



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

---

**July 19, 2018**

# Draft Report of the Ontario Energy Board

## Energy Retailer Services Charges

**EB-2015-0304**

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>1. INTRODUCTION.....</b>	<b>4</b>
A. Background.....	4
<b>2. THE CONSULTATION PROCESS .....</b>	<b>8</b>
<b>3. THE OEB’S APPROACH .....</b>	<b>9</b>
A. Guiding Principles .....	9
Description.....	9
The OEB’s Approach .....	9
B. Province-Wide vs. Distributor Specific Service Charges.....	10
Description.....	10
The OEB’s Approach .....	10
C. Costing Methodology and Cost Elements.....	11
Description.....	11
The OEB’s Approach .....	12
D. Adjustment Mechanism.....	12
Description.....	12
The OEB’s Approach .....	12
E. Electricity Distributor Retail Service Cost Variance Accounts .....	13
Description.....	13
The OEB’s Approach .....	13
<b>4. ELECTRICITY RETAIL SERVICE CHARGES AND THE NOTICE OF SWITCH LETTER .....</b>	<b>15</b>
A. Updated Electricity Retail Service Charges .....	15
Description.....	15
The OEB’s Approach .....	15
B. Notice of Switch Letter Service Charge .....	17
Description.....	17
The OEB’s Approach .....	18
<b>5. IMPLEMENTATION .....</b>	<b>19</b>
<b>Appendix A .....</b>	<b>20</b>
<b>Appendix B .....</b>	<b>21</b>
<b>Appendix C .....</b>	<b>22</b>
<b>Appendix D .....</b>	<b>23</b>

## EXECUTIVE SUMMARY

Energy retail service charges refer to the charges that recover the cost of services provided by electricity and natural gas distributors to electricity retailers and natural gas marketers (collectively referred to as energy retailers) or to customers, related to the supply of competitive electricity or natural gas. Energy retailers offer consumers retail contracts with varied terms or offerings such as the opportunity to buy their energy at a fixed price for the term of the contract. Examples of services provided by electricity and natural gas distributors are the establishment of service agreements, billing and transactional requests.

Retail service charges (RSCs) for electricity distributors were established by the Ontario Energy Board (OEB) in 2002 with the opening of the competitive electricity market. At the time, the OEB reviewed practices in other jurisdictions and developed a set of default values for electricity distributors to charge for retail services with the understanding that the actual costs for providing these services may differ across distributors. These default values for electricity RSCs have not been reviewed since they were established. Natural gas distributors also have service charges but they are distributor specific. These service charges have not been reviewed in the recent past, either. As a result, the OEB decided to proceed with a review of energy retailer service charges for both sectors.<sup>1</sup>

The scope of the review included an examination of the methodology to reset the energy RSCs, mechanisms for keeping these charges up to date, and whether it continues to be appropriate for the OEB to establish default charges for electricity distributors. The review also examined the establishment of a new service charge for electricity and natural gas distributors to recover the transactional costs of sending a “notice of switch” letter to low volume customers who signed a contract with an electricity retailer or gas marketer. The OEB established a small working group to assist with the energy RSCs review.

This Report is the culmination of the efforts of the OEB and the members of the working group made up of OEB staff, electricity distributors, natural gas distributors, and energy retailers.

Through the review, it has become apparent that the current electricity RSCs do not recover the costs associated with providing services to electricity retailers. Accordingly,

---

<sup>1</sup> When the service charges for electricity and natural gas distributors are collectively referred to in this Report, they will be referred to as “energy retailer service charges” or “energy RSCs”. Electricity RSCs refer to service charges for electricity distributors only.

based on the data collected from the working group during the consultation, the OEB is doubling all electricity RSCs (except for the one-time Retail Service Agreement charge). The OEB is of the view that default charges for electricity distributors continue to be appropriate. As there are operational differences that exist between the electricity and natural gas sectors, standardization of energy retailer service charges between electricity and natural gas distributors is not warranted. Moreover, there will be no change to the current specific service charges for natural gas distributors as this review determined that the current charges continue to closely track costs.

