



BY EMAIL

May 14, 2020

To: All Rate Regulated Electricity Distributors
All Rate Regulated Natural Gas Utilities
All Rate Regulated Electricity Transmitters
Ontario Power Generation Inc.
All Other Interested Parties

Re: Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency
Ontario Energy Board File Number: EB-2020-0133

The Ontario Energy Board (OEB) is commencing a consultation on a deferral account relating to impacts arising from the COVID-19 emergency (the Account) in the electricity and natural gas sectors. The purpose of this letter is to describe the initial steps in the consultation process, invite participation by interested stakeholders, and invite comments on a draft issues list (Draft Issues List).

In its [March 25, 2020 accounting order](#) (Accounting Order) the OEB acknowledged that electricity and natural gas distributors may incur incremental costs as a result of the ongoing COVID-19 emergency, the severity and duration of which is uncertain at this time. The OEB ordered the establishment of the Account, together with three sub-accounts, for electricity distributors to use to track any incremental costs and lost revenues related to the COVID-19 emergency.¹ The OEB established similar sub-accounts for natural gas distributors.

In its [April 29, 2020 letter](#), the OEB confirmed the applicability of two sub-accounts of the Account to electricity transmitters and Ontario Power Generation Inc. (OPG). As a result, the Account applies to all rate-regulated entities.

¹ The OEB established Account 1509 – Impacts Arising from the COVID-19 Emergency, together with three sub-accounts, for electricity distributors.

The OEB stated that it will assess any claimed costs and/or lost revenues associated with any of the established sub-accounts at the time these sub-accounts are requested for disposition, subject to established materiality thresholds.

In its [March 27, 2020 letter](#), the OEB issued additional guidance on providing relief to customers during the COVID-19 emergency, including the use of the Account. In its [April 16, 2020 letter](#) and [April 17, 2020 letter](#), the OEB indicated that the Account may be used to record temporarily forgone distribution revenue associated with the postponement of the implementation of May 1, 2020 rates.

In its [May 12, 2020 letter](#), the OEB set out new temporary reporting requirements to facilitate the OEB's monitoring of the financial situation of electricity distributors during the COVID-19 emergency.

Further detailed accounting guidance, including policy direction, will be required to be issued by the OEB on key issues in order for rate regulated electricity distributors, transmitters, natural gas distributors, and OPG (collectively, the Utilities) to be able to assess the need for, and if necessary, properly make applications for review and disposition of the Account balance in due course such as:

- Rules on the operations of the three sub-accounts
- The nature of the costs/revenue to be recorded
- Timing of recovery (including the nature of any near term relief, if needed)
- How materiality will be assessed
- Whether any additional revenues or offsetting cost savings need to be considered
- Rate impacts and rate mitigation consideration

The objective of the consultation is to assist the OEB in the development of new accounting guidance related to the Account and filing requirements, where appropriate, for the review and disposition of the Account, giving due regard to bill impacts on customers.

The Consultation Process

- A. The first step in the consultation will be to hold a preliminary stakeholder meeting:
 - **Preliminary Stakeholder Meeting:** OEB staff will convene a non-transcribed preliminary stakeholder meeting on **May 28, 2020, from 9:30 a.m. to 12 p.m.**

and continuing to **4 p.m.**, if necessary, to provide a forum for discussion of the Draft Issues List in this consultation. The stakeholder meeting will be conducted via webinar. The meeting will consist of three parts:

1. Any comments stakeholders have with the Draft Issues List, including the identification of any additional issues that should be addressed
2. Discussion of whether any issues need to be expedited due to urgent requirements
3. Any other comments stakeholders have with the process

B. The consultation will continue with written comments on the Draft Issues List:

- **Written Comments:** OEB staff has developed a Draft Issues List, as set out in Appendix A, which is designed to elicit views on the key issues of interest. Some of these issues have arisen in recent rate proceedings.² Comments on the Draft Issues List are due by **June 11, 2020**.

The Draft Issues List is organized into five areas: A) advanced policy direction, B) general principles, C) accounting matters, D) nature of costs and materiality, and E) recovery mechanism and timing. Stakeholders are welcome to supplement their comments with views on any other issues which they believe warrant the OEB's attention.

C. The OEB will issue a Final Issues List for the consultation:

The OEB will issue further direction on the next steps in the consultation following issuance of the Final Issues List.

The materials considered in this consultation will be publicly accessible through the OEB website.

How to Participate

The OEB encourages participation in this consultation by all interested stakeholders. Those interested in participating in stakeholder consultation activities should indicate their intent by letter addressed to the Board Secretary no later than **May 22, 2020**.

² For example: EB-2019-0037, Greater Sudbury Hydro Inc., Settlement Proposal, April 17, 2020, Page 10-11

The OEB will make provision for cost awards under section 30 of the *Ontario Energy Board Act, 1998*. Costs awards will be recovered from all rate regulated electricity distributors, rate regulated electricity transmitters, rate regulated natural gas distributors, and OPG. The costs are to be apportioned amongst all rate regulated electricity distributors, rate regulated electricity transmitters, rate regulated natural gas distributors, and OPG in the same manner as under the OEB's Cost Assessment Model.

