December 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 November 29, 2018, the Ontario Energy Board ("OEB" or the "Board") issued the Report of the Ontario Energy Board (the "Report"): Energy Retailer Service Charges ("RSCs") as part of the second phase of the miscellaneous rates and charges consultation. Accompanying the Report was a Draft Order establishing the new RSCs and new variance accounts for those distributors who no longer have a Retail Service Charge Variance Account ("RCVA"). The OEB has invited written submissions on the Draft Order.

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

A. SUMMARY OF KEY MESSAGES & RECOMMENDATIONS

The CLD has reviewed the Report of the Board and Schedules A through C pertaining to the Draft Order and finds the Board's direction on these matters to be generally fair and consistent.

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.

The Board constituted a working group consisting of electricity and natural gas distributors and energy retailers to assist with the review. On July 19, 2018, the OEB released a Draft Report for comment. The CLD provided comments to the OEB on the Draft Report on August 17, 2018.

C. COMMENTS

The CLD commends the Board for engaging in a meaningful and thoughtful consultation in its review of energy RSCs. The engagement and use of the industry working group consisting of energy retailers as well as natural gas and electricity distributors was beneficial to the consultation.

The CLD wishes to briefly acknowledge the elements of the Report that establish the basis on which the Draft Order is presented.

- *Guiding Principles*: The CLD believes the guiding principles (Fairness, Simplicity, Flexibility, Minimized Regulatory Burden) adopted by the Board in its review are fair and appropriate for the evaluation of RSCs.

- *Province Wide vs. Distributor-Specific Charges*: The CLD supports the continued use of default charges for the electricity distribution industry on the grounds that it is less administratively burdensome. The CLD appreciates the Board's willingness to entertain distributor-specific rates at a distributor's rebasing, if appropriate in the circumstances.

- *Costing Methodology and Costing Elements*: The CLD supports the use of fully allocated costing as appropriate in that it serves to minimize cross-subsidization between ratepayers and energy retailers. Estimates of fully allocated costs, including provision for commodity related bad debt, results in the fairest outcomes for all parties.

- *Adjustment Mechanism*: The CLD supports the annual adjustment of RSCs as a method to ensure the preservation of greater alignment between costs and revenues going forward. As stated in its August submission, the CLD also supports periodic review of RSCs to ensure that any misalignment between revenues and costs can be addressed.

- *Retail Service Cost Variance Accounts*: Among the CLD's members, some have current RCVAs and some do not. For those that do the immediate elimination of the account would result in a financial disadvantage with regard to the recognition of costs and revenues as related to the establishment of their cost of service rates. Therefore, the CLD appreciates the Board's decision to allow distributors to maintain this account until each distributor's next rebasing, at which time expected costs and revenues can be appropriately built into the revenue requirement and other revenues as needed. For those without an RCVA, the introduction of the new variance account is appropriate insofar as the distributor's last rebasing should account for a revenue deficiency owing to the difference between revenues and costs. The incremental revenues associated with the updated RSCs can thus be fairly returned to ratepayers at rebasing, whereupon the distributor can appropriately build expected costs and revenues into revenue requirement and other revenues as needed.

- *Updates to Current Electricity Retail Service Charges*: As per its submission of August 17, 2018, the CLD continues to support the updated RSCs per the Board's Report.

- *Notice of Switch Letter Service Charge*: Similarly, the CLD also maintains its support for the introduction of the new service charge relating to notice of switch letters. Further, the CLD appreciates the Board's direction to allow distributors to opt out of applying the charge as an acknowledgement that some distributors may find it uneconomic to implement the charge as a result of either system requirements or level of demand. This flexibility ensures that those distributors will not have to bear costs that create little value for ratepayers.

- *Implementation*: The CLD views the Board's implementation timelines as generally appropriate. Assuming a Final Order is forthcoming in short order, an effective date of May 1, 2019 for all updated RSCs, inclusive of the new notice of switch letter charge, will give distributors an appropriate lead time to include the charges into tariffs. This timeframe will also allow most distributors enough lead time to facilitate any required Customer Information System ("CIS") changes or Electronic Business Transactions ("EBT") standards, as required. In the case where some distributors may not be able to implement the changes required to implement the notice of switch letter charge before May 1, 2019, it should be at their discretion to complete the necessary changes as soon as is reasonably possible.[1]

  Further, establishing the annual inflationary adjustment as of January 1, 2020 is also appropriate. The CLD maintains that a line of sight as to the approved adjustment factor prior to the November preceding the January adjustment date is preferred to ensure that rates can be updated in a timely fashion.

Turning to the Draft Order, and consistent with the comments above, the CLD makes the following comments with regard to the Draft Order.

- *Schedule A: Approved Electricity Retail Service Charges*: As above, the CLD supports the updated RSCs per the Board's Report and consistent with the Draft Order.

- *Schedule B: Accounting Order: Account 1508: Other Regulatory Assets, Sub-Account Retail Service Charges Incremental Revenue*: The schedule identifies that some distributors will maintain a RCVA until their next rebasing application. These distributors are unaffected by the Accounting Order. For those that have previously discontinued the use of the RCVA, the Accounting Order establishes that they are to establish two new variance accounts. The

[1] Note that Alectra Utilities will be undertaking further CIS integration activity as part of its continued merger activity. Although Alectra intends to implement the charge, it may not be able to do so in time for May 1, 2019 implementation.

first is to track the difference between the revenue collected from the current RSCs and the new RSCs for eventual disposition to ratepayers. The second is to account for the associated carrying charges. The CLD finds that the Draft Order appropriately captures the spirit and intent of the Report.

- *Schedule C: Approved Notice of Switch Letter for Natural Gas Distributors, Effective May 1, 2019*: The CLD makes no comment on the notice of switch letter for natural gas distributors.

D. CONCLUSION

The CLD appreciates the opportunity to provide comments on the Draft Order.

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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