Subgroup 2: Customer and Competitive Retailer Billing and Receivables

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ISSUE STATEMENT: *(Final)*

Global Issue Outline III.A.1: Retailer Consolidated Billing

Should retailers be allowed to provide a single bill to an end-use customer that combines both electricity supply and distribution charges?

OPTIONS:

1. Retailers should be allowed to offer customers a single bill that includes distribution charges as well as electricity charges.
2. Retailers should be allowed to bill for electricity supply but not for distribution services.
3. Only LDCs should be allowed to bill customers (at least for some transition period).

BACKGROUND INFORMATION:

MDC Recommendation 4-10:

We recommend that all local distribution companies be required, at the customer's request, to send the customer's spot-price bill to a designated licensed retailer, who would be responsible for paying the LDC for the amount of that bill. The retailer and consumer would then be responsible for settling their bilateral contract totally independent of the LDC.

The above recommendation, along with RTP recommendation 3-2 which states, in part, that LDCs must be capable of "Sending bills to and receiving payment from retailers when directed to do so by customers," imply that retailers should have the option of offering a consolidated bill to end-use customers.

Most, but not all jurisdictions, currently allow this. It is the rule in California, New Zealand, Australia and the UK. To date LDCs still maintain a monopoly over billing in New Jersey and, we believe, Massachusetts although the expectation is that this is transitory.

Historically, in Ontario, gas retailers have not been allowed to offer consolidated bills, but they now can or soon will be able to.

SUMMARY OF GROUP DISCUSSION:

This issue was primarily discussed in conjunction with issues III.A.2 (split bills) and III.A.4 (LDC consolidated bills). Two LDC representatives favoured retaining an LDC monopoly over billing at least during a transition period as a means of helping to ensure recovery of development costs for new billing systems. This would also ensure that retailers have access to billing services without the need to negotiate with LDCs and without the barrier that "first movers" would face in terms of having to pay for development costs under a voluntary program.

Retailers favour the right to offer a consolidated bill. Retailers are concerned about the magnitude of the avoided cost credit they would receive if they do billing for LDC charges. This is a rate issue that will be taken up by the Board at some future date.

One LDC representative favoured allowing retailers to bill on behalf of LDCs only if the retailer agrees to unbundle their bills and show the wires charges as a separate, identified

RECOMMENDATION:

1. Retailers should be allowed to offer a consolidated bill to customers that includes all charges for delivered electricity (e.g., generation, transmission and distribution). In the event that a customer or retailer (on behalf of his or her customer) selects this option, an LDC must direct the settlement bill directly to the retailer.

IMPLEMENTATION ISSUES:

The OEB must determine the magnitude of avoided cost credit paid by LDCs if retailers offer consolidated bills.

VOTER SUMMARY:

The majority of Task Force members favoured this recommendation but two LDCs favoured option 3. One LDC representative indicated that he would favour the recommendation only if the wires charges were shown explicitly on the retailer's bill.

DISSENTING OPINIONS:

See voter summary above.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.A.2: Should all LDCs be required to offer a split-bill option where charges for energy calculated at the spot price are directed to a customer's electricity retailer and all wire's and related charges are billed to customers directly by the LDC?

OPTIONS:

1. Mandatory provision by all LDCs with costs included in base rates.

2. Offered on a voluntary basis and paid for by those who want it.

BACKGROUND INFORMATION:

RTP recommendation 3-14 recommends that all LDCs offer split billing as a mandatory option. The split-bill option is offered in other jurisdictions. Indeed, in California split billing is the default billing option for customers/retailers who do not select consolidated billing. It is currently unknown how many customers are on split billing in California or elsewhere but it is believed to be few. It is thought that some large customers may place a higher value on dealing directly with their local wires company on pricing and billing issues for network services, rather than through a retail intermediary.

Since LDCs must unbundle bills anyway, the RTP felt that the added burden of providing split billing was not so great as to outweigh the potential value that this option could provide to selected customers.

According to one group member, in a very recent survey by the Ontario Energy Marketers' Association, retailers representing 90 percent of the competitive gas retail market indicated that the split-bill option was not desirable, would hamper unbundling and would cause retail customers to pay twice for billing services.

As of the end of March 1999 (about a year into direct access), roughly 130,000 accounts had switched suppliers in California. Of these, about 40 percent used consolidated billing through the local LDC, about 45 percent used retailer consolidated billing and about 15 percent used the split-bill option. In Illinois, where competition is currently only available for large commercial/ industrial customers, the majority of customers use the split-bill option. In Pennsylvania about half of customers who have switched use the split-bill option.

SUMMARY OF GROUP DISCUSSION:

Most group members felt that this option would be rarely chosen and that making it a mandatory service could impose unnecessary costs on LDCs. However, evidence from other jurisdictions cited above suggests that it is an attractive option for some customers and/or retailers. Participants felt that this should not be a default option. It was pointed out that the concept of a default billing option is largely irrelevant since each retailer will arrange with each LDC to have their own default in the sense that a specific option will be assigned to a customer served by that retailer in the absence of a designation to the contrary.

Customer convenience is not the only important consideration when deciding whether or not to offer split billing. Another one is the fact that split billing significantly reduces the prudential requirements of retailers. Given that wires charges are roughly half the cost of delivered energy, the split-bill option offers retailers the opportunity to avoid posting security for a significant portion of the cost of delivered energy.

RECOMMENDATIONS:

1. Split billing, with retailers billing only for the commodity and LDCs billing for all noncommodity charges (including transmission), must be accommodated by all LDCs. In the event that this option is chosen by a customer or retailer, an LDC must calculate the commodity portion of a customer's bill using the wholesale spot price and render that bill to the appropriate retailer. Charges for noncommodity services will be included on a bill rendered by an LDC to an end-use customer.

2. As indicated in the recommendations for Issue III.B.1.b, with split billing, each party will be responsible for customer nonpayment risk for the bill they render.

3. Retailers will be responsible for posting security with an LDC for the commodity portion of the bill in order to cover retailer default risk. The magnitude and nature of security arrangements are covered under Issue II.B.1.(b)(5) and II.C.2.

IMPLEMENTATION ISSUES:

LDCs must modify billing systems to issue two bills per end-use customer (one to the customer and one to the retailer).

VOTER SUMMARY:

18 in favour, 2 against

DISSENTING OPINIONS:

Two LDC participants wished to register dissent based on the grounds that the demand for this option is highly uncertain and that it will impose unnecessary costs on LDCs. These two participants would favour voluntary provision of this option.

ISSUE STATEMENT: ***(Final)***

Global Issue Outline: III.A.3: Equal Payment Billing by LDCs:

- Should LDCs be *required* to offer a balanced payment option to end-use customers for any bill they directly render to a customer?
- Should LDCs be *allowed* to offer a balanced payment option to end-use customers?
- If equal payment billing is offered to end-use customers, must it also be offered to retailers on the same terms?

OPTIONS:

1. An equal payment or billing plan in this context means that an LDC would produce an estimate of a customer's bill for a period of time (perhaps, but not necessarily, a year) and would bill a customer for an equal amount each billing period, with a true-up payment at the end of the agreed time equal to any difference between the estimated bill and the actual amount owed for the entire time. If both price and quantity vary during the period, equal billing would smooth volatility associated with both variables but the customer would always eventually pay the full amount owed. Policy options associated with this issue include:
2. Mandatory provision of the equal billing option by LDCs for any bill they render directly to end-use customers or to retailers.
3. Mandatory provision of equal billing but only for bills rendered to end-use customers, not to retailers.
4. Voluntary provision of equal billing to end-use customers or retailers.
5. Prohibition of equal billing by LDCs.
6. For any of the above options, there could be limits set on how long the equal billing period should be, on whether true-ups would be required if the difference between actual and estimated amounts exceed a certain level and other factors.