Any objections to requests for cost eligibility must be filed no later than **May 26, 2020** by rate regulated electricity distributors, transmitters, natural gas utilities, and OPG. Further information on the cost eligibility process is set out in Appendix B.

The OEB expects that the Utilities and groups representing the same interests or class of persons will make every effort to coordinate their participation in this consultation.

All materials filed with the OEB must quote the file number, **EB-2020-0133**, be made in a searchable/unrestricted PDF format and sent electronically through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice>. Filings must clearly state the sender's name, postal address and telephone number, fax number and email address.

Stakeholders must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <https://www.oeb.ca/industry>. If the web portal is not available stakeholders may email their documents to the address below.

NOTE: The OEB is temporarily waiving the paper copy filing requirement until further notice. All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to any questions related to this consultation, stakeholders may contact Fiona O'Connell at fiona.oconnell@oeb.ca.

Yours truly,

Original signed by

Christine E. Long
Registrar and Board Secretary

Appendices: Appendix A – Draft Issues List
Appendix B – Cost Awards

Appendix A
To Cover Letter Dated May 14, 2020
EB-2020-0133
Draft Issues List

OEB staff has developed a Draft Issues List, as follows, to elicit views on these issues, and which are organized into five areas: A) advanced policy direction, B) general principles, C) accounting matters, D) nature of costs and materiality, and E) recovery mechanism and timing. Stakeholders are welcome to supplement their comments with views on other issues which they believe warrant the OEB's attention.

A. Advanced Policy Direction

1.
 - a) Should the OEB provide advanced policy direction in the near term (for example at the time of establishing the Final Issues list), to provide greater certainty with respect to the recoverability of amounts tracked in the Account, such as by confirming the recoverability of any incremental bad debt expense?
 - b) Should the OEB consider interim disposition of the Account, until such time as the final balance is brought forward for review and disposition?
 - c) What specific accounting guidance or policy direction should the OEB provide for the Account that may enable the Utilities to better access incremental lines of credit and other types of borrowing facilities during the COVID-19 emergency?

B. General Principles

2. To what extent can the regulatory principles identified in previous OEB consultations be of assistance in considering matters relating to the recording and disposition of the Account?³

³ For example, EB-2015-0040, *Report of the Ontario Energy Board Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*, September 14, 2017, page 3; EB-2008-0408, *Report of the Board Transition to International Financial Reporting Standards*, July 28, 2009, Appendix 2: Summary of Board Policy

3. Are there other types of costs previously considered by the OEB that provide suitable analogies for the consideration of the Account? For example, should other precedents such as the OEB's Z-factor policy be considered by the OEB?⁴

C. Accounting Matters

In the series of issues below, stakeholders may consider addressing the impact on each of the following sub-accounts:

- Account 1509 – Impacts Arising from the COVID-19 Emergency, Sub-account Costs Associated With Billing and System Changes
 - Account 1509 - Impacts Arising from the COVID-19 Emergency, Sub-account Lost Revenues
 - Account 1509 – Impacts Arising from the COVID-19 Emergency, Sub-account Other Costs
4. Should additional sub-accounts of the Account be established? If so, what additional sub-accounts should be established and why? For example, in order to facilitate greater certainty in the recoverability of bad debt expense that is beyond the amounts underpinning current rates, should sub-accounts be established to specifically capture temporary delays in recovering accounts receivable (Account 1100 – Customer Accounts Receivable)?⁵
 5.
 - a) Should the OEB compare the amounts recorded in the Account to industry norms (e.g. benchmarking with other utilities in Ontario and Canada)?
 - b) If so, what reporting should be required by Utilities to facilitate comparisons?
 6. What are the criteria to facilitate consistent accounting methods for both the electricity and gas sectors, including electricity transmitters and OPG, as opposed to establishing criteria on a case-by-case basis?

⁴ For example, Z-factor claims for electricity distributors are outlined in the *Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications*, July 12, 2018, Section 3.2.8 Z-factor Claims

⁵ As per the *Uniform System of Accounts for Class A Gas Utilities*, April 1, 1996, the following accounts related to accounts receivable for natural gas utilities are as follows:

- 140 Accounts Receivable - Customers
- 141 Accounts Receivable - Related Parties
- 142 Accounts Receivable - Other