The OEB will implement the updated electricity RSCs in 2019. The energy RSCs for electricity and natural gas distributors will subsequently be adjusted annually commencing on January 1, 2020 based on the OEB's inflation factor.

The OEB will eliminate the electricity Retail Service Cost Variance Accounts (RCVAs). At market opening there was uncertainty about the cost of the settlement process with electricity retailers. This settlement process has now been an integral part of the operations of electricity distributors for more than 16 years. The OEB does not see merit in electricity distributors continuing to track these variances.

The increase in the electricity RSCs in the midst of an incentive rate-setting term will result in revenues earned being greater than amounts previously approved in an electricity distributor's distribution rates. The incremental revenues will need to be tracked by distributors in a new variance account, with the closing balance ultimately refunded to ratepayers in a distributor's future rate application. Appendix C presents the accounting details for this new variance account.

Lastly, the OEB will establish a new one-time energy retailer service charge for both electricity and natural gas distributors of \$2.00 to recover the incremental cost of sending a notice of switch letter to low volume customers who sign a contract with an energy retailer. The new service charge will be implemented in 2019 and will apply only to letters that are sent by standard hard copy mail. The new charge will be adjusted annually similar to all other energy RSCs commencing on January 1, 2020.

## 1. INTRODUCTION

On November 5, 2015, the OEB issued a letter announcing that it was initiating a comprehensive policy review of miscellaneous rates and charges applied by electricity distributors for specific services they provide.

These charges generate service revenues that result in lower base distribution rates. Without these revenues, the cost of providing these services would be recovered in distribution rates.

The OEB noted that it would commence the review of miscellaneous rates and charges in phases, beginning with the review of wireline pole attachment charges. On May 31, 2017, the OEB issued a letter announcing that the next phase in its review of miscellaneous rate and charges would be the review of energy RSCs for both the electricity and natural gas sectors. The OEB also announced that the review would examine the establishment of a new service charge for electricity and natural gas distributors to recover the transactional cost of sending a notice of switch letter to low volume customers who have signed a contract with an electricity retailer or natural gas marketer (collectively referred to as energy retailers).

The letter invited stakeholders from the sector to express their interest in participating in a working group as part of the consultation process. The OEB selected participants to be part of a working group that represented electricity distributors, natural gas distributors, and energy retailers.

### A. Background

Electricity RSCs refer to the services provided by electricity distributors to electricity retailers or customers related to the supply of competitive electricity. Default electricity RSCs were established in 2002 when the competitive electricity market was first opened and have never been updated. To establish these charges, the OEB reviewed practices in other jurisdictions and developed a set of default values for electricity distributors with the understanding that the actual costs for providing these services will vary across electricity distributors. These charges are set out in each electricity distributor's Tariff of Rates and Charges. Natural gas distributors levy similar charges for distributor-consolidated billing, contract administration, and bad debt related costs.

Electricity RSCs are grouped into the following three categories: 1) Establishing Service Agreements, 2) Billing, and 3) Service Transaction Requests. The current OEB default electricity RSCs are shown in Table 1 below.

**Table 1: Current Electricity Retail Service Charges**

Category	RSCs	Unit	Charges	Description
1. Establishing Service Agreements	Retailer Service Agreement	per agreement (one-time)	\$100.00	Intended to cover costs related to the service agreement between an electricity distributor and electricity retailer
	Monthly Fixed Charge	per retailer (monthly)	\$20.00	
	Monthly Variable Charge	per retail customer (monthly)	\$0.50	
2. Billing	Distributor Consolidated Billing Charge	per retail customer (monthly)	\$0.30	Intended to recover the incremental costs for an electricity distributor to provide distributor-consolidated billing. A credit is paid to electricity retailers that choose retailer-consolidated billing.
	Retailer Consolidated Billing Credit	per retail customer (monthly)	\$(0.30)	
3. Service Transaction Requests	Service Transaction - Request fee	per request	\$0.25	Intended to recover the incremental costs of labour, internal information system maintenance costs, and delivery costs.
	Service Transaction - Process fee	per request	\$0.50	
	Information Standard Delivery Charge	per request, after 2 free requests	\$2.00	

For natural gas distributors, there are no default charges. The charges are distributor specific. The service charges for Enbridge and Union Gas are shown in Table 2 below.