BACKGROUND INFORMATION:

There was some debate at the MDC regarding whether or not LDCs should be allowed to provide balanced payment billing. Some members felt that this would be anticompetitive (e.g., this was a competitive service that only competitive retailers should be able to offer). However, the majority of MDC members felt that this should be an option that LDCs may provide at their own discretion. There was no formal recommendation one way or the other.

In discussions at the MDC concerning potential customer dissatisfaction with bill volatility, the MDC recommended a "smoothed" wholesale spot-price pass-through as a way of mitigating the impact that a pure spot-price pass-through would have on residential customers that are accustomed to annually set flat pricing schemes. The RTP noted that implementing spot-price smoothing would introduce new practices for LDCs, would require some entity to make an official price forecast and would not mitigate usage volatility. The RTP responded with a recommendation that the smoothing could be accomplished through equal billing/payment plans that most LDCs already had in place.

SUMMARY OF GROUP DISCUSSION:

Retailer and LDC group members differed strongly in their opinions on this issue.

LDC representatives feel strongly that offering equal billing is an option that they have always had and that they should continue to have. It should not be mandatory, but it should definitely be allowed so that they can smooth customer payments and help mitigate any cash flow problems during peak consumption months. Without this tool, LDCs could easily experience a significant increase in customer complaints from Standard Supply Service (SSS) customers and a potential increase in late payments or defaults during high consumption months. LDCs feel that this is not a pricing issue, but a billing and customer service issue and that they should have discretion over such matters in order to maintain reasonable levels of satisfaction among SSS customers. At least one LDC representative questioned the authority of the OEB to regulate billing practices.

Retailers feel strongly that equal billing is a value-added service that will compete directly with fixed-price offers from competitors and that will make it difficult for competitors to sufficiently differentiate their services as a means of attracting customers away from Standard Supply. One retailer representative recommended that this issue not be decided until the form of SSS is determined by the OEB. This individual suggested that he would be more willing to accept equal payment by LDCs if SSS was a fixed-price option rather than a spot-price pass through. Other group members wondered why SSS as a fixed-price option with equal billing wouldn't be viewed as even more anticompetitive than a spot-price pass through with equal billing. A retailer representative also claimed that this option exposes LDCs to additional nonpayment risk and could potentially increase the IMO prudential requirements imposed on LDCs. It was also pointed out that this imposes a need for LDCs to develop a process to forecast volume and price for customers using this option.

The idea of placing constraints on the characteristics of equal billing was not discussed. For example, OEB guidelines or requirements could be established where adjustments in bills would be instituted if spot prices differed by a certain percent from the values that underlay (explicitly or implicitly) the current projections. *(As noted below, this issue may need to be discussed further.)*

Several LDC representatives objected to the idea of offering equal payment billing to retailers. One group member was worried that doing so offers retailers an added service that increases LDC risk unless prudential requirements are adjusted appropriately. This individual also commented that doing so might introduce more complications into the process than are necessary.

RECOMMENDATIONS:

This issue concerns billing services for end-use customers, not settlement between LDCs and retailers and therefore should not be included as part of the Retail Settlement Code.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Twelve in favour of the recommendation; three against; two indifferent.

DISSENTING OPINIONS:

The three dissenting Task Force members preferred to include a recommendation in the settlement code confirming an LDC's right to offer equal payment billing to end-use customers.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.A.4:

- Should consolidated billing by LDCs on behalf of retailers be a mandatory service for all LDCs?
- If not, should LDCs be required to make a "good-faith" effort to offer such services?
- If yes, how should good-faith effort be defined?

OPTIONS:

1. "Consolidated billing" in this context means that an LDC will bill end-use customers on behalf of retailers according to one of several methods outlined below. Consolidated billing and "aggregate billing" are not the same thing. Aggregate billing means producing a single bill for multiple customers. The following options were considered:
2. Mandatory consolidated billing services by LDCs, where bill amounts would be calculated by retailers and passed through as a line item on LDC bills. (Hereafter referred to as the "bill-ready" option.)
3. Mandatory consolidated billing by LDCs where LDCs calculate retailer bills based on any pricing and contract terms designated by retailers. (Hereafter referred to as "full rate-ready" billing.)
4. Mandatory consolidated billing by LDCs but only based on a simple calculation of a price times quantity where retailers could modify prices on a periodic basis. (Hereafter referred to as "simple rate-ready" billing.)
5. Options 1 and 3 combined, which would have LDCs calculate bills for energy based on a single average price but would also allow retailers to pass through charges for additional services they may provide to customers.
6. Any of the above offered and agreed to on a voluntary basis through a good-faith negotiation between LDCs and retailers. All development, fixed and operating costs for these services, would be paid for only by those who desire them and steps would be required to ensure no cross-subsidisation of such services by SSS customers.
7. Monopoly provision of billing services by LDCs, at least during a transition period. In other words, not only would LDCs be required to offer consolidated billing on behalf of retailers, but they would be the only ones allowed to bill end-use customers (e.g., retailers would not be able to bill end-use customers directly themselves).

BACKGROUND INFORMATION:

The MDC Second Interim Report established some general principles:

- Customers should at least have the option of receiving a single bill. The MDC report indicated that many customers have expressed the preference for one bill for their network and energy charges.

- The MDC report also noted that some retailers argued that LDC billing on their behalf would facilitate market entry and competition overall.

Weighing the desire of some retailers to have LDCs as billing agents and the potential burden that this option would impose on LDCs, the MDC decided not to recommend that this option be mandatory, as indicated in the following MDC/RTP recommendation:

RTP Recommendation 3-14:

> . . .The RTP does not recommend requiring all LDCs to bill on behalf of competitive retailers. However, LDCs should make a good-faith effort to offer such services if requested by retailers if all development and ongoing costs are recovered from those who use the service.

LDC consolidated billing is similar to the gas industry's ABC-T service. To date gas utilities have been providing the entire billing process on a bundled basis, including meter reading, bill calculation, bill printing, payment processing, collections and write-off for bad debts. Gas utility charges for ABC-T are reviewed by the OEB in rate cases for appropriate recovery of costs, but the charges are not "regulated" in the traditional sense. This approach has been affordable for retailers in the gas industry in part because there are only two gas utilities, with each serving a large number of consumers and retailers. Therefore, the incremental cost of providing billing services is reasonable on a per customer basis in the gas industry.

On the other hand, there are a large number of electric utilities. Some LDCs have a very small franchise area where only a few (if any) customers may switch to competitive retailers. It could be very costly and inefficient to require all LDCs to incur significant costs in system modifications to accommodate billing on behalf of retailers. The incremental cost could be very high on a per customer basis.

If an LDC has the system capability and resources, it may wish to make more efficient use of its system by contracting its billing services to retailers or other LDCs. If a competitive market for billing services emerges, LDCs and retailers can choose to contract to a third-party billing agent to carry out consolidated billing for either party.

Looking at other jurisdictions, requiring LDCs to offer consolidated billing is the rule in California, New Jersey and Pennsylvania. Indeed, in New Jersey, retailers are not allowed to offer consolidated billing so LDCs must.

