

## Energy Retailer Service Charges Review

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London Hydro was invited to be a member of the OEB working group reviewing Energy Retailer Service Charges. After the conclusion of three meetings and one conference call, the OEB invited working group participants to submit written comments.

London Hydro would like to thank the OEB for initiating this review and allowing London Hydro to provide the following comment letter for consideration.

### Executive Summary

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London Hydro has reviewed the current state of the electricity retailer market from London Hydro's position. It is London Hydro's observation that customer enrollment in the electricity retail market is in significant decline and that London Hydro would suggest that the current Distributor Consolidated Billing (DCB) and EBT exchange system facilitating the market has reached a point where it is no longer economically feasible to maintain as is. The OEB opened this review as a means of aligning the utilities cost recovery mechanisms and to facilitate the creation of a new Retailer Service Charge to capture the costs of creating the Notice of Switch Letter that came into effect on July 1, 2017. To this London Hydro makes the following observations and suggestions:

The energy retailer service rates currently approved on London Hydro's tariff sheets do not recover the costs for operating the DCB retailer transactions system. With the declining retail volumes being experienced London Hydro's under recovery of costs continue to grow. London Hydro would suggest the retailer rates be increased to address this.

The current RCVA settlement mechanism for retail true ups historically has been applied to all of the customers of London Hydro, which is in truth customer cross subsidization. That is to say all customer cross subsidize retail transactions. London Hydro would suggest that the RCVA settlement mechanism be changed to be applied to retailers directly.

London Hydro would conjecture that the current EBT system is now a legacy system, experiencing continuing revenue declines based on declining retail volume and being

run with marginal resources. London Hydro would suggest that the OEB recognize that any significant structural changes will result in significant costs to be recovered by the EBT providers and electricity distributors. London Hydro would suggest that no structural changes be required when adjusting the retail rates.

London Hydro notes that the Distributor Consolidated Billing (DCB) structure by design enables the retailers to be held harmless from customer bad debt. London Hydro would suggest that this exposure is being cross subsidized by London Hydro customers.

In summary London Hydro notes that retail electricity system as exists today in Ontario is in essence a failed experiment. Over the last 15 years of its operation it has proven to be of greater cost to multiple parties than the benefits derived. It is London Hydro's recommendation that the DCB retail electricity system as exists today be terminated. In the alternative London Hydro would suggest that the retailers transact directly with their customers on a commercial third party basis in respect to the financial exchange of contracts for difference.

The retail customer would remain with London Hydro as a default consumer being charged for electricity consumption at wholesale (HOEP) rates. As the electricity distributor is the custodian of electrical consumption data, the distributor should only be required to disclose consumption and cost data to the retailer for a fee. The current EBT system could continue to facilitate that exchange.

### London Hydro's Observations for Consideration

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Through this process London Hydro makes the following observations we have with respect to retailer billing.

The first observation by London Hydro is that retail customer volumes are steadily declining, primarily in respect to residential customers. In 2011 14.4% of residential customers were with a retailer where today 3.3% of residential customers are with a retailer. GS<50 kW and GS>50 kW have exhibited some decline but are more constant of late. In 2011 11% of commercial customers were with retailers where today 6.2% of commercial customers are with retailers.