**Table 2: Current Natural Gas Energy Retailer Service Charges**

Category	Energy RSCs	Unit	Enbridge Charges	Union Gas Charges	Description
1. Program Administration	Direct Purchase Admin Charge	Fixed Monthly Charge - per contract	\$75	\$75	Intended to recover the costs incurred for administrative activities related to gas supply arrangements transacted between the direct purchase contract holder and gas marketer.
		Account Monthly Charge - per account (monthly)	\$0.21	\$0.19	
2. Billing	Distributor Consolidated Billing Charge	Per retail customer (monthly)	\$1.30 per Rate 1 Pool \$2.00 per Rate 6 & 9 Pools \$5.00 per Rate 100+ Pools	\$0.57	Intended to recover the costs incurred to allow gas marketers the ability to charge their customers commodity and transportation on the gas bill. Includes an allocation of commodity related bad debt.
3. Miscellaneous Transaction Requests	Invoice Vendor Adjustment Charge	Per transaction	\$0.30	\$1.09	Intended to recover the costs incurred to allow gas marketers the option to apply an adjustment on the gas bill.

In December 2016, as part of a broader package of measures to protect consumers in respect of energy retail contracts, the OEB amended the Retail Settlement Code and the Gas Distribution Access Rule to require electricity and natural gas distributors to send a written notice to any low volume consumer who has signed a contract with an

energy retailer, confirming that the consumer has been switched to contracted supply.<sup>2</sup> This requirement came into effect on July 1, 2017. In the context of the consultation that included the development of this requirement, the OEB indicated that it is appropriate for electricity and natural gas distributors to recover the transactional cost of sending a notice of switch letter. The OEB also indicated that the policy review of miscellaneous rates and charges applied by electricity distributors would include the examination of the notice of switch letter, and that the OEB would also consider how best to implement cost recovery by natural gas distributors.

---

<sup>2</sup> [Giving Effect to the OEB's Report on the Effectiveness of the Energy Consumer Protection Act, 2010](#) (EB-2015-0268); Retail Settlement Code section 10.5.4A; Gas Distribution Access Rule section 4.3.10.

## 2. THE CONSULTATION PROCESS

The OEB received expressions of interest from 10 parties to participate in the working group and selected all 10 parties. OEB staff led the working group. The working group was comprised of the following members:

**Table 3: Working Group Composition**

<b>Electricity Distributors</b>	<b>Member</b>
Guelph Hydro Electric Systems Inc.	Krista Perry
Hydro One Networks Inc.	Danny Relich
Hydro Ottawa Limited	April Barrie
London Hydro Inc.	Martin Benum
Veridian Connections Inc.	Kyle Brown
<b>Natural Gas Distributors</b>	<b>Member</b>
Enbridge Gas Distribution Inc.	Rob DiMaria
Union Gas Limited	Tom Byng
<b>Energy Retailers<sup>3</sup></b>	<b>Member</b>
Ag Energy Co-operative Ltd.	Katie Morrow
Just Energy Ontario L.P.	Frances Murray
Summitt Energy Management Inc.	Jeff Donnelly

The OEB held four working group meetings between September and November 2017. At the first working group meeting, OEB staff presented a draft list of topics. Following input received from the working group, OEB staff finalized the list of topics. The final list of topics is included in Appendix A.

