Aiken & Associates

Phone: (519) 351-8624

578 McNaughton Ave. West
Chatham, Ontario, N7L 4J6

E-mail: randy.aiken@sympatico.ca

June 25, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: Q3 Prescribed Interest Rates Adjustment / EB-2020-0133 COVID-19 Variance Account

As consultant to the London Property Management Association ("LPMA"), I am writing to register our objection to the Ontario Energy Board's ("OEB") recent deviation from the methodology used for setting prescribed interest rates applicable to approved deferral and variance ("DVA") accounts.

On June 16, 2020, the OEB issued a letter that modified the way in which it calculated the interest rate applicable to deferral and variance accounts. The manner in which the interest rate was established in 2006 through a public consultation process with input from all interested parties. The deviation from the previously used methodology was done without notice or seeking input from interested parties. The result was a Q3 DVA interest rate of 1.38% rather than 0.57% calculated using the OEB's approved methodology.

By deviating from the long-established methodology to set the interest rates for deferral and variance accounts, the OEB has directly and negatively impacted the cost to ratepayers of all of the regulated entities in Ontario. Moreover, this negative impact is significantly higher than the relief provided by the provincial government's new COVID-19 Energy Assistance Program ("CEAP").

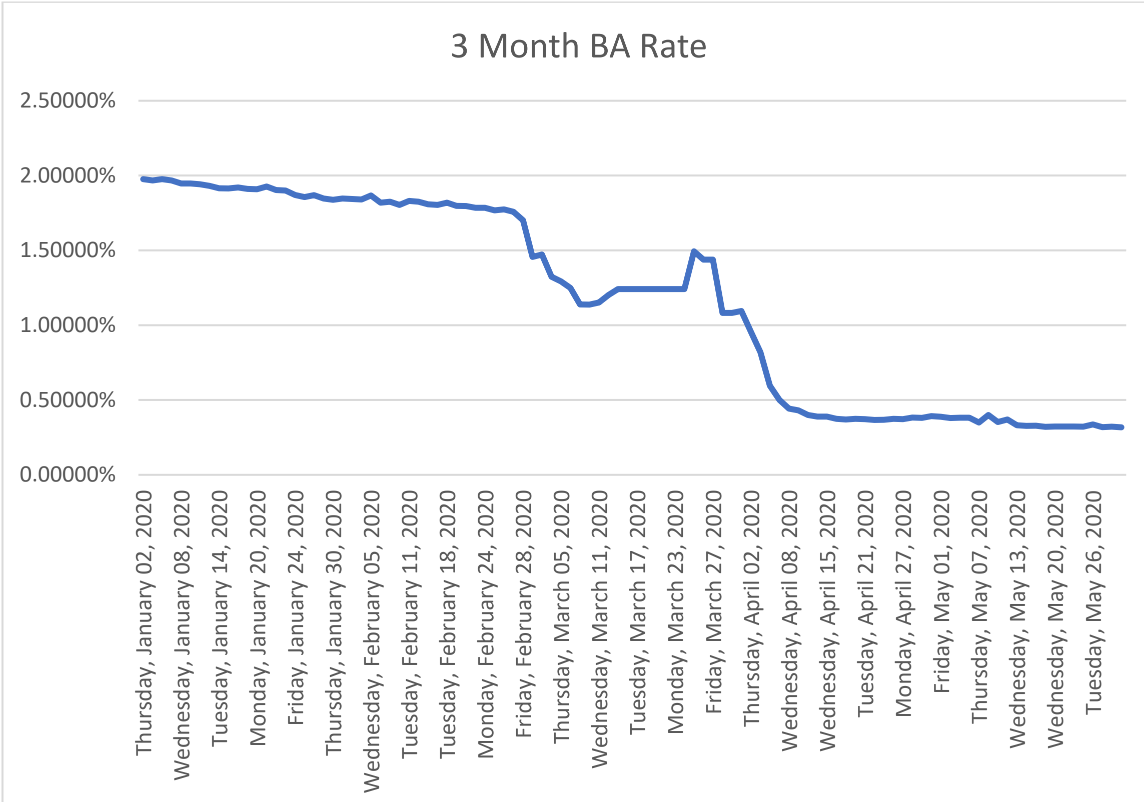
The June 1, 2020 government announcement included $9 million for CEAP. The OEB has approved the implementation of the CEAP for residential customers in its June 16, 2020 Decision and Order in EB-2020-0162. It is ironic that on the very same day the OEB unilaterally deviated from the DVA rate methodology and increased costs to ratepayers by several million dollars for every $1 billion in DVA account balances in the 3rd quarter alone. Deviation from the approved methodology beyond the 3rd quarter would more millions of dollars to the cost to customers.

