

DECISION AND ORDER

EB-2019-0179

BURLINGTON HYDRO INC.

**Application for an accounting order to establish a deferral account
for lost revenues arising from the elimination of the Collection of
Account Charge**

BY DELEGATION, BEFORE: Theodore Antonopoulos

September 19, 2019

1 INTRODUCTION AND SUMMARY

On June 28, 2019, Burlington Hydro Inc. (Burlington Hydro) applied to the Ontario Energy Board (OEB), pursuant to section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), to establish a deferral account effective January 1, 2019, to record revenues that will be lost as a result of the elimination of the Collection of Account charge.

For the reasons set out below, the OEB approves the establishment of a deferral account to record lost revenue resulting from the elimination of the Collection of Account Charge, effective July 1, 2019.

2 THE PROCESS

The OEB has considered the application without holding a hearing pursuant to section 6(4) of the OEB Act.

Burlington Hydro filed its application on June 28, 2019. OEB staff posed a series of questions related to the application to Burlington Hydro on August 1, 2019. Burlington Hydro provided responses to those questions on August 16, 2019.

3 THE APPLICATION

Background - Collection of Account Charge

In the past, the Collection of Account charge was intended to cover the field costs, or part of the costs, of additional collection activities that are beyond the routine of a distributor as a result of an individual customer's non-payment of its account.¹

Electricity distributors were required to apply to the OEB for approval to include these charges in their tariffs.

On February 23, 2017, the OEB issued a letter² indicating its intent to launch a review of customer service rules for the electricity and gas sectors, including the development

¹ Report of the Ontario Energy Board - Review of Customer Service Rules for Utilities, Phase 1, EB-2017-0183, September 6, 2018

² Letter regarding Winter Disconnections and Launch of Review of Customer Service Rules, February 23, 2017

of disconnection rules. On the same day, the OEB issued its decision and order³ to amend all electricity distribution licenses to ensure that residential customers were not disconnected for non-payment during the February 24, 2017 to April 30, 2017 winter period. During that same period, the Collection of Account charge was also to be waived.

In its subsequent decision and order⁴ on November 2, 2017, the OEB further amended all electricity distributors' licenses to prohibit the disconnection of residential customers for reason of non-payment from November 15 to April 30 (Disconnection Ban Period) on a go forward basis. The waiving of the Collection of Account charge was also to apply on a go forward basis during the Disconnection Ban Period.

On March 14, 2019, the OEB gave notice to amend codes and a rule (March 2019 Notice)⁵. The March 2019 Notice permanently eliminated the Collection of Account charge for all customers, effective July 1, 2019. The OEB indicated that it believes that activities associated with collection of accounts are part of normal business activities and customers should not be charged for them. The OEB further indicated that it did not find it prudent to establish a generic deferral and variance account to track the impact of eliminating non-payment related charges. However, a distributor could apply for an account with evidence demonstrating that the account would meet the eligibility criteria as set out in the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*.

Burlington Hydro's Applications

2018 Incentive Rate Mechanism (IRM) Rate Application

In its 2018 IRM rate application filed on October 13, 2017, Burlington Hydro included a request to establish a deferral account effective the first day of the next Disconnection Ban Period to track lost revenue from the Collection of Account charge. In its 2018 IRM decision and rate order (2018 IRM Decision)⁶, the OEB did not authorize the establishment of the account for the following reasons:

1. The issues raised by the request were not unique to Burlington Hydro as they were applicable to all licensed electricity distributors.

³ Decision and Order, EB-2017-0101, Amending Electricity Distributor Licenses to Prohibit Disconnection of Residential Customers and Related Matters, February 23, 2017

⁴ Decision and Order, EB-2017-0318, Amending Electricity Distributor Licenses to Prohibit the Disconnection of Residential Customers and Related Matters, November 2, 2017

⁵ Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019

⁶ Decision and Rate Order, EB-2017-0029, Burlington Hydro Inc. 2018 IRM Rate Application

2. At the time, the OEB was reviewing the Collection of Account charge as a part of its customer service rules review, and was likely to deal with the charge on a sector-wide basis.
3. A request to establish a Group 2 Account is generally out of scope in an IRM proceeding unless it is based on OEB direction or approval arising from a previous OEB decision, code, rule or policy framework, which was not the case for Burlington Hydro.
4. It was not clear from the record whether the Collection of Account amount included in revenue offsets in Burlington Hydro's 2014 cost of service rate application that underpinned the current base rates was material.
5. It was not clear why or how actual revenues from the Collection of Account charge in 2014 and 2015 were so high relative to the total amount forecasted for specific service charges.

In the 2018 IRM Decision, the OEB noted that, if Burlington Hydro pursued the establishment of this account in future, the company would be expected to address the above matters.