At the conclusion of the four working group meetings, OEB staff provided an opportunity for working group members to provide written comments on each of the topics. Working group meeting materials and written comments are posted on the OEB's Review of Miscellaneous Rates and Charges [webpage](#).

---

<sup>3</sup> The three energy retailers who were members of the working group are each licensed by the OEB to retail electricity and market gas and are active in both sectors.

### 3. THE OEB'S APPROACH

This section summarizes the input received and the OEB's approach in each of the following areas:

- Guiding principles
- Province wide versus distributor specific service charges
- Costing methodology and cost elements
- Adjustment mechanism
- Electricity distributor Retail Service Cost Variance Accounts

#### A. Guiding Principles

##### *Description*

The working group members generally agreed that energy RSCs should be guided by the following principles to reasonably reflect the cost of providing service:

- Cost Causality: The service charges should reflect the user pay principle.
- Fairness: The approach should strike a balance between cost causality and simplicity.
- Simplicity: The methodology to re-calibrate the charges should be proportional to materiality. An onerous process is therefore not warranted.
- Flexibility: The methodology should be simple to administer and be adaptable to changing market conditions.
- Minimized Regulatory Burden: The regulatory burden should be reflective of materiality. The revenues associated with the charges should also be easy to forecast.

##### *The OEB's Approach*

The OEB agrees with the guiding principles identified by the working group and adopts them for purposes of this Report. By ensuring that energy retailer service charges are set at a level that is reflective of the cost incurred to provide service, and updating these charges periodically, cross-subsidization by ratepayers will be minimized. At the same time, the methodology to reset the charges and keep them up to date should be simple and flexible and should not impose an undue regulatory burden on electricity and natural gas distributors.

## **B. Province-Wide vs. Distributor Specific Service Charges**

### ***Description***

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

Energy retailers said that it would be administratively burdensome to have different charges applied by each electricity distributor.

Working group members discussed whether the charges for the notice of switch letter could be the same for electricity and natural gas distributors. Representatives from both sectors stated that they incur costs for postage, paper, envelope, printing and call handling for the notice of switch letters. There was general agreement from all working group members that the charge should be the same for both electricity and natural gas distributors.

### ***The OEB’s Approach***

The OEB is of the view that establishing distributor specific charges for each electricity distributor would be administratively burdensome for both electricity distributors and electricity retailers. Therefore, default charges continue to be appropriate for electricity distributors. As is currently the case, electricity distributors will continue to have the ability to apply for a distributor specific rate at the time of rebasing.

Given that there are operational differences that exist between the electricity and natural gas sectors, the OEB is of the view that standardization of energy retailer service charges between electricity and natural gas distributors is not warranted. For example, because natural gas distributors have a gas supply procurement function, the nature of the services provided to energy retailers are different than the electricity sector. Moreover, the OEB believes that default values for natural gas distributors are not necessary (nor are they required to be updated at this time) since their charges are already distributor specific and continue to closely track costs.

With respect to the charges for the notice of switch letter, the OEB agrees that the charges should be the same across the energy sector as the nature of the services and types of costs incurred are similar.

## C. Costing Methodology and Cost Elements

### *Description*

The working group discussed an appropriate costing methodology, the types of costs incurred to provide these services and whether those costs are fixed, variable or semi-variable.

A fully allocated costing methodology was the approach preferred by electricity and natural gas distributors. Most energy retailers suggested that only variable costs should be borne by energy retailers. Energy retailers commented that the level of the energy RSCs should allow the retail market in Ontario to be sustained.

Table 3 below shows a summary of the costs identified by Hydro One, which were indicative of the types of costs incurred by the majority of working group distributor members. A more detailed cost matrix can be found in Appendix B.

