Whitby Hydro Electric Corporation

August 17, 2018

<u>BY RESS/COURIER</u>

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
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Dear Ms. Walli,

RE: Review of Miscellaneous Rates and Charges
Energy Retailer Service Charges EB- 2015-0304

Whitby Hydro Electric Corporation ("Whitby Hydro") has reviewed the Draft Report of the Ontario Energy Board's ("OEB") on Energy Retailer Service Charges (the "Draft Report") and offers the following comments:

<u>Section 3:</u>

A. Guiding Principle – Whitby Hydro agrees with the principles outlined.

B. Province-Wide vs. Distributor Specific Service Charges – Whitby Hydro agrees with the OEB's approach of establishing default charges and allowing electricity distributors to have the ability to apply for distributor specific rates at the time of rebasing.

C. Costing Methodology and Cost Elements – Whitby Hydro agrees that a fully allocated costing methodology seems appropriate and that the concept that electricity retailer service charges ("RSC") should incorporate a commodity related bad debt expense is valid. However, Whitby Hydro notes that segregating actual commodity related bad debt expense associated with retailer customers is not currently done and there is some concern that doing so may involve manual effort which needs to be weighed against the value of doing so versus the risk of cross-subsidization.

D. Adjustment Mechanism – Whitby Hydro believes that an annual adjustment based on inflation (with no offset for productivity) appears to be reasonable but advises that this approach does not address certain costs which may increase for reasons other than inflation. As a result, the symmetry of revenue and costs is not necessarily assured. Continued periodic reviews of the RSC should take place on a generic basis to ensure any on-going changes in costs are considered for future adjustments to RSCs, however, this type of review may become more difficult if RCVAs are abandoned.

E. Electricity Distributor Retail Service Cost Variance Accounts ("RCVA") – Whitby Hydro recognizes that the elimination of existing RCVAs may result is a reduction in

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administrative effort (tracking, variance entries, disposition, etc.) and that sufficient time has passed to understand the appropriateness of approved rates. It is unclear whether the proposed change (doubling) of RSCs will sufficiently offset costs and it should be acknowledged that some cross subsidization may continue in the future.

More importantly, while Whitby Hydro is not opposed to the eventual elimination of RCVAs, it believes that it is critical to phase in such a change in a manner that ensures electricity local distribution companies ("LDC") have the opportunity and options to appropriately address the financial impacts with consideration of the underlying methodology that anchors each LDC's distribution rates. The approach decided on by the OEB must fairly treat LDCs who are currently following the standard practice of accounting as outlined in the Accounting Procedure Handbook ("APH") for RSCs, retailer costs and the recovery of such variances through RCVA dispositions. Any proposed changes (and/or transition to those changes) should be designed in a manner which keeps LDCs whole and on a level playing field so they continue to have the ability to recover prudent retailer costs in a reasonable manner until such time as they rebase under a different methodology.

While some LDCS have in recent years requested and received approval for different treatments of handling or eliminating RCVAs (RSC and retailer costs), Whitby Hydro suggests that the proposed OEB approach may not allow for sufficient options for those LDCs who still maintain RCVAs and have had their distribution rates designed on this basis.

For LDCs that continue to have RCVAs and follow the accounting treatment outlined in the APH, their cost of service and distribution rates were designed on the premise that:

- Retailer costs were excluded from those OM&A costs that were considered and approved for the development of revenue requirement.
- RSCs (or net RSCs and retailer costs) were not considered to be part of a revenue offset.
- Default RSCs (vs. developing LDC specific RSCs) were generally included in a cost of service application to ensure greater consistency amongst LDCs and retailers with the understanding that RCVAs would continue to be available to recover variances as outlined in the APH.

As a result, Whitby Hydro is concerned that under the OEB's proposed approach, these LDCs will not be treated fairly and will be financially disadvantaged by the elimination of the RCVA, since the change creates an inconsistency with how the distribution rates were developed and designed. In addition, for these LDCs, Whitby Hydro suggests the OEB's approach incorrectly assumes that

> *"The increase in electricity RSCs in the midst of an incentive rate-setting term will result in revenues earned being greater than amounts previously approved in an electricity distributor's distribution rates." (Draft Report, page 14)*

It is Whitby Hydro's view that distribution rates never considered the impact of RSCs as they are not viewed as specific service charges (revenue offsets) during a cost of service for use in developing distribution rates. Whitby Hydro sees this as a fundamental difference between RSCs and joint use pole rates which would have been treated as revenue offset during a cost of service rate process. As a result, Appendix C which outlines the proposed accounting treatment appears to incorrectly assume that the increase in RSCs will result in LDCs earning revenue above what is reflected in their current distribution rates. Whitby Hydro does not believe this is case for the LDCs that followed the APH and would have removed RSCs and retailer costs from distribution rate development during a cost of service.

In light of these concerns, Whitby Hydro suggests that the OEB's approach include the option for LDCs to continue using RCVAs until such time that they rebase under a cost of service which would be a more appropriate time to consider eliminating RCVAs as well as include retailer costs in the development of the revenue requirement and treat RSCs as revenue offsets. In the absence of doing this during a cost of service, LDCs should be permitted to address this in a separate stand-alone application.

<u>Section 4:</u>

A. Updated Electricity Retail Service Charges - Whitby Hydro is generally supportive of the doubling of RSCs (excluding the retailer service agreement charge) as a generic approach which serves as a reasonable "first start" to improving the recovery of retailer costs and the assignment of greater cost causality to retailers.

B. Notice of Switch Letter Service Charge - Whitby Hydro is supportive of establishing a new Switch Letter service charge as long as current systems and processes will support such a change without creating unreasonable cost burdens to implement and administer it on an on-going basis. Whitby Hydro believes that LDCs should be provided with an opportunity to review the cost/benefits and activity (volumes) to determine whether to adopt the service charge. Whitby Hydro believes that the charge should apply to all switch letters/communication regardless of whether they are sent by standard mail or otherwise. There are some costs required to facilitate the notice of switch letter regardless of the method of delivery, therefore, it seems reasonable to apply the charge on a consistent basis when a switch letter is required and facilitates a more efficient and cost-effective approach for implementation and on-going administration.

<u>Section 5:</u>

Implementation - Whitby Hydro suggests that sufficient time should be provided for implementation. In order to facilitate changes with respect to customer information systems, electronic business transactions (EBT) standards etc. which will require internal and external resources and testing, Whitby Hydro proposes that implementation should be at minimum 3 months after issuance of the final OEB report and any relevant code changes etc. Implementation should be on a prospective basis with no retroactivity as current systems may not be designed to support retroactivity or proration of retail service charge rates. Additional time may be necessary if final changes are more complex than those currently contemplated.

Please contact me if you have any questions.

Regards,

SReffle

Susan Reffle

Vice President