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June 11, 2020

Christine E. Long  
Registrar and Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street  
Toronto ON  
M4P 1E4

Dear Ms. Long,

RE: EB-2020-0133 Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency - Energy Probe Comments Submission

In its letter of May 14, 2020, the OEB invited interested parties to submit by June 11, comments on the Issues List proposed by Board Staff. In a subsequent letter of June 4, the OEB issued specific directions for comments regarding Issue 1 a). The purpose of this letter is to submit comments by Energy Probe Research Foundation (Energy Probe).

### **General Comments**

This initiative has sensitive political implications and the OEB should tread carefully. Many ratepayers have lost their employment, or income from business due to the COVID-19 emergency and the government-imposed lockdown. They are struggling to make ends meet, to put food on the table and pay rent, utility bills and property taxes. On top of that, they should not be required to pay electricity and gas utilities for incremental costs or lost revenues due to the COVID-19 emergency.

For example, consider the owner of a small retail shop that has been under lockdown with total loss of revenue, that would now be required to compensate the gas and electricity utilities for their lost revenues or incremental costs. If the utilities need financial help, they should seek it from the government that imposed the Covid-19 lockdown, not from ratepayers like the owner of a retail shop who may be near bankruptcy.

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The proposed issues list contemplates recovery of incremental costs and lost revenues due to the COVID-19 emergency in order to keep utilities “whole” i.e. so that they can earn the OEB approved Return on Equity and pay dividends to utility shareholders. Energy Probe is opposed to any such recoveries and its comments on the issues proposed by Board Staff should not be construed as support for recovery.

### **Comments on the Proposed Issues**

(the proposed issues are in *italics*)

#### *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?*

#### Energy Probe Comments

This issue should be deleted. The proposed issue puts the cart before the horse. The OEB should not be issuing any advanced policy directions regarding recoverability before it has reviewed the evidence before it, considered the arguments of the interested parties and reached a decision.

The OEB’s letter of June 4 raised the question of the need for recognition of the Account as a regulatory asset on the financial statements of utilities. Energy Probe is strongly opposed to the OEB pre-approving the recognition of the Account as a regulatory asset. The OEB does not make such advanced accounting determinations for other deferral accounts and it should not do it for this account, particularly as it does not have any evidence before it.

Recognition of a deferral account as a regulatory asset would imply that there is a high probability of recovery of the balance from ratepayers. In this case the Account has low probability of recovery. For example, if a utility has experienced a loss of revenues from industrial customers but not from residential customers, any attempt to recover the lost industrial revenues from residential customers would be unfair and would be strongly opposed by representatives of residential customers. If a utility proposes to recover its lost revenue from industrial customers, it is likely that industrial customers that have experienced revenues losses themselves would strongly oppose paying utilities for lost industrial revenues. Regarding costs, there is no evidence that utilities have incurred any incremental costs due to COVID-19 nor that such costs are material or exceed incremental savings.

*b) Should the OEB consider interim disposition of the Account, until such time as the final balance is brought forward for review and disposition?*

#### Energy Probe Comments

This issue should be deleted. The OEB should not consider interim disposition before it has reached a decision on the recoverability of costs and lost revenues recorded in the accounts. It is likely that the recovery of these costs and lost revenues will be strongly opposed by the parties

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representing ratepayers and could be entirely disallowed by the Board when it reaches its decision.

*e) ~~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?~~*

#### Energy Probe Comments

This issue should be deleted. Providing accounting guidance or policy direction would imply that some or most of the costs and lost revenues would be recovered from ratepayers before the decision is reached. It would pre-determine the decision before the Board has even seen the evidence. Indeed, the entire section on the Advanced Policy Direction is not necessary and should be deleted.

#### *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?*

#### Energy Probe Comments

Energy Probe supports this issue as proposed.

*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?*

#### Energy Probe Comments

Energy Probe supports this issue as proposed.

