October 9, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

via RESS and email

Dear Ms. Walli:

RE: **Draft Report of the Board: Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance**
Board File No.: EB-2014-0189

On September 18, 2014, the Ontario Energy Board ("Board" or "OEB") posted a Draft Report of the Board on Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance (EB-2014-0198).

This is the submission of the Coalition of Large Distributors ("CLD"). The CLD consists of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc. This submission has been filed via the Board's web portal and two (2) requisite paper copies have been couriered to the Board.

General Comments

The CLD is appreciative of opportunities afforded by the Board to engage in constructive, meaningful consultation on matters of Board policy. The CLD has a track record of regularly contributing ideas and opinions on topics of interest to the Board that have the potential to impact the operations of CLD members and, crucially, their customers, most recently evidenced by the CLD's submission on Distribution System Reliability Targets (EB-2014-0189).

The CLD participates in these important policy discussions because it is uniquely positioned to bring forth the perspective of large distributors which can, and often do, differ from other Board stakeholders, including local distribution companies ("LDC") of other sizes.

CLD members know their customers. Through the normal course of business, members are in contact with ratepayers on a daily, multi-modal basis. Members are also making conscious efforts to concord with Board policy within the Renewed Regulatory Framework for Electricity ("RRFE") which emphasizes that services be "provided in a manner that responds to <u>identified</u> customer preferences" [emphasis added].[1]

It is within this context that the CLD expresses its keen interest in the main conclusion of the Draft Report: "the Board is of the view that one of the most effective ways to achieve these objectives is to have all non-seasonal electricity residential customers in Ontario billed on a monthly basis [by] January 1, 2016."[2]

The Draft Report suggests "that timely and accurate billing is essential to customer satisfaction." As a broad, principled statement, the CLD agrees that timely and accurate billing is one of many components that contribute to customer satisfaction. Reliability, reduced outage times and value for money are other important components of customer satisfaction.

The Draft Report states further that the Board wants to ensure that customers "have the information to gain a better understanding of their energy consumption so that they can better manage that consumption and control their costs."[3] On this point as well the CLD agrees with the Board. For example, all CLD members participate in the peakSaver Conservation and Demand Management program which provides customers with the opportunity to obtain an in-home display that provides near real-time consumption data.

However, the CLD wishes to better understand the connection between these areas of general agreement and the Board's position on mandatory monthly billing. To be more specific, the CLD is interested in better understanding and having an opportunity to review the evidence that convinced the Board that the benefits customers gain by receiving a monthly electricity bill warrants the required investment and the corresponding rate increases needed to implement this policy.

Accordingly, the CLD does not support the recommendation of mandating monthly billing for residential customers. The CLD strongly advocates that this decision continue to be left to the discretion of individual LDCs as informed by the preferences of their customers.

To support the Board's work going forward, the CLD suggests that prior to any mandatory implementation of monthly billing that the Board consider other approaches and consult on those approaches with customers, LDCs and other stakeholders to determine if mandatory monthly billing is the preferred approach for all residential customers in all parts of the province.

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[1] Report of the Board, *Renewed Regulatory Framework for Electricity Distribution: A Performance-Based Approach*, p. 2.

[2] Draft Report of the Board, *Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance,* p. 8. (EB-2014-0198).

[3] Ibid.

The remainder of this document will cover four points:

1. The ongoing costs to customers as a result of mandating monthly billing are significant and the offsetting benefits are highly unlikely to lead to a cost neutral outcome for all distributors.
2. The CLD has not seen any evidence that suggests increasing billing frequency from bi-monthly to monthly will encourage customers to change their consumption behaviour.
3. Responses to the questions of the Consultation on Monthly Billing.
4. Responses to the questions of the Consultation on Estimated Billing.

Costs and Benefits of Monthly Billing

Costs

The CLD submits that any undertaking that doubles the volume of customer bills and payments processed can be expected to result in material operating and capital costs, including those associated with one-time project implementation work and recurring expenditures driven by volume increases.

Many of the specific cost drivers associated with the contemplated monthly billing transition are listed below; the exact cost of each will vary by distributor depending on customer volumes, the state and modularity of their customer information and billing systems, complexity of the metering infrastructure, bill printing and payment processing arrangements, call centre staffing and other related factors. The Board will no doubt want to consider costs of implementation, including the following.

