



**BY EMAIL AND WEB POSTING**

July 30, 2020

**To: All Rate-regulated Entities and Interested Parties**

**Re: Re-establish the 2020 Q3 Prescribed Interest Rate for Deferral and Variance Accounts**

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After consideration of comments filed by stakeholders, the Ontario Energy Board (OEB) has revised the 2020 Q3 prescribed interest rate for Deferral and Variance Accounts (DVAs) that had been set at 1.38% in its letter of June 16, 2020 ([June 16<sup>th</sup> Letter](#)). In this July 30, 2020 letter, the OEB is establishing the 2020 Q3 DVA prescribed interest rate at 0.57% based on the [OEB's Approved Prescribed Interest Rates Methodology](#). The 2020 Q3 prescribed interest rate set for Construction Work in Progress (CWIP) at 2.48% in the June 16<sup>th</sup> letter remains unchanged.

### **2020 Q3 DVA Prescribed Interest Rates in the June 16<sup>th</sup> Letter and Responses**

In the June 16<sup>th</sup> Letter, the OEB set the 2020 Q3 DVA prescribed interest rate at 1.38%, with a view to maintaining stability for the interest rates in light of the unprecedented state of emergency arising from the COVID-19 pandemic. The 1.38% rate was calculated as the average of the posted 2020 Q2 interest rate of 2.18% and the 2020 Q3 interest rate of 0.57%, both calculated with the OEB's Approved Prescribed Interest Rates methodology.<sup>1</sup> The June 16<sup>th</sup> Letter stated that "Using the average of the two rates smooths the impact during this time and aligns with the average of AA-, A- and BBB-rated Canadian Corporate bond yields since the middle of May, 2020". The OEB stated that it will continue to monitor market conditions and it invited stakeholders to

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<sup>1</sup> 0.57% is calculated as the three-month bankers' acceptance rate as at May 29, 2020 of 0.32% plus the fixed spread of 25 basis points (0.25%).

provide comments on factors the OEB should consider when setting the interest rates for 2020 Q4.

The OEB received letters from seven intervenors and one letter from the Electricity Distributors Association (EDA). Intervenors generally asked the OEB to set aside the 1.38% for the 2020 Q3 DVA prescribed interest rate; to use the existing approved methodology for the 2020 Q3 DVA prescribed interest rate, which is calculated as 0.57%; and to initiate a consultative process if the OEB wishes to change the methodology. The EDA commented that any disconnect between capital market conditions and the level of the carrying charge could result in an inappropriate outcome. The EDA acknowledged that policies developed for business-as-usual conditions may be of questionable applicability, and also suggested that the OEB provide notice in the future, at the earliest opportunity, when the OEB considers an existing policy may not be suitable, and provide the OEB's preferred alternative.

### **2020 Q3 DVA Prescribed Interest Rate Re-established Using the Approved Methodology**

In the June 16<sup>th</sup> Letter, the averaging method used by the OEB for the 2020 Q3 DVA prescribed interest rate of 1.38% was intended to recognize the unprecedented state of emergency arising from the COVID-19 pandemic. The rate of 1.38% was set without consultation in order to expeditiously respond to changing market conditions and due to the need for updated prescribed interest rates for the next quarter.

The OEB notes that an assessment of 3-month Bankers' Acceptance Rate data, as published by the Investment Industry Regulatory Organization of Canada indicates that the BA Rate has not materially changed since the last business day of May (May 29, 2020), on which the 0.57% rate was calculated in accordance with the current Prescribed Interest Rate methodology.<sup>2</sup>

In this letter, the OEB acknowledges stakeholders' comments and is re-establishing the 2020 Q3 DVA prescribed interest rate at 0.57%. This rate of 0.57% supersedes the rate of 1.38% that was established in the June 16<sup>th</sup> Letter. All rate-regulated utilities should use 0.57%, instead of 1.38%, to calculate the carrying charges on the DVA monthly balances in 2020 Q3 to which the DVA prescribed interest rate applies. The 2020 Q3 prescribed interest rate set for CWIP at 2.48% in June 16<sup>th</sup> letter, which was based on the OEB's approved methodology, remains unchanged.

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<sup>2</sup> <https://www.iroc.ca/industry/marketmonitoringanalysis/Pages/BA-Rate.asp>

**Next Steps**

The OEB has initiated a consultation to discuss a deferral account to record impacts to utilities in the electricity and natural gas sectors arising from the COVID-19 emergency. The OEB concludes it is appropriate to consider any further comments on prescribed interest rates during the COVID-19 pandemic, as part of that consultation.<sup>3</sup> In the meantime, the OEB will continue monitoring market conditions and will accept comments from stakeholders on factors the OEB should consider when setting the interest rates for 2020 Q4. The OEB asks stakeholders filing comments to include “2020 Q4 Prescribed Interest Rates” in the subject line.

Yours truly,

*Original Signed By*

Theodore Antonopoulos  
Vice President  
Applications Division

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<sup>3</sup> EB-2020-0133