April 6, 2020

Ms. C. Long
Board Secretary and Registrar
Ontario Energy Board
2700 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: **Guidance letter of March 27, 2020**

Ontario's electricity local distribution companies (LDCs) are continuing to provide safe distribution service to their customers at appropriate levels of reliability and quality. LDCs know that continuity of service to consumers is of heightened importance while the province is under a State of Emergency and while the COVID-19 pandemic continues. Ontario's LDCs will work collaboratively and co-operatively with generators, transmitters, the Independent Electricity System Operator (IESO) and other supply chain partners to urgently address emerging issues, including the impact to cash flow.

The Electricity Distributors Association (EDA) represents local hydro utilities, the part of our electricity system that is closest to customers. Local hydro utilities are on the front lines of power, and we know that the most important conversations about energy happen around the kitchen table, not the boardroom table. Our customers understand the power of local hydro, and they value the relationship of trust they have built with their local hydro utilities, relying on us to deliver safer, more reliable, and more affordable electricity. Ontario's electricity LDCs provide all their customers with safe, reliable, quality service whether under business-as-usual conditions or under the State of Emergency conditions that are presently in place.

The EDA thanks the Ontario Energy Board (OEB) for the guidance provided in the above referenced correspondence. The EDA and its member LDCs read the letter with interest and care and found that it addresses many of the issues affecting Ontario's electricity LDCs as they continue to supply consumers with commodity and distribution services.

This letter seeks further clarification and additional guidance on the priority issues set out below as identified by the EDA's members:

- Cash Flow
- The recently authorized Deferral/Variance Accounts
- Whether and to what extent rates and charges will be changed effective May 1, 2020.

Cash Flow

Ontario's electricity LDCs provide a public good, being electricity, on commercial terms. They have implemented economic relief for customers as required by government; specifically, extending the moratorium on disconnection for non-payment to July 31, and, billing low volume customers for

Electricity Distributors Association
3700 Steeles Ave. W., Suite 1100, Vaughan, Ontario L4L 8K8 Tel/Fax 647.EDA.5300 1.877.262.8593 email@eda-on.ca www.eda-on.ca

commodity at 10.1 cents/kWh. Like all businesses, LDCs depend on their customers paying their bills in full and on time so that the LDC, in turn, is able to acquire the energy, labour and materials needed to continue to serve customers. LDCs collect the total bill - commodity, transmission, market operation and for their provision of distribution services. Whether the customer pays their bill or not, the LDC is financially responsible to pay all the other parties that provide service to the consumer. While the pandemic continues there is a heightened risk of non-payment by significantly many more customers. As such, Ontario's LDCs anticipate that they will require assistance to manage the resulting cash flow issues so that they are able to continue to serve customers.

The EDA proposes that the government and related parties explore innovative solutions to pre-empt upcoming cash flow issues. Options to consider include:

- the IESO relaxing its terms of payment
- for those LDCs that have posted financial security the IESO could release it
- either amending the IESO's payment schedule to permit LDCs to pay their Cost of Power bill upon receiving payment from customers or permitting the LDC to remit the amount that customers remit
- have the IESO backstop the settlement against the Global Adjustment.

We appreciate that these solutions are not specifically within the purview of the OEB. However, as the OEB's mandate includes facilitating the maintenance of a financially viable sector, we seek its support in working with the government as a whole in exploring a variety of options, including the ones mentioned above, to prevent cash flow from becoming an urgent problem during the current State of Emergency.

Deferral/Variance Accounts (D/VA)

The recently authorized D/VA will assist LDCs in tracking their exposure to some of the financial consequences of the pandemic and of the emergency relief government is providing consumers. LDCs seek greater certainty on:

- the items eligible for inclusion (e.g., are avoided costs eligible? Is the gross amount of Bad Debt or the incremental amount above that which is recovered through rates eligible?)
- the methodology for quantifying the balances to be recorded (e.g., should Lost Revenues be computed using weather normalized data, are temporary load reductions quantified the same way that permanent load reductions are quantified?)
- clear guidance on the accounting entries related to expenses, savings and forgone revenue
- the OEB's preliminary position on disposition through rates (e.g., symmetrically, whether a means test be applied)

Rate changes effective May 1, 2020

The OEB typically authorizes changes to the Regulated Price Plan (RPP), distribution rates, retail transmission rates and rate riders effective May 1. In addition, rebasing LDCs may also revise Specific Service Charges and loss factors. LDCs note that while the pandemic continues and government provides economic relief to consumers it is questionable whether these routine rate changes, that are typically increases, should occur. Conversely, all LDCs acknowledge that if rate changes are delayed the LDC will incur foregone revenue. The EDA proposes that the OEB issue a generic interim rate order and provide

LDCs with certainty that any foregone revenue arising from a deferred or delayed rate change is eligible for inclusion in the D/VA.