SUMMARY OF GROUP DISCUSSION:

The primary advantages to offering LDC consolidated billing include:

- Minimisation of entry costs for retailers since they would have ready access to billing services. (Note: Third-party billing companies also offer this advantage.)

- Minimisation of prudential requirements posted by retailers relative to either split billing or retailer consolidated billing.

- Retention of the authority to disconnect a customer for nonpayment, thus reducing nonpayment risk in the market when compared with retailer consolidated billing, where disconnection is not an option under the *Electricity Act.*

- Elimination of customer nonpayment risk to retailers, since LDCs logically would take on this risk (and would factor the cost of such risk into their charges for billing on behalf of retailers).

- Faster payback on investment in new billing systems that many LDCs must develop to support the market, since they will be able to sell their services to retailers.

- Potentially shorter read-to-bill cycles for LDCs and retailers under certain rate-ready billing options. For example, if an LDC calculates bills on behalf of a retailer based on a simple (traditional) constant rate, bills to customers can be issued according to the same historical practices (e.g., one or two days after a meter read) rather than delayed while waiting for information from the IMO to calculate the NSLS and issue bills based on the wholesale spot price. (Other types of rate-ready billing that are based on deviations from the spot price would still require some delay.)

The primary disadvantages of this approach include:

- The development costs imposed on LDCs to build the capability to provide such services.

- Potential delays in billing under bill-ready scenarios if retailers must acquire usage information from LDCs, calculate bill amounts and communicate these amounts back to an LDC before bills can be issued.

The subgroup and full Task Force discussed this issue at great length over several meetings. Among the points raised during these discussions were:

- Few if any utilities currently have billing systems that would easily accommodate option 2.

- Accommodating option 3 would be easy from a computational standpoint since all current billing systems calculate bills based on average price and usage. Only minor changes would be required to update prices on a regular basis and to accommodate multiple prices for customers in the same rate class. However, for LDCs that do not currently bill on behalf of outside suppliers, internal accounting and business processes would need to be established in order to ensure that costs and revenues are tracked by retailers and that retailers get paid what they are due in a timely manner.

- Option 1 is obviously simple computationally and most if not all billing systems can easily accommodate the addition of a single line item on a bill. However, as discussed in the previous bullet point, LDCs who do not currently bill on behalf of other municipal departments or outside suppliers will need to establish accounting and remittance systems in order to provide this service. Furthermore, with option 1 systems will need to be developed to receive the relevant bill information from retailers on a daily basis and to transmit usage information to retailers. This will delay billing to end-use customers.

- Monopoly provision of billing services by LDCs, option 6, was seen as a means of helping to ensure recovery of development costs for new billing systems, at least during a transition period. It would also ensure that retailers had access to billing services without the need to negotiate with LDCs and without the barrier that first movers would face in terms of having to pay for development costs under a voluntary program without knowing what their market share will be and without easily being able to share costs with other retailers unless they team up in their negotiations with LDCs.

- All participants recognised the need to ensure that any voluntary provision of services by LDCs must be paid for by those who request them and that there should be no cross-subsidisation of these services by SSS customers.

Following initial discussion of this issue, two subgroup members submitted the following written comments. The first bullet was from a retailer representative while the remaining comments were from an LDC representative on the committee.

- There is a hazard to consider in allowing LDCs to build billing systems to support consolidated billing and as the market matures, there could be additional stranded costs from billing systems that have been abandoned.

- Should retailers only pay for incremental costs? Why not a portion of the capital and associated carrying costs? How do you partition these among the various retailers? Do you recalculate the capital contribution when there are new entrants? If not, is this discriminatory?

- Even if the development and implementation costs are all fully allocated from the retailer who requests the service, there are future maintenance costs that need to be allocated to the particular system function.

- If an LDC is faced with requests from different retailers and they all have different requirements, what is the priority of the requests? By order of simplicity or complexity (the LDC won't know until it has undertaken the study)? By order of size of retailer?

- There is no practical way of anticipating all the current and future services to be provided by all the retailers. Some of these may be simple as far as bill calculation is concerned, while others may require major modifications to the billing system. It may seem straightforward for the LDC to just develop the necessary system function and then charge the retailer for the cost. In practice, much of the cost is not visible. First of all, the LDC computer system personnel may spend significant effort to analyse the retailer's requirements and the development work may not proceed for whatever reason. Would the cost be charged to the retailer (who had not received the system function required) or should the LDC allocate the cost to operating expense (borne by all customers, effectively)?

In discussing the advantages of LDC billing to retailers, the following points were made:

- ABC-T billing has worked very well for retailers in the gas industry and has given retailers time to establish their market presence and to prepare for the new opportunities they now (or will soon) have to offer billing on their own.

- LDC billing facilitates market entry not only by offering a convenient source of billing services to retailers but also by providing reassurance to customers through LDC brand equity and familiar service delivery. In light of the availability of third-party billing firms, the latter factors are perhaps more important than merely having a convenient billing service available.

- A major advantage of LDC consolidated billing is that it significantly reduces (but does not entirely eliminate) the magnitude of prudential requirements imposed on retailers.

> The reason prudential requirements are not entirely eliminated is that, at certain times of the year, an LDC will still be in a negative cash position vis-à-vis a retailer. For example, if a retailer's offer to an end-use customer involves a fixed price for an entire year (say 4¢/kWh), if the spot-market price is above that amount during a specific billing cycle (say 4.2¢/kWh), an LDC will collect less money from a customer than the cost to supply that customer. In this example, a retailer owes an LDC 0.2¢/kWh for that billing period and there should be some security arrangement between the LDC and retailer to cover that risk. This issue is discussed further below.

At the Task Force meeting on August 11, a decision was made favouring mandatory consolidated billing by all LDCs. The Task Force agreed that, at a minimum, bill-ready billing should be provided. Subgroup 2 was asked to flesh out the details of this option and to consider whether simple rate-ready billing should also be provided.

At the subgroup meeting on August 18, retailer representatives suggested that three rate-ready options be considered along with bill-ready capability. The three options would all have a variable and fixed component, thus requiring two lines on each bill to cover services provided by a retailer. The first line would post the variable component and the second a descriptor along with a monthly fixed fee. For the variable component, the three options are:

1. A fixed price expressed as ¢/kWh multiplied times usage for the billing period.

2. A percentage mark-up (or mark-down) on the spot price times usage.

3. An adder (+ or -) to the spot price times usage.

Retailers prefer that under each rate option, the price would be allowed to vary by customer and could be changed as often as once per billing cycle. All parties agreed that changes would involve a transaction fee so that frequent changes might be costly. In theory, although highly unlikely in practice, every customer served by a retailer could have a different price and that price could change frequently. Consequently, the billing software used by LDCs would need to identify whether a customer is served by a retailer and then look up in a table what price and what price algorithm should be used. LDCs warned that the development cost to accommodate the flexibility outlined above will be costly and time consuming. LDCs are also very concerned that maintaining databases in light of frequent price changes will be costly and that the necessary "lookups" required to process a bill each time will slow down processing time. Retailers argue that, in light of the fact that the spot price changes each month, the necessity of looking up a new rate for each customer for each month is little different than the new requirements that LDCs face in calculating bills using the NSLS. As mentioned previously, if option 1 is used, this approach also offers the advantage of being able to issue bills to customers more quickly than under the NSLS approach, since the price is known at the time of the meter reading.

