



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0304

**In the matter of energy retailer service charges effective May 1,
2019**

BEFORE: Susan Frank
Presiding Member

February 14, 2019

1 INTRODUCTION AND SUMMARY

On November 29, 2018, the Ontario Energy Board (OEB) issued the [*Report of the Ontario Energy Board: Energy Retailer Service Charges*](#) setting out the conclusions of the OEB following its review of energy retailer service charges for electricity and natural gas distributors. Energy retailer service charges refer to the charges that recover the cost of services provided by electricity and natural gas distributors to electricity retailers or natural gas marketers (collectively referred to as energy retailers) or to customers, related to the supply of competitive electricity or natural gas.

The Report concluded that the default OEB-approved electricity distributor service charges are in need of updating, but did not propose any changes to the existing service charges for natural gas distributors. The Report also concluded that a new service charge of \$2.00 is warranted for both electricity and natural gas distributors to recover the incremental cost of sending a notice of switch letter to low volume customers who sign a contract with an energy retailer. However, electricity and natural gas distributors will have the choice to opt out of applying the notice of switch charge to energy retailers if the costs of doing so outweigh the benefits.

On the same day the Report was issued, the OEB issued a Notice of Hearing to initiate this proceeding to implement the conclusions of the Report and, more specifically, the updated charges for electricity distributors (and the related accounting requirements) and the new notice of switch charge for electricity and natural gas distributors. Attached to the Notice was a Draft Order for electricity distributors that set out the updated charges for all rate-regulated electricity distributors, including the new notice of switch charge, and established a new variance account for electricity distributors who no longer use the Retail Service Cost Variance Accounts (RCVAs). The Draft Order also set out the new notice of switch charge for all rate-regulated natural gas distributors.

After considering the submissions on the Draft Order, and for the reasons that follow, the OEB has determined that no changes to the Draft Order are necessary.

The final charges and accounting guidance are set out in the Schedules to this Decision and Order, and will be effective May 1, 2019.

2 THE PROCESS

The OEB initiated this proceeding on its own motion under sections 19(4), 36 and 78 of the *Ontario Energy Board Act, 1998*. The Notice was issued on November 29, 2018, the same day the OEB issued its Report. The OEB proceeded by way of a written hearing and invited submissions on the Draft Order attached to the Notice. Submissions were received from three electricity distributors and associations: the Coalition of Large Distributors (CLD)¹, the Electricity Distributors Association (EDA) and London Hydro Inc. (London Hydro); and two energy retailers: Ag Energy Co-operative Ltd. (Ag Energy) and Local Authority Services (LAS).

The Notice and Report were issued following the OEB's consultation process in which a working group led by OEB staff and comprised of electricity distributors, natural gas distributors and energy retailers was established to assist with the review. At the conclusion of the working group meetings, the OEB issued a Draft Report for stakeholder comment.

¹ The CLD consists of the following electricity distributors: Alectra Utilities Corporation, Hydro One Networks Inc., Hydro Ottawa Limited, Toronto Hydro-Electric System Limited, and Veridian Connections Inc.

3 DRAFT ORDER

The Report concluded that the default OEB-approved electricity distributor service charges are in need of updating, but did not propose any changes to the existing charges for natural gas distributors. The Report also concluded that a new service charge is warranted for both electricity and natural gas distributors of \$2.00 to recover the incremental cost of sending a notice of switch letter to low volume customers who sign a contract with an energy retailer, as required under the Retail Settlement Code and the Gas Distribution Access Rule. Furthermore, the Report determined that a new variance account would be established for electricity distributors who no longer use the RCVAs.

The Draft Order issued on the same day as the Report set out the updated charges for all rate-regulated electricity distributors, including the new notice of switch charge, and established a new variance account for electricity distributors who no longer use the RCVAs. The Draft Order also set out the new notice of switch charge for all rate-regulated natural gas distributors.