Each of these matters is discussed in further detailed in the attached Appendix A.

The issues and priorities set out in this letter will evolve. The EDA looks forward to working with the OEB and others to identify, scope and address the issues so that all of Ontario's electricity consumers, from the low volume residential consumer who wants to power their telecommunication device to the local water authority who uses electricity to run water pumps, will enjoy security of supply and continuity of service.

We thank you in advance for your consideration of these issues as we all work collectively to develop sound public policy during the pandemic and ensuring that customers continue to receive a safe and reliable supply of electricity.

If you have any questions on the matters discussed in this letter please do not hesitate to contact Kathi Farmer, the EDA's Senior Regulatory Affairs Advisor at kfarmer@eda-on.ca or at 905.265.5333.

Sincerely,

Teresa Sarkesian
President and Chief Executive Officer

Attachment: Appendix A

Appendix A

This Appendix expands upon the top 3 priority issues and identifies additional issues that engage LDCs as they continue provide consumers with security of supply and distribution service. The issues discussed in this appendix are organized under the following headings:

- Cash Flow
- The recently established Deferral/Variance Accounts
- May 1 rate changes
- Customer impacts
- Rates and rates related
- Compliance
- Operations
- Follow on issues

Cash Flow

LDCs seek to mitigate the financial impact of an anticipated unusual increase in the amount of unpaid electricity bills.

As is the case for all businesses, an unpaid bill increases the entity's Accounts Receivable (A/R) balance, potentially for many successive months. Unlike other businesses, regardless of whether the LDC is paid the LDC is financially responsible to remit payment to all the other parties that also provided service to the consumer (e.g., generators, the IESO, transmitters).

Typically, distribution revenue is 20 – 25% of the bill payment and 50% of the bill amount is remitted directed to the IESO to pay the power bill (which includes the Global Adjustment). Depending on the duration of the State of Emergency, it is expected that a significant number of consumers will not be able to pay their electricity bills, which could impact LDCs' future ability to pay for the cost of power. Should this situation arise, it risks negatively impacting the LDCs' financial viability.

As part of the OEB's mandate is to ensure a financially viable energy sector, we offer the following possible solutions to the potential future cash flow problems described above for consideration:

- amending the IESO's terms of payment applicable to LDCs to mirror the terms of payment that LDCs apply to their customers;
- having the IESO access the financial security previously provided by LDCs;
- allowing the IESO to amend its schedule to permit LDCs to pay their Cost of Power bill upon receiving payment from customers and to allow the LDC to remit the amount that customers remitted; and
- having the IESO backstop the settlement against the Global Adjustment.

We acknowledge and appreciate that the OEB has created a Variance/Deferral Account (D/VA) discussed below to track COVID-19 related expenses. While this D/VA will be of assistance in tracking the costs incurred by LDCs in the long-term, it isn't capable of relieving LDCs from looming cash flow issues. A more immediate mechanism is required so that LDCs can preserve their ability to provide their customers with safe and reliable electricity service.

The recently established Deferral/Variance Accounts (D/VA)

We appreciate the recently authorized D/VA as it will assist LDCs in managing some of the financial consequences of the pandemic and of the State of Emergency. To ensure that LDCs apply the D/VA most appropriately, we seek additional clarity on the following:

- Additional items that are eligible to be recorded in that account or a timely process to establish whether an item is eligible to be recorded;
- the methodology to be used to compute the balances eligible to be recorded;
- clarification that costs related to the pandemic and/or the State of Emergency that were incurred prior to the OEB authorizing the D/VA are eligible to be recorded;
- the expected record keeping related to entries and balances recorded in the account;
- clarification that 'savings' (e.g., arising from activities being scaled back or being deferred to future periods) whether temporary or permanent are eligible to be recorded;
- clarification of the lost or forgone revenue that is eligible to be recorded;
- the quantification of changes arising from the application of Late Payment Charges (LPC) and/or Non-Sufficient Funds (NSF) to increased numbers of customers and at lower levels; and
- whether LDCs that operate in two or more rate zones are to consolidate amounts across all rate zones or if the costs are to be recorded at the rate zone level.

