Energy Retailer Service Charges (EB-2015-0304)
Working Group Meeting #2 – Summary

Meeting Date & Time: September 29, 2017 (9:30 am – 12:30 pm)
Location: OEB Office, ADR Room (25^{th} floor)
Attendees:

Electricity Distributors		
1	Guelph Hydro	Krista Perry (by conference line)
2	Hydro One	Danny Relich (by conference line)
3	Hydro Ottawa	April Barrie
4	London Hydro	Martin Benum
5	Veridian Connections	Kyle Brown (by conference line)
Natural Gas Distributors		
6	Enbridge Gas	Rob DiMaria
7	Union Gas	Tom Byng
Energy Retailers		
8	Ag Energy Co-operative	Katie Morrow
9	Just Energy	Frances Murray
10	Summitt Energy	Jeff Donnelly
OEB Staff		Pascale Duguay, Vince Mazzone, Michael Bell, Judy But

Introduction

OEB staff welcomed the working group members and provided an overview of the agenda and objectives of the second working group meeting. At the second working group meeting, OEB staff led a discussion on eight topics. The list of topics was established in the first working group meeting.

Discussion

1. The overarching principles that the OEB should consider

The working group members generally agreed that energy retailer service charges should be cost-based and reasonably reflect the cost of providing service. The overarching principles identified included the following:

- Fairness – the approach should strike a balance between cost causality and simplicity

- Simplicity – the methodology to re-calibrate the charges should be proportional to materiality. An onerous process is not warranted.
- Flexibility – the methodology should be simple to administer and be adaptable to changing market conditions. Charges should have the ability to go up or down.
- Regulatory burden should be minimized - The regulatory burden should be reflective of materiality. The revenues associated with the charges should also be easy to forecast.

The working group members also shared a common view that cost causality was an important factor. Retailers were of the opinion that any method of cost causality should not be so costly to effectively eliminate the retail market in Ontario. By ensuring that charges are set at an appropriate level, to maintain the retail market in Ontario, and updated periodically to reflect the distributor's costs incurred, cross-subsidization by ratepayers should be minimized. For consistency and simplicity, Union Gas noted that the charges should be updated periodically, as necessary, in accordance with each distributor's rate setting mechanisms.

2. The type of costs that should be included as part of the overarching costing methodology for distributor-consolidated billing, service transaction requests, service agreements, and notice of switch letters

OEB staff requested feedback on the type of costs that should be included in the costing methodology for distributor-consolidated billing (DCB), service transaction requests (STR), service agreements and notice of switch letters.

Hydro One presented a cost matrix to identify the nature of the costs associated with providing services to retailers (excluding notice of switch letters) and to show whether these costs are fixed, variable or semi-variable. Below is a high level summary of the Hydro One's cost matrix and the full version provided by Hydro One is included in Appendix A.

	Fixed	Variable	Both (Semi-Variable)
Customer Service Organization		X	
IT Application	X		
Application Support		X	
Finance	X		
Collections – Write off 2016		X	

While each electricity distributor may incur different level of costs, the nature of the costs appears to be similar. Fixed costs primarily pertain to the cost of labour for IT testing and billing personnel to perform the settlement and invoicing of transactions. Other fixed costs include system maintenance costs. The existing charges do not include any system implementation costs and bad debt, and have not captured the additional system costs incurred to accommodate new rules for energy retailers that came into effect on January 1, 2017. The costs associated with the requirement for electricity and natural gas distributors to issue a notice of switch letter starting on July 1, 2017 are excluded from the existing charges.

Variable costs are driven by the number of customers and transactions. Variable costs will be different across electricity distributors based on retailer activity levels. In the Hydro One cost matrix that was presented to the working group, variable costs are classified in three categories: (a) costs to serve customers including call centre handling, emails and settlements to process retailer enrolled billed accounts; (b) costs to support electronic business transfer (EBT) transactions and ongoing maintenance of the systems; and (c) costs of retailer charges that are written off.