Table 1

### Residential Retail Customers

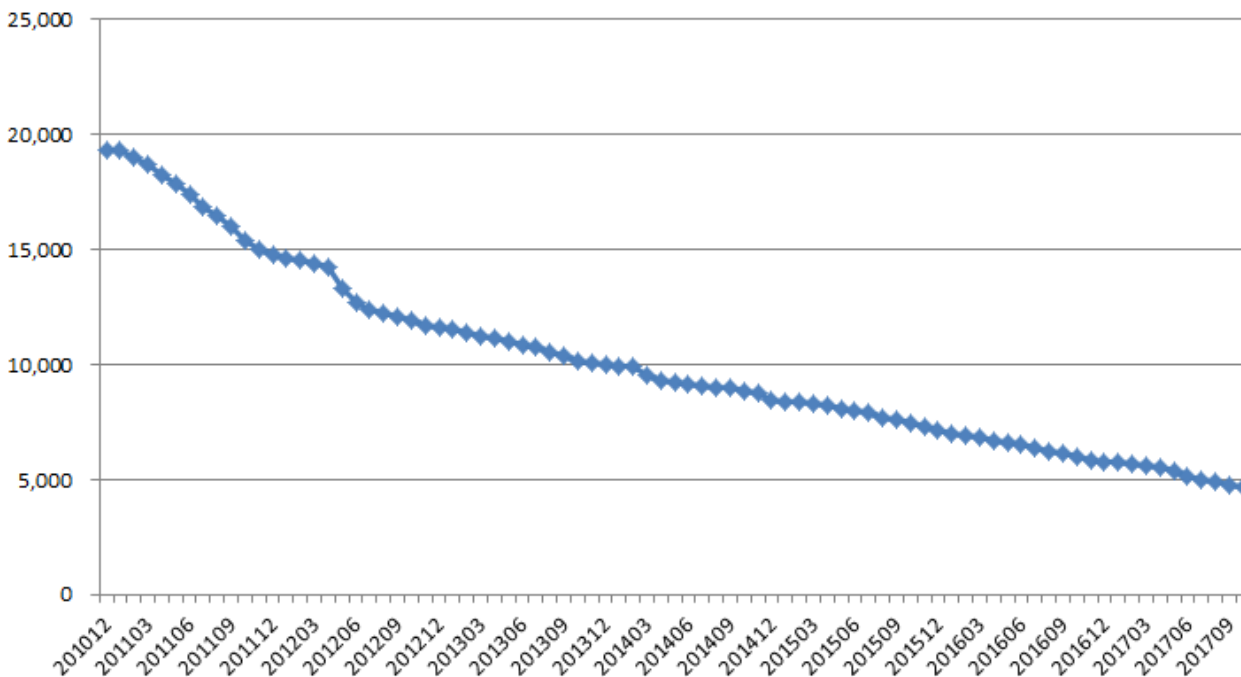
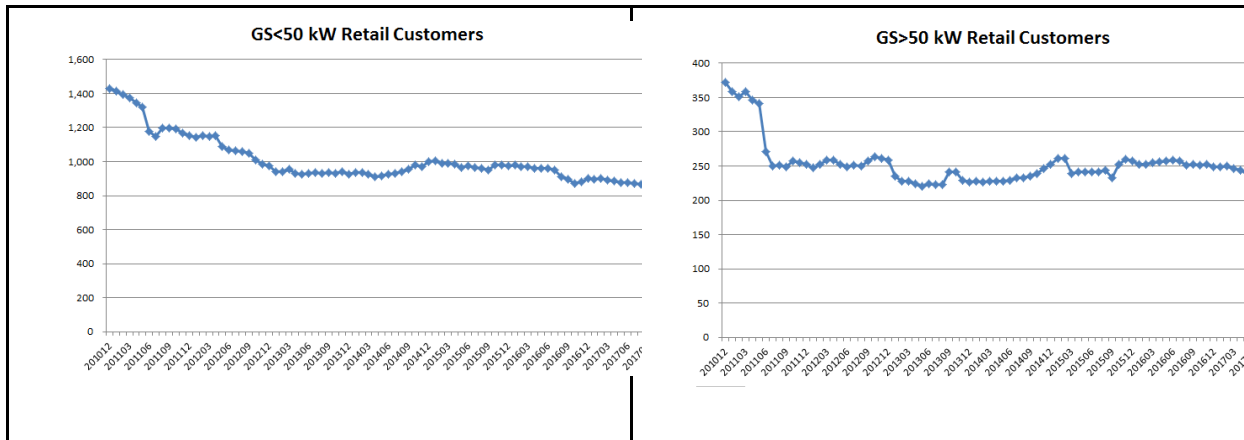


Table 2



Further to the above London Hydro notes below the activity levels surrounding retail transactions over the last few years, further highlighting decline in activity.