#### *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, Subaccount Costs Associated With Billing and System Changes*
- *Account 1509 - Impacts Arising from the COVID-19 Emergency, Subaccount Lost Revenues*
- *Account 1509 – Impacts Arising from the COVID-19 Emergency, Subaccount Other Costs*

*4. Should additional sub-accounts of the **Tracking** 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)?~~*

Energy Probe Comments

The second sentence should be deleted as indicated above since it assumes recoverability. Issues should be decision neutral. The word “Tracking” should be added to differentiate these accounts from other deferral accounts that are “regulatory assets” with a high probability of recovery. The COVID-19 accounts are likely to face strong opposition and have a low probability of recovery.

*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?*

Energy Probe Comments

There are no known industry norms for recording COVID-19 incremental costs or lost revenues. This issue should be deleted.

*6. What are the criteria to facilitate Should consistent accounting methods be used for by both the electricity and gas sectors, including electricity transmitters and OPG, as opposed to establishing criteria on a case-by-case basis?*

Energy Probe Comments

There are inconsistencies in accounting methods between gas and electric utilities and between different electric utilities, particularly in the capitalization of overheads. The issue as stated is not likely to result in consistent accounting methods unless the Board directs the utilities to do it.

*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?*

Energy Probe Comments

Energy Probe supports the issue as proposed.

*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?*

Energy Probe Comments

Energy Probe supports the issue as proposed, however, it is opposed to the recording or even tracking of finance costs in the account.

*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?*

Energy Probe Comments

The sub accounts as defined track “impacts” which can be costs or savings, reduced revenues, or increased revenues. It is not clear why this issue is needed so it should be deleted.

*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?~~*

Energy Probe Comments

The same comment as Issue 9.

11.

*a) To what extent should loss of load be ~~recoverable~~ **tracked** in the **Tracking** Account?*

Energy Probe Comments

Energy Probe is strongly opposed to the recovery of any loss of load. Changes in load should be tracked and compared to the usual standard deviation for load forecasts. Loads are in units of power such as MW for electricity distributors and not in dollars. Deferral accounts are in dollars. Energy Probe proposes that the proposed account be a Tracking Account which can be in MW. The proposed wording changes are shown in bold.

*b) If loss of load should be considered, what criteria, measurements, and limitations of the quantum impact for loss of load should be considered?*

Energy Probe Comments

No comments.

*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?*

Energy Probe Comments

No comments.

*d) When determining the impacts arising from loss of load, how should the OEB address responsibility, including any rate class cross-subsidization?*

Energy Probe Comments

Energy Probe supports the issue as proposed. It is likely that there has been no load loss and possible even a load gain in the residential classes while there may have been load losses in the commercial and industrial classes. Energy Probe is opposed to cross subsidies that may arise from this initiative.

*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?*

Energy Probe Comments

Energy Probe supports the issue as proposed.

*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?*

Energy Probe Comments

The phrase “ultimately recovered” implies a certainty of recovery that does not exist.

*13. How should the OEB address prudence for the nature of the costs to be recorded in the Account and ultimately recovered?*

Energy Probe Comments

EP supports the issue as proposed.

*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?*

Energy Probe Comments

EP supports the issue as proposed.

*b) Should the materiality level be determined on an overall Account basis, or on a sub-account basis?*

Energy Probe Comments

EP supports the issue as proposed.

*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?*

Energy Probe Comments

While Energy Probe is opposed to recovery, it supports the issue as stated. The utility should record the forecast revenue at approved rates for each class and overall, for the rate year.

16.

*a) Should the OEB consider a cost-sharing model between the Utilities' ratepayers and shareholders regarding the recovery of the Account?*

Energy Probe Comments

While Energy Probe is opposed to recovery, it supports the issue as proposed.

*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?*

Energy Probe Comments

Energy Probe supports the issue as proposed.

*c) If a cost sharing model should be considered, on what basis should the allocation of this cost-sharing be considered?*

Energy Probe Comments

Energy Probe supports the issue as proposed.

*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?~~*

Energy Probe Comments

As proposed, the issue assumes recovery, and the last part should be deleted.

Respectfully submitted,

*Original signed by*

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Tom Ladanyi  
TL Energy Regulatory Consultants Inc.  
Consultant representing Energy Probe

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