OEB Staff asked the working group members whether the charges for the notice of switch letter could be the same for electricity and natural gas distributors. Both stated that they incur costs for postage, paper, envelope, printing and call handling for the notice of switch letters. Natural gas distributors also incur costs to send a termination letter confirming the switch from one energy retailer to another during a competition for a customer between energy retailers.

There are differences between electricity and natural gas distributors as it relates to system costs and bad debt. Bad debt is not included in the electricity distributor's charges, but is recovered by natural gas distributors through the agent billing and collections (ABC) charge for Enbridge and in the DCB fee for Union Gas. Union Gas indicated that it does not include the cost of billing in its DCB fee because it incurs no incremental billing system costs for the service. Hydro One noted that the write-off around bad debt is different between retailer contract amounts, and that it is viewed by Hydro One as a variable cost. With respect to system costs, Enbridge includes the cost of billing in the ABC fee (because service provided by a third party) while Union Gas does not (service provided in house).

3. Whether a fully allocated costing methodology is appropriate for existing energy retailer service charges, and if not, the other approaches that the OEB should consider

Working group members generally agreed that a cost based approach was preferable. No other costing approaches were identified.

Issues related to the structure of the existing charges were identified. Hydro Ottawa noted that since the costs to provide service are largely fixed, the rate structure should largely be fixed to better match the incurrence of these costs (i.e., more emphasis on fixed charges rather than variable charges). Although the charges are mainly fixed, there are costs that are driven by the number of customers and transactions. With the current level of charges and activities level, an under-recovery of costs was estimated to range between $25,000 and $75,000 for Guelph Hydro, Hydro Ottawa and London Hydro. Energy retailers generally agreed that they should be responsible for the costs related to their direct involvement in the program but would like to have a better understanding of the nature and quantum of the under-recoveries.

Despite under-recovery of costs for electricity distributors, natural gas distributors did not view the issue of under-recovery to be significant. The costs that go into the determination of the rates have not changed much since the natural gas distributors last rebased. The level of cross-subsidization would accordingly be small based on existing activity levels. If activity levels changed, the level of cross-subsidization could increase, but the chances of customers switching to direct purchase could be low in today's environment of low natural gas price volatility. Union Gas clarified that it examines the costs of providing services at the time it undertakes a cost study for rebasing its rates and determines whether there is an adjustment required to manage any revenue shortfall or excess from the service. This last review occurred during Union's 2013 rebasing and resulted in the recalibration of Union Gas' DCB fee. No changes to the DPAC or IVA fees were required at that time. Union Gas was effectively recovering its costs to provide the services and there was no cross-subsidization between these fees and distribution rates.

4. Whether a consistent application of energy retailer service charges should be followed or whether distributor-specific charges should apply

A "one size fits all" approach was viewed to be more appropriate for the electricity sector. This was supported by the fact that electricity distributors deliver similar services to retailers and similar costs are incurred. Enbridge and Union Gas did not agree with standardizing the charges across the energy sector, noting that some direct purchase services offered by natural gas distributors were fundamentally different than those offered by electricity distributors. They opined that this would be counter to the principle of cost causality. It was however noted that there is likely commonality in terms of costs related to issuing notice of switch letters between natural gas and electricity distributors.

The natural gas distributors explained that because they have a natural gas procurement function (i.e. commodity, transportation, and load balancing), the nature of some of the services provided to energy retailers are fundamentally different than the electricity sector. Union Gas indicated that setting common rates for common services will result in a difference between service fees and distributor costs which will, in turn, result in cross-subsidization between these services and distribution rates at rebasing.

Energy retailers also opined that it would be administratively burdensome to have different charges apply from each electricity distributor.

OEB Staff clarified that the decision to adopt, or not, a consistent application of charges or distributor-specific charges could be informed by the outcome of the wireline pole attachment charge policy consultation[1].