**Table 3**

	Switch Requests	Enrol Requests	Drop Requests	Total Enrolled
2013	1903	1373	3234	11173
2014	850	989	2424	9788
2015	300	1097	2557	8439
2016	326	641	2218	6933
2017	75	260	1518	5756

**Table 4**

**CRS Phone Stats**

Retailer Drop Manually Completed  
 Retailer Enquiry  
 RPP Variance Settlement Inquiry/Request  
 Retailer Correspondenc  
 Retailer Move Request

	2010	2011	2012	2013	2014	2015	2016	2017
Retailer Drop Manually Completed	4	5	3	6	1	-	9	4
Retailer Enquiry	992	620	798	553	372	376	349	123
RPP Variance Settlement Inquiry/Request	4	1	1	122	24	14	17	18
Retailer Correspondenc	28	27	15	16	9	4	2	5
Retailer Move Request	3	2	2	1	2	2	2	1
	1,031	655	819	698	408	396	379	151

London Hydro's second observation suggests that London Hydro is currently under recovering from the retailers the full cost incurred in the processing retailer transactions.

**Table 5**

<b>London Hydro RCVA Rev Exp</b>			
<b>July 2016 to June 2017</b>			
	Revenue	Expense	Variance
LDC Consolidated Billing Charge	(\$24,955.80)	\$46,792.88	\$21,837.08
Retailer Monthly Fixed Charge	(\$4,720.00)	\$840.60	(\$3,879.40)
Retailer Monthly Variable Charge	(\$41,642.50)	\$83,595.36	\$41,952.86
Standard One Time Charge	(\$100.00)	\$0.00	(\$100.00)
Avoided cost credits	\$0.00	\$0.00	\$0.00
<b>1518</b>	<b>(\$71,418.30)</b>	<b>\$131,228.84</b>	<b>\$59,810.54</b>
STR - Processing Fees	(\$1,000.50)	\$1,893.26	\$892.76
STR - Request Fees	(\$742.25)	\$1,893.26	\$1,151.01
STR - Information Request Fee	\$0.00	\$0.00	\$0.00
<b>1548</b>	<b>(\$1,742.75)</b>	<b>\$3,786.51</b>	<b>\$2,043.76</b>
<b>Grand Total</b>	<b>(\$73,161.05)</b>	<b>\$135,015.35</b>	<b>\$61,854.30</b>

London Hydro notes that retail charge revenues are declining monthly with the rate of retail customer decline while the cost of servicing retail customer accounts remains relatively flat and constant. London Hydro would suggest that even with declining volumes of customers the daily processing routines to maintain servicing retail transactions remains.

The OEB does provide electricity utilities with two Retail Cost Variance Accounts (RCVA) variance accounts (USoA 1518 and 1548) to capture our unrecovered differences. However the ultimate settlement of the variance is spread across all ratepayers universally in the Group 2 EDDVAR disposition process which results in a form of cross subsidization. The retailers are held harmless from incurring the costs that it is theirs to bear.

It is London Hydro's experience with developing and maintaining a reasonable cost tracking system for variance account reporting is more of a nuisance than any benefit derived. As the recovery is from London Hydro's customers currently and not related to recovery from the real contributors (i.e. retailers) there is no real reason to maintain the accounts accurately. If polled London Hydro would assume other utilities would suggest same. Hence some utilities have recently requested the OEB to discontinue RCVA variance recording.

Using the principle of beneficiary pays the logical solution would be to suggest having some form of a direct recovery charge levied against the retailers with respect to variance recovery. The difficulty with this concept would likely be an increase in regulatory costs by all parties in that the utility will need to incur costs to argue amount of claim for recovery and the retailer would incur costs challenging those claims. The OEB would also be involved hearing argument. Considering the materiality of amount claimed through the variance accounts all that is achieved is more costs. Hence in the end the utility is no better off by using the variance account as there is essentially no difference in the final outcome.

The EBT system was originally designed to provide economies of scale and facilitate the retailers by providing a single standard of service. London Hydro would conjecture, without any source of verifiability, that the current EBT system may no longer be a viable operation for the operator and hence could be running as a legacy system without strong support. London Hydro is only supposing this as it would make sense that as retail customers decline so does the financial return to the EBT operator. Assuming the system is running on band aids and duct tape, London Hydro cannot see any opportunity for making any radical changes to the current energy retailer service charges fee structure without the incurrance of more costs to retailers and utilities by the EBT operator to change the system. Therefore London Hydro would suggest that no changes be made to the current rate structures in place, however changes in current fee amounts should be considered.