Another issue discussed by the subgroup concerned the definition of good-faith effort in the event of voluntary provision of services by an LDC. This was discussed at the time that the subgroup was considering voluntary, rather than mandatory LDC billing. The principles agreed to were that a good-faith effort should involve an offer by an LDC within a reasonable time frame to provide services requested by a retailer at a price that, at a minimum, fully recovers the cost of the incremental services (e.g., there is no cross-subsidisation). A good-faith offer must not discriminate among retailers and especially must be governed by the affiliate code of conduct. A good-faith offer should be responsive to the service requested. In other words, if a retailer only wants some services (e.g., billing) and not others (e.g., nonpayment risk coverage), an LDC should offer the unbundled service.

A final issue discussed concerned how to handle customer inquiries. There was general agreement that retailers should handle all inquiries concerning contract terms and commodity prices. There was also agreement that LDCs should handle inquiries pertaining to the wires portion of the bill, bill calculation errors and meter accuracy. There was no clear consensus regarding who should handle other types of inquiries, such as those concerning why a customer's usage may have gone up more than expected or how they might lower their energy costs. There was general agreement that customer's would expect to have such inquiries answered in a manner similar to current practice. However, whether such inquiries should be handled by an LDC or referred to a retailer was less clear. Some LDCs may wish to push such inquiries to retailers as a means of reducing costs. Other LDCs may wish to handle such inquiries as a means of maintaining customer satisfaction. Retailers will also differ in their interest in such inquiries. Those who are purely in the commodity business might be happy to have such inquiries handled by LDCs while those that also provide energy management services might wish to have such inquiries passed through the LDC to the retailer. At least one person suggested that this issue be left for market participants to work out while others felt that it should be dictated by the OEB. The group did not reach a consensus about this issue.

RECOMMENDATIONS:

1. LDCs must offer bill-ready consolidated billing to customers who are served by competitive electricity suppliers. LDCs are not required to offer rate-ready billing, but must make a good-faith offer to do so if asked.

2. Under bill-ready billing, a retailer will provide an LDC with the bill amount for the commodity and any additional retailer services and the LDC will post these amounts on a customer's bill, along with wires and other regulated charges. Up to two separate amounts will be received from retailers and posted by LDCs on each bill. These amounts must be provided to an LDC in sufficient time so that rendering a customer's bill is not significantly delayed beyond the LDC's normal bill-issue date. It is the retailer's responsibility to make arrangements with LDCs and/or other parties to obtain whatever information is required to calculate and provide the bill amounts in a timely manner. It is understood, however, that, in the absence of competitive meter services, LDCs will communicate customer usage data to retailers in a timely manner via electronic means. (See Issues VII.C and VII.D for discussion of timing.) The assumption of customer nonpayment risk under this option is discussed under Issue III.B.1.d.

3. Rate-ready billing or other billing services requested by a retailer over and above the minimum mandatory services outlined above must be offered on a good-faith basis. A good-faith effort is defined as making a non-discriminatory offer within a reasonable time frame for services requested by a retailer at a price that, at a minimum, fully recovers the cost of the additional services. If a retailer feels that an LDC is not negotiating in good faith, they can inform the OEB who will consider appropriate action.

4. Retailers must establish security arrangements with LDCs to cover retailer default risk during periods of time when the retailer's bill amount is expected to be less than the cost of supply based on the wholesale spot price. The magnitude of required coverage is defined in the recommendations for Issue II.B.1.(b).(5) and II.C.2.

5. LDCs will handle customer bill inquiries concerning the wires portion of the bill, meter accuracy, usage amounts and potential bill-calculation errors. For any inquiries about retailer pricing or contract terms, the customer will be referred to their retailer.

IMPLEMENTATION ISSUES:

Obligations of various parties associated with billing errors must be addressed. Also, timing data flaw between parties.

VOTER SUMMARY:

Five in favour; four against; one abstention.

DISSENTING OPINIONS:

The two retailer representatives at the meeting dissented from the majority opinion. In their view, the rate-ready options outlined above can be provided at reasonable cost (in conjunction with all of the other changes that must be made to billing systems) and would provide significant benefit to retailers entering the market. They believe that the rate-ready options outlined above should be mandatory. It should be mentioned that a subgroup representative from a competitive billing company agreed with the majority opinion and did not want the OEB to require that LDCs offer rate-ready services that would compete directly with services offered by third-party billing companies. It should also be pointed out that retailers most likely will be able to make arrangements with billing companies that would allow them to receive most, if not all, of the benefits of rate-ready, LDC consolidated billing without having to construct their own billing system. This could be accomplished by contracting to a third-party billing company to calculate bills based on whatever price terms a retailer desires and then providing the bill-ready amounts to LDCs.

An additional opinion submitted is as follows. We would like to voice a dissenting opinion with regard to the LDC consolidated billing option. It is the view of the collective members of our group that the LDC consolidated bill option is simply not good public policy and is not a recommendation that should be supported or advocated. It frustrates the development of a truly competitive retail market where separation of the wires and merchant functions are clear. We believe the end state is the wires company having few if any end use customers, and retailers (including affiliates) having the customer connection and customer care responsibilities. LDC consolidated billing impedes the development to this end state. It also confuses customers; they get the bill from the LDC and think that they are still the customer of the LDC when they are actually the customer of the retailer. It does not promote good relationship development between the retailer and customer where if the customer has a problem they go to the retailer first, not the LDC. In addition under LDC consolidated billing the LDCs are accepting credit risk in respect to pricing/ transactions which they have no control over. There is also a hazard to consider in allowing LDCs to build billing systems to support consolidated billing and as the market matures, there could be additional stranded costs from billing systems that have been abandoned.

ISSUE STATEMENT: ***(Final)***

Global Issue Outline III.B.1.a

Should a retailer that provides a consolidated bill have to pay the LDC for energy and wires costs even if they are not paid by the end-use customer being served?

OPTIONS:

1. LDCs must be paid for all services rendered to end-use customers through a retailer whether or not the retailer is paid by the end-use customer.

2. Retailers must pay LDCs for the energy portion of a bill regardless of payment from an end-use customer, but can pass through to LDCs nonpayment risk on the wires portion of the bill.

3. Customer nonpayment risk should be passed through to LDCs for the entire portion of the bill except for the retailer's gross margin on energy and wires services or for any non-electricity-related services (e.g., water heating, energy management, etc.).

BACKGROUND INFORMATION:

Although there was no formal recommendation by either the MDC or RTP on this issue, a general principle discussed in the Second Interim Report of the MDC, section 4.3.10, is that a competitive retailer that bills on behalf of an LDC should assume the responsibility for nonpayment risk by end-use customers. That is, an LDC should get paid regardless of whether or not the retailer gets paid. This is the established rule in most other jurisdictions that we are familiar with, including California.

If retailers are not held responsible, they would be allowed to hold back payment to LDCs for services rendered if not paid by the customer. LDCs could then begin collection actions.

There is no guidance on this issue from the gas industry because the unbundling of the billing function, which would make consolidated retailer billing a practical option, is not yet in place.

Historically, bad debts by LDCs in Ontario are in the range of .1 of 1 percent. This low percentage is believed to result from several factors, including the threat (and use) of disconnection and the historic right of MEUs to place tax liens on property as a means of collecting past-due bills. It may also result from close monitoring of customer accounts, the widespread use of deposits for customers who lease property, proactive practices by LDCs in working with customers to establish reasonable payment terms and the use of equal billing plans to avoid cash flow problems during high use months.

