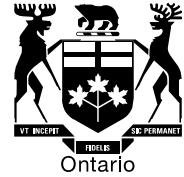


**Ontario Energy Board**  
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**BY EMAIL**

January 26, 2015

Ontario Energy Board  
P.O. Box 2319  
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Toronto ON M4P 1E4  
[Kirsten.Walli@ontarioenergyboard.ca](mailto:Kirsten.Walli@ontarioenergyboard.ca)

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Burlington Hydro Inc.  
Application for Rates  
Board File Number EB-2014-0059**

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to Burlington Hydro. There are no other registered parties to this proceeding.

Burlington Hydro is reminded that its Reply Submission, if it intends to file one, is due by February 9, 2015.

Yours truly,

*Original Signed By*

Martha McOuat  
Project Advisor

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**2015 ELECTRICITY DISTRIBUTION RATES**

**Burlington Hydro Inc.**

**EB-2014-0059**

**January 26, 2015**

**Board Staff Submission  
Burlington Hydro Inc.  
2015 Electricity Distribution Rates  
EB-2014-0059**

## **Introduction**

Burlington Hydro Inc. (“Burlington Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on September 29, 2014, seeking approval for changes to the distribution rates that Burlington Hydro charges for electricity distribution, to be effective May 1, 2015. The Application is based on the 2015 Price Cap IR option.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Burlington Hydro.

In the interrogatory phase, Board staff identified certain small discrepancies in the data entered into the IRM Rate Generator Model. In response to Board staff interrogatories, Burlington Hydro confirmed the errors and provided corrected data as requested. Board staff will make the necessary corrections to Burlington Hydro’s model at the time of the Board’s Decision on the Application.

Board staff makes detailed submissions on the following:

- Proposed Retroactive Adjustment to Deferral and Variance Account Carrying Charges; and
- Disposition of Deferral and Variance Account Balances below the Threshold

## **Proposed Retroactive Adjustment to Deferral and Variance Account Carrying Charges**

As part of its IRM application, Burlington Hydro has adjusted its carrying charges associated with deferral and variance account balances for the period from May 1, 2010 to December 31, 2012 and proposes to dispose of the adjusted total balances with this application. The total adjustment amounts to \$268,242 and is a credit to customers.

Burlington Hydro reported that this proposal results from a review of the account balances, which identified “divergent movements” and “methodological inconsistencies”

in the historical carrying charges computed using the cash accounting methodology. As a result of this review, Burlington Hydro adopted the accrual basis for accounting for its carrying charges as of January 1, 2013.

In its 2014 cost of service application (EB-2013-0115), the Board authorized disposition of Burlington Hydro's December 31, 2012 principal balances with associated carrying charges to April 30, 2014.

In response to an interrogatory from Board staff<sup>1</sup>, Burlington Hydro confirmed that the accrual method of accounting had already been used to compute carrying charges as at January 1, 2013, therefore the adjustment pertains only to account balances previously approved for disposition. Burlington Hydro stated that the balances reported in its 2013 RRR filing also reflected the adjustment and matched those which were used in this application. In response to an interrogatory, Burlington Hydro stated that should the Board not accept its retroactive adjustment, the RRR balances would require an adjustment of (\$268,242). Burlington Hydro stated that its retroactive adjustment would not affect principal balances of the accounts, but was intended only to correct for known errors in the carrying charges. Further, it stated that it was not aware of any restrictions in the Accounting Procedures Handbook or Board policy regarding the correction of historic data for known errors.

## **Submission**

Board staff takes does not take issue with Burlington Hydro's adoption of the accrual method to adjust its carrying charges but does contest its retroactive application to previously-approved balances.

Board staff submits that policy has specifically addressed the change to accrual accounting through its Accounting Procedures Handbook, as follows:

Effective January 1, 2012, where a distributor has to make a change to the accrual method from a previous method ("billed" method/cash accounting), such change is permitted only on a prospective basis. *The change must not impact any previous account balances filed for disposition as part of regulatory assets or*

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<sup>1</sup> EB-2014-0059, Response to Board staff Interrogatory #2

*other reviews for which recoveries (or refunds) have been approved in rates*<sup>2</sup>.  
(emphasis added)

Board staff submits that this change should be implemented on a prospective basis only, as required by the Accounting Procedures Handbook. Doing so would result in no adjustment to Burlington Hydro's deferral and variance account balances.