London Hydro would also conjecture, again without any source of verifiability, that the amounts for variances between costs incurred and retail charge revenue received by differing utilities can be significantly different. Using Hydro Ottawa, London Hydro and Guelph Hydro as examples (all three being members of the working group) London Hydro could presume the following. Within reason, all three utilities potentially expend the equivalent amount of time, effort and resources dealing with retail transactions annually incurring costs similar to London Hydro in the amount of \$135 k. Potentially Hydro Ottawa could have twice the amount of retail customers as London Hydro and London Hydro has twice the amount of retail customers as Guelph Hydro. Using the London Hydro's revenue amount of \$73 k it is probable that Hydro Ottawa could have retail charge revenues of \$146 k and Guelph could have retail charge revenues of \$36 k. Using this analogy Hydro Ottawa could be breaking even on cost recovery, London Hydro incurring an under recovery of \$61 k (not technically material when compared to our materiality threshold) but Guelph would under recovery by \$120 k which for them would be material when compared to their materiality threshold.

What denotes further discrepancies amongst LDC's is how the utilities bill. London Hydro has 153,000 customers and therefore bills using cycle billing to streamline bill production. This means that we run billing each working day of the month with retail transaction mixed in. Hence London Hydro must perform the same daily retail transaction process each working day of the month. Conversely small LDC's may bill all customers in one billing run per month. One small northern utility disclosed that they estimate that it takes all in about nine hours a month to process retail transactions based on one bill run a month. This same utility identified that their EBT provider bills on a minimum bill basis hence with their shrinking loads they pay the minimum bill per month. The point is each utility may have different processes which will vary the calculation of costs.

Lastly London Hydro reviewed the customer enrollment by retailers by rate class. One retailer has only two customers. London Hydro's sense would say that if a material change in current fees was instituted that this may have a material effect on the retailers. However London Hydro would suggest that either a retailer has enough customers (across the many LDCs) to support a business model or it doesn't. London Hydro would suggest it will depend on whether its overall costs are supported by the revenue it brings in. London Hydro would think that retailers will fight increases simply because it may impact their ability to offer contract terms that customers are willing to believe will be cost effective for them. Also, they would want to be able to reset their contract terms/pricing with customers before a big change in fees is made. Otherwise they may not be able to generate sufficient revenue to offset the increase costs. Given

retailer contracts span multiple years, retailers will not be able to react quickly to changing their pricing to existing customers.

Table 6

	RES	G<50	G>50	SENL	Grand Total
	106	132	28	1	267
		22	24	2	48
	3	100	53		156
	14		6		20
	5				5
	4	85	21		110
	6	50	31		87
		9	3		12
	1	53	36		90
	3,492	115	2		3,609
			2		2
	41	155	22		218
	434	96	10		540
	521	45	4		570
	55				55
	2	3			5
<b>Grand Total</b>	<b>4,684</b>	<b>865</b>	<b>242</b>	<b>3</b>	<b>5,794</b>

London Hydro also observes that there is an inequity in the process with respect to DCB. London Hydro is an agent for the retailer wherein the utility is responsible for the billing and collection from the customer. Payment to the retailer is ultimately a settling of the differences between retailer contracted prices and a weighted commodity price. The inadvertent fall out of this is that London Hydro holds the liability of default should the retail customer fail to make payment and the account ultimately falls into bad debt. This further exacerbates the issue of customer cross subsidization. Further the retailer is held harmless from payment default and bears virtually no risk since they settle with the utilities who are traditionally good payers. There is a clear disparity in sharing of risk.

In concert with the above London Hydro would point out that there is absolutely no transparency in respect to disclosure as to the true nature of the retailer's contract for differences using the current DCB/RCB exchange. That is to say that the invoice as presented to the retail customer only displays the amount settled with the retailer and not the cost of electricity that would have been applied if the customer was to pay the weighted average HOEP. This challenges any retail customer's ability to determine if they have made a good decision or not in selecting a retail contract.

In addition the net metering legislation provides for retail customers to be allowed to participate in net metering. Currently no London Hydro retail customers have been enrolled for this. This is not to say that there has been no interest, it is only that it is feasible in the current EBT system. It is London Hydro's concern that the current EBT system cannot accommodate net metered retail customers and that significant system changes would be required to accommodate net metering. Given the current limited interest in net metering and declining retail enrollment any cost incurred to facilitate net metering in the current system structure would be economically infeasible.