As discussed below, an important consideration surrounding this issue is the legal prohibition on retailers ordering disconnection of customers for nonpayment. Section 31(1) of the *Electricity Act, 1998* states, "A distributor may shut off the distribution of electricity to a property if any amount payable by a person for the distribution or retail of electricity to the property pursuant to section 29 is overdue." (Note: Section 29 refers to SSS.)

SUMMARY OF GROUP DISCUSSION:

All parties agree that nonpayment risk is a normal cost of doing business. However, because of legal constraints on disconnection imposed by the *Electricity Act*, not all parties have access to the same risk mitigation procedures in the restructured electricity market. Specifically, retailers are not allowed to order disconnection by an LDC for nonpayment of retailer bills. Disconnection is only allowed for nonpayment of distribution or SSS to LDCs. Consequently, if a retailer offers consolidated billing and is not paid, they can drop a customer but have little leverage to recover payment for services already rendered. LDCs who offer consolidated billing, on the other hand, can use the threat of disconnection and the withholding of reconnection pending payment as a means of mitigating nonpayment risk.

The subgroup discussed the advantages and disadvantages of allowing retailers to pass-through some or all of the nonpayment risk as a means of transferring the threat of disconnection through to end-use customers even when retailers offer consolidated billing. An inquiry to staff at the Ministry of Energy indicated that this solution would not be viewed to be in violation of the act. Retailers were in favour of this option and were very concerned about the potential increase in nonpayment risk if the threat of disconnection is lost. Retailers felt that they could live with the historically low bad debt percentage enjoyed in the province, but worried that bad debt could increase significantly once customers realised that the consequences of defaulting on retailer payments were not grave (e.g., they simply revert to SSS and keep receiving electrons).

LDCs were sympathetic to retailer concerns but were also very concerned about an increase in bad debt resulting from a loss of direct communication and connection to customers when retailers provide consolidated billing. LDC representatives argued that they often identify potential bad debt customers early, monitor them closely and work with them to avoid nonpayment and disconnection. They fear the loss of this ability. Some LDC representatives indicated that they would be open to option 2 or 3 only if retailers were forced to implement stringent collection procedures and monitoring similar to the current practices of LDCs. LDCs also pointed out that if split billing and LDC consolidated billing are available to retailers, they can mitigate risk by selecting one of these other options.

Most, if not all, subgroup members felt that options 2 and 3 were an attempt to get around restrictions in the *Electricity Act* that probably shouldn't have been there in the first place. In other words, this wouldn't be an issue if retailers had the right to order disconnection for nonpayment for services rendered in the same manner that LDCs do.

RECOMMENDATIONS:

In the event that a retailer offers full consolidated billing, the retailer must pay LDCs for energy and wires charges attributable to the end-use customers they serve regardless of whether or not the retailer is paid by the end-use customer. That is, the retailer must assume the customer nonpayment risk for all charges billed under this billing option.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Sixteen in favour of the recommendation, all LDCs; four against the recommendation, all retailers.

DISSENTING OPINIONS:

Retailer representatives recommended that retailers be allowed to transfer nonpayment risk for wires charges through to LDCs in order to gain the threat of disconnection. In response to these concerns, the subgroup developed an alternative billing-option proposal, partial consolidated billing, which is discussed on the following pages.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.B.1.b: In the event that a split-bill option is offered, which parties should be responsible for customer nonpayment risk?

OPTIONS:

1. LDCs to be accountable for nonpayment for all services.

2. LDCs and retailers to be accountable for nonpayment for the services each provides.

3. Retailers to be accountable for nonpayment for all services.

BACKGROUND INFORMATION:

Bill 35 states that a service cannot be terminated for nonpayment of a retailer's bill, but only for nonpayment of default supply. Retailers will be able to terminate contracts with customers when there is nonpayment.

The gas industry does not have a split-bill option, although historically it hasn't been an issue because only gas LDCs could bill for services.

SUMMARY OF GROUP DISCUSSION:

Retailers were not present at the first meeting where this was discussed but were present at the second subgroup meeting and at the Task Force review.

Option 3 was not discussed.

Option 1 and 2 were discussed at length.

LDCs support the disconnection of customers for nonpayment of services they provide.

Neither LDCs nor retailers want to be held responsible for nonpayment of services they do not provide.

RECOMMENDATIONS:

If split billing is offered, retailers should only be responsible for customer nonpayment of services they provide, not for the wires services being billed separately by LDCs to end-use customers.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

The recommendation passed by unanimous vote.

DISSENTING OPINIONS:

None.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.B.1.d: Who should assume customer nonpayment risk where an LDC provides a consolidated bill?

OPTIONS:

1. The LDC could assume the risk and the retailer would not be responsible for the nonpayment of an account by an end-use customer. The retailer would therefore receive full payment for the commodity without deduction for any bad debts.

2. The LDC could initially absorb the loss due to nonpayment by the end-use customer but recover the actual bad debt from the retailer (commodity only).

3. The LDC could initially absorb the loss due to nonpayment by the end-use customer but recover the approximate bad debt from the retailer by including an allowance for bad debts in the service fee charged to the retailer for billing and collecting services.

4. The industry (government?) could set up a provincial clearinghouse for bad debts associated with electricity distribution and supply which would be funded from a share of gross revenues from all LDCs and retailers in order to facilitate social programs that provide free electricity to targeted groups or customers. (This apparently exists in a few US jurisdictions with resulting bad debt losses in the range of 6 to 8 percent.)

5. Who assumes nonpayment risk should be negotiated on a good-faith basis between retailers and LDCs under the assumption that there would be no cross-subsidisation of such services by standard supply customers.

BACKGROUND INFORMATION:

Many LDCs in Ontario experience bad debts in the range of .1 of 1 percent due to the use of risk mitigation procedures such as the use of security deposits, the threat of service disconnection and the ability to place liens on property in the event of customer nonpayment. Other LDCs experience higher collections risk, in the range of 2 to 5 percent among mass-market customers. With corporatisation (which eliminates the ability of MEUs to place liens for nonpayment) and other changes in the market, there is general agreement that the collections problem may increase, perhaps significantly.

Under the new legislation, LDCs retain the right to disconnect service for nonpayment. However this privilege is not extended to retailers, who can neither disconnect a customer nor order an LDC to do so. However, when an LDC issues a consolidated bill, it may disconnect for nonpayment of the bill or for partial nonpayment if the nonpayment portion is attributed to the wires portion of the bill. To the extent that the threat of disconnection helps reduce nonpayment risk, retailers may wish to enjoy this low bad debt performance by paying LDCs to issue consolidated bills rather than issue their own consolidated bill and loose the risk mitigation procedure of service disconnection. If this is the case then there is still an issue regarding who should absorb the residual bad debts.

The Gas Industry has a practice similar to option 3 above, where the retailer is charged an estimated amount for their share of bad debts. This charge is included in the fee charged by a gas distributor to a gas retailer for accounting, billing, collecting and transmission services.

SUMMARY OF GROUP DISCUSSION:

It was understood by subgroup 2 participants that LDCs were to largely be protected from risk which was interpreted to mean that LDCs were not obligated to absorb bad debt losses associated with a retailer's commodity charge and were entitled to use various risk mitigating procedures to secure all accounts. It followed therefore that options 1 and 5 above were rejected and more attention was focussed on options 2, 3 and 4 which provided for the recovery of bad debt losses (for the commodity) from the retailer. The LDC would still be responsible for bad debts associated with the wires charges.