We are pleased that OEB staff support LDCs recording the lost or foregone revenues associated with lower levels of LPC and NSF charges. LDCs also seek confirmation that, in addition to these amounts, they are eligible to record the lost or forgone distribution revenue resulting from customers not paying their bills in full or on time, whether temporary (e.g., while the State of Emergency is in place and the pandemic continues) or permanent (e.g., because businesses fail). We hope the OEB will provide more detailed guidance on the methodology to use to quantify these amounts (e.g., if weather normalized data is to be used to compute the lost or forgone revenue of reduced consumption or demand).

We understand that the OEB's Allowed Return on Equity compensates LDCs for business risk under business-as-usual conditions. While the pandemic continues and the province operates under State of Emergency conditions, these are not "business as usual" conditions in that LDCs face significantly increased levels of risk (e.g., that will result in higher risk of loss of load and risk of loss of customer). Consequently, the increased level of business risk is not appropriately compensated for through the currently authorized Allowed Return on Equity. To date the most tangible protection mechanism that the OEB has provided is the D/VA. Accordingly, all LDCs assume that lost or forgone revenue are eligible to be recorded in it.

May 1 rate changes

LDCs seek guidance on whether they should continue to prepare to implement changed rates effective May 1 and LDCs' financial plans are normally premised on rates changing effective that date. While the pandemic continues, and the government provides economic relief to consumers, it is questionable whether routine distribution rate changes should occur. Conversely, all LDCs acknowledge that if rate changes are delayed the LDC will incur foregone revenue. Neither outcome is ideal. Therefore, we are presenting the following alternatives for consideration:

- the OEB issuing a generic interim rate order
- the OEB providing LDCs with guidance that any foregone revenue arising from the delayed implementation of rate changes is eligible to be recorded in the D/VA

Regardless of the solution, we recommend that it apply to all LDCs, including those that were previously issued a Final Rate Order for revised rates effective May 1.

<u>Customer Impacts</u>

The EDA's members are considering how to appropriately prioritize non-essential distribution activities, e.g. activities where performance levels and timelines are codified (e.g., call response times, provision of locates) while providing customers with accurate information on available payment options. Concurrently, LDCs are striving to identify and secure flexibility of payment so that the LDC continues to provide the consumer with safe, reliable service on an ongoing basis.

As is discussed elsewhere, we would like to see the IESO provide the LDC with terms of payment for the cost of power that aligns with the more favourable terms that LDCs are providing to customers who are experiencing difficulty in paying their electricity bill.

<u>Rates and Rate Related</u>

We appreciate the clarity contained in the Guidance Letter that LDCs have discretion on the LPC and NSF charges they can levy up to a maximum established by the OEB. Under business-as-usual conditions such a determination would have been conveyed through an Order of the Board. In the absence of such an Order, we seek reassurance that LDCs can rely on this letter to support future applications seeking disposition of the balances recorded in the D/VAs through rates.

<u>Compliance</u>

Similarly, we note that, per the Guidance Letter, the LDCs are not required to notify the OEB of a material change in circumstances that could adversely affect their operations due to the pandemic. Such a gesture is greatly appreciated. As you mention in the Letter, such notification is part of a condition of licence, in particular to suspend the operation of section 14.2 in connection with the pandemic. Therefore, we trust that the Guidance Letter will be as acceptable as following an Order of the Board.

The letter expresses that the OEB will monitor the impact of the pandemic on LDCs. We would appreciate receiving additional details on how the OEB will operationalize and parameterize its monitoring and, in particular, if the OEB will require additional or incremental reporting by LDCs. LDCs look forward to learning what aspect(s) of performance will be monitored and how the OEB will use this incremental monitoring (e.g., for assessing financial viability, to identify if an LDC will be required to rebase its rates in advance of the normal schedule).