The OEB's June 16, 2020 letter states that:

"During the unprecedented state of emergency arising from the COVID-19 pandemic, the referenced rate for the DVA prescribed interest rate, i.e. the three-month Bankers' Acceptance rate, has been declining sharply since late March 2020, in line with the reductions in the Bank of Canada's key overnight rate. As the COVID-19 pandemic was emerging in Europe and North America, the Bank of Canada and other central banks reduced key rates precipitously.4 Three-month Canadian Corporate bond yields for AA-rated, A-rated and BBB-rated corporations have also shown volatility. There was a spike in late March following the announcements of the states of emergency in North America. While rates have declined since then, there continues to be volatility through to the end of May".

This statement is not support for the unilateral deviation from the OEB's approved methodology in setting the DVA rate. In fact, it supports the result of the approved methodology, in that the COVID-19 emergency has resulted in an economic slowdown and recession. That is why the Bank of Canada has significantly and quickly reduced interest rates, as did other central banks.

The above statement is also irrelevant with respect to rate volatility. The statement references three-month Canadian corporate bond yields for AA-rated, A-rated and BBB-rated corporations and that these have shown volatility. This is irrelevant since the OEB's approved methodology is based on three-month banker's acceptance rates. These rates have shown very little volatility since the middle of April. LPMA reminds the OEB that the approved methodology uses the three-month banker's acceptance rate at the end of May to set the Q3 DVA rate. The graph on the following page shows this lack of volatility in the three-month banker's acceptance rate. The data is taken from the Investment Industry Regulatory Organization of Canada, the same source used by the OEB.



While the COVID-19 state of emergency may be unprecedented, the rapid decline in interest rates in response to an economic slowdown or recession is not.

If the OEB has followed its own methodology and set the DVA rate based on the information available, the interest rate would have fallen from 2.18% in the second quarter of 2020 to 0.57% in the third quarter. It should also be noted that this 2.18% figure was in place since the second quarter of 2019, or more than a year.

The first question is, has the OEB approved such large changes in the past? The second question is, has the DVA rate been as low as 0.57% in the past?

The answer to both of these questions is yes, it has.

The OEB approved DVA rate for the third quarter of 2009 through the second quarter of 2010 was 0.55%. Clearly the 0.57% that results from the OEB's approved methodology is not unprecedented.

A year before declining to 0.55% in the third quarter of 2009, the DVA rate was 3.35%. In fact, this was the DVA rate through to the end of December 2008. Six months later, it fell to the 0.55% level, a reduction of 280 basis points. Over the same period in 2020, the DVA rate would only fall by 161 basis points (from 2.18%

to 0.57%) had the OEB maintained is current policy. Once again, the significant and rapid decline in the DVA rate is not unprecedented.

What the current environment and that of 2008-2009 have in common is an economic slowdown that reflected rapidly declining and a low interest rate environment. The OEB appears to be treating the current economic slowdown and interest rate environment differently than the last major economic slowdown and has not provided any justification for this unilateral deviation.

LPMA has had the opportunity to review the June 18, 2020 letter on behalf of the School Energy Coalition ("SEC") and the June 24, 2020 letter on behalf of the Vulnerable Energy Consumers Coalition ("VECC") related to this matter.

LPMA supports the submissions of both SEC and VECC that the OEB should vacate its recent prescribed interest rate letter and revert to the current approved methodology.

LPMA also submits that this issue should be added to the EB-2020-0133 process that is addressing COVID-19 deferral accounts. Clearly, the OEB's deviation from its approved methodology is directly related to the COVID-19 emergency. LPMA submits that the additional revenue generated by the utilities from the higher interest rate in the third quarter of 2020 and any future quarters where the OEB deviates from its approved methodology should be recorded in the COVID-19 deferral accounts as any offset to any increase in costs, such as increased bad debt expense.

Yours very truly,

Randy Aiken

Digitally signed by Randy Aiken
DN: cn=Randy Aiken, o=Aiken & Associates, ou, email=randy.aiken@sympatico.ca, c=CA
Date: 2020.06.25 09:37:57 -04'00'

Aiken & Associates