Capital Costs:

- Billing System hardware and software upgrades and expansions driven by volume increases;
- Advanced metering infrastructure testing and configuration;
- Capitalized IT labour related to project planning and execution, testing and issue rectification; and,
- Contingency reserves.

Operating Costs:

One-Time / Temporary Costs:

- Process design, mapping and scenario analysis;
- Integration of new process(es) with existing operating procedures;
- Performance testing, accuracy validation, and pre-emptive issue rectification;
- Policies and procedures review and redesign;
- Billing, metering, collections and call centre staff training;
- Temporary call centre agents to assist with initial call volume increases;
- Customer communication and expenses related to customer change management
- Third party supplier and service provider contract negotiation (e.g., bill printing);
- Temporary staffing to cover project team member redeployment; and,

- System deployment and post-deployment support;

Recurring Costs:

- Paper, printing and postage costs – regular bills and inserts;
- Paper, printing and postage costs – reminder letters;
- Sustained call volume increases;
- Meter data management expenditures (e.g., exceptions investigations could effectively double);
- Billing staff increases to maintain current preparation timelines at higher volumes;
- Payment processing staff increases to maintain current processing timelines;
- Collection expenses (increased auto-dialler usage costs, additional staff).
- Customer Service staff increases to maintain ESQR telephone accessibility compliance due to any increase in call volumes resulting from higher billing frequency;

On total costs, the CLD submits the following:

- Toronto Hydro estimates its incremental ongoing operating expenses driven by monthly billing transition within the contemplated timelines to be $6.1M, not including approximately $5.2M to $8.3M of incremental one-time capital and operating costs.
- Veridian estimates its incremental ongoing operating expenses to be $0.8M annually.
- Horizon Utilities estimates its incremental ongoing operating expenses to be $1.5M annually, not including $0.5M of incremental one-time capital and operating expenses related to the initial implementation.
- PowerStream estimates its ongoing incremental operating expenses to be approximately $3M annually with additional capital expenditures for implementation in the range of $5M to $8M.
- Enersource estimates its ongoing incremental operating expenses to be approximately $1.2M, not including $0.5M to $0.75M of incremental one-time capital and operating costs.

Finally, a transition to monthly billing would effectively cause customers to advance on month of their electricity bills, which may be viewed negatively from a cash flow perspective.

Benefits

CLD members expect that the monthly billing would improve cash flow by reducing short-term financing costs which are recovered through the working capital allowance built into a distributor's rate structure. From the customer's perspective, the materiality of such benefits will vary by the degree to which retail revenue lag can be reduced as result of a transition to monthly billing.

On this benefit, the CLD submits the following:

- Toronto Hydro estimates that a transition to monthly billing would result in a revenue requirement reduction of approximately $1.9M, or 0.3% of its applied-for 2015 service revenue requirement, due to reduced Working Capital Allowance ("WCA") amounts.

- Veridian estimates a transition to monthly billing would result in a revenue requirement reduction of approximately $0.4M due to reduced WCA amounts.
- Horizon Utilities estimates a transition to monthly billing would result in a revenue requirement reduction of approximately $1.5M due to reduced WCA amounts.
- PowerStream estimates a transition to monthly billing would result in a revenue requirement reduction of approximately $0.7M, or 0.43% of service revenue requirement, due to reduced WCA amounts.
- Enersource estimates a transition to monthly billing would result in a revenue requirement reduction of approximately $1.5M due to reduced WCA amounts.

The Draft Report also lists the arrears and bad debt expenditures as potential sources of benefits that would offset the costs of transitioning to monthly billing. The CLD is not aware of any evidence that would substantiate the conclusion that arrears or bad debt expenditures will be reduced as a result of switching from bi-monthly to monthly billing. The only CLD member to transition to monthly billing (Hydro Ottawa) has only done so earlier this year, however the nature of, and the regulations regarding, arrears/collection/bad debt write-off activities does not allow Hydro Ottawa to reliably assess the impact of any corrective activities in these areas for some time.

The CLD encourages the OEB to work with distributors that have implemented transitions to monthly billing over the past decade to empirically assess the materiality of anticipated bad debt/arrears benefits. It would be equally informative to undertake an empirical evaluation of a portion of total customer arrears that are driven by customers' inability or unwillingness to make a timely payment for a larger (two-months' worth of consumption) electricity bill at once. Absent the insights on a relationship between bill amounts/frequency and customers' propensity to pay them on time, the CLD cannot comment further on the relationship between monthly billing and the expectation of a reduction in the expenditures associated with late-/non-payments.

