



Burlingtonhydro inc.

Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

August 16th, 2019

Dear Ms. Walli,

Re: EB-2019-0179

Request for an Accounting Order to Establish a New Deferral Account

Burlington Hydro Inc. ("Burlington Hydro") is submitting its responses to OEB Staff interrogatories related to its request to establish a new deferral account to record lost revenues associated with the elimination of the Collection of Account charge, effective January 1, 2019 (EB-2019-0179).

The Filing is being filed through the OEB's RESS system; two hard copies will follow by courier.

Yours truly,

Original Signed By

Sally Blackwell
Vice President, Regulatory Compliance and Asset Management
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Attachments

OEB Staff -1

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Burlington Hydro indicated that it requests the deferral account be effective January 1, 2019 as it had previously applied for the same account on October 13 2017.

a) Burlington Hydro previously requested the establishment of the same deferral account in its 2018 IRM rate application for rates effective May 1, 2018. Please explain how this correlates to the January 1, 2019 effective date Burlington Hydro is currently requesting.

b) Burlington Hydro's 2019 rates effective May 1, 2019 were set on a final basis in its 2019 IRM rate application. Burlington Hydro submitted this application to request the deferral account on July 2, 2019. Please explain Burlington Hydro views on rate retroactivity if this account were approved effective January 1, 2019.

Burlington Hydro Response:

a) BHI is requesting an effective date of January 1, 2019 instead of the initial request of May 1, 2018 because the lost revenue associated with the waiving of the Collection of Account Charge in 2018 does not meet Burlington Hydro's materiality threshold of \$144k as identified in Table 3 of the Deferral Account Application. Burlington Hydro filed its original request for the deferral account on October 13, 2017, at which time 2018 actuals were not known.

b) Burlington Hydro's original request for the deferral account was prior to setting its rates on a final basis effective May 1, 2019. The OEB did not authorize the establishment of the deferral account in its Decision and Rate Order for Burlington Hydro's 2018 IRM Application on March 22, 2018 and stated that it *"is currently reviewing non-payment of account service charges, including the Collection of Account charge, as part of its customer service rules review for electricity and gas. As such, the OEB will likely deal with this charge on a sector-wide basis"*¹. Burlington Hydro submitted its 2019 IRM application for May 1, 2019 rates on September 24, 2018. The OEB made a decision on waiving the Collection of Account Charge on March 14, 2019² and indicated at that time that *"it does not find it prudent to establish a generic deferral/variance account for all distributors. Again, a distributor can apply for a deferral account to track the impact of eliminating the two charges relating to non-payment of accounts with evidence demonstrating that such an account would meet the eligibility requirements set out in the OEB's Filing Requirements for Electricity Distribution Rate Applications"*.

Burlington Hydro did not apply for a deferral account for the lost revenue associated with waiving the Collection of Account charge in its 2019 IRM application as the request was dependent on the OEB issuing its final report on Phase 1 of the Customer Service Rules which was not until March 14, 2019.³ Due to the timeline of events, Burlington Hydro did not have an opportunity to request a deferral account effective for May 1, 2019 rates. Further,

¹ Decision and Rate Order EB-2017-0029, p.11

² Notice of Amendments to Codes and a Rule EB-2017-0183, p. 20

³ Notice of Amendments to Codes and a Rule EB-2017-0183

Burlington Hydro's request is for a Group 2 deferral account which, if approved, will not be disposed of until its next rebasing. There is no impact to distribution rates until that time.

In addition, Burlington Hydro submits that the waiving and subsequent elimination of the Collection of Account Charge in itself is retroactive rate-making. Burlington Hydro received approval for specific base distribution rates in its 2014 Cost of Service application. These base distribution rates were determined by reducing its service distribution revenue by the Collection of Account Charge Revenue of \$512,305; i.e. base distribution rates did not include the ability to recover \$512,305 of costs; costs that were approved by the OEB in Burlington Hydro's 2014 Cost of Service. These costs were approved by the OEB to be recovered through the Collection of Account Charge - the waiving and subsequent elimination of the Collection of Account Charge prevents Burlington Hydro from recovering costs which were approved in its 2014 Cost of Service. Please refer to the response to OEB-Staff 4 for further details.

Therefore, Burlington Hydro respectfully submits that the deferral account be effective January 1, 2019.