Current Accounting Order Application

In the current application, Burlington Hydro requested the establishment of an account to recover lost revenue associated with the elimination of the Collection of Account charge, effective January 1, 2019. In its interrogatory responses,⁷ Burlington Hydro further explained that it did not have an opportunity to apply for an account in its 2019 IRM application, submitted in September 2018 for rates effective May 1, 2019, as the request was dependent on the results of the OEB's review of customer service rules, which was not issued until March 2019.

Burlington Hydro included revenue associated with the Collection of Account charge as part of revenue offsets in its 2014 cost of service rate application. Burlington Hydro stated that the inability to recover this revenue due to the Disconnection Ban Period and the elimination of the Collection of Account charge results in a shortfall in revenue requirement. Burlington Hydro noted that it continued to incur costs associated with collection activities as it continued to issue collection notices from February 2017 onwards since Burlington Hydro considered it to be the most effective tool to collect past due amounts and make payment arrangements on customers' accounts.

⁷ Burlington Hydro Interrogatory Response, OEB-Staff 1, August 16, 2019

In this application, Burlington Hydro discussed the eligibility criteria for the establishment of new deferral and variance accounts as set out in the *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*. Specifically, Burlington Hydro indicated that its materiality threshold is \$144k. Burlington Hydro's 2014 cost of service application included approved revenue offsets pertaining to specific service charges of \$818k, of which \$512k was for the Collection of Account charge. From 2014 to 2018, revenue from the Collection of Account charge ranged from \$427k to \$578k. Lost revenue from 2019 to 2021 is expected to range from \$171k (for four months in 2021) to \$512k annually, exceeding Burlington Hydro's materiality threshold.

Burlington Hydro also addressed the five matters noted in its 2018 IRM Decision and filed a draft accounting order.

Burlington Hydro indicated that, although the matter is not unique to it, the request for an account does not necessarily apply to all distributors as some distributors do not charge customers directly for collection of account fees. Burlington Hydro also submitted that it is appropriate to submit a stand-alone application for an account as the March 2019 Notice indicated that impacted distributors can apply for an account. In addition, Burlington Hydro confirmed that the Collection of Account charge revenue included in its 2014 revenue offset was \$512k. Burlington Hydro stated that the 2014 and 2015 Collection of Account revenue contributed to approximately 60% of its specific service charges revenue, which was consistent with its 2014 cost of service rate application. Burlington Hydro also provided a breakdown of its specific service charge forecasts from 2012 to 2018.⁸

In its responses to OEB staff questions⁹, Burlington Hydro revised its calculation of the lost revenue to be recorded in the proposed account to be based on the number of collection notices issued, capped at its approved revenue offsets of \$512k, adjusted for OEB inflation.

Findings

The OEB approves the establishment of a deferral account to record lost revenues resulting from the elimination of the Collection of Account charge.

⁸ Application, page 12, Table 4

⁹ Burlington Hydro Interrogatory Response, OEB-Staff 6, August 16, 2019

The March 2019 Notice stated that a distributor could apply for an account with evidence demonstrating that the account would meet the eligibility criteria as set out in the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*. The OEB is satisfied that Burlington Hydro's request meets the eligibility criteria of causation, prudence and materiality.

In terms of causation, the OEB notes that the March 2019 Notice¹⁰ eliminated the Collection of Account charge on a permanent basis, effective July 1, 2019. This differs from prior periods where the Collection of Account charge was only waived for residential customers during the Disconnection Ban Period. Absent the establishment of an account, Burlington Hydro will need to make up the difference through operational efficiencies until it next rebases. For purposes of establishing the account, the OEB is satisfied that the annual amount of \$512k is sufficiently large that it is not reasonable to expect Burlington Hydro to establish a plan at this time for all or most of this amount to be recovered through operational efficiencies alone. That said, the OEB is not satisfied with the reasons provided for why the amount is so high given the size of the distributor. The OEB will address this matter further below.

Regarding prudence, Burlington Hydro indicated that lost revenue is expected to be reasonably incurred as it is determined by: i) the \$30 approved Collection of Account charge on Burlington Hydro's tariff of rates and charges, and ii) the number of collection notices issued. Burlington Hydro indicated that the circumstances dictating the issuance of collection notices are clearly defined.

The OEB accepts this explanation for purposes of establishing the account. However, the OEB notes that the disposition of Group 2 accounts, including 1508 sub-accounts, are in the normal course reviewed for prudence of the amounts in more detail than is normally the case in a proceeding where the account is first established. The OEB notes that Burlington Hydro indicated that there are no avoided collection activities and therefore, no savings. In response to OEB staff question 2b), Burlington Hydro stated that 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, such as bad debt expense, issuance of notices and staffing costs associated with managing past due accounts.

¹⁰ Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019

The OEB observes that Burlington Hydro is conflating different activities and areas of its operations in assessing the overall impact of the elimination of the Collection of Account charge, such as the change over time to bad debt expense. Yet, the utility is not addressing other factors such as growth. The OEB expects Burlington Hydro to support its statements about the impact on costs and revenues with evidence at the time of account disposition.