In considering the merits of recovering the exact commodity bad debt from a retailer or recovering an estimated amount for bad debts as a part of the billing and collecting charge to the retailer, it was noted that the gas industry favours the second practise.

Given the simplicity of including a reasonable allowance for bad debts in the billing and collecting charge to a retailer and considering that this practise would be an incentive to LDCs to continue to do a good job in collecting (because they may be able to keep the difference between the actual bad debt and the allowance paid by the retailer), the group generally favoured option 3. However, some LDC participants worried that it will be difficult, at least initially, to accurately predict the magnitude of bad debts in light of all of the changes that are occurring in the market and the general agreement that bad debt overall is likely to increase. These participants favoured the voluntary provision of option 3 with option 2 being the default.

RECOMMENDATIONS:

1. In the event that a retailer elects consolidated billing by an LDC, the LDC must offer to assume customer nonpayment risk for bill amounts associated with the full cost of delivered electricity. LDCs need not assume risk for any non-electricity-related services that might be included in a retailer's bill (e.g., home security, demand-side management services, etc.). The fee for this service will be based on an OEB approved rate. In the event that bad debt costs exceed the amount of money collected through the OEB-approved tariff, an LDC's shareholders will absorb the incremental cost. In the event that bad debt costs are less than the amount collected through the tariff, an LDC's shareholders will reap the benefit. LDCs may use whatever means are available under the law to mitigate customer nonpayment risk, including the threat of or implementation of disconnection for nonpayment of wires charges.

2. Retailers may or may not accept the offer outlined in recommendation 1. In this event, an LDC must pass through the bad debt costs and the cost of reasonably incurred collections procedures through to the retailer (e.g., operate under option 2 outlined in the options section above). That is, a retailer must pay an LDC for the costs associated with provision of the commodity even if the customer does not pay for the commodity.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Nineteen in favour; one against (LDC).

DISSENTING OPINIONS:

None.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.B.2: Risk Mitigation Procedures

- What risk mitigation procedures should be available to LDCs and should they be equally available to retailers?
- Should the Retail Settlement Code provide an exhaustive list of risk mitigation procedures or should the LDCs be free to choose whatever method they wish?

OPTIONS:

1. LDCs could be limited to a predefined list of risk mitigation procedures.
2. LDCs could be unrestricted in their use of risk mitigation procedures unless otherwise noted in the *Electricity Act*.
3. Retailers could be given the same predefined list of risk mitigation procedures as set out for LDCs.
4. Retailers could be restricted to adhere to a predefined list of risk mitigation procedures which are unique to retailers.
5. Retailers could be unrestricted in their use of risk mitigation procedures unless otherwise noted in the *Electricity Act*.
6. A list of approved risk mitigation procedures would be referenced within the Retail Settlement Code.
7. No specific list of risk mitigation procedures would be referenced within the Retail Settlement Code and LDCs would be free to choose their own procedures unless otherwise noted in the *Electricity Act*.

BACKGROUND INFORMATION:

Both LDCs and retailers have various tools at their disposal to mitigate nonpayment risk by end-use customers. These include deposits, late payment charges, the threat of disconnection (for LDCs only), prepayment, prepaid meters, load limiters and insurance. A useful discussion is contained in section 6.3 of the Retail Technical Panel Report. The only Retail Technical Panel recommendation on this issue (R6-11) is that LDCs should be allowed to use any tools they deem appropriate to mitigate end-use customer nonpayment risk.

SUMMARY OF GROUP DISCUSSION:

Subpanel participants agreed that unless otherwise indicated within the *Electricity Act*, LDCs and retailers should be equally free to choose whatever risk mitigation procedures they wish and that the development of an exhaustive list of mitigation procedures is not deemed appropriate or prudent.

RECOMMENDATIONS:

LDCs and retailers will be free to use any risk mitigation strategies allowed under the law.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Unanimous.

DISSENTING OPINIONS:

ISSUE STATMENT: (FINAL)

Global Issue Outline III.B.2.b: What should happen to a customer's deposit when a customer switches

- From an LDC to a retailer?
- From one retailer to another?
- From a retailer back to an LDC?

OPTIONS:

1. Deposit is returned to the customer.
2. Deposit travels from one supplier to another.
3. Where there may be a "wires" deposit and a "supply" deposit, one deposit may travel from one supplier to another.
4. LDCs hold all customer deposits with explicit rules established to direct payment to the appropriate party in the event of a customer's default.

BACKGROUND INFORMATION:

The RTP (6-11) recommends that distributors be allowed to use strategies such as deposits, late payment charges and prepayment for customers that distributors are obligated to supply. It did not specifically address deposit transfer issues.

This recommendation reflects current electrical industry practices whereby LDCs return deposits upon closing an account.

SUMMARY OF GROUP DISCUSSION:

- Whoever is responsible to collect payments when rendering consolidated billing to end-use customers should hold the deposit.
- Whoever is financially liable for incurring losses due to nonpayment by end-use customers should retain the deposit and manage risk mitigation.
- The party rendering consolidated billing is also assuming payment risks, hence to reduce potential losses, responsible party shall retain and manage deposit for these customers.
- Under split-billing arrangements LDCs may retain the full amount of the existing deposit OR return to the customer the portion of the deposit amount equivalent to "supply/ consumption" charges.
- When LDCs or retailers are involved in split-billing arrangements, deposit values should reflect the level of risk that is associated with the service being provided.

RECOMMENDATIONS:

If an LDC holds a customer deposit when a customer changes suppliers and the new supplier is offering consolidated billing, the deposit should be applied to the final bill. Any remaining amount should be returned to the customer according to the terms specified by the LDC when the deposit was collected. LDCs have no obligation to redirect any portion of a deposit to a retailer. In the event that split billing is chosen by a customer or retailer, deposit amounts held by LDCs should be adjusted in accordance with the risk associated with the new level of service provision (e.g., commensurate with the estimated amount of the wires charge only).

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Unanimous; 20 in favour.

DISSENTING OPINIONS:

None.

ISSUE STATEMENT: *(Final)*

Global Issue Outline III.B.2.c.(2): Should an LDC be allowed to refuse to reconnect a customer unless the customer has paid all past due bills associated with wires charges and standard supply?

OPTIONS:

1. An LDC can refuse to reconnect a customer until the terms of disconnection have been met, whether or not a retailer has now agreed to provide service to the customer.

2. An LDC can refuse to reconnect a customer based on its terms of service. It cannot refuse to connect a customer based on a retailer request. In other words, even if a customer has not fully paid an LDC for past services, if a retailer agrees to serve the customer in the future, the LDC must reconnect the customer.

BACKGROUND INFORMATION:

- Subsection 31(1) of the *Electricity Act*, states, "A distributor may shut off the distribution of electricity to a property if any amount payable by a person for the distribution or retail of electricity to the property pursuant to section 29 is overdue."

- OEB staff interpretation; retailers may not disconnect customers for nonpayment of competitive services.

- RTP R6-10 states that LDCs should be allowed to refuse to reconnect unless a customer has paid all past due bills associated with wires charges and standard supply.

- (Current guideline) Standard Application of Rates; if the bill is still unpaid 16 calendar days after the due date and seven calendar days after a disconnect notice has been given to the customer, the service may be discontinued and not restored until satisfactory payment arrangements have been made. Such discontinuance of service does not relieve the customer of the liability for arrears or minimum bills for the balance of the term of contract nor shall the Supply Authority be liable for any damage on the customer's premise resulting from such discontinuance of service. Disconnect notices will be in writing and if given by mail shall be deemed to be received on the third business day after mailing.

