OEB Staff Questions
for Rideau St. Lawrence Distribution's
Request for New Deferral and Variance Account
(EB-2018-0065)

Staff-10

Ref: Application, p. 21

Pre-amble

Rideau St. Lawrence is requesting a DVA to track lost revenues associated with the collection of account charges for future recovery from ratepayers.

Questions

a. Please explain why it is appropriate to have the DVA effective date to be February 23, 2017 corresponding to the initial disconnection ban, as Rideau St. Lawrence's rates were previously approved on a final basis. (Note: In the absence of an approved deferral account, it would constitute retroactive ratemaking.)

b. Please confirm that the proposed account for the lost revenue account would capture the lost revenues for the period of the winter disconnection moratorium, and would be effective in Rideau St. Lawrence's 2019 rate year and onwards.

Answer:

a) RSL is experiencing a reduction in its revenue offset for Collection of Account Charges. The revenue reduction is not due to normal fluctuations in the quantity of events seen by RSL. The reduction in revenue is due to previous enacted code changes made by the OEB related to winter disconnection bans and proposed changes to Customer Service Rules.

RSL acknowledges that our rates in 2017 and 2018 were approved in our 2016 Cost of Service and 2018 IRM applications on a final basis. The Collection of Account Charges were part of the revenues in the category of Other Revenue. RSL believes that if decisions are made by the OEB at their initiative that materially impact on approved revenues, some form of relief should be made available to RSL, either through rates or by a mechanism such as a deferral and variance account.

On February 23, 2017, the OEB issued a letter to distributors containing a Decision and Order (EB-2017-0101), amending the licenses of all Ontario electricity distributors to ban the disconnection of residential consumers for the period through April 30, 2017. On November 2, 2017, a Decision and Order (EB-2017-0318), amending the licenses of all Ontario electricity distributors was issued stating that the winter disconnection moratorium would occur from November 15 until the following April 30 on a permanent basis.

The winter disconnection ban prohibits LDCs from applying the Collection of Account Charge, which, in RSL's case, affected our ability to recover this revenue that had been approved in the previous rate applications.

Ideally, a new variance account could have been set up with the same effective date of the initial disconnection ban of February 23, 2017 to track the lost revenue caused by the disconnection bans for future disposition.

This IRM is the earliest possible opportunity for RSL to make the request to track the lost revenue related to the winter disconnection bans and the potential changes to Customer Service Rules as described in the Notice of Proposal to Amend Codes and a Rule (EB-2017-0183). We request the new variance account to be effective February 23, 2017, corresponding to the date of the initial disconnection ban in order to record the entire incremental lost revenue related to the disconnection bans.

Alternatively, rather than having an effective date of February 23, 2017, we request that the new variance account be effective May 1, 2019 for lost revenues beginning January 1, 2019, and that the OEB consider the recovery of the lost revenue accumulated from the of period February 23, 2017 to December 31, 2018. RSL believes that all revenues lost due to the previous and proposed code changes should be recoverable.

b) The proposed account would capture the lost revenues related to the previous and proposed changes made to the OEB rules that affect the Collection of Account charges. This includes the winter moratorium on disconnections, and the potential elimination of all Collection of Account charges as described in the Notice of Proposal to Amend Codes and a Rule (EB-2017-0183).

Staff-11

Ref: Application, p. 22-23

Pre-amble

The application does not show calculations of 2019-2021 forecast lost revenues.

Questions

a. Please produce a table with the monthly forecast number of customer accounts affected by customer class, the rates used for the collection of accounts, forecasted revenues and lost revenues from 2016 to 2021.

b. Please file the excel version of the table from a) above.

c. Please show detailed calculations to illustrate whether the materiality threshold is met annually for the 2019 to 2021 period. If the amounts are potentially not material on an annual basis going forward, please discuss the appropriateness of using a DVA account to track the lost revenues.

Answer:

a) The calculation of forecast lost revenue is shown in the following table.