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Burlington Hydro indicated that it will continue to incur costs associated with the collection activities.

a) Please describe the types of activities from July 1, 2019 onwards that pertain to the costs incurred for collection of accounts.

b) Please describe any cost savings resulting from collection activities that may now be avoided (e.g. related to winter disconnection/reconnection ban).

i. Please quantify the annual cost savings by activity.

Burlington Hydro Response:

a) The types of activities from July 1, 2019 onwards that pertain to the costs incurred for collection of accounts are:

- Disconnecting and reconnecting customers
- Delivery of notices (Collection of account notices, disconnection notices)
- Credit bureau costs
- Managing past due accounts (phone calls, payment arrangements)
- Material costs (envelopes, stock)

b) There are no avoided collection activities and therefore no savings. Although no disconnections occur during the winter moratorium, Burlington Hydro's number of disconnections and associated costs are increasing. In addition costs associated with collection activities have increased as identified in Table 1 below – bad debt expense, issuance of notices and staffing costs associated with managing past due accounts.

Table 1 – Collection Costs

Description	2017	2018	2019 Fcst
Collection Charges (Credit Bureau/D&A)	\$123,139	\$132,786	\$160,851
Collection Activities	\$202,973	\$276,682	\$177,094
Bad Debt Expense	\$80,470	\$421,550	\$210,000
Total	\$406,582	\$831,018	\$547,945

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Burlington Hydro indicated that it included the revenues associated with the Collection of Account charges as a revenue offset in its 2014 cost of service application and that the inability to recover these revenues from customers resulted in a shortfall in revenue requirement. Please provide the following information on Burlington Hydro's ROE.

	2017	2018
Deemed ROE		
ROE reported in RRR		
ROE recalculated to include lost revenues*		

*ROE recalculated in a scenario where Burlington Hydro was able to continue to charge the Collection of Account charge

Burlington Hydro Response:

Please see Table 2 below for the Return on Equity recalculated as if Burlington Hydro was able to continue to charge the Collection of Account charge. Note that the impact to ROE in 2019 will be higher due to the permanent elimination of the Collection of Account charge for all customers effective July 1, 2019.

Table 2 – Recalculated ROE

Description	2017	2018
Deemed ROE	9.36%	9.36%
ROE Reported in RRR	7.33%	7.03%
ROE Recalculated to include lost revenues	7.60%	7.43%

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Burlington Hydro stated that its approach was not to charge the revenue through base distribution rates. Please confirm that the cost of collection was not included in OM&A in the revenue requirement but only as a revenue offset. If not, please indicate all the areas these costs/revenues were included in revenue requirement and quantify the amount by area.

Burlington Hydro's Response:

The cost of collection activities was included in OM&A in the calculation of Burlington Hydro's revenue requirement. This revenue requirement was then reduced by specific service charge revenue which included the Collection of Account Charge revenue of \$512,305. Only revenue was included as a revenue offset i.e. the cost of collection activities was not netted against the revenue. The result was that Burlington Hydro's base distribution revenue was reduced by the Collection of Account Charge revenue, resulting in lower distribution rates. This approach (Scenario 1) means that Burlington Hydro's only method to recover costs associated with collection activities is through the Collection of Account Charge. The waiving and subsequent elimination of this charge prevents Burlington Hydro from recovering costs which were approved in its 2014 Cost of Service.

The alternative to this approach (Scenario 2) would have been for Burlington Hydro to remove the Collection of Account Charge from its tariff sheet thereby eliminating this revenue. There would be no revenue offset and base distribution revenue would have been higher by \$512,305, resulting in higher distribution rates. Total revenue recovered from ratepayers in both scenarios is the same, however Scenario 1 recovers the costs from the ratepayers who incur them, rather than socializing the costs across all ratepayers.

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Ref: Page 9 – Table 2

In table 2, there is a row for “Calendar Year Adj”. Please explain what this row is for and how it was calculated.

Burlington Hydro’s Response:

The calendar year adjustment was used to balance to the G/L which in turn was used to compare to the amounts approved in rates. There is a one month lag between the date the revenue is incurred and recorded in the G/L (i.e. December Collection of Account Charge revenue is recorded on the G/L in January of the following year). Burlington Hydro does not accrue for this as it is typically immaterial. The “Calendar Year Adj” was calculated by adding prior year December revenue and deducting current year December revenue from the “Total by Month Incurred” balances.

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Ref: Page 10 – Table 3

In Table 3, lost revenue for recovery is the difference between actual revenues and that approved in Burlington Hydro's 2014 cost of service application.