- (Current guideline) Municipal Electric Association Administrative Practices; if an account is unpaid seven days after the due date, the utility may deliver a notice of disconnection in writing by mail or delivery. Landlords and/or tenants of the customer on request may receive notice of disconnection in a similar manner. Service may be disconnected seven days after delivery of the disconnect notice. There must be reasonable effort to communicate directly to the occupants and/or owners.

- Municipalities may enact a vital services bylaw which permits a municipal official to enter into an agreement with the utility on behalf of the municipality to ensure vital services are provided to rented or leased premises. The bylaw would ensure that the utilities are paid either by the landlord or the municipality. The bylaw has the effect of removing the utility from having to disconnect residential tenants whose utilities are included in their rent.

- (Current Guideline) *The Public Utilities Act* provides that in default of payment the corporation may shut off the supply but the rents or rates are recoverable. Also the utility has the right to access to discontinue service.

- *The Bankruptcy and Insolvency Act* contains specific sections with respect to service supply particularly where the debtor has filed a proposal.

- *The Companies' Creditors Arrangement Act* contains specific sections with respect to payment and service supply rights.

SUMMARY OF GROUP DISCUSSION:

- The customer may be an owner or tenant. Only the customer who had a supply arrangement with the utility and has defaulted can be refused service. Payment default is customer specific, not service specific. Thus, if a customer has defaulted at one location he can be refused reconnection at another location.

- Current guidelines are workable.

- Local conditions and requirements may be taken into consideration.

- Historically, utilities have made arrangements with customers that are satisfactory and within the utility guidelines for arrears of active accounts and disconnected accounts that are still active or have been finalised.

- Utilities may have guidelines or policies with respect to disconnection, payments arrangements and reconnection.

- Retailers cannot disconnect or reconnect but they may terminate their contract with the customer for supply.

- Load limiters, service interrupters and prepaid meters are tools that may be used by a utility for accounts that are in arrears. For purposes of reconnection and disconnection when these devices are used it is assumed that there is no permanent disconnection of service as the customer still has the ability to maintain service supply.

RECOMMENDATIONS:

LDCs must "retain the right" to refuse to reconnect until all arrears are paid in full to the LDC for distribution or SSS.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Unanimous.

DISSENTING OPINIONS:

None.

ISSUE STATEMENT: ***(Final)***

Global Issue Outline III.B.2.c.(3): What guidelines should be set for the timing and notification of disconnection?

OPTIONS:

1. LDCs should be allowed complete discretion in this area subject to the specific guidelines identified in the *Electricity Act.*

2. Uniform, detailed guidelines should be established and used throughout the province.

BACKGROUND INFORMATION:

See the detailed listing of relevant statutes and practices provided under the discussion for issue III.B.2.c.(2).

Section 31(2) of the *Electricity Act, 1998* states, “A distributor shall provide reasonable notice of the proposed shut off to the person who is responsible for the overdue amount by personal service or prepaid mail or by posting the notice on the property in a conspicuous place.”

SUMMARY OF GROUP DISCUSSION:

- The customer may be an owner or tenant.
- Current guidelines are workable.
- Local conditions and requirements may be taken into consideration.
- Historically utilities have made arrangements with the customer that are satisfactory and within the utility guidelines for arrears on active accounts and disconnected accounts that are still active or have been finalised.
- Utilities may have guidelines or policies with respect to disconnection, payments arrangements and reconnection that use the guidelines as minimum.
- Subgroup participants saw no major advantage to uniformity from the perspective of supporting the competitive market or hindering retailer supply and agreed that local population characteristics and conditions vary, making flexibility a virtue.

RECOMMENDATIONS:

Present LDC disconnection practices may continue provided they do not contravene the *Electricity Act*.

VOTER SUMMARY:

Unanimous.

DISSENTING OPINIONS:

None

ISSUE STATEMENT: (FINAL)

Global Issue Outline (No Issue Outline #):

- What costs should be shown on a settlement invoice to a retailer?
    1. Individual customer data?
    2. Retailer administration fees (switching, special meter reads, consolidated billing fees)?
- Does the retailer invoice reflect the unbundled bill format?
- How does the invoice change with billing options?
- When should a retailer be invoiced for the various charges?

OPTIONS:

1. Costs shown on a settlement invoice to a retailer:
    1. Regardless of billing option retailer will receive same line items as SSS bill for end-use customers with a summary (total) of net amount owed to LDC by line item. Administration fees will be itemised by account number and type and totalled by type (e.g., meter charges, special meter reads, billing fees, set-up charges, etc.)
    2. In the case of retailer consolidated billing, the retailer would receive the same line items as the SSS bill for end-use customers. In the split-bill scenario the retailer would receive only the SSS commodity line items. In the "LDC consolidated billing" the retailer would receive only the net SSS commodity line items. Administration fees will be itemised by account number and type and totalled by type (e.g., meter charges, special meter reads, billing fees, set-up charges, etc.)
2. When a retailer should be invoiced for the various charges:
    1. Invoice by bill group/cycle for end-use customers and a separate monthly for administration fees.
    2. Invoice by bill group/cycle for end-use customers and add administration fees as separate line items to one bill a month.
    3. Invoice by bill group/cycle for both end-use customers and administration fees incurred that day plus a prorated portion of monthly service charges such as rate changes, billing fees and other discretionary and non-discretionary fees.

BACKGROUND INFORMTION:

It is assumed that retailers will want to see individual customer data and that the only reasonable means of providing this information is in an electronic format. In the event that a retailer exercises more than one billing option it will be more cost effective for a LDC to provide the same information for end-use customers regardless of billing option. While LDCs could customise the information sent to retailers based on the bill option, SSS customers should not bear the inevitable increased costs for these customised invoicing services. Retailers who benefit from the customisation should bear this cost if LDCs decide to invest in providing the service for business reasons.

The daily summary of the end-use customers billed that day will provide the net total owed to the LDC by line item and it is expected that this will be included in one electronic file.

The administration charges such as switching, billing, bill set-up, rate change, meter changes, special meter reads, etc. are more conveniently billed on a monthly basis as they may not be incurred on the same billing cycle/date as the commodity and wires charges. For example, if a retailer may implement new rates while exercising an "LDC bills all billing option," administration charges will be charges to the retailer for the programming costs to change the rates in the billing system. These charges would be a one-time charge and not relate to individual end-use customer bills. Monthly billing of administration charges may also provide a clearer audit trail.

SUMMARY OF GROUP DISCUSSIONS:

One of the underlying assumptions around LDC billing to retailers is that invoices will be transmitted electronically utilising the provincial EBT systems as described in recommendations ### of this document.

Further, the group agreed that bills should be itemised by individual account number and totalled by cost category.

There was significant discussion around the level of detail required to be shown. In general, retailers felt that LDCs should provide the level of detail that was required to calculate the SSS bill for each end-use customer. LDCs were concerned that this level of detailed information may not reside in a single information system and would have to be pulled from multiple systems and consolidated for the benefit of the retailer, thus creating added costs.

There appeared to be general support for the argument that retailers should have access to the same level of detailed information as was passed from the settlements system to the billing system for calculation and presentment of SSS customer bills.