Calculation of Lost Revenue of Collection of Account Charges

	2016 COS	2016 Actual				2017 Actual				2018 Actual				2019 Forecast				2020 Forecast				2021 Forecast				2017-2021 Forecast
	Approved Revenue	Number of Accounts	Rate	Actual Revenue	Lost Revenue	Number of Accounts	Rate	Revenue	Lost Revenue	Number of Accounts	Rate	Actual Revenue	Lost Revenue	Number of Accounts	Rate	Revenue	Lost Revenue	Number of Accounts	Rate	Revenue	Lost Revenue	Number of Accounts	Rate	Revenue	Lost Revenue	Accumulated Lost Revenue
Residential																										
January	4,095	137	30	4,095		55	30	1,643		-	30	-	4,095	137	30		4,095	137	30		4,095	137	30		4,095	16,380
February	8,280	276	30	8,280		218	30	6,525		-	30	-	8,280	276	30		8,280	276	30		8,280	276	30		8,280	33,120
March	1,238	41	30	1,238		(5)	30	(135)	1,373	-	30	-	1,238	41	30		1,238	41	30		1,238	41	30		1,238	6,323
April	11,607	387	30	11,607		-	30		11,607	-	30	-	11,607	387	30		11,607	387	30		11,607	387	30		11,607	58,035
May	11,385	380	30	11,385		335	30	10,058	1,328	439	30	13,163	(1,778)	380	30		11,385	380	30		11,385					22,320
June	5,040	168	30	5,040		188	30	5,648		172	30	5,153		168	30		5,040	168	30		5,040					10,080
July	1,665	56	30	1,665		377	30	11,295		91	30	2,720		56	30		1,665	56	30		1,665					3,330
August	12,443	415	30	12,443		72	30	2,157		186	30	5,580		415	30		12,443	415	30		12,443					24,885
September	9,473	316	30	9,473		452	30	13,545		141	30	4,230		316	30		9,473	316	30		9,473					18,945
October	1,463	49	30	1,463		80	30	2,385		221	30	6,615		49	30		1,463	49	30		1,463					2,925
November	3,353	112	30	3,353		160	30	4,793		164	30	4,905		112	30		3,353	112	30		3,353					6,705
December	3,510	117	30	3,510		(4)	30	(113)	3,623	(2)	30	(68)	3,578	117	30		3,510	117	30		3,510					14,220
	73,550	2,452		73,550	-	1,927		57,800	17,930	1,410		42,297	27,020	2,452		-	73,550	2,452		-	73,550	841		-	25,220	217,268
Commercial																										
January	720	24	30	720		12	30	360			30			24	30		720	24	30		720	24	30		720	2,160
February	593	20	30	593		17	30	510			30			20	30		593	20	30		593	20	30		593	1,779
March	210	7	30	210			30	-			30			7	30		210	7	30		210	7	30		210	630
April	1,560	52	30	1,560			30	-			30			52	30		1,560	52	30		1,560	52	30		1,560	4,680
May	1,860	62	30	1,860		56	30	1,687		43.0	30	1,290		62	30		1,860	62	30		1,860					3,720
June	330	11	30	330		18	30	540		16.0	30	480		11	30		330	11	30		330					660
July	30	1	30	30		18	30	540		15.0	30	450		1	30		30	1	30		30					60
August	1,770	59	30	1,770		5	30	150		16.0	30	480		59	30		1,770	59	30		1,770					3,540
September	1,260	42	30	1,260		35	30	1,050		9.0	30	270		42	30		1,260	42	30		1,260					2,520
October	390	13	30	390		15	30	450		16.0	30	480		13	30		390	13	30		390					780
November	300	10	30	300		13	30	390		25.0	30	750		10	30		300	10	30		300					600
December	180	6	30	180		-	30	-		-	30			6	30		180	6	30		180					360
	9,203	307		9,203	-	189		5,677	-	140		4,200	-	307		-	9,203	307		-	9,203	103		-	3,083	21,489
Industrial																										
January	-		30											-				-				-	30		-	-
February	-		30											-				-				-	30		-	-
March	-		30											-				-				-	30		-	-
April	-		30											-				-				-	30		-	-