In addition, Burlington Hydro's results of the impact of the elimination of the Collection of Account charge on its Return on Equity (ROE) are not supported with calculations. The OEB does not understand why there would be an approximate 40 basis points impact on its ROE based on foregoing under \$90,000 in annual revenue for each of 2017 and 2018, as documented in its response to an OEB staff question.¹¹ This infers that the impact on the utility ROE in 2020, once it forgoes the entire assumed amount in rates of \$512k, would be closer to 200 basis points. As Burlington Hydro's revenue requirement is over \$28 million and, like other distributors is capital-intensive, it is not apparent how the foregone revenues, given their levels, would have as significant impacts on the ROE as the utility has stated.

In any event, the impact on ROE is informative, but not necessarily determinative for disposition and recovery from ratepayers. It is more critical for Burlington Hydro to address, at the time of disposition, what actions it has taken to minimize the impact of the elimination of the Collection of Account charge.

As for the quantum, the OEB acknowledges that the amount of \$512k was the amount included in Burlington Hydro's service revenue requirement that underpinned the approved rates as part of the 2014 rebasing application. Nevertheless, Burlington Hydro should confirm in its future disposition application that the \$30 charge is not being applied for any other activity. If confirmed, Burlington Hydro should explain why it has such a high number of notices (approximately 17,000¹²) issued each year, for a utility with more than 60,000 customers.

The OEB finds that the materiality criterion has been met for purposes of establishing the account. Estimated annual lost revenues for the proposed period ranging from \$170k to \$512k exceed Burlington Hydro's materiality threshold of \$144k.

¹¹ Burlington Hydro Response, OEB-Staff 2, August 16, 2019

¹² \$512,000 divided by \$30/collection of account notice

The OEB accepts that Burlington Hydro has satisfied causation, prudence and materiality for purposes of establishing the account.

The OEB approves an effective date of July 1, 2019, which is also the effective date of the permanent elimination of the Collection of Account charge. The OEB issued its Notice of Proposal on the related code amendments in December 2018. It formally announced the elimination of the Collection of Account Charge on March 14, 2019. In both instances, the OEB indicated that utilities may file for an account to track any material lost revenues. This application was filed at the end of June 2019. The OEB finds that a July 1 effective date is reasonable, given Burlington Hydro's previous attempt to establish this account which is a matter of public record, and that it filed this application in advance of July 1. The OEB finds that a January 1 date is not reasonable as it predates the filing of the application.

The OEB does not approve the inflation adjustments proposed by Burlington Hydro. While the OEB has approved an inflation adjustment for pole attachment charges and retail service charges, it has not yet considered the merits or mechanics of such an adjustment, for other specific service charges. Further, the deferral account is to be discontinued when Burlington Hydro next rebases, as there will be no lost revenue after rates are reset without the inclusion of the Collection of Account revenue.

4 ORDER

IT IS ORDERED THAT:

1. The Accounting Order set out in Schedule A of this Decision and Rate Order is approved effective July 1, 2019, to establish a deferral account under Account 1508 Other Regulatory Assets, Sub-Account Lost Revenue for Collection of Account Charge.

DATED at Toronto September 19, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE A
ACCOUNTING ORDER
BURLINGTON HYDRO
EB-2019-0179
SEPTEMBER 19, 2019

**Burlington Hydro Inc.
Accounting Order
Account 1508 Other Regulatory Assets,
Sub-account Lost Revenue from
Collection of Account Charge**

Burlington Hydro shall establish deferral account: Account 1508 Other Regulatory Assets, Sub-account Lost Revenue from Collection of Account Charge, effective July 1, 2019. This account will record the lost revenue associated with elimination of the Collection of Account charge until its next rebasing application.

The account will be disposed at Burlington Hydro's next rebasing application. The account will be discontinued after Burlington Hydro's next rebasing application.

Carrying charges at the OEB's prescribed interest rates will be applied to this sub-account.

Burlington Hydro will calculate the lost revenue recorded in the deferral account by multiplying the number of collection notices issued but not charged, by the Collection of Account charge of \$30 per notice. The number of collection notices will be equal to all notices issued from July 1, 2019 to the effective date of Burlington Hydro's next cost-based rate order.

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

Sample journal entries to be recorded in the account are:

DR Account 1508 Other Regulatory Assets, Sub-account Lost Revenue from Collection of Account Charge - Principal

CR Account 4235 Miscellaneous Services Revenue

To record the lost revenue associated with the elimination of the Collection of Account charge.

DR Account 1508 Other Regulatory Assets, Sub-Account Lost Revenue from Collection of Account Charge – Carrying Charges

CR Account 4405 Interest Income

To record carrying charges on the principal balance in the sub-account Lost Revenue from Collection of Account Charge.