D. Nature of Costs and Materiality

7. What types of incremental identifiable costs (including pass-through amounts) and cost savings should be recorded in the Account, including the effective date of recording these components in each of the sub-accounts?
8. Should extra finance costs incurred (e.g. interest expense) related to incremental debt be allowed to be recorded in the Account, including any debt that may be incurred to finance “pass-through” cost amounts?
9. What types of incremental “offsetting” sources of funds should be recorded in the Account, and what should be the effective date of recording these components in each of the sub-accounts?⁶
10. Other than impacts arising from loss of load discussed in the next issue, what types of revenue impacts arising as a result of the COVID-19 emergency, including lost revenues associated with any actions taken to provide relief to customers, should be recorded in the Account?
11.
 - a) To what extent should loss of load be recoverable in the Account?⁷
 - b) If loss of load should be considered, what criteria, measurements, and limitations of the quantum impact for loss of load should be considered?
 - c) If loss of load should be considered, how should the OEB differentiate between permanent and temporary lost load revenues and determine the effective date of recording these components?
 - d) When determining the impacts arising from loss of load, how should the OEB address responsibility, including any rate class cross-subsidization?
 - e) As an alternative to recording loss of load amounts in the Account, should there be consideration for early rebasing or a special rates adjustment to address redistribution of the overall lower load amongst the other rate classes?

⁶ For example, “offsetting” sources of funds may include other revenues, the federal and provincial governments’ initiatives for businesses related to the COVID-19 emergency, as well as any insurance the Utilities may possess to mitigate the risk of key customer bill payment defaults.

⁷ “Loss of load” for example may include lost revenue exposures arising from either a material decline in the load forecast of the utility or loss of customer(s) (e.g., large user or general service > 50 kW) due to payment default or discontinued business that results in a material loss of load to the utility.

12. How should the OEB address causality for the nature of the amounts to be recorded in the Account and ultimately recovered as well as establishing a consistent methodology to calculate the amounts recorded in the Account?
 13. How should the OEB address prudence for the nature of the costs to be recorded in the Account and ultimately recovered?
 14.
 - a) How should the OEB address materiality associated with the amounts recorded in the Account, and what should it be? For example, is it appropriate to adopt current materiality thresholds such as those used for Z-factor claims or in cost of service applications to assess costs?
 - b) Should the materiality level be determined on an overall Account basis, or on a sub-account basis?
- E. Recovery Mechanism and Timing**
15. How should the impact on the different rate zones and customer classes be reflected in the Account, particularly when the Utilities seek recovery of the Account, including proposed bill impact and cost allocation issues?
 16.
 - a) Should the OEB consider a cost-sharing model between the Utilities' ratepayers and shareholders regarding the recovery of the Account?
 - b) What factors should the OEB take into consideration in considering any cost sharing, such as the impact of the COVID-19 emergency on the broader Ontario business environment?
 - c) If a cost sharing model should be considered, on what basis should the allocation of this cost-sharing be considered?
 17. Should the OEB require an external audit of the Account balance, particularly in the event that a non-December 31 balance is approved for recovery?

Appendix B
To Cover Letter Dated May 14, 2020
EB-2020-0133
Cost Awards

The OEB will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards* (Practice Direction). Any person intending to request an award of costs must file with the OEB a written submission to that effect by **May 22, 2020** delivered to the Board Secretary at boardsec@oeb.ca. The submission must identify the following:

- The nature of the person's interest in the consultation
- The grounds on which the person believes that they are eligible for an award of costs (addressing the OEB's cost eligibility criteria as set out in section 3 of the Practice Direction)
- An explanation of any other funding to which the person has access
- The name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known

The OEB will make provision for cost awards. Any objections to requests for cost eligibility must be filed no later than **May 26, 2020** by rate regulated electricity distributors, transmitters, natural gas utilities, and OPG.

The OEB will then make a final determination on the cost eligibility of the requesting participants.

Eligible Activities

Cost awards will be available in relation to written comments on the Draft Issues List set out in Appendix A, and preparation for and participation in the preliminary stakeholder meeting.

ACTIVITY	TOTAL ELIGIBLE HOURS PER PARTICIPANT
Preparation for, attendance at, the preliminary stakeholder meeting	1.5 times actual meeting time, up to a total of 12 hours
Written comments as per Appendix A	Up to 12 hours

As the OEB will determine the next steps in this consultation and what initial policy direction is required if any, following the preliminary stakeholder meeting, the OEB will

communicate at a future date(s) any subsequent activities that may be eligible for cost awards.

Cost Awards

The OEB will apply the principles set out in section 5 of its Practice Direction when awarding costs. The maximum hourly rates set out in the OEB's Cost Award Tariff will be applied. The OEB expects that the Utilities and groups representing the same interests or class of persons will make every effort to communicate and coordinate their participation in this process. Specifically, cost eligible stakeholders should be aware that the OEB will not generally allow the recovery of costs for the attendance of more than one representative of any party, unless a compelling reason is provided when cost claims are filed.

Being eligible to apply for recovery of costs is not a guarantee of recovery of any costs claimed. Cost awards are made by way of OEB order at the end of a consultation.

The OEB will use the process set out in section 12 of its Practice Direction to implement the payment of the cost awards. Therefore, the OEB will act as a clearing house for all payments of cost awards in this process. For more information, please refer to the Practice Direction.