May	67	2	30	67						1	30	30		2	30		67	2	30		67					134
June	-		30			1	30	30		1	30	30		-	30		-	-	30		-					-
July	-		30							-	30			-	30		-	-	30		-					-
August	68	2	30	68										2	30		68	2	30		68					136
September	-	-	30			3	30	90						-	30		-	-	30		-					-
October	-		30			1	30	30		1	30	30		-			-	-			-					-
November	-		30							2	30	60		-			-	-			-					-
December	-		30							(1)	30	-30		-			-	-			-					-
	135	5		135	-	5		150	-	4		120	-	5		-	135	5		-	135	-		-	-	270
Scattered Load																										
January	25	1	30	25										1	30		25	1	30		25	1	30		25	75
February	-		30											-	30		-	-	30		-	-	30		-	-
March	-		30											-	30		-	-	30		-	-	30		-	-
April	27	1	30	27										1	30		27	1	30		27	1	30		27	81
May	-		30											-	30		-	-	30		-					-
June	-		30											-	30		-	-	30		-					-
July	-		30											-	30		-	-	30		-					-
August	30	1	30	30										1	30		30	1	30		30					60
September	-		30			1	30	30						-	30		-	-	30		-					-
October	-		30											-	30		-	-	30		-					-
November	30	1	30	30										1	30		30	1	30		30					60
December	-		30			-1	30	-30						-	30		-	-			-					-
																		-								
	112	4		112	0	-		-	-					4		-	112	4		-	112	2		-	52	276
Sentinel																										
January	-		30.00											-	30		-	-	30		-	-	30		-	-
February	-		30.00												30		-		30		-		30		-	-
March	-		30.00												30		-		30		-		30		-	-
April	45	2	30.00	45										2	30		45	2	30		45	2	30		45	135
May	-		30.00												30		-		30		-					-
June	-		30.00												30		-		30		-					-
July	-		30.00												30		-		30		-					-
August	23	1	30.00	23										1	30		23	1	30		23					45
September	-		30.00												30		-		30		-					-
October	-		30.00			1		30							30		-		30		-					-
November	-		30.00											-	30		-	-	30		-					-
December	-		30.00														-				-					-
	68	2		68		1		30						2		-	68	2		-	68				45	180
All Classes																										
January	4,840	161		4,840		67		2,003	-	-		-	4,095	161		-	4,840	161	30	-	4,840	161		-	4,840	18,615
February	8,873	296		8,873		235		7,035	-	-		-	8,280	296		-	8,873	296	30	-	8,873	296		-	8,873	34,899
March	1,448	48		1,448		(5)		(135)	1,373	-		-	1,238	48		-	1,448	48	30	-	1,448	48		-	1,448	6,953
April	13,239	441		13,239		-		-	11,607	-		-	11,607	441		-	13,239	441	30	-	13,239	441		-	13,239	62,931
May	13,312	444		13,312		391		11,745	1,328	483		14,483	(1,778)	444		-	13,312	444	30	-	13,312	-		-		26,174
June	5,370	179		5,370		207		6,218	-	189		5,663	-	179		-	5,370	179	30	-	5,370	-		-		10,740
July	1,695	57		1,695		395		11,835	-	106		3,170	-	57		-	1,695	57	30	-	1,695	-		-		3,390
August	14,333	478		14,333		77		2,307	-	202		6,060	-	478		-	14,333	478	30	-	14,333	-		-		28,666
September	10,733	358		10,733		491		14,715	-	150		4,500	-	358		-	10,733	358	30	-	10,733	-		-		21,465
October	1,853	62		1,853		97		2,895	-	238		7,125	-	62		-	1,853	62	30	-	1,853	-		-		3,705
November	3,683	123		3,683		173		5,183	-	191		5,715	-	123		-	3,683	123	30	-	3,683	-		-		7,365
December	3,690	123		3,690		(5)		(143)	3,623	(3)		(98)	3,578	123		-	3,690	123		-	3,690	-		-		14,580
Ground Total	83,067	2,769		83,067		2,122		63,657	17,930	1,554		46,617	27,020	2,769		-	83,067	2,769		-	83,067	947		-	28,400	239,483