5. Whether a mechanism should be considered by the OEB in order to keep energy retailer service charges up to date

Working group members generally agreed with an annual adjustment to the charges to keep them up to date and did not object to using the annual adjustment factor used in the OEB's IRM process for electricity distributors. Charges could be set in the electricity distributor's cost of service application, and adjusted by the I-X (inflation minus productivity plus a stretch factor) mechanism during the intervening years. While natural gas distributors use utility-specific productivity factors, the productivity factor for electricity distributors ranges from 0.0% to 0.6% (the most efficient electricity distributor would be assigned a value of 0.0%) since 2013. A common adjustment based on the cost evaluation ranking for Group 3 electricity distributors (0.3% productivity factor) was suggested to be applicable for electricity distributors. If distributor-specific charges were to be applied for at rebasing, distributor-specific escalation factors could apply on the new rates established. Union Gas was of the view that there is no need to change from the current approach used for setting its rates.

OEB staff noted that an adjustment factor is being considered in the OEB's review of the wireline pole attachment charge for electricity distributors and that the outcome of that review may help inform the recommendation for this review.

6. Whether Retail Cost Variance Accounts should be eliminated and the implications of doing so

Currently, the Retail Cost Variance Accounts (RCVAs) are designed to record the difference in revenues and costs incurred by electricity distributors to provide services to energy retailers. Given the potential for an annual adjustment mechanism to keep the charges up to date, OEB Staff asked working group members whether the I-X mechanism would negate the need for the RCVAs.

Members of the working group were generally of the view that if the charges are kept up to date (rebasing then I-X adjustments), then the need for the RCVAs would be greatly

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[1] Information on this consultation can be found on the OEB's Review of Miscellaneous Rates and Charges webpage: https://www.oeb.ca/industry/policy-initiatives-and-consultations/review-miscellaneous-rates-and-charges

diminished. However, a change in retailer activity level may warrant the continuation of the RCVAs. It was also noted that if the charges are re-calibrated, electricity distributors would not have an opportunity to adjust their revenue requirement (and rates) prior to rebasing. Hence the RCVAs would be needed until rebasing occurs.

It was noted that Toronto Hydro and Hydro Ottawa no longer use the RCVAs. As indicated in the OEB's Decision and Order[2] granting approval for Toronto Hydro to no longer use the RCVAs, ratepayers will not be harmed because the associated revenues and costs have been incorporated into Toronto Hydro's revenue requirement.

7. Whether there are approaches or lessons learned for charges from the natural gas distributors to natural gas marketers that could be considered for electricity and vice versa

There has not been detailed costing analysis or recent cost allocation studies conducted for the charges for the electricity sector in Ontario. Energy retailers deferred to the BCUC's model for gas marketers as an alternative costing methodology, which supported the principles of cost causation and flexibility to adjust the charges based on market conditions. It was noted that BC's model has been effective due to there being more energy retailers than distributors, whereas the Ontario market has a large number of distributors compared to energy retailers.

8. The factors that the OEB should consider with respect to the implementation of any changes made to the current energy retailer service charges

Some working group members noted that if there are changes to the charges resulting from this review, electricity distributors would not have an opportunity to adjust their revenue requirement (and rates) prior to rebasing under the OEB's current rate-making framework. The RCVAs could serve to bridge the gap until rebasing and would be needed until rebasing occurs.

Conclusion

To support OEB Staff's review of costs and methodology, OEB Staff requested that distributor working group members provide cost data based on Hydro One's cost matrix for the third working group meeting scheduled for Friday October 20, 2017.

[2] EB-2014-0116

APPENDIX A

Hydro One Cost Matrix

	Fixed	Variable	Both (Semi-Variable)
Customer Service Organization			
Retailer emails/communication/Account analysis/Offline settlements/Summary Billing/Net Metering		X	
Call Centre - Retailer specific call handling		X	
(Settlements) Process Retailer Enrolled Complex Billed Accounts		X	
IT Application			
Internal Application Costs (system maintenance/upgrades)	X		
spi/ERTH	X		
Application Support			
Retailer Issues, EBT Exceptions and Tickets		X	
Integration (iHUB and PI) monthly support		X	
Finance			
Invoice Settlement Total (IST) Payable/Receivable Reconciliation	X		
Invoice Bill Ready (IBR) Payable/Receivable Analysis	X		
Reporting & Analysis	X		
Collections - Write off 2016			
Total Retailer Charges Written Off		X	