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Ms. Christine E. Long
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
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Dear Ms. Long:

RE: EB-2020-0133 – Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency – OPG Comments on OEB Staff Proposal

OPG has had the opportunity to review the reports prepared by London Economics International LLC relating to the COVID-19 Pandemic and OEB staff's Proposal for the treatment of the Deferral Account for Impacts Arising from the COVID-19 Emergency (the "Account"). Pursuant to the OEB's letter of December 16, 2020, OPG submits the following comments on OEB staff's Proposal for consideration by the OEB.

1. Application of the Account

OEB staff's Proposal recommends that the Account record incremental cost savings and revenue gains attributable to the pandemic, in addition to incremental costs and revenue losses. Where an account is in a net credit position, OEB staff propose that utilities not be required to settle such balances and therefore not be required to bring them forward for disposition. OPG agrees with this outcome and the OEB staff's position that the Account was established to facilitate the need for relief by utilities rather than an industry-wide variance account for all pandemic-related impacts.

In its reply comments of June 18, 2020 as part of this consultation, OPG noted that the COVID-19 emergency was continuing to evolve and that many of the industry impacts were unlikely to be fully realised in the short term. OPG believes this continues to be the case. To the extent that the Account can provide relief to utilities that have to date experienced impacts supporting the need for such relief, it should do so; however, it need not serve as a true up for any and all pandemic-related impacts (debit or credit) that have or may arise. Impacts of the pandemic will likely continue to vary over time, possibly enduring for more extended periods than originally assumed. This would further make it impractical for the Account to track all such related impacts, rather than as serve as a temporary relief mechanism for affected utilities as originally intended.

2. Measuring Incremental Impacts

OEB staff has proposed that for the purpose of recording amounts in the Account:

- incremental costs should be measured against the greater of the amount embedded in base rates and the highest actual annual amount over the past five years, and
- incremental savings should be measured against the lower of the amount embedded in base rate and the lowest actual annual amount over the past five years.

OPG finds that this process for measuring incrementality can add unnecessary complexity and administrative burden for Account record-keeping. OPG believes that where a cost or cost savings impact can be readily and directly attributed to an activity resulting from the pandemic, it should be recorded in full in the deferral account (net of any otherwise unutilized emergency-related funding reflected in a utility's rates, as noted by OEB staff). This would provide a more accurate and transparent assessment of the financial impact resulting from the pandemic.

The further step of comparing the level of actual costs against amounts reflected in rates may only be necessary where it is not reasonably possible to trace specific costs or savings to the pandemic. In those instances, OPG suggests that utilities be allowed to develop and justify measurement methods against amounts in rates that are appropriate to their situation and nature of impacts. OPG does not believe that a prescriptive approach as set out in OEB staff's proposal, including use of a historical five-year period, is necessarily appropriate and may result in unintended outcomes. For example, different utilities may have faced any number of circumstances resulting in actual costs varying materially, up or down, from the amounts embedded in rates in at least one of the last five years. Some utilities may be focused on making permanent improvements in their cost structure, which would make prior year cost levels an inappropriate basis to establish the financial impacts of the COVID-19 pandemic.

Additionally, allowing utilities greater discretion for proposing a basis for determining the incremental impacts would facilitate efficiencies, as some utilities may have already put in place certain processes to track the impacts, which will have been in place for a number of months by the time the final Account guidance is issued.

3. Financing Impacts

OEB staff has proposed that the "benefits of lower interest rates, payment deferrals, or other gains from strategic refinancing in the current economic landscape must be expected of utilities and should also be recorded in the Account to offset other incremental costs that are recorded". (p. 27) While OPG appreciates the overall spirit of this recommendation, it is concerned with the overall breadth and generality of some of its aspects.

In particular, the broad references to "benefits of lower interests" and "gains from strategic refinancing in the current economic landscape" may be difficult to apply in practice and may be inconsistent with OEB staff's proposed criterion of Causation that "impacts recorded must be determined to have only been incurred as a result of the pandemic." (p. 15) For example, it may not be possible to isolate the driver of a financing or refinancing decisions undertaken by a utility during the period to the impact of lower interest rates or, in turn, to isolate the impact of the pandemic environment on such interest rates. Timing of financing or refinancing decisions is often tied to a range of financial, business, strategic and risk considerations, while debt rates are a function of changes in broad macroeconomic conditions (beyond solely the COVID-19 pandemic) and market's assessment of a utility's credit risk. As such, it may be an overly simplistic premise that a utility's ability to obtain financing at lower interest rates during this period is attributable to the pandemic. It is not clear from OEB staff's Proposal how a utility could practically establish a baseline for determining the extent to which the lower debt rates than assumed in setting current OEB-approved rates are attributable to the pandemic, especially if the approved rates were established several years ago. In any event, OPG notes that whatever the underlying drivers or causes for a utility's ability to obtain lower cost long-term debt financing since the onset of the pandemic, the associated benefits would be passed on to customers through future rebasings of the OEB-approved rates for the remaining term of the debt. For the reasons, OPG submits that that the proposed requirement to reflect savings associated with lower interest rates and financing/refinancing decisions should be much more narrowly, and more clearly, defined prior to any implementation.

Finally, OPG notes that LEI's review suggests that while the cost of debt has decreased for those entities that are able to access it, the cost of equity in the market has increased.[1] OPG believes that this finding should further moderate the scope of any requirement for the Account to capture savings that may arise from lower debt rates during the pandemic.

With respect to the reference to "payment deferrals" in OEB staff's Proposal, OPG assumes that the intended method to capture any corresponding financing savings would be through an estimated impact on cash working capital consistent with currently approved methodologies.

4. Reporting Requirements

OPG supports OEB staff's proposal that, to maximize regulatory efficiency, only utilities that intend to submit a claim for recovery of balances in the Account should be required to continue to track impacts associated with the Account. Thus, where a utility is not intending to seek such relief, OPG does not believe that the utility should be required to continue reporting the account balance. To further maximize regulatory efficiency, OPG also proposes that, for utilities intending to submit a claim, the current monthly reporting requirements for the Account be revised to align with the existing quarterly reporting requirements for other deferral and variance account balances.

[1] LEI Presentation: "Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency", dated January 14, 2021, Slide 20. LEI Report: "A report on the OEB's cost of capital parameters and the impacts of COVID-19", dated December 15, 2020, p. 10.

Thank you for the opportunity to provide these comments. If there are any questions regarding these submissions, please do not hesitate to reach out to me.

Regards,

Lindsey Arseneau-Mackinnon

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CC:

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