b) A live Excel table is included in this filing.

c) As shown in the following table, the forecast total accumulated lost revenue from 2017 to 2021 is $239,483, which is 4.79 times the Board-defined materiality threshold. The average annual lost revenue forecast is $47,897, close to the annual materiality threshold (4.21% or $2,103 lower). The forecast annual lost revenue for 2019 and 2020 exceeds the materiality threshold of $50,000 when the charge may be eliminated for all customers according to the proposed changes as described in EB-2017-0318. The actual annual lost revenue for 2017 and 2018 is below the threshold as the winter disconnection bans applied to only residential customers for the winter period. It is expected that RSL will file a Cost of Service application for rates effective May 1, 2021. Four months of lost revenue is included in the calculation for 2021, for the period of January 1 to April 30, prior to rebasing.

Summary of Lost Revenue

	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	Accumulated Forecast	Average Forecast
Lost Revenue	17,930	27,020	83,067	83,067	28,400	239,483	47,897
Materiality Threshold	50,000						
Met	N	N	Y	Y	N		

Although the lost revenue for some years is below the OEB-defined materiality threshold of $50,000, both the accumulated lost revenue and each individual years lost revenue is significant and material to RSL.

As shown in the updated Table 17, the annual lost revenue for 2017 – 2021 represents 0.69% to 3.2% of RSL's distribution revenue requirement. In each year, the lost revenue is greater than 0.5% of RSL's distribution revenue requirement, a percentage that is used as a materiality measure.

Updated Table 17 - Financial Impact of Lost Revenue

Updated Table 17 - Financial Impact of Lost Revenue

	Amount	2017 Actual Lost Revenue	Percentage	2018 Actual Lost Revenue	Percentage	2019 Forecast Lost Revenue	Percentage	2020 Forecast Lost Revenue	Percentage	2021 Forecast Lost Revenue	Percentage	Accumulated Lost Revenue	Percentage	Average Lost Revenue	Percentage
Target Distribution Revenue	2,592,434	17,930	0.69%	27,020	1.04%	83,067	3.20%	83,067	3.20%	28,400	1.10%	239,483	9.24%	47,897	1.85%
Target Return on Equity	242,013	17,930	7.41%	27,020	11.16%	83,067	34.32%	83,067	34.32%	28,400	11.73%	239,483	98.95%	47,897	19.79%
2017 Actual Return on Equity	38,365	17,930	46.73%	27,020	70.43%	83,067	216.52%	83,067	216.52%	28,400	74.02%	239,483	624.22%	47,897	124.84%
2016 Actual Return on Equity	32,814	17,930	54.64%	27,020	82.34%	83,067	253.14%	83,067	253.14%	28,400	86.55%	239,483	729.82%	47,897	145.96%

When compared to return on equity, the annual lost revenue accounts for 7.41% to 34.32% of RSL's target return on equity approved in the 2016 Cost of Service application, and 46.73% to 216.52% of RSL 2017 actual return on equity which is $38,365 as reported in RRR 2.1.5.6.

The forecast lost revenue would have a significant accumulated impact on RSL's financial condition and ability to provide safe and reliable service to customers. The total lost revenue forecast of $239,483 is equivalent to 9.24% of our revenue requirement and nearly a whole year of target return on equity.

It is noted that RSL's existing Group 2 deferral and variance accounts, when they were set up as instructed by the OEB, were not required to meet a materiality threshold. Annual transaction amounts of the Group 2 accounts are all below the $50,000 materiality threshold. Some account annual transaction amounts are as small as a few hundred dollars.

As stated in the initial IRM submission and the above answers, the causality of the lost revenue is clear, and the financial impact on RSL is material. RSL believes that recording and recovering the lost revenue through the use of the requested deferral and variance account is fair and appropriate.

Staff-12

Ref: Application, p. 22-24

a. Please quantify and describe the types of costs included in the 2016 cost of service for OM&A related to the winter disconnections, but are now not incurred.

b. Please confirm whether there are any cost savings realized due to the winter disconnections moratorium (such as the avoided costs of not disconnecting and reconnecting customers, collection costs, etc.).
   i. Please itemize the avoided costs by activity (for example, avoided contractor costs, overtime costs, reduced admin costs, increased productivity costs from redeployment of staff, etc.).
   ii. If yes, please quantify the cost savings for the 2017 to 2021 period by showing a breakdown of the costs avoided by activity.

c. Please quantify the impact of the savings due to the avoided costs on lost revenues calculated in Staff-11 above. Please produce a table and file in excel format.