**Table 4: Cost Matrix – Hydro One Networks Inc.**

	Fixed	Variable	Semi-Variable
<b>Customer Service Organization</b>		X	
<b>IT Application</b>	X		
<b>Application Support</b>		X	
<b>Finance</b>	X		
<b>Collections – Write off</b>		X	

For both electricity and natural gas distributors, fixed costs identified by the working group distributor members included labour for IT testing and billing personnel that perform the settlement and invoicing of transactions. Variable costs include call center costs and application support. Variable costs are driven by the number of retail customers or the number of transactions. Differences between electricity and natural gas distributors' cost elements were also identified. For instance, natural gas distributors include the costs of commodity related bad debt and system costs in their charges while electricity distributors do not.

Working group member electricity distributors submitted data on total costs incurred for providing services to energy retailers. Electricity distributors were also asked to provide an estimate of bad debt attributable to the commodity portion of the bill. Total costs

were classified into fixed and variable costs, using the Hydro One cost matrix. While there was a general consensus about whether each cost element was fixed, variable or semi-variable, the level of costs incurred for each of those categories varied significantly across distributors.

### ***The OEB's Approach***

The OEB is of the view that a fully allocated costing methodology is appropriate as it better reflects cost causality and value to customers, and would minimize cross-subsidization between ratepayers and energy retailers. The OEB agrees that the cost elements identified by the working group distributor members are reasonable. However, for electricity distributors, the OEB believes that the electricity RSCs should also incorporate commodity related bad debt as the risk of default on payment can be directly linked with the service provided to electricity retailers. Section 4A below provides further information on this cost element. Section 4A also describes the OEB's approach to establish the level of the new charges.

## **D. Adjustment Mechanism**

### ***Description***

Electricity distributors agreed with an annual adjustment to the charges to keep them up to date and did not object to using the annual adjustment factor used in the OEB's incentive regulation mechanism (based on inflation minus a productivity factor). Natural gas distributors indicated that there is no need to change the current approach used for setting rates, where charges are reviewed at rebasing, which at the time of the working group meetings was scheduled to occur for 2019 rates. The working group also discussed the OEB's approach in the review of the pole attachment charge for electricity distributors. At the time, the OEB had not issued its final report and there was consensus that the same adjustment mechanism as will be determined in the pole attachment charge consultation should apply for electricity RSCs. There was support from one energy retailer for an annual adjustment mechanism, although another energy retailer said that creating an adjustment mechanism could be cumbersome and suggested that the OEB consider a global review using standard cost allocations for all distributors.

### ***The OEB's Approach***

The OEB is of the view that an annual adjustment similar to the final policy for the OEB's pole attachment charge which is based on inflation (with no offset for productivity) should apply in order to ensure that the charges are kept up to date over time. The OEB is also of the view that this annual adjustment should apply to both

natural gas and electricity distributors. The OEB notes that with the implementation of an annual adjustment to the energy RSCs to account for inflation, the differences between revenues and actual costs over time should be minimized.

The OEB believes that the annual adjustment for the natural gas distributors' service charges can be accommodated within the new rate-setting framework being proposed by Enbridge and Union Gas.<sup>4</sup> Therefore, energy retailer service charges for electricity and natural gas distributors' service charges will be adjusted annually commencing on January 1, 2020, based on the OEB's inflation factor. Further details on how the annual adjustment will be implemented is provided in section 5. The OEB will use the approach that will be used to implement the adjustment factor for the OEB's pole attachment charge.

## **E. Electricity Distributor Retail Service Cost Variance Accounts**

### ***Description***

Electricity distributors use RCVAs to record the difference in revenues and direct incremental costs incurred to provide services to energy retailers. Given the potential for an annual adjustment mechanism to keep the electricity RSCs current, the working group discussed whether this mechanism would negate the need for electricity distributors to continue to use the RCVAs.

Members of the working group were generally of the view that if the charges were kept updated through an annual adjustment mechanism, the need for the RCVAs would be diminished. However, some members of the working group were of the view that the RCVAs should be kept in place until such time that the electricity RSCs are re-calibrated, as electricity distributors would not have an opportunity to adjust the electricity RSCs prior to rebasing.

