

REQUEST TO CHANGE RATE YEAR TO ALIGN WITH FISCAL YEAR

On April 15, 2010, the Board wrote to all licensed electricity distributors and other interested parties to advise on the outcome of its consultative process “to review the need for and the implications of a potential alignment of the rate year with the fiscal year for electricity distributors (EB-2009-0423)”. In that letter, the Board wrote

“The Board has concluded that it is appropriate to consider the merits of an alignment of the rate year with the fiscal year for a distributor on a case-by-case basis upon receipt of an application for that purpose. Such an application shall form part of a distributor’s Cost of Service rate application.”

In accordance with this determination by the Board, BPI respectfully requests that the Board make its Rate Order effective January 1, 2014. BPI believes that the rate impacts to all customer classes from aligning its rate year and fiscal year are acceptable.

The Board has previously approved changes to the rate year. In 2000, the Board released the *Electricity Distribution Rate Handbook*, which adjusted the rate year to March 1 from January 1, as rates had been previously set when the rate making function was administered by Ontario Hydro. Subsequently, in 2004, the Board changed its rate year to April 1. When the 2006 *Electricity Distribution Rate Handbook* was released, the rate year was changed to May 1. Since that time, the rate year has remained as May 1 for most distributors. The previous adjustments to the rate year were commonly based on administrative practices and to align distribution rate changes with commodity rate changes.

Notwithstanding past reasons for the timing of rate changes, those changes have created a material lag between the budget year underlying rate applications and the commencement of available rate financing of these budgets. Consequently, BPI has prepared this Settlement Proposal on the basis of rate year and fiscal/budget year alignment, in order that the rate financing of investments and costs provided for in this Application are effectively concurrent with the incurrence of those investments and costs. The proposed rate and fiscal year alignment benefits both the ratepayer and the utility.

BENEFITS TO RATEPAYERS

As noted above, previous changes to the rate year have often been made to align with changes in the price of the commodity. Currently, the rate year is aligned with the May 1 change in commodity prices. Rate year and fiscal year alignment will offer ratepayers transparency and, with appropriate communication from the utility and the Board, a clearer understanding of the rates on which their bills are based, without the confusion of other changes in billing elements.

Additionally, electricity distributors have other billing elements, such as riders, that are implemented on dates other than May 1. Accordingly, there is no apparent ratepayer benefit in changing distribution rates and commodity rates as of the same date. Ratepayers also benefit from the utility having more certain and timely cash flow resulting from fiscal/rate year alignment. Eliminating the current lag between the budget year underlying rate applications and the commencement of the available rate financing of these budgets allows for more timely and confident investment in capital and operating costs to support a sustainable distribution system and customer service delivery.

BENEFITS TO THE UTILITY

The alignment of rate year and fiscal year is particularly important to distributors that require financial liquidity from third party lenders. BPI has a significant requirement for debt capital and incurs debt in a manner, with related terms and covenants, similar to other utilities. All of these utilities, including BPI have public or private debt ratings established by credit rating agencies or by applicable lenders which directly impact both the cost and availability of debt capital to support their financing requirements for distribution system infrastructure. Lenders typically base their respective decisions on the availability and relative certainty of cash flow to support business investment requirements and debt servicing. The alignment of the rate year with the fiscal year is supportive of cost effective and available financial liquidity as: 1. the

incurrence of investment and cost more closely aligns with cash flow; and 2. there is less regulatory uncertainty related to the approval of expenditures months after the commencement of the fiscal year.

Regulatory uncertainty in relation to rate year/fiscal year lag also creates investment risk for a utility. There is a significant risk that, in the first effective year of a rebasing application, the Board may disallow the recovery of certain investments and costs that have been incurred in advance of its rate decision.

The alignment of the rate year and fiscal year simplifies the explanation of fiscal year results in relation to regulatory approvals of investments, costs and return on equity. Those returns are presently computed in rate applications based on calendar year budgets. However, they are not practically available given the misalignment of the rate year and fiscal year. This creates confusion for users of financial statements and also complicates variance analysis in rate applications.

BPI's reporting to the Board is provided on a calendar year basis and, as such, all underlying input data into rate applications is based on the calendar year. For example, variance analyses are addressed by way of comparisons with prior years. Consequently, an alignment of the rate year and fiscal year would allow for further consistency in comparative data collection, presentation, reporting and analysis. This would improve efficiency in utility reporting processes.