Disconnections Moratorium

Summary

Electricity distributors take their responsibility to provide good customer service seriously. They work with every customer at every opportunity and, while all distributors have authority to disconnect, they regard this as their last resort. The Moratorium against disconnection for non-payment by residential customers (Moratorium) that was observed earlier in 2017 was implemented pursuant to a directive from the government to the Ontario Energy Board (OEB) and was motivated by concerns over some customers' inability to pay their electricity bills. The Moratorium temporarily over-rode an LDC's ability to provide service at commercial terms and conditions without providing an adequate suite of compensating strategies and while continuing LDCs' pre-Moratorium financial obligations to channel partners, such as the Independent Electricity System Operator (IESO). The EDA is cognizant that among the OEB's legislated objectives is the facilitation of the maintenance of a financially viable electricity industry. The EDA points out that the provision of appropriate strategies would have supported the OEB in fulfilling this as well as its other legislated objectives. This attachment documents the effect of the Moratorium and identifies some further strategies that may support customers and LDCs in managing non-payment in the future.

Customer Behaviours

LDC experience has been that customers do not pay their bills in full and on time because they lack resources or they lack willingness. Either situation can occur randomly, and on an isolated, serial or recurring basis.

Electricity distributors have a range of tools to offer customers who lack the resources to pay their bills in full and on time and without interrupting electricity service including:

- directing them to alternative sources of income (e.g., Ontario Electricity Support Program (OESP), Low-Income Energy Assistance Program (LEAP)); and/or
- providing them with technologies to control or reduce their consumption (e.g., Conservation and Demand Management (CDM) solutions, load limiters); and/or
- negotiating payment plans such as Equal Payment Plans (EPP).

Distributors willingly work with their customers on all aspects of payment and arrears management, whether the customer has taken the initiative to contact the LDC (as is preferred) or reactively. LDC customer care staff can:

- help customers understand their bill;
- educate customers on tactics and strategies for controlling consumption and hence bill amounts including:
    - arranging contact with CDM professionals;

  - reviewing Time of Use prices and the benefits of scheduling appliance operations differently;
  - reviewing common sources of 'phantom' loads;
- review alternate payment plans such as EPP;
- explore eligibility for either OESP credits and/or LEAP;
- negotiate mutually acceptable arrears payments;
- suggest alternatives (e.g., remitting more frequent payments of smaller amounts; remitting payment through automatic withdrawal).

Disconnection is the LDC's last resort.

However, customers who lack the willingness to pay their bills in full and on time (even though they are capable of doing so) are expected to respond effectively to a disconnection notice. A practical example is students at post-secondary institutions.

The EDA suggests that distributors should segment non-paying customers according to whether they are habitual, isolated or serial non-payers and that doing so can be expected to improve the likelihood of applying effective strategies.

The frequency of non-payment and the duration of time between non-payment events may be suitable metrics for distinguishing among isolated, serial and habitual non-payers. Habitual non-payers could be directed to other sources of funding (e.g., OESP, LEAP), or have load limiters calibrated to their ability to pay permanently deployed at their premises. Isolated non-payers could be eligible for LEAP, or have load limiters temporarily deployed at their premises while default is remedied. Serial non-payers (the previously referred to example of post-secondary students) may require different timelines that co-ordinate with the academic calendar (e.g., March 15 or March 31) to ensure that they appreciate that they could experience disconnection.

The EDA also observes that appropriate customer segmentation will recognize the distinctions between residential consumers and small business customers (e.g., that small business customers are more susceptible to economic conditions than are residential customers).

The EDA points out that LDCs' reporting obligations to the OEB do not accommodate reporting behavioural characteristics of customers facing disconnection. As is discussed above there are differences among and between customers. Knowledge of and insight into these differences facilitates effective account management.

The Regulatory Framework

The EDA recognizes that regulation results in the provision of public goods on commercial terms and conditions and at rates that are free of undue cross subsidization, among other things. Among the OEB's objectives is the requirement that it facilitate a financially viable electricity industry. As the OEB has been authorizing just and reasonable electricity distribution rates for over a decade it is assumed that any cross-subsidization embedded in today's rates is not undue and that reductions to the level of undue cross subsidization are desirable.

LDCs incur a variety of costs to provide customer care and associated service. Some of these costs are incurred on behalf of all customers (e.g., the costs to provide Call Centre services) whereas others (e.g., collections costs) are incurred to provide service to a subset of customers. Specific Service Charges (SSC) can be applied to recover, in whole or in part, the costs incurred to provide service to a subset of customers and to avoid undue cross subsidization. In some cases, the authorized SSC implicitly 'penalizes' the consumer in order to counterbalance undesired behaviors. All other costs are assumed to be recovered through rates charged all customers, and that could result in cross subsidization.