### ***The OEB's Approach***

The OEB notes that two electricity distributors have recently been granted OEB approval to no longer use the RCVAs.<sup>5</sup> The OEB is also aware that many distributors no longer track the revenues and costs for retail services.

---

<sup>4</sup> Enbridge and Union Gas, in the context of an application for approval to merge, have asked the OEB for approval of a new framework that, if approved, would be used to set rates for the delivery of natural gas to customers in every year from 2019 to the end of 2028 (EB-2017-0307/EB-2017-0308).

<sup>5</sup> Toronto Hydro-Electric System Limited (EB-2014-0116) and Hydro Ottawa Limited (EB-2015-0004).

The OEB will eliminate the existing RCVAs that record the difference in revenues and direct incremental costs incurred to provide services to energy retailers. The OEB does not see merit in electricity distributors continuing to track these variances. The RCVAs were established at market opening when electricity distributors first began to settle with electricity retailers. At the time, there was uncertainty about the cost of the settlement process and the RCVAs tracked the costs and revenues to enable an evaluation of the appropriateness of the approved rates at a later date.<sup>6</sup> Settlement with electricity retailers has now been an integral part of the operations of electricity distributors for more than 16 years. The OEB considers that activities relating to the settlement with electricity retailers are now part of ordinary business for distributors and therefore the OEB does not see merit in a regular true up of these costs. The elimination of the existing RCVAs should be concurrent with the implementation of the new RSCs in 2019. Consistent with the approach outlined in Appendix C, balances in the existing RCVAs should be brought forward for disposition in a future rate application.

The increase in the electricity RSCs in the midst of an incentive rate-setting term will result in revenues earned being greater than amounts previously approved in an electricity distributor's distribution rates. The incremental revenues will need to be tracked by distributors in a new variance account, with the closing balance ultimately refunded to ratepayers in a distributor's future rate application. Appendix C presents the accounting details for this new variance account.

---

<sup>6</sup> Accounting Procedures Handbook for Electricity Distributors, Article 490.

## 4. ELECTRICITY RETAIL SERVICE CHARGES AND THE NOTICE OF SWITCH LETTER

This section discusses the OEB's approach for updating electricity RSCs and implementation. As previously mentioned, there will be no updates to the current energy retailer service charges for natural gas distributors as they continue to closely track costs. The new service charge for the notice of switch letter will however be applicable for both electricity and natural gas distributors.

### A. Updated Electricity Retail Service Charges

#### *Description*

Working group member distributors submitted data on total costs incurred for providing services to energy retailers. Electricity distributors were asked to provide costs from 2016 as it represented the most recent full year for which actual year-end data was available. In addition, electricity distributors were asked to provide an approximation of the total annual bad debt for electricity retailer customers for the commodity portion of the bill only. Two of the electricity distributor working group members (London Hydro and Hydro One) provided data on commodity related bad debt, while the others were unable to do so. Total costs were classified into fixed and variable costs, using the cost matrix provided by Hydro One.

As part of the working group discussions, electricity distributors generally agreed that the revenues generated from the electricity RSCs should be doubled. Energy retailers did not specifically address the quantum of the increase of the charges in their written comments following the conclusion of the working group meetings, but indicated that any adjustment to the existing electricity RSCs should be substantiated and that a further breakdown of costs from more than the five working group electricity distributors should be provided.

#### *The OEB's Approach*

Based on the data provided by electricity distributors in the working group, a total under-recovery of approximately \$1.6 million was identified for the last full year for which this data was available (2016). This under-recovery represents approximately 60% of the total costs incurred to provide services to electricity retailers and includes estimated commodity related bad debt for two of the five working group electricity distributors

(London Hydro and Hydro One).<sup>7</sup> A breakdown of expenses and revenue by working group electricity distributor is provided in Appendix D.