Answer:

a) The costs that RSL incurs related to the collection of accounts and winter disconnections are:

1. Generating and analyzing reports that identify delinquent customers and potential disconnections.
2. Contacting delinquent customers to request payments and making payment arrangements.
3. Generating collection notices, and personally delivering the notices to the customers.
4. Additional contact to customers facing disconnection.
5. Disconnections and reconnections.

All of the actions and associated costs listed above still occur with the exception of disconnections and reconnections during the winter disconnection period. Based on our records for 2015 and 2016, RSL on average completed 25 disconnections during the months between November and April. RSL adopted the standard methodology for the calculation of Specific Service Charges. The estimated cost based on the standard methodology is $65 per incident, for a total of $1,500.

b) There are no overall cost savings, as all work related to the collection of accounts is performed by RSL staff. Instead of performing disconnections, staff is assigned to do other work. For example, the employee who performs the majority of the disconnections is doing smart meter changes instead of disconnections. RSL will change 500 meters in 2019, and between 200 and 300 per year going forward as part of its reverification program.

c) As there are no savings due to avoided costs, there is no impact on the lost revenues.

Staff-13

Ref: Chapter 2 Filing Requirements (section 2.9.4) / Application, p. 24

Please file a draft accounting order to detail the mechanics of the account. As an example, please include the following information in the draft accounting order:

- a description of the nature of the account
- effective start date of the DVA
- description of the costs that would be recorded
- sample journal entries to be recorded
- whether carrying charges would apply
- when the DVA is expected to cease (for example, until Rideau St. Lawrence's next COS or until the legislative requirement no longer exists, whichever comes first)
- when the DVA would be proposed for review and disposition by the OEB
- a description of the proposed approach to calculate lost revenues, as noted on pages 21-22 of the application

Answer:

The following Draft Accounting Order will be filed along with this document.

Draft Accounting Order

Account 1508 – Other Regulatory Assets – Sub-Account Lost Revenue – Collection of Account Charges

Rideau St. Lawrence Distribution Inc. ("RSL") requests a new deferral and variance account, 1508 – Other Regulatory Assets – Sub-Account Lost Revenue – Collection of Account Charges. The account will capture the lost revenues related to the previously approved moratorium on winter disconnections (EB-2017-0101 and EB-2017-0318) and the potential elimination of all Collection of Account charges as described in the Notice of Proposal to Amend Codes and a Rule (EB-2017-0183).

RSL proposes that the deferral and variance account have an effective date of February 23, 2017, which corresponds with the effective date of the initial winter disconnection moratorium. Alternatively, RSL proposes that the account have an effective date of May 1, 2019, to capture lost revenues beginning January 1, 2019. RSL asks that consideration be given to the recovery of lost revenues accumulated from February 23, 2017 to December 31, 2018.

Disposition of the balances recorded in the proposed deferral and variance account is subject to future prudence review at the time of RSL's next Cost of Service application, and is expected to be achieved through a rate rider applicable to affected customer classes.

Accounting Entry:

Debit – Account 1508 – Other Regulatory Assets – Sub-Account Lost Revenue – Collection of Account Charges

Credit – Account 4235 – Specific Service Charges

The entry to the deferral and variance account is to record the difference between the actual collection charges from affected customer classes and the amount for the same period embedded in the Board-approved Collection of Account Charges.

Carrying charges, at the Board's Prescribed Interest Rate for Deferral and Variance Accounts, would be applied until final disposition.

Staff-14

Ref: Application, p. 24

Pre-amble

Rideau St. Lawrence provided 2017 and 2018 impacts of lost revenues relative to return on equity.

Questions

a. Please update Table 17 to show the detailed calculations of the projected financial ramifications for 2019 to 2021.

   Answer:

   a) Please see the table of Updated Financial Impact of Lost Revenue in answer to 11 c).