- a) Please confirm that Burlington Hydro is proposing to record the difference in the account, so that total net recovery from actual Collection of Account revenue and lost revenues recorded in the account will equal the approved revenue offset.
- b) If not, please clarify the lost revenue calculation that Burlington Hydro proposes to be recorded in the account.
- c) Please explain why Burlington Hydro is not proposing to base the lost revenue recorded in the account on the number of collection notices issued and capping it at approved revenue offsets of \$512,305.
- d) Please explain Burlington Hydro's rationale for the lost revenue calculation proposed to be recorded in the account.
- e) Please revise the draft accounting order to include clarification on how lost revenues will be calculated.

Burlington Hydro's Response:

- a) Burlington Hydro confirms that it is proposing to record the difference in the account, so that total net recovery from actual Collection of Account revenue and lost revenues recorded in the account will equal the approved revenue offset, adjusted for inflation.
- b) n/a. See response to OEB Staff – 6a) above.
- c) Burlington Hydro is prepared to base the lost revenue recorded in the account on the number of collection notices issued and cap it at approved revenue offsets of \$512,305 adjusted for OEB inflation as identified in Table 3 below.
- d) As stated in the response to OEB Staff 6d), Burlington Hydro will base the lost revenue recorded in the deferral account on the number of collection notices issued and cap it at approved revenue offsets of \$512,305, adjusted for OEB inflation as identified in Table 3 below. Note that 2015-2018 are provided for calculation purposes only.

Burlington Hydro is seeking recovery of the amount it would have recovered had the OEB not waived the Collection of Account Charge from January 2019 onwards, up to a maximum of the approved revenue offset. It does not intend to recover more than the revenue offset approved in its 2014 Cost of Service Application (i.e. \$512,305 adjusted for inflation).

Table 3 – Revenue Offset Cap for 2019-2021

Year	\$	OEB Inflation Rate
2014 Cost of Service (EB-2013-0115)	\$512,305	
2015	\$518,965	1.30%
2016	\$528,306	1.80%
2017	\$536,759	1.60%
2018	\$542,395	1.05%
2019	\$549,717	1.35%
2020 Estimate	\$559,887	1.85%
2021 (Jan-Apr) Estimate ¹	\$189,895	1.75%

1. Assumes Burlington Hydro rebases for May 1, 2021 rates

- e) Burlington Hydro provides a revised draft accounting order as Attachment A to include clarification on how lost revenues will be calculated.

Attachment A – Draft Accounting Order

Draft Accounting Order

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

Burlington Hydro shall establish a new deferral account: Account 1508 – Other Regulatory Assets - Sub-account Lost Revenue – Collection of Account Charges. This account is to be established to recover the lost revenue associated with:

- (i) the waiving of the Collection of Account charge for residential customers from January 1, 2019 – April 30, 2019; and
- (ii) the elimination of the Collection of Account charge for all customers from July 1, 2019 to the rate effective date of Burlington Hydro's next rebasing application.

The lost revenues associated with the elimination of the Collection of Account charge will be recorded in the Sub-account for future recovery from rate payers and will be disposed of at Burlington Hydro's next rebasing application. The new deferral account will be discontinued after Burlington Hydro's next rebasing. Carrying charges will be applied to this Sub-account and will be calculated at the OEB's prescribed interest rates.

The journal entries to be recorded are identified below:

DR 1508 Other Regulatory Assets - Sub-Account Lost Revenue – Collection of Account
Charges - Principal
CR 4235 Miscellaneous Services Revenue
To record the lost revenue associated with the elimination of the Collection of Account Charge.

DR 1508 Other Regulatory Assets - Sub-Account Lost Revenue – Collection of Account
Charges – Carrying Charges
CR 4405 Interest Income
*To record carrying charges on the principal balance in the Sub-Account Lost Revenue –
Collection of Account Charges.*

Burlington Hydro will calculate the lost revenue recorded in the deferral account by multiplying the number of collection notices issued, but not charged for, by the Collection of Account Charge of \$30 per notice. The number of collection notices will be equal to:

- the residential notices issued but not charged for from January 1, 2019 to April 30, 2019
- all notices issued from July 1, 2019 to Burlington Hydro's next rebasing application

This amount will be capped at an annual maximum of \$512,305, adjusted for inflation, which is equal to Burlington Hydro's revenue offset approved in its 2014 Cost of Service application.