Tools Available to Manage Non-payment

Ontario's electricity distributors have decades of experience in working with customers on collections, credit and disconnections for non-payments and have discerned that the threat of disconnection is the most valuable collections tool available. As is discussed elsewhere in this document, many distributors use load limiters – especially during periods of cold weather – to balance the customer's need for continued service and the distributor's desire to avoid disconnecting customers.

The EDA observes that billing innovations rarely improve either a consumer's willingness to pay their electricity bill or the customer's financial resources available to pay the electricity bill. Distributors' call centres can suggest to non-paying customers that they remit payment more frequently. It is observed that there are low level work arounds available such as automated email reminders about mid-period payment; while this example is expected to avoid CIS programming costs it is also subject to anti-spam legislation. The EDA observes that increased frequency of remittance increases the number of transactions processed and may result in LDCs incurring increased costs. In order to minimize the risk of cross-subsidization between and among customers, LDCs could seek to apply a new SSC designed to recover the incremental costs of processing additional payments.

Some LDCs consider security deposit refund rules counter-productive and, implicitly, prefer to treat these sums as advance payment of the customer's final bill. If this approach is considered acceptable it will be appropriate for LDCs to periodically revisit and be able to revise the amount on deposit to verify its ongoing adequacy. It is important to recognize that under today's rules security deposits are short lived protection against non-payment, whether the customer is an isolated, serial or habitual non-payer.

LDCs have complied with OEB rules compelling the provision of Arrears Payment Agreements (APA) for several years. Their universal experience is that customer uptake is minimal, and efficacy is questionable. Hence, many LDCs express concern with the cost effectiveness of APAs and some see advantages in having the flexibility to negotiate customized payment schedules.

Among the other alternatives identified by LDCs are potentially exempting low income residential customers (e.g., those eligible for OESP) from disconnection for reason of non-payment during a defined winter period where, to be clear, all other customers would continue to be subject to disconnection for non-payment and the distributor would do so as a last resort. Alternatively, LDCs should have discretion in applying SSC related to non-payment, especially in the case of first time non-payers, so that amounts in arrears are more manageable – assuming that acting on this discretion does not impact financial viability, which would frustrate the OEB from achieving a legislated objective. Another alternative that may be available through today's communications technology is to notify customers that they have exceeded a previously established threshold and advise them of their options.

It may be appropriate for LDCs to have recourse to funds available on the condition that they are to be applied to mitigate unusual levels of bad debt expense.

The Moratorium

Ontario's electricity LDCs provide a public good on commercial terms and conditions at authorized rates. Rates serve as a price signal to consumers and facilitate informed decision making (e.g., when allocating capital, timing the adoption of innovative technology, the full costs incurred to support environmentally responsible programs). Among the commercial terms and conditions is billing the end user for the Cost of Power, the provision of delivery service, Regulatory charges and for HST. The Global Adjustment portion of the Cost of Power, whether transparently displayed on the bill or included with other items, is typically the single most significant line item on the bill.

The Moratorium against disconnections for non-payment that was in effect from February 23 to April 30, 2017 was a temporary suspension of an aspect of the provision of service on commercial terms that risked consumer confusion, and may have made matters worse for vulnerable customers.

During the period that the Moratorium operated consumers could have avoided the unintended consequences of an unmanageably high bill by:

- accessing third party funds;
- installing devices capable of controlling electricity consumption, like load limiters, at their premises; or
- requesting explicit communications of anticipated bill amounts.

However, LDCs were expressly prohibited from deploying load limiters at their discretion for the duration of the Moratorium, and, some of the customers who were in arrears took no action to manage their arrears - despite repeated attempts by their LDC to make them aware of the longer-term consequences.

Table 1 below presents actual data from a sample of LDCs of varying sizes from across the province. It demonstrates the increase in arrears, both in dollars and by number of accounts.

Table 1: Reported data	As of March 1, 2017:	As of April 1, 2017:	As of May 1, 2017:
Number of Reporting LDCs	12	10	9
1. Number of Residential Customers:	850,574	741,350	610,795
2. Number of Disconnected Customers:	183	83	9
3. Number of Customers in Arrears:	65,160	71,982	67,829
a. Number of Customers in Arrears that Contacted LDC:	25,749	22,198	19,080
b. Number of Customers in Arrears on Payment Plans:	750	831	897
4. Value of Arrears:	$11,281,315	$13,386,941	$14,242,024
5. Arrears/Customer-in-Arrears:	$173.13	$185.98	$209.97

Table 2 below presents the averages across reporting LDCs.