### London Hydro's Initial conclusion

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London Hydro would suggest that what we are witnessing is the slow death of an industry, primarily with respect to the residential retail market. At the current rate of decline London Hydro would sense that we may have very little to no residential retail customers left in the next three and a half years. Presumably the commercial market will remain at its current level.

As has been incorporated in the electricity utility residential distribution rate structure the more obvious answer to address the declining volume retailer charge revenue is to impose more of a fixed rate structure to obviate the growing under recovery of retailer service costs.

London Hydro's initial recommendation as a result of the review above would be to start by suggesting that no structural change in the current fees as applied be introduced so that no changes to the EBT, retailers and electricity distributors systems would be required. To show consideration of cross subsidization concerns the OEB could update the current rates by a one-time factor of 1.5 to 2 times. However, as is attempted to demonstrate below, even by changing rates to compensate for recovery in 2016, 2017 year to date to September continues to fall behind, due to declining customer base. This could be addressed by applying higher monthly fixed rates to the retailers, however even the number of retailers are declining. London Hydro would further note that continued regular adjustments to retailer service charge rates would be required until such time as the retail market levelize for commercial customers as suggested earlier in this letter.



Table 7

	2016			Current Rate	Proposed Rates	Proposed Revenue
	Quantity	Revenue	Expense			
<b>1518</b>						
Standard One Time Charge	0	\$0.00	\$0.00	\$ 100.00		
Retailer Monthly Fixed Charge	240	(\$4,800.00)	\$832.32	\$ 20.00	\$40.00	(\$9,600.00)
Retailer Monthly Variable Charge	91,344	(\$45,672.00)	\$83,675.57	\$ 0.50	\$0.75	(\$68,508.00)
LDC Consolidated Billing Charge	91,101	(\$27,330.30)	\$48,888.97	\$ 0.30	\$0.60	(\$54,660.60)
Avoided cost credits	0	\$0.00	\$0.00			
<b>1518 Total</b>	<b>182,685</b>	<b>(\$77,802.30)</b>	<b>\$133,396.86</b>			
<b>1548</b>						
STR - Request Fees	3,945	(\$986.25)	\$1,879.22	\$ 0.25	\$0.50	(\$1,972.50)
STR - Processing Fees	2,371	(\$1,185.50)	\$1,879.22	\$ 0.50	\$1.00	(\$2,371.00)
STR - Information Request Fee	0	\$0.00	\$0.00			
<b>1548 Total</b>	<b>6,316</b>	<b>(\$2,171.75)</b>	<b>\$3,758.43</b>			
<b>Grand Total</b>	<b>189,001</b>	<b>(\$79,974.05)</b>	<b>\$137,155.29</b>			<b>(\$137,112.10)</b>


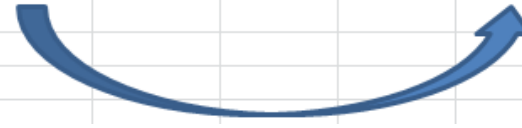


Table 8

	2017				Current Rate	Proposed Rates	Proposed Revenue
	Quantity	Revenue	Expense	Variance			
<b>1518</b>							
Standard One Time Charge	2	(\$200.00)	\$0.00	(\$200.00)	\$ 100.00	\$ 100.00	(\$200.00)
Retailer Monthly Fixed Charge	158	(\$3,160.00)	\$565.92	(\$2,594.08)	\$ 20.00	\$40.00	(\$6,320.00)
Retailer Monthly Variable Charge	52,082	(\$26,041.00)	\$56,069.90	\$30,028.90	\$ 0.50	\$0.75	(\$39,061.50)
LDC Consolidated Billing Charge	52,295	(\$15,688.50)	\$31,118.66	\$15,430.16	\$ 0.30	\$0.60	(\$31,377.00)
Avoided cost credits	0	\$0.00	\$0.00	\$0.00			
<b>1518 Total</b>	<b>104,537</b>	<b>(\$45,089.50)</b>	<b>\$87,754.47</b>	<b>\$42,664.97</b>			
<b>1548</b>							
STR - Request Fees	1,582	(\$395.50)	\$1,271.53	\$876.03	\$ 0.25	\$0.50	(\$791.00)
STR - Processing Fees	1,190	(\$595.00)	\$1,271.53	\$676.53	\$ 0.50	\$1.00	(\$1,190.00)
STR - Information Request Fee	0	\$0.00	\$0.00	\$0.00			
<b>1548 Total</b>	<b>2,772</b>	<b>(\$990.50)</b>	<b>\$2,543.06</b>	<b>\$1,552.56</b>			
<b>Grand Total</b>	<b>107,309</b>	<b>(\$46,080.00)</b>	<b>\$90,297.53</b>	<b>\$44,217.53</b>			<b>(\$78,739.50)</b>



