January 25, 2021

BY RESS

Ms. Christine Long, Registrar
ONTARIO ENERGY BOARD
2300 Yonge Street, 27th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

Re: Board File No. EB-2020-0133

Dear Ms. Long:

Please find attached the comments of Kitchener Wilmot Hydro Inc. (KWHI) on the Staff Proposal for this consultation.

KWHI has limited its comments to the Bad Debt recovery section on the proposal. Specifically, KWHI feels that the means test and the 50% recovery of Bad Debt Expense is restrictive and places an unfair burden on LDC's.

Utilities are not like other private enterprises and have been deemed essential services throughout this pandemic. Since supplying electricity services to customers never cease, operations and maintenance have needed to continue during the pandemic. Distribution companies have been ordered to work with customers to help them through the pandemic and yet, with the Stay-at-Home Order in Ontario and the reduction of governmental assistance to Ontario residents (i.e. CERB), bankruptcies are expected to rise with each month the pandemic continues.

KWHI submits that bad debts are not controllable costs and that 80% of an LDC's total bad debts are attributable to costs charged to LDCs by the IESO to cover the revenues of other entities (transmitters and generators). The IESO passes payment to the transmitters and generators who have very little to no risk and get fully paid for their services.

Even if just one percent of KWHI's customers (1,000) went bankrupt, KWHI's bad debt expense would still not meet the means test for recovery. These bad debts would be fully uncontrollable to KWHI, of which 80% could be directly attributable to transmitters and generators. As a low-cost operator, KWHI would be unable to reduce its other OM&A expenses to offset the significant impact such a level of bad debts would have on KWHI, in addition to the other expenses incurred to continue operations as an essential workplace during a pandemic.

In its proposal, Board staff argues that the equity risk premium already provides the business with adequate compensation to withstand reasonable fluctuations in costs and revenues. Bad debt expense, in a pandemic, has the potential to have extraordinary fluctuations. A prudent utility

cannot manage the potential extreme fluctuations without recovery of bad debt incurred due to third party charges. In the province of Ontario, transmitters and distributors gets the same equity risk premium. As previously mentioned, the bad debt expense for a distributor includes pass-through costs where the distributor receives no return, yet the main transmitter in the province of Ontario does not have any bad debt expense and receives the same equity risk premium that a distributor does without any bad debt risk.

Bad debt expense is included in a distributors OM&A expenses. By including bad debt expense in OM&A, the pass-through portion of the bad debt expense can be covered through rates. Approved OM&A budgets do not cover unforeseen pandemic operating conditions.

In normal times, the bad debt recovery mechanism works. Distributors are compensated for the pass-through costs of bad debts through rates. These are not normal times. When forecasts were developed, there was no consideration given that one in five businesses may not exist in the future.

The current staff proposal is that bad debt expense recovery will be subject to the means test and a 50% recovery rate. The means test was developed prior to the Cost of Service Parameters and is used as an off ramp. It is not a test of financial viability. Eighty percent or more of a customer's bill is a pass-through cost. Current staff proposal is that only 50% will be recoverable after meeting the means test. For most distributors this will mean that no bad debt is recoverable and 100% of the bad debt risk has been passed to distributors, leaving generators and transmitters whole.

KWHI proposes that bad debts be recovered through the Bad Debt deferral account at 100% but only for the portion above what is included in rates. The Board's Cost of Capital Review in 2016 stated that deferral and variance accounts reduce the business risk of regulated firms. Board staff made a deferral account for Bad Debt. It is important to not place all business risk for the pandemic on the shoulders of one player in the regulated electricity market.

Respectfully submitted,

Original Signed By:

Margaret Nanninga, MBA, CPA, CGA
Vice President Finance & CFO