Table 2: Average of Reporting LDCs			
	As of March 1, 2017:	As of April 1, 2017:	As of May 1, 2017:
1. Number of Residential Customers:	70,881	74,135	67,866
2. Number of Disconnected Customers:	15	8	1
3. Number of Customers in Arrears:	5,430	7,198	7,537
a. Number of Customers in Arrears that Contacted LDC:	2,146	2,220	2,120
b. Number of Customers in Arrears on Payment Plans:	63	83	100
4. Value of Arrears:	$940,110	$1,338,694	$1,582,447
5. Arrears/Customer-in-Arrears:	$173.13	$185.98	$209.96

The EDA points out that across the sample the average number of customers in arrears increased by nearly 40% and that the average value of arrears increased by over 68%. These figures demonstrate that these customers were put at an even greater disadvantage as not only must they now resume full responsibility for the consequences of non-payment they now owe an even greater amount upon the cessation of the Moratorium. In context, the increase in the average amount in arrears on a per customer basis is about the same amount as the lowest OESP credit currently available. Collectively, at the end of the Moratorium the customers served by the distributors in the sample owed nearly $3 million more than they did when the Moratorium took effect. This outcome is clearly undesirable for both the customer and the distributor.

LDCs were required to adapt business processes during the Moratorium period. For example, collections staff were redeployed to other tasks during the Moratorium and upon its cessation, when they resumed their normal collections duties, were overwhelmed with the back log of accounts to process. In other instances, LDCs were bound to continue to perform certain activities for no obvious benefit; for example, distributors were required to repetitively visit premises that were clearly and obviously vacated.

Use of Load Limiters

Among the conditions of the Moratorium was the suspension of the deployment and use of devices capable of controlling consumers' consumption. Conventionally, and for short periods of time, load limiters are the most readily deployable devices capable of controlling consumers' consumption. As Table 2 demonstrates, one result of Ontario's LDCs being prohibited from deploying load limiters during the Moratorium was that customers perceived different consequences of consumption and responsibility for the associated bill. Other unintended consequences may be the implicit 'muting' of Time-of-Use price signals as well as undoing past messaging about being financially responsible. As a consequence, LDCs experienced significant increases in amounts in arrears and there is a heightened risk that either LDCs will socialize unpaid bill amounts or that their financial viability will be impacted.

Load limiters have been used by LDCs to provide service on a continual basis, albeit at constrained levels. These devices are safe and have a tangible impact on the consumer's experience in the short term and, over the longer term, may modify consumer behavior. Ontario's electricity distributors deploy load limiters at their discretion when no safety issues exist, and if past customer contact has not achieved mutually acceptable payment arrangements.

Because load limiters constrain consumption they necessarily control bill amounts experienced by consumers – and may constrain some additional costs (bad debt expense, collections charges, collections costs etc.). Conversely, deploying load limiters causes distributors to incur costs (e.g., to dispatch a field crew, to provide the device) that must be recovered through either authorized SSC or, on a socialized basis, through authorized distribution rates.

It is important to recognize that load limiters do not offer a large enough range of service to suit all customers need for electricity. They are considered well suited for most residential loads. Load limiters are only capable of reducing consumption to the capacity of the device and, in particular, will not address customers' lack of financial resources to pay electricity bills in-full and on time.

Ontario's LDCs serve as the collection agent for the industry and require a full complement of effective tools to fulfill these responsibilities. When a tool, such as disconnections or the ability to deploy load limiters, is stunted LDCs need alternate tools. From the LDC's perspective, the most immediate outcome of the availability of alternate tools is the ongoing ability to generate cash in appropriate amounts to facilitate financial settlement with suppliers and other channel partners and sustain financial viability. Cash can be recovered from social agencies, by repurposing other amounts that have previously been over-collected (e.g., the OESP was over-collected through rates and is in a credit position), by amending billing and collection costs recovered through rates, by amending liquid security provided by other channel partners, by drawing on credit facilities or by increasing short term debt, among other things. Having identified the preliminary business impacts of the Moratorium, the EDA proposes that consideration should be given to relieving distributors of their obligation to settle with the IESO according to non-Moratorium terms and conditions (e.g., to continue to remit on a Cash-On-Delivery basis payment to Hydro One Networks Inc. for transmission services, and, to settle in full with the IESO for power, Global Adjustment, market services) or to allow LDCs to apply payments to the distribution portion of the delivery charge and then equitably apply any residual amount.

The Moratorium transferred a risk from the consumer to the LDC whereas prior to the Moratorium it was the consumer's responsibility to provide the financial resources to achieve settlement. The EDA observes that this transfer of risk was not appropriately balanced through the provision of compensating strategies.

Conclusion

The EDA recognizes that upon the passage of the *Ontario Fair Hydro Plan Act* that electricity customers will experience bill reductions and, all other things being equal, are expected to be better able to remit payment in full and on time. The EDA proposes that while these bill reductions are available that the following issues be reviewed and analyzed:

- the LDCs enduring ability to deploy load limiters in cases of non-payment;
- LDCs ability to apply payments remitted or collected to the distribution portion of the bill on a priority basis and to apply any residual balances in equitable shares to other service providers;
- the appropriateness of applying specific disconnections timelines tailored to the academic year to post-secondary students (e.g., March 15 or March 31); and
- LDCs ability to recover unusual amounts of bad debt expense through rates.