London Hydro would recommend that the distributor should be allowed to settle disposition of RCVA variance directly from the retailers, as opposed to the current

disposition process exiting today. London Hydro would suggest that the same 1518/1548 reporting requirement as exists today to review/approve the variance disposition continues but the difference being that the OEB issues a decision ordering the LDCs to spread the amount across the retailers based on the number of customers enrolled (from prior year's RRR data). There is no extra cost and the LDC simply calculates a one-time (or monthly) charge for each retailer which would be relatively reasonable process to manage administratively and no major incremental costs. Further London Hydro would suggest that the RCVA variances be transitioned to an annual review from the current Group Two EDDVAR placement which only allows for review during a cost of service application. London Hydro is concerned intergenerational inequity will occur with the decline of retailers operating in the market.

### OEB Requested Comments

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London Hydro will now address the OEB requested comments addressing the following suggested topics:

**1. The overarching guiding principles that the OEB should consider.**

London Hydro believes that the overarching guiding principles that the OEB should consider are:

- Simplicity in in implementation and ongoing administration
- Efficiency
- Materiality
- Beneficiary Pays
- Elimination of cross subsidization
- Cost avoidance
- Fairness

Simplicity in in implementation and ongoing administration would support the idea that no structural changes in the current energy retailer service charges be introduced. That is not to suggest that the current rates cannot be increased, but just that no new types of rates or charges be created which require system enhancements by all parties involved. London Hydro would suggest that if any dormant EBT transaction types exist without possible future application and have been previously tested or used for application, that they be repurposed for application, such as in the case of switch letter application.

Efficiency would imply using only uniform tariff rates being applied by all electricity utilities as was the previous practice. Mechanistic increases to those rates would be applied by the OEB and effected through an annual generic rate order decision process.

Materiality would suggest that there needs to be consideration for the extent of complexity applied to calculation of costs to be recovered against the rates to be applied to effect that recovery. Materiality of differences in unrecovered costs between the electricity distributors will vary significantly.

Beneficiary pays principle would require model testing of rates to be conducted either annually or otherwise to determine on a generic basis what energy retailer service charges should be applied to ensure retailers are paying fairly for services received. This would also support the corollary principle of elimination of cross subsidization.

Cost avoidance principle (otherwise prudence) would suggest that only current settlement structures be maintained and where applicable be repurposed to avoid the requirement of costly IT system or other changes.

The fairness principle would suggest that all parties, including EBT system providers, be considered in financial decisions.

**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.**

London Hydro supports the following matrix as introduced during the working group sessions.

Table 9

Customer Service Organization	Fixed	Variable	Both
Retailer emails/communication/Account analysis/Offline settlements/Summary Billing/Net Metering/Switch Letters		X	
Call Centre - Retailer specific call handling		X	

(Settlements) Process Retailer Enrolled Complex Billed Accounts		X	
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IT Application	Fixed	Variable	Both
Internal Application Costs (system maintenance/upgrades)	X		
EBT Provider Services			X
Billing System Upgrades (design, development, testing)		X	

Application Support	Fixed	Variable	Both
Retailer Issues, EBT Exceptions and Tickets		X	
Integration (iHUB and PI) monthly support		X	

Finance	Fixed	Variable	Both
Invoice Settlement Total (IST) Payable/Receivable Reconciliation	X		
Invoice Bill Ready (IBR) Payable/Receivable Analysis	X		
Reporting & Analysis	X		

Collections - Write off 2016	Fixed	Variable	Both
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		e	
Total Retailer Charges Written Off		X	

London Hydro would propose that the cost recovery mechanism for the notice of switch letters should attempt to recover the estimated cost of issuing the letters. The costs that London Hydro would propose to be recovered are paper, mailing, letter insertion, minimal call handling and the creation of the letter. London Hydro estimates its cost for switch letter to be in the range of \$3.00 per letter.