Discussion ranged on the details that would be required. To date LDCs are unsure of the level of unbundling that will be mandated at open access, however, the general impression is that at a minimum, the following items will be displayed as separate line items on customer bills:

- Competitive electricity charge (cost per kWh).
- Transmission charge (with fixed, energy and demand components).
- Distribution charge (with fixed, energy and demand components).
- Competition Transition Charge (uncertain how this would be allocated).
- Market Power Mitigation Credit (uncertain how this would be allocated).
- G.S.T. for each of the above components.
- Avoided cost credits (for meter reading, meter service and billing service).

The group agreed that it was premature to explicitly state what level of detail would be required on the retailer invoice, when it is unknown what level of detail will be required on the SSS bill. [Question: Is one of the codes or the PBR handbook going to deal with this????]

RECOMMENDATIONS:

Costs shown on a settlement invoice to a retailer:

> Regardless of billing option retailer will receive at a minimum, the unbundled bill determinants that the LDC would use to calculate the SSS bill for each end-use customers served by that retailer. This information is deemed to be, at a minimum, the items listed above. In addition, a summary and total of all charges will also be provided. Administration fees will be itemised by account number and type and totalled by type (e.g., meter charges, special meter reads, billing fees, set-up charges, etc.)

When a retailer should be invoiced for the various charges:

> Invoice by bill group/cycle (could be daily, weekly or some other frequency depending on LDC billing schedules) for end-use customer-related charges. Invoices including end-use customer data would be provided in an electronic format via the provincial EBT system. A separate monthly invoice for administration fees may be issued (not using EBT at the start of the market).

IMPLEMENTATION ISSUES:

Direction is needed from (OEB??) regarding the minimum mandated unbundling required for SSS customer bills in order to determine the level of detail that can be passed on to retailers in their invoicing.

VOTER SUMMARY:

The vote at the Task Force meeting of October 5, 1999 was unanimous on both parts I and II.

DISSENTING OPINIONS:

None.

ISSUE STATEMENT: ***(Final)***

Global Issue Outline (No Issue Outline #): Should the timeline for settlement invoicing between LDCs and retailers be mandated under the code for each of the different bill options, i.e., split bills, LDC and retailer consolidated billing?

OPTIONS:

1. Make reference in the code that service agreements between LDCs and retailers must at a minimum, specify a settlements timeline that parallels the timeline for settlement between an LDC and its SSS customers, regardless of the bill option. Any other timeline could be the subject of negotiations between an LDC and retailer, but LDCs would not be obligated to support these and may charge for services beyond the minimum standard.

2. Mandate the specifics of the settlements invoicing timeline in the code for each of the bill options, i.e., split bills, LDC and retailer consolidated billing.

3. Make reference in the code that service agreements between LDCs and retailers must identify the schedule/critical dates in the settlement timeline negotiated between the parties for each of the bill options.

BACKGROUND INFORMATION:

There are a number of critical dates and activities in the settlement timeline for electricity delivery and supply. Key milestones include meter read dates, bill issue dates, due dates, remittance dates and collection dates. Key activities include reading or estimating of meters, conversion of meter read data into VEE billing quantities, determination of pricing data, calculation of charges and formatting of the bill data for presentment.

Further complicating these dates and activities is the requirement to be able to make adjustments to bill data in both the pre-bill and post-bill stages as errors and exceptions are identified. An example of a pre-bill error/exception would be an out-of-range meter reading, an example of a post-bill error/exception would be an incorrect meter reading or bad estimate identified by the customer on receipt of the bill.

At market opening, these processes and timelines become much more complex for two reasons: (a) the introduction of multiple new parties in the billing/settlements process who will be sending and receiving information in order to generate bills; and (b) the requirement for LDCs to calculate an SSS service bill, based on the wholesale spot price for electricity, for every customer connected to their wires—and direct the appropriate charges to either the end-use customer or the retailer supplying the customer.

Market opening will introduce a ten business day lag between the trade (or read) day and the availability of preliminary pricing data from the IMO on which LDCs must calculate the NSLS/weighted average cost of power to be utilised for billing cumulative metered customers. Meter data will be made available to authorised retailers, likely through a Meter Data Mart. For interval metered customers the lag between read date and the cut-off for posting VEE quantities is expected to be ten business days, while noninterval meter data may be available as early as the night of reading. Retailers would be responsible for accessing this data once it is made available if they are responsible for calculating a portion or all of a customer's bill.

Ultimate responsibility for payment of the SSS bill items is dependent on whether the customer is being supplied by a competitive retailer or not and the bill option under which they are being supplied.

Many if not most LDCs bill their customers based on cycles or groups in order to bring cost and work management efficiencies to the meter reading and billing processes. These efficiencies would be severely strained if the billing/settlements timeline for customers within a cycle or group varied between SSS and retailer-supplied customers and by bill option. While it is not impossible for LDCs to produce bills off cycle, standard supply customers should not bear the inevitable added costs that off-cycle services would create. Retailers who benefit from such services should bear these costs if LDCs decide to invest in them for business reasons.

Other LDC concerns would be around managing many different billing schedules, lack of consistency between customers in the same bill cycle or group and resulting confusion, unnecessarily increased complexity in an already complicated environment.

In a split-bill scenario, the LDC would likely prefer to calculate all charges at once and direct them to the appropriate party (end-use customer or retailer) at the same time.

For an LDC bills all scenario, the preference would be to receive the retailer bill-ready data within the ten business day window between the meter read and IMO pricing availability so that both the customer bill and the retailer settlement bill can be calculated at the same point in time. If retailers' bill-ready data missed the billing window, then it would need to be resubmitted by the retailer for presentment on the subsequent bill.

Where the retailer bills all, the retailer would be free to bill on any timeline, but would not receive LDC bill-ready wires charges until after the ten-business-day lag.

Conceptually, the timeline and milestones might look as follows:

Day (business days)

n Trade day/meter read day

n + 4 All noninterval meter read VEE data posted and accessible

n + 10 All interval meter read VEE data posted and accessible

LDCs receive IMO preliminary pricing data.

LDCs calculate NSLS and WACOP for billing SSS.

Cut-off for LDC receipt of retailer bill-ready line items.

n + 11 LDC calculates and produces SSS bills to end-use customers

LDC calculates and produces retailer settlement bills.

LDC calculates and produces split bills.

LDC calculates and produces LDC consolidated bills.

LDC calculates and sends bill-ready wires charges to retailer for retailer bills all.

The above assumes electronic transfer of bill data between LDCs and retailers, using the provincial EBT system and allows retailers to retrieve meter data, do their commodity calculations and pass bill-ready line items back to LDCs during the period between *n* and *n* + 10 business days.

At *n* + 11 business days, the LDC would simultaneously bill their SSS end-use customers and retailers.

SUMMARY OF GROUP DISCUSSION:

There was considerable discussion around the settlements timeline and the cash flow implications for retailers and LDCs due to the ten-business-day lag from meter reading to availability of pricing data from IMO.

While it was recognised that under certain bill options, customer billing and settlement invoice timelines were not inextricably tied, the consensus of opinion was that there would be both cost and administrative efficiencies gained from LDCs simultaneously billing their SSS end-use customers, LDC consolidated billing and retailer settlement invoicing.

RECOMMENDATION:

Option 1 is recommended. Make reference in the code that service agreements between LDCs and retailers must at a minimum, specify a settlements timeline that parallels the timeline for settlement between an LDC and its SSS customers, regardless of the bill option. Any other timeline could be the subject of negotiations between an LDC and retailer, but LDCs would not be obligated to support these and may charge for any services beyond the minimum standard.

IMPLEMENTATION ISSUES:

None.

VOTER SUMMARY:

Unanimous.

DISSENTING OPINIONS:

None.