The Draft Report proposes that ongoing additional costs could be offset through a higher penetration of e-billing. Many of the CLD members have encouraged e-billing options in the past and continue to promote e-billing to their customers with some, if limited, customer participation. It is unlikely that any significant incremental gains will be made in this regard to offset future costs that cause upward pressure on distribution rates.

With regards to the benefits of more frequent opportunities to communicate with customers through monthly bills, the CLD submits that it is difficult to objectively quantify. There are already other cost-effective and widely adopted communication media that can be more easily measured, such as distributors' websites, Facebook or Twitter. At the same time, it is relatively simple to calculate the incremental cost of increased communication through bills, as they would equal the costs of additional bill insert drafting, design and printing, less any potential volume-based savings that utilities could conceivably realize depending on their specific circumstances (e.g., third-party service provider agreements).

Should the Board mandate monthly billing for residential customers, the CLD submits that any incremental, prudently incurred costs resulting from this change must be recoverable from customers in a timely manner (i.e., prior to its next rebasing period). Alternatively, the Board should allows utilities to minimize incremental costs by coordinating the implementation of monthly billing with another major customer billing system upgrade (see response Question 1 below).

Effectiveness of Mandatory Monthly Billing

The impetus for the Board to find new means of helping ratepayers manage their electricity costs is one that is shared by the members of the CLD. The survey undertaken by the Board is helpful in illuminating the degree to which monthly billing has penetrated utility operations.

However, the questions posed do not provide a basis for assessing whether there is a reasonable correlation between monthly billing and encouraging conservation, one of the stated objectives of the Board's proposal. By the same inference, twice-monthly billing, weekly billing or billing on any other shorter interval would be equally valid alternatives to bi-monthly billing. Until more information about the conservation effect of billing frequency is available, the CLD supports a continuation of the status quo which allows utilities to retain the discretion to implement monthly billing.

In addition, current Board policy,[4] which stipulates that utilities on bi-monthly billing cycles must offer equal billing plans to its residential customers, runs counter to the stated objective of mandatory monthly billing. Customers enrolled in these Board-mandated programs are subject to a price signal only once per year at the annual reconciliation. Accordingly, because the price signal to these customers is not dynamic, there should be no expectation of any incremental conservation from these customers if monthly billing is mandated. Moreover, it is possible that moving customers to a monthly billing cycle would encourage a greater uptake of equal monthly payment plans that would further mitigate expected conservation gains.

Responses to Consultation on Monthly Billing

For the electricity distributors that do not offer monthly billing, what are the barriers faced in meeting the Board's goal of having all residential customers moved to monthly billing by January 1, 2016?

The CLD anticipates that switching to monthly billing can be expected to generate significant expenditures associated with accuracy testing and verification. This is of particular relevance given the inclusion of a billing accuracy metric on the recently instituted OEB Distributor Scorecard.

CLD members conduct extensive and high-volume billing system tests each time there are changes to any billing determinants, such as those driven by Regulated Price Plan (RPP) adjustments, rate case decisions, or changes to the amounts of pass-through items such as Retail Transmission Service Rates (RTSR), Rural and Remote Electricity Rate Protection (RRRP) and others. Conducting extensive performance tests prior

[4] *Standard Supply Service Code*, Sections 2.6.2 and 2.6.2B.

to implementing any billing determinant changes allows utilities to maintain customer satisfaction and prevent significant costs associated with rectification of incorrectly issued bills, among other reasons.

The need for such tests (at higher than normal volumes) is paramount following major process changes, such as a scenario where the volumes of bills issued each day doubles and the time to proactively rectify any issues identified prior to sending the bill is effectively reduced in half.

There are also indirect costs on utility operations associated with an undertaking of this magnitude. Some CLD members estimate that a project of this scale, scope and sophistication would take a significant amount of time to implement, and would require significant human and financial resource allocations. A January 1, 2016 mandated implementation date is therefore aggressive and would introduce risk to a successful implementation.