The OEB agrees with the electricity distributor working members that it is appropriate at this time to double the revenues generated from the electricity RSCs. While this increase does not fully eliminate the total revenue deficiency identified by electricity working group members, the OEB is of the view that this level is appropriate at this time. With respect to the data used by the OEB, the OEB is of the view that the sample size is sufficient as the five working group electricity distributors serve approximately 40% of customers in Ontario.

While the OEB intended, to the extent possible, that the new electricity RSCs reflect the nature of the costs (fixed vs. variable) incurred to provide service, analysis of the data provided by electricity distributors revealed wide variability in the level of fixed and variable costs. As a result, the OEB used a top-down approach in determining to double the electricity RSCs, excluding the Retailer Service Agreement charge, consistent with the approximate level of the overall cost under-recovery. The Retailer Service Agreement charge is a one-time charge incurred when an electricity retailer establishes a service agreement with an electricity distributor. Most working group members were of the view that the current level is reflective of costs incurred to provide that service.

Altogether, the OEB is of the view that the new electricity RSCs reasonably reflects the principles established by the working group. The OEB will implement the updated electricity RSCs in 2019. The updated electricity RSCs for implementation are shown in Table 5.

---

<sup>7</sup> The other three working group electricity distributors were unable to provide this data.

**Table 5: Current and New Electricity Retail Service Charges**

Category	RSCs	Unit	Current Charges	New Charges	Description
1. Establishing Service Agreements	Retailer Service Agreement	per agreement (one-time)	\$100.00	<b>No Change</b>	Intended to cover costs related to the service agreement between an electricity distributor and electricity retailer
	Monthly Fixed Charge	per retailer (monthly)	\$20.00	<b>\$40.00</b>	
	Monthly Variable Charge	per retail customer (monthly)	\$0.50	<b>\$1.00</b>	
2. Billing	Distributor Consolidated Billing Charge	per retail customer (monthly)	\$0.30	<b>\$0.60</b>	Intended to recover the incremental costs for an electricity distributor to provide distributor-consolidated billing. A credit is paid to electricity retailers that choose retailer-consolidated billing.
	Retailer Consolidated Billing Credit	per retail customer (monthly)	\$(0.30)	<b>\$(0.60)</b>	
3. Service Transaction Requests	Service Transaction - Request fee	per request	\$0.25	<b>\$0.50</b>	Intended to recover the incremental costs of labour, internal information system maintenance costs, and delivery costs.
	Service Transaction - Process fee	per request	\$0.50	<b>\$1.00</b>	
	Information Standard Delivery Charge	per request, after 2 free requests	\$2.00	<b>\$4.00</b>	

## B. Notice of Switch Letter Service Charge

### *Description*

The data submitted by electricity distributors working group members showed that the costs to issue the notice of switch letter is between \$1.00 and \$3.00. For the two natural gas distributors, the costs are \$1.17 and \$1.67, respectively. Electricity and natural gas distributors indicated that they incur costs for postage, paper, envelope, printing, and call handling for the notice of switch letters. The average cost for all working group distributor members is \$1.91 per notice of switch letter. The OEB understands that the working group members are sending letters by standard mail for the most part, although

the Retail Settlement Code does allow for other means to send the letter such as by email.

One energy retailer indicated that it was sending a letter similar to the OEB's notice of switch letter prior to it being mandated as of July 1, 2017, and its cost per letter was \$1.07, excluding labour, which is less than the estimated costs of some members of the working group.

### ***The OEB's Approach***

The OEB will establish a new service charge for both electricity and natural gas distributors of \$2.00, which is the rounded average to the closest dollar of the costs provided by the working group distributors. The OEB acknowledges that this fee is higher than the costs identified by one energy retailer but notes that the \$1.07 figure is exclusive of labour costs and therefore would not include call handling costs. Based on the principle of cost causality, the OEB is of the view that including call handling costs is appropriate. The new service charge will apply to letters sent by standard mail only given that the costs provided by the working group distributors are generally related to sending the letters by standard mail. The OEB has also determined that the adjustment factor discussed in section 3D will also apply to the new service charge. The new service charge will be implemented in 2019.