3.1 Updated Retail Service Charges and the Notice of Switch Charge for Electricity Distributors (Schedule A)

Schedule A of the Draft Order set out the updated service charges for electricity distributors, including the new notice of switch charge, as contemplated in the Report. Electricity distributors were generally satisfied that Schedule A of the Draft Order reflected the Report's conclusions. The CLD noted that assuming that a Final Order is forthcoming, the implementation date of May 1, 2019 for the updated charges for electricity distributors and notice of switch charge should allow appropriate lead time. In addition, the CLD suggested that in the case where some electricity distributors may not be able to implement the notice of switch charge as of May 1, 2019, it should be at the electricity distributor's discretion to complete the necessary changes as soon as is reasonably possible.

The submissions from the two energy retailers generally focused on the data used by the OEB in the Report to update the charges and the quantum of the increase to the charges. LAS submitted that the electricity distributor data used by the OEB to update the charges may be potentially skewed given the wide variability in the electricity distributors' fixed and variable costs. Ag Energy submitted that an energy retailer should only pay a monthly charge to electricity distributors in whose service territory the energy retailer has active customers (i.e., to distributors who are actually providing a service to the energy retailer). Ag Energy argued that the one-time \$100 charge paid by an energy

retailer to initiate electricity distributor transactions should more than compensate the administrative costs of account set-up and idle maintenance until consumers are activated by that energy retailer.

In addition, Ag Energy requested an exemption from having to pay the updated service charges in respect of contracts with its members. To support this request, Ag Energy noted that an amendment on January 1, 2017 to Ontario Regulation 389/10 (General) under the *Energy Consumer Protection Act, 2010* (ECPA) was made to exempt Ag Energy from the ECPA in respect of contracts that it enters into, amends, renews or extends with its members. Ag Energy requested the same treatment with respect to service charges for its members.

Findings

The OEB finds that no changes to Schedule A of the Draft Order are required. The charges outlined in the Report were established after a consultation process that included input from a working group and the issuance of a Draft Report for stakeholder comment.

As indicated in the Report, based on the data collected from working group members, current revenues collected from energy retailers cover less than half the costs incurred to provide service. This under-recovery means that ratepayers are cross-subsidizing energy retailers. The Report also noted that energy retailers have benefited for several years from lower charges given that there have been no changes since they were established. As a result, the Report concluded that the adjustment is an appropriate step in addressing the cross-subsidization that currently exists. As is currently the case and as indicated in the Report, distributors will continue to have the ability to apply for distributor-specific charges at the time of rebasing where justified.

In response to the comment from LAS, the OEB notes that the wide variability of fixed and variable costs noted in the Report was in relation to rate design matters and not in relation to the overall costs incurred by distributors to provide service.

With respect to Ag Energy's suggestion that energy retailers should only pay the monthly service charge to electricity distributors in whose service territory the energy retailer has active customers, the OEB notes that the same suggestion was included in Ag Energy's comments on the Draft Report, but was not adopted in the final Report. The OEB is not persuaded that any change to the current approach is warranted. The OEB notes in this regard that an energy retailer is not required to enter a service agreement with every electricity distributor in the province, but rather only with those

distributors with customers to whom the energy retailer wishes to provide services.² In addition, the service agreement prescribed in Appendix C to the Retail Settlement Code allows the retailer to terminate the agreement when it notifies the distributor that it is no longer operating in the distributor's service territory.

The OEB also sees no basis for exempting Ag Energy from having to pay the updated charges for any contracts with its members. Ag Energy's current exemption from ECPA requirements relates to consumer protection measures such as disclosure requirements. In contrast, the purpose of this consultation and proceeding was to set charges that reasonably reflect the cost incurred by distributors to provide service to energy retailers. As there is no evidence that the service provided to Ag Energy is any different from the service provided to any other energy retailers, the OEB denies this exemption request.

The updated charges, including the new notice of switch letter charge, will be effective May 1, 2019. With respect to the comment from the CLD that some electricity distributors may not be able to implement the new notice of switch charge by May 1, 2019, the OEB expects that any affected distributors would advise the OEB in writing of when this new charge will be implemented.