For example, utilities may be faced with postponing or re-prioritizing other customer care-related operating or capital projects planned for the same timeframe that may have been implicitly or explicitly approved by the OEB in past rate proceedings. The impact of reshuffling these capital projects to accommodate a monthly billing project will affect the capital plans of utilities for many years that will have different corresponding impacts on utilities. While project re-prioritization is a common feature of electricity distribution operations, postponing certain planned investments or process modifications to allocate the resources to an externally mandated undertaking can result in a material impact on service quality, customer satisfaction, and other operational areas. These risks should be considered in light of the proposed short-term time line for this initiative.

In addition, the CLD is also aware of a number of other known and potential regulations impacting customers in this same proposed timeframe, including: the elimination of the Ontario Clean Energy Benefit (December 31, 2015); the elimination of the Debt Retirement Charge for certain customer classes; new or enhanced low-income programs; and, on-bill financing for conservation projects. Each of these are significant projects in themselves, will impact Customer Information Systems, require significant testing and process changes and require customer change management.

The CLD submits that material implementation of cost efficiencies can be leveraged if a transition to monthly billing occurs concurrently with other major planned customer information and billing system upgrades or modifications. When implemented alongside another planned major project of similar nature, efficiencies in billing cycle adjustments can be gained in areas such as testing and verification, training, temporary call centre staff increases and other similar one-time expenditures. Given that distributors are in different points of their customer care and billing hardware and software lifecycles, the OEB may consider establishing a target (5- or 10-year) window for such a transition to occur, in place of a rigid sector-wide timeframe.

Finally, if mandated for all utilities, consultants required to assist utilities in transitioning to monthly billing will be in very high demand and likely force utilities to pay more than would otherwise be necessary to meet the Board's imposed deadline.

Should seasonal customers also be billed on a monthly basis? What are the barriers to moving to monthly billing? What are the offsetting benefits such as reduced costs?

In the event monthly billing for non-seasonal residential customers is mandated by the Board, seasonal residential customers should also be moved to monthly billing. It is likely that the cost of maintaining two separate billing schedules would not be sufficient to offset the savings resulting from the reduced billing volumes for those customers.

Responses to Consultation on Estimated Billing

Are there circumstances that should be considered as exceptions to the requirement for all residential consumers to receive bills based on actual meter reads?

The CLD believes it would be unreasonable to require that all residential customers' bills be based on actual meter reads because the conditions necessary to permit 100% accurate meter reads are beyond the reasonable control of the utility.

There are several instances where a customer's bill cannot be based on actual meter reads, including:

- Mechanical meter failure;
- Communication failure (Radio Frequency or landline) where there is no end read to account for the missing Validation, Estimation and Editing;
- Meter tampering that causes the meter to fail;
- Environmental circumstances that cause the meter to fail or the communications link to fail;
- Delays in gaining access to read a failed meter or install a replacement meter; and,
- Cases where customers have not allowed the utility to install a smart meter.[5]

Are there any barriers to moving to eliminate estimated billing? Are these offset by any benefits?

Meter failures in the field can only be minimized and not entirely eliminated through cost-effective maintenance and repair programs. Potential solutions may require wholesale changes to the status quo including switching out meters more frequently to capitalize on greater software processing capability of new meters. Estimated billing is therefore inevitably necessary for the foreseeable future.

[5] The Board acknowledges that there are still instances of this, noting that smart meters have been deployed to "virtually all" residential customers. Ref: Draft Report of the Board, *Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance,* p. 10. (EB-2014-0198).

For those limited circumstances where an estimated bill may be required, what is the appropriate methodology to be used in estimating the data?

There are at least two methods of estimating bills with some degree of accuracy:

- Many Customer Information Systems have robust estimation algorithms that can be used to estimate gaps in actual meter reads for the purposes of billing.
- Absent this capability, a utility can use historical consumption over the same prior period to gauge and estimate an approximate amount of consumption.

Should the policy establish a similar measure to that in the GDAR (less than 0.5% of meters with no read for four consecutive months)? If so, what should this measure be and should there be a disincentive for not meeting the measure?

The near full adoption of smart meters in the distribution sector would leave very few customers in this category and therefore limit the value provided by establishing and maintaining such a category and the associated cost of doing so. The Board's billing accuracy measure on the Scorecard already sufficiently captures this compliance information.

Yours truly,

[Original signed on behalf of the CLD by]

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