

# Approach to Deferral Accounts in Response to the COVID-19 Emergency

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EB-2020-0133  
May 28, 2020

# Introduction

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- The OEB ordered the establishment of a deferral account to record impacts arising from the COVID-19 emergency
  - Three sub-accounts established
  - Costs, revenues and billing system changes specific to the Ontario's government emergency order on commodity pricing
- The Account applies to all rate-regulated entities, including rate regulated electricity distributors, transmitters, natural gas distributors, and OPG
- On May 14, 2020, the OEB commenced a consultation on the Account relating to impacts arising from the COVID-19 emergency in the electricity and natural gas sectors.

# Purpose of Consultation

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- To determine guidance on key issues in order for utilities 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

# Steps in the Consultation Process

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- Initiation letter proposed a draft issue list
- A preliminary stakeholder meeting will be held on May 28, 2020 to discuss the issues list.
- Written comments by stakeholders on the draft issues list are due by June 11, 2020.
- The OEB will issue further direction on the next steps in the consultation following issuance of the final issues list.
- At the end of the consultation, the OEB will issue accounting guidance and potentially filing requirements related to the Account.

# Tests for Deferral and Variance Accounts

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- **Causality**

- The forecasted expense must be clearly outside of the base upon which rates were derived.

- **Materiality**

- The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
- Based on size of utility's revenue requirement
- Ranges from \$50k for a number of electric LDCs to \$10M for Ontario Power Generation

- **Prudence**

- The nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition.
- In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

# Other Types of Deferred Cost or Non-rebasing Recovery Mechanisms

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- Z factors
  - Similar rules to Deferral and Variance Accounts
  - Event must be demonstrably linked to an unexpected, non-routine event
  - Materiality thresholds for some sectors may differ from the approach to other deferral and variance accounts
- Capital Modules
  - Similar rules to Deferral and Variance Accounts
  - Mechanistic materiality formula to determine funding availability and eligibility of projects
  - Means test

# COVID-19 DVA Draft Issues List

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The draft issues list is comprised of five categories:

- a) Advanced policy direction
- b) General principles
- c) Accounting matters
- d) Nature of costs and materiality
- e) Recovery mechanism and timing

# Key Issues

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1. Advanced policy direction and any other urgent matters
  - a) Should there be greater certainty with respect to recoverability
  - b) Interim disposition
2. Loss of load impacts and other lost revenues
3. Costs, savings, and other offsetting amounts
  - Should there be benchmarking
  - What additional reporting is required
4. Should there be any cost sharing between ratepayers and shareholders



# Follow the OEB's Consultation

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<https://www.oeb.ca/industry/policy-initiatives-and-consultations/consultation-deferral-account-impacts-arising-covid>

Thank you