

LPMA submits that the RRFE puts the onus on distributors to complete a lead/lag study in order to comply with the outcomes based approach. Using a default value, with no evidence to support it, violates each of the four outcomes noted above.

Custom focus requires distributors to provide services (e.g. monthly billing) that responds to customer preferences. As noted earlier, customers prefer monthly bills, but only if the cost reductions are properly reflected in those bills. The use of an outdated, and arguably incorrect default violates this outcome.

Operational effectiveness requires continuous improvement in productivity and cost performance. This is not being passed onto customers if the reduced costs associated with the improved cash flow that results from monthly billing is not reflected in rates.

LPMA notes that it is common knowledge that the Ministry of Energy has suggested for years that distributors should move to monthly billing. LPMA does not believe that the Ministry would suggest this without passing on all the benefits to ratepayers, including the cash flow benefits.

Finally, with respect to financial performance, LPMA notes that the changes in cash flow from monthly billing are sustainable, and these benefits should be passed on to ratepayers at the time of a cost of service proceeding. To do otherwise cannot result in just and reasonable rates.

LPMA submits that the Board should initiate a consultative that includes distributors, Board Staff and intervenors to review the working capital allowance methodology and calculations. LPMA is aware that distributors are concerned with the potential cost of doing lead/lag studies. However, LPMA submits that distributors should be able to do their own lead/lag studies, since all of the information is already available to them through their billing and accounting systems. A lead/lag study simply tracks the time between when a service is provided or received and when payment is received or made for it.

This consultative could highlight best practices in terms of billing systems, billing lags, billing accuracy, collection times, and so on. LPMA notes that based on recent lead/lag filings in a number of cost of service rebasing applications, there is considerable variability in some components of the leads and lags between distributors.

If needed, the consultative could result in Board Staff or a third party leading a workshop or workshops where the distributors are shown how a lead/lag study can be completed internally at little incremental cost.

III. Comments on Questions

4.2.1 For the electricity distributors that do not offer monthly billing, what are the barriers faced in meeting the Board's goal of having all residential customers moved to monthly billing by January 1, 2016? What are the offsetting benefits such as reduced costs?

As noted above, LPMA believes that customers would prefer monthly bills as compared to bi-monthly bills. This is primarily due to the enhanced ability of customers to deal with smaller monthly bills than higher bi-monthly bills. This is especially true over a hot summer for those customers with an air conditioning load and over a cold winter for those customers with an electric heating load.

However, the value of monthly bills quickly disappears if there is a material increase in the total cost paid for by customers in order to receive monthly bills. With the recent increase in postage rates, this cost alone has become material.

LPMA notes that in many circumstances, the increased costs associated with moving to monthly billing, such as postage, envelopes, printing, etc.) are, for the most part, offset by reductions in collection expenses, bad debt, call handling, and most importantly, the reduction in the working capital allowance that results from moving to monthly billing.

Without this reduction in the working capital allowance, customers end up paying more for monthly billing, while the distributors are over compensated with an overly generous working capital allowance that does not reflect their cash flow requirements.

LPMA notes that the Board has indicated that it will consider whether amendments are warranted to its working capital allowance policy. LPMA submits that the Board should review this policy immediately, as a number of distributors that already bill all their customers on a monthly basis continue to use the default level of 13% of the cost of power and controllable expenses. This level is clearly wrong and does not reflect the true cash flow costs for those distributors. This results in customers paying more than just and reasonable rates.

LPMA strongly recommends that if the Board wants to move the remaining distributors that currently do not bill all of their customers on a monthly basis to do so by January 1, 2016, then it should revise its current working capital policy before this date so that the customers of these distributors, and indeed, the customers of those distributors that already bill monthly, receive the appropriate value associated with savings in cash flow costs that accompany monthly billing.

4.2.2 Should seasonal customers also be billed on a monthly basis? What are the barriers to moving to monthly billing? What are the offsetting benefits such as reduced costs?

LPMA believes that seasonal customers should also be billed on a monthly basis. LPMA does not see any reason to bill these customers less frequently than residential customers, or for that matter, street lighting, sentinel lighting or USL customers. A major cost of leaving these seasonal customers billed on a bi-monthly or quarterly basis is the increase in the working capital allowance that results. Ultimately, all ratepayers pay for this increase in cost. Should the Board determine that seasonal customers should not be moved to a monthly billing basis, then LPMA submits that the additional cost associated with this should be allocated to the seasonal class and not be paid for by other customer classes that are billed monthly.

LPMA submits that the barriers to moving to monthly billing and the offsetting benefits such as reduced costs are similar to those noted in the previous question for residential customers.

4.4.1 Are there circumstances that should be considered as exceptions to the requirement for all residential consumers to receive bills based on actual meter reads?

LPMA believes that there should be limited circumstances that should be considered as exceptions to the requirement for all residential customers to receive bills based on actual meter reads. These circumstances would be limited to technical problems receiving data from meters or where the data is considered unreliable.

With the implementation of smart meters, bills should be based on accurate actual consumption rather than estimated consumption. Estimated consumption should only be utilized where actual data is unavailable or not considered reliable.

4.4.2 Are there any barriers to moving to eliminate estimated billing? Are these offset by any benefits?

It is expected that any barriers to moving to eliminate estimated billing would result in additional costs for distributors. At the same time, however, there would likely be reduced costs in having to estimate consumption. LPMA is not aware of any studies undertaken that would indicate the cost using estimated billing as compared to billing based on actual consumption. The costs of billing based on estimates would include the cost of preparing estimations that were reasonable, the resulting true up to actual consumption when it is available and the time associated with dealing with customer calls and complaints associated with estimated consumption figures that are disputed by those customers.

4.4.3 For those limited circumstances where an estimated bill may be required, what is the appropriate methodology to be used in estimating the data?

In those limited circumstances where an estimated bill may still be required, LPMA submits that an appropriate methodology is one that is accurate as possible, without generating any significant cost to implement. This may include comparisons to the previous billing period or to the same billing period in the previous year. An adjustment for weather differences may be warranted in those months where consumption is dependent on heating or cooling degree days. A comparison to neighbouring accounts relative to the previous billing period or the same billing period in the previous year may also be appropriate in order to estimate bills.

4.4.4 Should the policy establish a similar measure to that in the GDAR (<0.5% of meters with no read for 4 consecutive months)? If so, what should this measure be and should there be a disincentive for not meeting the measure?

While LPMA supports the current GDAR measure for gas distributors of less than 0.5% of meters with no read for 4 consecutive months, LPMA believes that the measure for the electricity distributors should be less than this. This is because the deployment of smart meters has resulted in the near elimination of the need for manual meter reads (with the exception of faulty meters). This reduces the number of meters that are not read based on weather or lack of access to the meters.

LPMA believes that a similar measure as to that in GDAR for the gas distributors is appropriate, and suggests that a level of less than 0.5% of meters with no read for 2 consecutive months would be appropriate. This could be phased in over 2 or 3 years, beginning with the same measure as for the gas distributors (less than 0.5% with no read for 4 months) and reducing the number of months to 3 and then to 2 over 2 or 3 years as the distributors track this measure and implement, if necessary, changes to their billing to ensure compliance.

Sincerely,

Randy Aiken

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