The Electricity Distributors Association's (EDA, the Association) specific comments are organized under the following major headings:

- General
- Rates and Rate Making
- Regulatory Accounting
- Process

General Comments

We support the Ontario Energy Board's (OEB) ongoing efforts to update its currently authorized Specific Service Charges (SSC), including Retailer Service Charges (RSC). The EDA's comments on the OEB's proposals, including the proposed doubling of currently authorized RSCs and the proposed new RSC for the Switch Letter (SL), are set out in greater detail below.

We note that these changes will need to be analyzed and reviewed to ensure that they result in charges that recover the costs incurred rather than continuing – or possibly exacerbating - today's cross-subsidization. Similarly, the proposed annual adjustment for inflation will need to be reviewed and analyzed for whether it appropriately or partially updates the RSCs to levels that recover the costs incurred. The OEB's principled approach can serve as a framework to guide the ongoing evolution and assessment of authorized RSCs. It will be important for this evolution to be accompanied with flexibility so that unintended outcomes can be avoided (i.e. so that the costs that will be incurred do not exceed the anticipated benefits that will be realized). We wish to note that when the RSCs were first authorized in 2002, there was neither the knowledge nor the ability to anticipate how costly it would ultimately be for LDCs to fulfill their role in the provision of retail supply.

We look forward to learning the OEB's proposed processes and timelines for the next steps and, in particular, the issuance of key orders.

Rates and Rate Making

The EDA supports the proposed doubling of the currently authorized RSCs and considers it an acceptable first adjustment. It is characterized as a "first adjustment" because on its own, and without any further adjustment, it may not result in RSCs that overcome the cross-subsidization that currently exists. The Association's observations about undue cross-subsidization are best demonstrated in Appendix D to the Board's Draft Report.

The EDA also supports the proposal to annually adjust the Board authorized RSCs. Inflation is one of the many cost drivers impacting RSCs and the inclusion of Commodity related Bad Debt expense (discussed further below) is one example of a line item that changes for reasons other than inflation. It is also anticipated that the level of the RSCs will be impacted by changes in the charge parameter. LDCs have long experienced customer migration from retail supply to the Regulated Price Plan (RPP). This migration impacts the LDC's ability to recover its fixed costs. Since most customers are migrating from retail supply, the result is the upward averaging of costs. If the RSCs are adjusted for inflation exclusively, the undue cross-subsidization between retailer supplied customers and RPP customers will inevitably worsen.

The proposed Switch Letter (SL) RSC is welcomed. It had been sought when the OEB's Retail Settlement Code was originally amended to require that the SL be provided to customers. We wish to note that incorporating the charging of the SL RSC into LDC's internal processes may give rise to costs that exceed the revenues to be recovered. For example, if an LDC issues so few SLs that the annual incremental revenue generated by the SL RSC is expected to be less than $1,000 it is considered unlikely that the LDC would be able to recover the costs incurred (e.g., costs to process the charges). As well, the OEB's design of the SL RSC appears to be supported by marginal costs or incremental costs, rather than Fully Allocated Costs. For all these practical reasons we suggest that the OEB permit LDCs to use their discretion as to whether they levy the SL RSC where the authorized discretion is either:

- to apply the SL RSC to all eligible customers, or
- not to apply the SL RSC to any customers.

The issue of the recovery of Commodity related Bad Debt expense through OEB authorized RSCs engages the adequacy of the proposed doubling of the RSCs; the appropriateness of the proposed retirement of the Retailer Service Cost Variance Accounts (RCVA); the appropriateness of the proposed annual adjustment for inflation (discussed above); and the appropriateness of the proposed deferral account for recording incremental revenues. For reasons of symmetry, the EDA proposes that the OEB redesign the RCVA to track both the incremental revenues as well as the incremental costs, i.e. those that result from the reclassification of Commodity related Bad Debt expense. If there is merit in tracking the incremental revenues so that they can be disposed of fairly, then there is also merit in tracking the incremental costs to be recovered through the adjusted RSCs so that they too can be disposed of fairly. Accounting for Commodity related Bad Debt in this manner is expected to improve cost causality, especially during the period when the Moratorium against Disconnections is operating.

