August 17, 2018

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

**via RESS and Courier**

Dear Ms. Walli:

**Re: Review of Miscellaneous Rates and Charges – Energy Retailer Service Charges EB-2015-0304**

On July 19, 2018, the Ontario Energy Board ("OEB" or the "Board") issued a Draft Report of the Board, *Energy Retailer Services Charges* (the "Draft Report") for comment on the review of energy retailer service charges ("RSCs") as part of the second phase of the miscellaneous rates and charges consultation.

The Coalition of Large Distributors ("CLD") is pleased to offer comments on these discussion questions. The CLD consists of Alectra Utilities Corporation, Hydro One Networks Inc., Hydro Ottawa Limited, Toronto Hydro-Electric System Limited ("THESL"), and Veridian Connections Inc.

## A. SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

1. The CLD supports the extensive consultation work undertaken by the OEB and the working group in the interest of reviewing RSCs.

2. The CLD supports the OEB and working group's recommendation to double electricity RSCs in order to address the under-recovery of costs in the current model.

3. The CLD supports the establishment of a new charge ($2.00) for distributors to recover the cost of sending out notice of switch letters. However, the CLD is of the view that this should be an optional charge where distributors can decide whether or not it should be implemented.

4. The CLD does not support the immediate elimination of the existing Retail Service Cost Variance Accounts ("RCVAs"). Distributors should be allowed to continue to track revenues and costs in the existing RCVAs until rebasing.

5. The CLD recommends that distributors be allowed to continue to utilize the existing RCVAs to track the increase in the electricity RSCs, in place of a new variance account. Distributors without RCVAs would be required to use the new variance accounts.

6. The CLD supports the ongoing review of RSCs and the implementation of an inflationary annual adjustment to energy RSCs.

## B. BACKGROUND

By letter dated November 5, 2015, the OEB initiated a comprehensive policy review of the miscellaneous rates and charges applied by electricity distributors for specific services they provide. On May 31, 2017, the OEB issued a letter advising that the next phase of the review would address electricity distributor RSCs. The OEB also announced that the review would examine the establishment of a new service charge for electricity and natural gas distributors to recover the transactional cost of sending a notice of switch letter to low volume customers who have signed a contract with an energy retailer. The requirement to send a notice of switch letter came into effect on July 1, 2017.

During the consultation, working group members and electricity distributors were asked to provide the costs incurred for providing services to retailers for 2016. This data demonstrated an under-recovery of approximately $1.6MM, which represents approximately 60% of the total costs incurred to provide services to retailers. Based on the working group discussions and cost analysis, the OEB intends to double current RSCs (with the exception of the one-time Retail Service Agreement charge). The OEB will also be implementing inflationary annual adjustments to minimize the difference between revenues and actual costs increasing going forward.

At this time, the OEB is soliciting industry comments on the Draft Report.

## C. COMMENTS – GENERAL

### i. Support for Consultation Process

The CLD would like to express its support for the work done by the working group and by the OEB on this file. Hydro Ottawa, Veridian Connections and Hydro One were members of the working group and provided feedback on the OEB's proposals throughout the consultation process.

## D. COMMENTS – SPECIFIC

### i) Rates and Costs

*Retailer Service Charges*

The CLD notes the OEB's responsiveness to the concerns distributors have expressed in regards to RSCs. Previously, distributors have outlined concerns in regards to the costs they bear related to supporting retailer activities. While doubling the RSC is an appreciated step in the right direction, it does not fully address the costs borne to support retailers and keep distributors whole. The CLD supports a continuous review of RSCs and acknowledges that the application of the OEB's inflation factor will ensure that charges are kept up to date.

The OEB is seeking to implement a new charge of $2.00 for distributors to recover the cost of sending out notice of switch letters. Currently, CLD members send out approximately 3,208 of notice of switch letters on an annual basis.

While the CLD is of the view that distributors should be able to recover the costs of these letters, the OEB should consider making this an optional charge. For some distributors, the cost of repurposing a currently unused charge through their Electronic Business Transaction ("EBT") system or linking the issuance of a letter to the proposed charge might exceed the costs of mailing out the letters without any subsequent cost recovery. To this end, the charge could be made available to those who wish to use it.

If the proposed inflationary adjustment is implemented, RSCs would join base distribution rates and wireline rates as becoming a function of the OEB's inflation factor. To facilitate accurate rates implementation, the CLD emphasizes the need to have the inflation factor for the coming year established and communicated well in advance of a January 1 effective date. Confirmation of the annual inflation factor prior to November 1 would be welcome.

### ii) Regulatory Accounting

*Elimination of RCVAs and Establishment of a New Variance Account*

The Draft Report identifies the creation of a new variance account to track the incremental revenues received as part of these new RSCs, with the closing balance ultimately refunded to customers through future rate applications. The CLD recommends that the existing RCVAs be allowed to be maintained and used to track the incremental revenues in place of a new variance account. Local Distribution Companies ("LDC") that no longer use the current RCVAs would be required to use the new variance accounts.

The purpose of the existing RCVAs is to record the difference between the approved RSCs and the actual costs of providing these services. The proposed increase in the RSCs is intended to address the under-recovery of costs associated with providing services to electricity retailers. The CLD is of the view that if the OEB replaces the existing RCVAs with a new variance account that only tracks the incremental revenues from the RSC increase, it is the CLD's understanding that this variance account would not actually address the under-recovery of costs, as all of the incremental revenues recorded within it would ultimately all be paid back to ratepayers. The CLD proposes that distributors continue to track the higher RSCs in the existing accounts against actual costs incurred to provide these services until they next rebase. LDCs would dispose of any over or under recovery in future rate applications. For utilities without RCVAs (i.e., Hydro Ottawa and Toronto Hydro), new variance accounts would be required.

**iii) Implementation**

Hydro Ottawa charges LDC specific RSCs. Hydro Ottawa seeks clarification that it should charge the new LDC generic RSCs when they become effective in 2019. In addition, Hydro Ottawa will record the difference in a variance account between its LDC specific rates and the new effective rates.

**iv) Accounting Details**

In the Draft Report, the OEB directs LDCs to track incremental revenue by rate class. The Accounting Procedures Handbook ("APH") for Account 1518 and Account 1548 requires revenues and costs to be recorded by transaction type. Some LDCs may have difficulty tracking revenues by rate class as revenue transactions relate to retailers rather than retailer customers.

In order to avoid system implementation costs, the CLD request that the incremental revenue be allocated in the same manner that Account 1518 and Account 1548 are cleared. Alternatively, the Deferral and Variance Account Work Form could be modified to allocate balances based on the forecasted retail customers, which is a proxy for tracking rate class revenue.

## E. CONCLUSION

The CLD appreciates the opportunity to provide comments on the Draft Report, and respectfully requests that any subsequent action taken by OEB be consistent with the comments set forth herein.

If you have any questions with respect to the above, please contact the undersigned.

Sincerely,

*Original signed by Indy J. Butany-DeSouza*

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