



BY EMAIL and RESS

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Our File: SEC General

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Christine Long, Registrar & Board Secretary

Dear Ms. Long:

Re: Q3 Prescribed Interest Rates

We are counsel to the School Energy Coalition ("SEC"). On behalf of SEC, we are writing this letter to express their objection to, and concern regarding, the Board's June 16th announcement, in a new policy made without consultation, of a material financial benefit to regulated entities at the expense of customers.

The Board has, apparently without input except from utilities, departed from a longstanding formula for interest rates on deferral and variance accounts (DVAs), increasing the rate for these accounts by 0.81% for Q3, from 0.57% as determined by the formula, to 1.38% as determined by the Board. The Board's figure is expressly not reflective of market interest rates.

By way of example, if the average balance in qualifying deferral and variance accounts in Q3 is \$1 billion (average DVAs are a multiple of this amount, but some do not attract the prescribed interest rate), then this is a shift in cost responsibility from customers to regulated entities of \$20 million for one quarter. No evidence has been provided supporting that benefit.

SEC notes that the Prescribed Interest Rate policy has been in existence since November 28, 2006. In its letter announcing the new policy, the Board said:

"The key objectives of the plan were to derive an accounting interest rate methodology that would reflect market rates and be responsive to changes in market conditions."

In setting the rate formula based on short term market rates, the Board expressly noted that the rate should reflect both borrowing costs, and opportunity costs of capital (GICs and T-Bills), since DVAs would be financed both by borrowing and by internally generated capital.

Throughout, the basic regulatory principle that cost of capital is in fact a cost like any other, and that the market sets the level of that cost, was upheld. The Board's policy specifically tracks market

movements in short term interest rates, so that over time the time value of DVA balances would be tracked with precision. For almost fourteen years that prescribed interest rate has gone up and down with the market, and both utilities and their customers have been treated fairly by the consistency of the policy's application.

Further, Board panels deciding individual applications routinely rely on this policy to establish interest rates. Even in the face of customer representatives arguing for interest reductions, the Board has consistently relied on the policy. By way of recent example, the Board said this in the Enbridge 2020 Rate Case, EB-2019-0194, just last week [Rate Order Decision, p. 4]:

“VECC raised concerns regarding interest rates on DVAs and the substantial decline in Bank of Canada’s interest rates from the last time the OEB updated its prescribed interest rates in early March 2020. The OEB notes that the prescribed interest rate on DVAs will be updated on July 1, 2020 consistent with normal OEB practice.” [emphasis added]

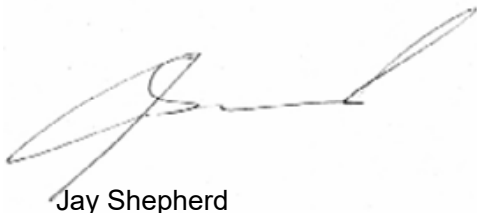
The Board’s June 16th letter notes that the Covid-19 pandemic is unprecedented. That certainly is true. However, it is not just utilities that are feeling its impacts. Customers are also under at least as much pressure, maybe more, and any additional cost borne by customers is a significant challenge for them. Shifting a pandemic impact of utilities onto the backs of customers is something that should be done, if at all, carefully and with principled justification.

We note one other thing. It is the practice of the Board that, if anyone wants the Board to reject the use of a policy in any given situation, the onus is on that person to demonstrate that the policy should not apply. The Board has provided no public information on what submissions were made to the Board on this policy, and so the customers have no way of knowing how that onus was met in this case, if at all.

SEC believes that the Board should vacate its June 16th letter, and instead follow its longstanding interest rate policy for Q3. If there is reason to make any changes, the appropriate venue for that discussion is EB-2020-0133, which is expressly designed to deal with the impacts of the Covid-19 pandemic, and will allow the Board to hear all perspectives, with the full range of pandemic impacts under consideration at the same time.

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein Professional Corporation



Jay Shepherd

cc: Wayne McNally, SEC (by email)
Interested Parties (by email)