Board staff submits that the requirement to implement this accounting change on a prospective basis was specifically put in place to avoid retroactive adjustments to rates, which have been consistently denied by the Board in the past. The following example outlines the Board's position on retroactive ratemaking:

The courts have made it very clear that retroactive rate-making, the adjustment to rates after a final rate order has been issued, is not allowed. Rather, the principles of certainty and finality are a necessary component of effective rate regulation<sup>3</sup>.

Burlington Hydro has proposed to adjust the carrying charges applied to deferral and variance accounts for the years 2010 through 2012; the corresponding amounts have been previously approved for disposition by the Board. Board staff submits that the same principles apply to carrying charges that would apply to principal balances: once the total balances (principal and carrying charges) have been approved and the resulting rate riders calculated, ratepayers are entitled to the certainty and finality of knowing that these balances have been dealt with on a final basis and will not be revisited.

Contrary to Burlington Hydro's assertion that there are no restrictions in Board policy regarding the correction of historical errors, Board staff submits that the Board has been clear on its position in this regard. Specifically, the Board has addressed the matter of correction of historical errors as follows:

The Board expects a utility to provide the Board with accurate accounting for rate setting purposes. Veridian has control of its books and records and has the responsibility to ensure mistakes do not occur. The Board will not adjust for this

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<sup>2</sup> Accounting Procedures Handbook, December 2011, Article 490, page 10

<sup>3</sup> EB-2013-0022, Decision and Order on Motion to Review, April 25, 2013, page 10

error<sup>4</sup>.

Notwithstanding these submissions, Board staff notes that in this case the adjustment results in a credit to customers. Should the Board decide to consider Burlington Hydro's proposal, Board staff submits that the consideration of different treatment for a credit balance has been addressed by the Board in the past:

The Board is not driven by a need for a symmetrical treatment of ratepayers and utilities in situations where correction of utility mistakes is required. The utility has control of its books and records and has the responsibility to ensure mistakes do not occur. For this reason the Board could find in favour of the ratepayer in certain situations and not find in favour of the utility if the utility was in the same situation<sup>5</sup>.

More recently, in approving a retroactive refund to Enbridge Gas Distribution Inc. customers, the Board stated that:

Based on the facts of the case, the Board agrees with Enbridge and the parties that the money should be refunded to customers. ... An out-of-period adjustment can be justified if it ensures a utility does not profit on account of its own errors<sup>6</sup>.

Finally, Board staff notes that in the event that the retroactive adjustment should be denied, an adjustment to the amounts reported in Burlington Hydro's RRR balances for 2013 would be required.

## **Disposition of Deferral and Variance Account Balances below the Threshold**

### **Background**

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report") provides that under the Price Cap IR or the Annual IR Index, the distributor's Group 1 audited account balances will be reviewed, and disposed if the pre-set disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. In its July 25, 2014 letter to Distributors, the Board stated that Distributors

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<sup>4</sup> EB-2013-0022, Decision and Order on Motion to Review, April 25, 2013, page 10

<sup>5</sup> EB-2009-0113, Decision and Order, September 8, 2009, page 8

<sup>6</sup> EB-2014-0043, Decision and Order, April 10, 2014

may now elect to dispose of Group 1 account balances below the threshold.

Burlington Hydro proposed to dispose of its consolidated 2013 Group 1 deferral and variance account balance with carrying charges to April 30, 2015 of (\$943,990), despite its calculated threshold test result of (\$0.0006). Burlington Hydro stated that, although the consolidated balance did not satisfy the threshold test, its balances in Accounts 1580 and 1589 of \$1,927,236 and (\$2,560,238) respectively would satisfy the test. Burlington Hydro stated that its proposal would recover or return the balances to the customers who originally gave rise to them, in a timely manner.

### **Submission**

Board staff notes that, although the threshold test has not been met, the balances in Account 1580 and 1589 are significant and the total for disposition results in a calculated rate rider for each rate class at four decimal places. Board staff notes that this remains true even if the adjustment to carrying charges back to 2010 is denied.

Board staff submits that, given the level of the balances in Accounts 1580 and 1589, it does not object to the applicant's proposal to dispose of Burlington Hydro's Group 1 deferral and variance account balances at this time.

All of which is respectfully submitted