We trust that, during the State of Emergency as LDCs are simultaneously focused on serving customers to enable the provision of additional economic relief, adapting their processes and systems for State of Emergency conditions, fully complying with recently authorized changes to Regulated Price Plan rates, all with potentially reduced workforces, that the OEB will not increase or augment its monitoring.

Operations

LDCs are among the workplaces that were identified as essential while the provincial State of Emergency is in place. Ontario's LDC staff are appropriately distancing themselves from others while they observe good utility practice and while striving to fulfill obligations and agreements. It is likely that each LDC is prioritizing work on its distribution system differently for reasons specific to each LDC. It would be helpful to know the OEB's perspective on both the activities that are performed while the State of Emergency is in place and their respective priorities, for example:

- to achieve safe operations LDCs will likely prioritize control room operations ahead of service restoration
- they may choose to defer system rebuild capital projects and to prioritize connecting and energizing telecommunications infrastructure
- they may prioritize activities based on the protective gear available for the crew.

LDCs will benefit from knowing that the regulator concurs or if the regulator considers that the LDC should act in a consistent manner with its provision of service under emergency conditions.

All LDCs' measured levels of service quality could be negatively impacted as they amend their business processes or rely on staff seconded from other groups to support the ongoing provision of service to customers (e.g., a powerline worker may be seconded to the call centre). Also, all LDCs' assessed levels of productivity can be expected to be impacted by the process/practice adaptations required to achieve physical distancing. We trust that an LDC will not have an increased productivity offset factor only because it 'did the right thing' during the pandemic. Equally, it will be unfortunate for an LDC to be held to fulfilling a Distribution System Plan in order to achieve a 'green light' on the OEB Scorecard. Other LDCs are engaged in projects that, if delayed due to the LDC, risk exposing the LDC to a financial penalty.

As current business conditions are anything but "business as usual", we wish to ensure that LDC activities are not being evaluated under normal business conditions, but rather through a lens of supporting their customers as safely and as effectively as possible under the State of Emergency.

Follow up issues

While Ontario is under a State of Emergency and as LDCs commenced to bill commodity to all low volume consumers at $.101/kWh effective March 23, we seek direction on whether the OEB will:

- authorize changes to the Tiered RPP price levels
- authorize the traditional lower kWh threshold for the summer period (all other things being equal, authorizing the lower summer period threshold will put upward pressure on bill amounts)

Many LDCs are concerned that accommodating more than one rate change in the same billing period will impact their ability to issue accurate bills on a timely basis.

All LDCs seek guidance on how the OEB will treat the financial consequences incurred while pandemic conditions exist if the LDC is at risk of breaching the lower end of the Deadband. We encourage the OEB to contemplate this situation and to consider developing a mechanical approach capable of quantifying revised rates that will maintain the LDC's financial viability.

We recognize that the recently authorized D/VAs are included in the OEB's Group 2 accounts. We anticipate that significant and material balances may accumulate in these accounts. We wish to engage with the OEB on a process to expedite the disposition of these balances. Under the normal course of events an LDC disposes of Group 2 accounts when it rebases its rates and for some LDCs the next rebasing application will be filed in 2024 and the requested rate order will normally be issued in March or April of 2025.

All LDCs seek guidance on the rate making treatment of their different strategies for mitigating the financial consequences of lost revenues. For example, if an LDC increases its indebtedness to have sufficient levels of cash be:

- eligible to record the incremental interest expense in the D/VA?
- In the subsequent disposition application will incremental interest expense be adjudicated in the same manner as all other incremental expenses?

Many LDCs are scheduled to file either a rate rebasing or a Custom IR application for 2021 distribution rates. LDCs whose rate year commences January 1 are typically expected to file their applications no later than May 1 – some 40 days after the State of Emergency was declared. These LDCs seek guidance from the OEB as to when these applications are expected to be filed, when the LDC can expect to receive the requested rate orders and how rates may be adjusted in the intervening period.

The DSC requires that LDC complete the deployment of and transition to Metered in the Interval meters (MIST) as of August 20, 2020. While this is not a pressing issue as of this date it could become an issue in the near future.