## 5. IMPLEMENTATION

The OEB will implement the updated electricity RSCs in 2019. The effective date will be determined at a later time. The new service charge for the notice of switch letter will also come into effect in 2019 for electricity and natural gas distributors.

The annual inflationary adjustment mechanism for the energy retailer service charges for electricity and natural gas distributors will take effect on January 1, 2020. For electricity distributors, the OEB will use the same process that it will follow to implement the annual adjustment for the pole attachment charge. To that end, the OEB will update the generic charges annually and not rely on utilities bringing forth proposals in their annual rate applications. The OEB will issue a generic order every December to adjust all miscellaneous service charges that are subject to an inflationary adjustment to be effective January 1. Natural gas distributors will update their charges on a distributor specific basis as part of their annual rates cases.

Electricity distributors indicated that any changes to existing electricity RSCs should take into consideration limitations of the existing Electronic Business Transactions (EBT) Standards. The OEB understands from the working group meeting discussions that each electricity distributor has one or more unused charge types that are already part of the EBT system. Therefore, for the new notice of switch letter charge, the OEB recommends that any currently unused charge type be re-named, negating the need to incur additional costs of having to add a new charge in the EBT system.

## APPENDIX A

### WORKING GROUP TOPICS LIST

	Topic
1.	The overarching guiding principles that the OEB should consider.
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.
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.
4.	Whether a consistent application of energy retailer service charges should be followed or whether distributor specific charges should apply.
5.	Whether a mechanism should be considered by the OEB in order to keep energy retailer service charges up to date.
6.	Whether Retail Service 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.
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.
8.	The factors that the OEB should consider with respect to the implementation of any changes made to the current energy retailer service charges.

## APPENDIX B

### HYDRO ONE COST MATRIX

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

## APPENDIX C

### ACCOUNTING DETAILS – NEW VARIANCE ACCOUNT

The increase in electricity RSCs will result in electricity distributors earning revenue above what is reflected in their current distribution rates. The incremental electricity RSC revenue will need to be recorded in a new variance account with the accumulated balance ultimately being refunded to ratepayers in a future rate application.

Electricity distributors will also be required to track the incremental revenues by rate class. Carrying charges will apply to the balance in this account at the OEB-prescribed interest rates. The OEB expects that this new account will be disposed at the time of a cost-based application. For distributors that will be in the midst of an extended deferral period or are operating under other exceptional circumstances that prevent the filing of a timely cost-based application, the OEB will consider requests for disposition in an incentive rate-setting application. In this instance, the new account must remain open until the electricity distributor files a cost-based rate application and is able to reset its base rates in consideration of the updated charges.

At the time of disposition, the rate riders should be derived by dividing the incremental revenues by rate class by the forecast volumes by rate class. Distributors filing for disposition as part of an IRM application may use historical volumes.

## APPENDIX D

### ELECTRICITY DISTRIBUTOR RETAIL SERVICES EXPENSES AND REVENUES

Electricity Distributor	Total Expenses A	Total Revenue B	Total Under-Recovery C = A - B
Guelph Hydro	\$ 91,000	\$ 22,753	\$ 68,247
Hydro One	\$ 1,539,000 <sup>1</sup>	\$ 619,658	\$ 919,342
Hydro Ottawa	\$ 559,086	\$ 177,364	\$ 381,722
London Hydro	\$ 182,801 <sup>2</sup>	\$ 73,161	\$ 109,640
Veridian Connections	\$ 221,838	\$ 83,821	\$ 138,017
<b>Total</b>	<b>\$ 2,593,725</b>	<b>\$ 976,757</b>	<b>\$ 1,616,968</b>

Notes:

<sup>1</sup> Includes an estimate of commodity related bad debt of \$78,000.

<sup>2</sup> Includes an estimate of commodity related bad debt of \$47,784.