**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.**

London Hydro would suggest that ideally fully allocated costing methodology is appropriate for existing energy retailer service charges. However this would entail a significant change in policy for this activity and potential absorb a significant amount of resources. Given that the retail market is and appears to be in significant decline, London Hydro does not believe this is an appropriate course of action.

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

London Hydro would suggest that ideally distributor specific charges should apply. As discussed above London Hydro would suggest that each distributor has varying types of business systems to be taken into consideration for processing retail transactions, hence each distributor will have different cost structures to take into consideration. However from a practicality view it is not economically reasonable to require this as distributor specific charges would require more regulatory oversight which by its own nature requires evidentiary review attracting increased regulatory costs. Hence the generic application of uniform rates as exists today is more economically reasonable.

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

London Hydro would suggest that a rebasing model reflecting the current IRM process be considered. That would entail a full generic cost review be completed followed by four years of annual economic adjustments.

**6. Whether Retail Cost Variance Accounts (which are used to record the difference between charges levied on customers and retailers and the direct incremental costs for the provision of retailer services) should be eliminated and the implications of doing so.**

As discussed above the current RCVA model does not appropriately allocate variances to the proper parties (i.e. retailers) for settlement and hence is not achieving the spirit and intent of its purpose. In this light there is no benefit for the resources expended in recording these accounts. London Hydro would suggest that, unless the OEB provides a mechanism to allow distributors to pursue recovery from retailers directly to reduce current amount of cross subsidization, the requirement to record RCVA should be eliminated. London Hydro would warn against this as it would propagate customer cost cross subsidization.

**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.**

It is London Hydro's opinion that there are limited differentials in the two markets with respect to methodology applied for cost recovery from retailers. However the volume of transactions makes it economically feasible for unique rate application processes in the natural gas sector whereas it makes no sense in the electricity sector.

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

London Hydro would suggest that given the current state of the waning retail electricity market that significant structural changes requiring system changes should be avoided as this would compound incurrence of additional costs unlikely to be recovered.

### **Alternative Proposal**

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Potentially in a true electricity retail market there were to be benefits of retail competition:

**Downward rate pressure** resulting from increased rivalry and new entrants. Although overhead costs such as marketing may increase in the early stages of competition, over time competitive pressure pushes rates down.

**Better options for consumers** resulting from the need to grow and maintain market share to survive. Winning in the market requires retailers to provide products and services that consumers really want while remaining competitive.

**Active risk management** is taken on by market participants rather than risks being regulated across customers. Sophisticated risk hedging strategies enable retailers to manage volatile and uncertain market signals.

Unfortunately, the results of deregulation and competitive retailing have been underwhelming relative to their potential. If the purpose of retail competition is to unshackle the way that energy services are rendered and consumed, then the current state of restructuring has failed to deliver radical innovation commensurate with the expanding array of enabling technologies.

In truth retail competition in electricity markets has resulted in challenges that are necessary to be understood by the OEB.

**Increased transaction costs** have been created with the establishment of the EBT system and complex retail exchange requirements. These costs have been borne by the utility's customers due to an illogical variance account true up design. As well consumer law amendments have required distributor billing system changes for front facing retailer information display. This further exasperates the reality that these additional costs are not born by the real party i.e. retailers, but by utility customers through cross subsidization.

**Limited customer appetite** is particularly true with smaller customers, including residential and small commercial.

**Abusive practices** have been a significant problem. Customers have reported that retailers have engaged in predatory or fraudulent practices. These consumer complaints have escalated the necessity for continued consumer law amendments and placed many retailers in compliance proceedings resulting in increased regulatory oversight requirements.

London Hydro is of the opinion that the electricity utility by inference is not a legal party to the retail contract for differences and has been unwillingly assigned agent status by the Ontario government and/or OEB conscription. Further London Hydro would suggest that the electricity retail market in Ontario has proven to be a failed

experiment. Over the more than fifteen years that this market has been in operation, it has been rife with controversy and discontent. Many residential and other electricity consumers have been financially harmed by the process. Inexplicable amounts of resources have been expended trying to find a way to make the retailer program viable but without success. The Ontario electricity retail system is imbroglio and failing, and in London Hydro's opinion should be ceased. However this is outside the scope of this review.