3.2 Accounting Guidance (Schedule B)

Schedule B of the Draft Order establishes a new variance account for electricity distributors as set out in the Report. The new variance account applies to electricity distributors who no longer use the RCVAs and will be disposed of and eliminated in a future rate application. The purpose of the new variance account is to capture the incremental revenues that are a result of the increase in the charges in the midst of an incentive rate-setting term, resulting in revenues earned being greater than amounts previously approved in an electricity distributor's distribution rates. Electricity distributors that currently record the revenues and costs associated with the RCVAs are expected to continue to do so until their next rebasing application. At rebasing, the balances will be disposed of and the RCVAs will be eliminated.

The EDA noted that it continues to endorse that the OEB should permit discretion to continue to administer the RCVAs and supports the OEB's conclusion that the immediate elimination of the RCVAs is not warranted. The EDA further noted that there are some electricity distributors who see advantages to maintaining the transparent and granular data used to quantify the balance to be recorded in the RCVA, for example, to

² Retail Settlement Code, section 2.7 and chapter 12.

test that the service charges are recovering the electricity distributors' incurred fully allocated costs. Finally, the EDA noted that some electricity distributors suggest that the OEB consider whether an electricity distributor applying for electricity distributor-specific charges should also administer RCVAs on an ongoing basis. London Hydro's submission raised concerns similar to those of the EDA in relation to the OEB permitting discretion for electricity distributors to continue to use the RCVAs.

Findings

The OEB does not find that any changes to the Draft Order are warranted. Based on the reasons outlined in the report, the OEB does not expect electricity distributors to continue to use the RCVAs beyond rebasing. The OEB notes that this does not preclude electricity distributors to test whether the service charges are recovering the incurred costs to provide service.

3.3 Notice of Switch Letter Charge for Natural Gas Distributors (Schedule C)

Schedule C of the Draft Order sets out the new notice of switch charge for all rate-regulated natural gas distributors as established in the Report. No stakeholders commented on Schedule C.

Findings

The OEB finds that no changes to Schedule C of the Draft Order are required. The notice of switch letter charge will be effective May 1, 2019.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Effective May 1, 2019, all rate-regulated electricity distributors shall charge the service charges set out in **Schedule A**.
2. The Accounting Order for rate-regulated electricity distributors attached as **Schedule B** is approved.
3. Effective May 1, 2019, all rate-regulated natural gas distributors shall charge the service charge set out in **Schedule C**.

DATED at Toronto February 14, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE A
DECISION AND ORDER
EB-2015-0304
FEBRUARY 14, 2019

**APPROVED ELECTRICITY RETAIL SERVICE CHARGES, EFFECTIVE
MAY 1, 2019**

Retail Service Charge¹	Amount
One-time charge, per retailer, to establish the service agreement between the distributor and the retailer ²	\$100.00
Monthly fixed charge, per retailer	\$40.00
Monthly variable charge, per customer, per retailer	\$1.00
Distributor-consolidated billing monthly charge, per customer, per retailer	\$0.60
Retailer-consolidated billing monthly credit, per customer, per retailer	\$(0.60)
Service Transaction Requests – Request fee, per request, applied to the requesting party	\$0.50
Service Transaction Requests – Processing fee, per request, applied to the requesting party	\$1.00
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction system, applied to the requesting party	No Charge (Up to twice a year) \$4.00 (More than twice a year, per request, plus incremental delivery costs)
Notice of switch letter charge, per letter	\$2.00

Notes:

¹ The descriptions in this table are taken from the current electricity distributor tariffs except for the notice of switch letter charge which is a new charge.

² There has been no update to this service charge amount.

The new notice of switch letter service charge will apply only to letters that are sent by standard hard copy mail. In accordance with the *Report of the Ontario Energy Board: Energy Retailer Services Charges* issued on November 29, 2018, electricity distributors may opt out of applying the charge to energy retailers by notifying the OEB within 60 days of the issuance of this Order.

The charges set out in the table above supersede and replaces any previously approved electricity Retail Service Charges.