We are concerned that the Draft Report appears to treat the balance recorded in the RCVA as though it were a Revenue Offset. Revenue Offsets are amounts recovered through the application of SSCs that recover the costs incurred to provide a specific service to an identifiable group of customers through the general resources of the LDC. The RCVA is a variance account that records the difference between the costs incurred to provide retailer services and the amounts recovered through RSCs. It is confusing to inappropriately equate the temporary funding of the RCVA balance through amounts recovered by distribution rates with Revenue Offsets. Appendix D to the OEB's Draft Report clearly sets out that the currently authorized RSCs under-recover the costs incurred to provide retailer services and that the ensuing debit balances ought to be recovered from retail supply customers. The OEB's traditional disposition of the balance is considered a simplifying assumption, and not adequate grounds to support treating the variance as a Revenue Offset.

Regulatory Accounting

The Association notes that the RCVA is the mechanism that addresses the recovery of costs not recovered through currently authorized distribution rates. It achieves a level of transparency and is a demonstration of consumer protection, as it supports testing for undue cross-subsidization. It is sufficiently flexible to record additional data, able to support achieving cost causality at the time of disposition, and continuing the account is administratively simpler than the proposed generic retirement and concurrent authorization of a new deferral account.

This may be the first instance of the OEB proposing to retire an account on a generic basis. We wish to point out the benefit of coordinating the account's retirement concurrent with rebasing rates facilitates the ongoing recovery of these costs through an orderly process. We note the OEB's rationale for retiring the RCVA is that adequate familiarity exists. However, LDCs will achieve familiarity with the proposed changes set out in the OEB's Draft Report, individually and in combination, in a future period. Consider, for example, an LDC whose retailer costs are 3 or 4 times the amount recovered through currently authorized RSCs. Under the OEB's proposed changes such an LDC will concurrently be expected to:

- recover Commodity based Bad Debt expense through the RSCs
- administer the generic SL RSC
- no longer be able to test for undue cross-subsidization, and
- defer the incremental revenues to be recovered through the generically adjusted RSCs until it seeks to rebase its rates.

In combination, this LDC may charge RSCs that result in undue cross-subsidization which is neither fair to its retail supply customers nor to its non-retail supplied customers. Furthermore, if the LDC's financial management is premised on the assumption that the RCVA will be administered by the OEB in a manner that keeps the LDC financially whole the LDC may experience changed or increased financial risks.

The OEB's Accounting Procedures Handbook describes that the costs incurred by LDCs related to retailers are to be recorded in accounts 5305, 5315 and 5340. If the OEB proceeds to retire the RCVA the subject costs will remain in these accounts and the balances will be allocated through the Cost Allocation model to eligible customer classes. This will result in the socialization of retailer costs across all eligible customers. The EDA seeks an explicit acknowledgement from the OEB of this outcome.

While we do not perceive a compelling reason to generically retire the RCVA, we note that LDCs employ a range of practices including:

- having filed evidence in support of requests for OEB orders authorizing them to retire their RCVA and been granted the requested orders
- ceasing to populate the account
- relying on other accounting and rate making strategies and practices.

Out of a concern that generically retiring the RCVA may be premature or may negatively impact some LDCs, we suggest that the OEB permit LDCs to use discretion as to whether they retire the RCVA or continue to rely on it until adequate familiarity exists with respect to the proposed changes, and there is an alternate source of transparent data that can be used to analyze whether the RSCs are free of undue cross-subsidization.

Aside from the proposal to defer incremental revenues, the EDA observes that the OEB's Draft Report proposes that LDCs track the recovered incremental revenues on a customer class basis. While we do not anticipate any administrative issues with accurately tracking these amounts, we acknowledge that doing so will require changes to administrative processes that will result in costs. We also note that the OEB's workbooks that support disposing of these balances through rates are designed to allocate responsibility across eligible customer classes and do not permit class specific assignment of responsibility.

The EDA proposes that the OEB provide accounting direction on the inclusion of Commodity related Bad Debt expenses in the costs eligible for recovery through RSCs and on the accounting methodology to be used to compute incremental revenues for the purposes of determining the amounts to be recorded in the RCVA. On the former point, we note that Appendix D of the OEB's Draft Report shows that 2 of the 5 LDCs were accounting for this cost and 3 were not. On the latter point, we note that there are alternate methodologies. The requested regulatory accounting guidance is expected to result in improved standardization and to achieve cost causality.

Process Issues

LDCs look forward to learning the OEB's plan for the next stage of its SSC review and for how to appropriately incorporate the findings of this generic proceeding into each LDC's rates (e.g. accommodating LDCs whose Settlement Agreements include specific commitments related to SSCs).

Conclusion

The proposals as set out in the Draft Report are a good first step in the renewal of the OEB authorized RSCs. The concerns raised herein do not take away from our general support of the Draft Report.