With the initiation of the electricity market deregulation in Ontario two billing options were proposed for the settlement of retail contracts. That was retailer consolidated billing or distributor consolidated billing (RCB or DCB). Predominant in Ontario DCB has been the retailers overwhelming choice.

Retailing of electricity is fundamentally a financial transaction of contract for differences exchange. The customer has negotiated with the retailer to pay a fixed or otherwise contract rate in exchange for the retailer bearing the volatile market price of electricity (the hourly Ontario electricity price (HOEP) in the case of Ontario). Fundamentally such financial exchanges can take place synonymously with the issuance and payment of an electrical utility bill.

Considering the landscape of the current retail electricity market in Ontario London Hydro would conjecture that the residential market will continue to diminish in size. The commercial market has not seen the same rate of decline. "Crystal balling" this, London Hydro would conclude that the Ontario retail electricity market will continue indefinitely into the future, buoyed mostly by commercial customers. As discussed above, the ongoing costs incurred for maintaining the current exchange and billing system for electricity utilities is untenable. London Hydro therefore makes the following suggestion for consideration.

Basically what London Hydro wants to propose to the OEB is that they should consider eliminating the DCB/RCB model all together and set up a process wherein the retailers can settle with their customers directly using contract for differences i.e. let the retailer transact directly with the customer on the contract exchange.

That would allow electricity utilities to bill the customer directly for what is due to us as the default provider, the only difference is we bill them wholesale (HOEP) for the electricity consumed and not the retailer contract rate.



The retailer would then perform their own financial exchange between contract and HOEP independently.

This would cut out a huge amount of administration burden on the electricity utilities part and take the issue of electricity utilities absorbing retail differences in our bad debts out of the equation. Hence the issue of customer cross subsidization of the electricity retail market would be lessened significantly.

On the retailer side electricity utilities would just have to exchange customer usage information with the retailer, for a fee, using the current EBT system, therefore no financial exchange required other than us collecting our fees. Also there would be limited to no need for maintenance of variance accounts.

Further the utility could be relieved from the responsibility of identifying on the bill anything to identify that the customer is a retail customer and any other such information which adds complexity to our billing systems currently. Utility reporting requirements for OEB RRR retail counts could also be ceased further reducing unnecessary administration burden.

Fundamentally all the utility would need to administrate with respect to retail customers would be the original set up forms with instruction from the customer authorizing release of consumption data to a retailer for a contracted period of time, and instruction to bill customer on HOEP. Monthly billing data could then be delivered to the retailer until the contract period ends.

By removing the necessity to transact DCB retail transactions, the utility should also be relieved of the customer service burden of fielding retail customer calls.

With the market predominantly transitioning to commercial anyways London Hydro believes the time is right to cut the cord here.

To further support this proposal London Hydro would reference the Minister of Energy's directive on October 25, 2017 to the OEB setting out the Government of Ontario's requirements respecting the implementation of the Long-Term Energy Plan, 2017 by the OEB. More specifically under 1. Delivering Efficiency and Value paragraph 1.1. *"Having regard to the Board's performance-based approach to regulating electricity transmitters and distributors ("Utilities"), examine and identify steps for strengthening Utility accountability and reporting in relation to service quality issues identified by their customers, including but not limited to customer reliability and power*

*quality. In doing this, the Board shall consider transparency, responsiveness to customers, efficiency and cost-effectiveness, in addition to such other principles as the Board considers appropriate.”*

From the above London Hydro would highlight the concepts of transparency, efficiency and cost-effectiveness.

London Hydro believes our proposal to discontinue the DCB/RCB requirements; more specifically removing the contracts for differences exchange present and undisclosed on the customer's bill will improve transparency and enhance the customer understanding of the transactions and their relationship with the retailer.

Further London Hydro proposal will result in more efficiency and cost effectiveness by reducing the retail activity to one data exchange per retail customer. This would effectively eliminate most, if not all, of the activities as outlined in response to #2 of the OEB requested comments discussed above for the distributor. In addition London Hydro would suggest that the OEB may see some relief for themselves in considerably streamlining the Retail Settlement Code.

All of which is respectfully submitted.