SCHEDULE B
DECISION AND ORDER
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FEBRUARY 14, 2019

ACCOUNTING ORDER

ACCOUNT 1508 OTHER REGULATORY ASSETS, SUB-ACCOUNT RETAIL SERVICE CHARGES INCREMENTAL REVENUE

Background:

On November 29, 2018, the OEB issued its *Report of the Ontario Energy Board: Energy Retailer Service Charges* (the Report), which sets out the OEB's conclusions following the review of energy retailer service charges.

This Accounting Order is being issued to implement the accounting guidance set out in the Report.

Electricity distributors that are unaffected by this Accounting Order:

As discussed in the Report, electricity distributors that currently record the revenues and costs associated with retail services in Retail Cost Variance Accounts (RCVAs) 1518 and 1548 are expected to continue to do so until their next rebasing application.

Electricity distributors that are affected by this Accounting Order:

Electricity distributors who have discontinued the use of RCVAs 1518 and 1548 (collectively referred to as affected electricity distributors) are required to establish the two new variance accounts described below, in order to track the difference between the revenue collected from the current electricity distributor Retail Service Charges (electricity RSCs) and the revenue to be collected when the updated electricity RSCs come into force on May 1, 2019, for eventual disposition to distribution ratepayers.

ACCOUNTING ORDER

Affected electricity distributors are required to establish two new variance accounts effective May 1, 2019:

1. 1508 Other Regulatory Assets, Sub-account Retail Service Charges Incremental Revenue
2. 1508 Other Regulatory Assets, Sub-account Retail Service Charges Incremental Revenue Carrying Charges

In Account 1508 Other Regulatory Assets, Sub-account Retail Service Charge Incremental Revenue, affected electricity distributors will record the difference between revenues collected at the previously set electricity RSCs and the revenue collected based on the electricity RSCs established pursuant to the Report.

Only credit entries may be recorded in the sub-accounts. Carrying charges at the OEB prescribed rate will apply to the principal sub-account.

Once an affected electricity distributor rebases and includes the revenues and costs associated with retail services in the calculation of its base distribution rates, these new variance accounts will be discontinued.

Sample journal entries are provided below:

To record incremental revenue associated with establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing services:

Dr. 4082 Retail Services Revenues

Cr. 1508 Other Regulatory Assets, Sub-account Retail Service Charge
Incremental Revenue

To record the difference between the electricity RSCs established in the *Report of the OEB: Energy Retailer Service Charges* and the RSCs used to calculate base distribution rates in the electricity distributor's most recent rebasing application.

Dr. 6035 Other Interest Expense

Cr. 1508 Other Regulatory Assets, Sub-account Retail Service Charge
Incremental Revenue Carrying Charges

To record the carrying charges on the monthly opening balance in Account 1508 Other Regulatory Assets, Sub-account Retail Service Charge Incremental Revenue.

To record the incremental revenue associated with Service Transaction Request (STR) services:

Dr. 4084 STR Revenues

Cr. 1508 Other Regulatory Assets, Sub-account Retail Service Charge
Incremental Revenue

To record the difference between the electricity RSCs established pursuant to the *Report of the OEB: Energy Retailer Service Charges* and the electricity RSCs used to calculate base distribution rates in the electricity distributor's most recent rebasing application.

Dr. 6035 Other Interest Expense

Cr. 1508 Other Regulatory Assets, Sub-account Retail Service Charge
Incremental Revenue Carrying Charges

To record the carrying charges on the monthly opening balance in Account 1508 Other Regulatory Assets, Sub-account Retail Service Charge Incremental Revenue.

SCHEDULE C
DECISION AND ORDER
EB-2015-0304
FEBRUARY 14, 2019

**APPROVED NOTICE OF SWITCH LETTER CHARGE FOR NATURAL GAS
DISTRIBUTORS, EFFECTIVE MAY 1, 2019**

Service Charge	Amount
Notice of switch letter charge, per letter	\$2.00

The new notice of switch letter service charge will apply only to letters that are sent by natural gas distributors by standard hard copy mail. In accordance with the *Report of the Ontario Energy Board: Energy Retailer Services Charges* issued on November 29, 2018, natural gas distributors may opt out of applying the charge to energy retailers by notifying the OEB within 60 days of the issuance of this Order.