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Joint Webinar Series on Implications of the Global Pandemic on Tariff Design and Utility Finances

Webinar 3: Transition Plans and Cost Recovery following the COVID-19 Pandemic

June 24th, 2020

This webinar series is made possible by the generous support of the American people through the United States Agency for International Development (USAID) and in cooperation with the Council of European Energy Regulators (CEER), the Energy Regulators Regional Association (ERRA), and Canada's Energy and Utility Regulators (CAMPUT). The contents are the responsibility of the National Association of Regulatory Utility Commissioners (NARUC) and do not necessarily reflect the views of USAID or the United States Government.

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THE HONORABLE PAUL KJELLANDER

FIRST VICE PRESIDENT, IDAHO PUBLIC UTILITIES COMMISSION

Commissioner Paul Kjellander serves as president of the Idaho Public Utilities Commission, having been appointed to his current six-year term in 2017 by former Gov. C.L. "Butch" Otter. It is Commissioner Kjellander's second term having previously served from January 1999 until October 2007. A member of the National Association of Regulatory Utility Commissioners' (NARUC) board of directors, Commissioner Kjellander serves as First Vice President of the association and as the NARUC representative to the North American Numbering Council. He previously served as chairman of NARUC's Committee on Telecommunications, and has served on NARUC's Committee on Consumer Affairs and its Electricity Committee.

Commissioner Kjellander also serves on the executive committee of the National Council on Electricity Policy, which is funded by the US Department of Energy and managed by NARUC. He is a member of the Federal Communications Commission's 706 Joint Board and has served as chairman of the FCC's Federal-State Joint Board on Jurisdictional Separations. During his time at Idaho Governor's Office of Energy Resources, Commissioner Kjellander created an aggressive energy efficiency program funded through the federal American Recovery and Reinvestment Act of 2009. He also served on the board of the National Association of State Energy Officials.

Commissioner Kjellander earned undergraduate degrees in communications, psychology and art from Muskingum College in Ohio, and earned a master's degree in telecommunications from Ohio University.

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DR. DAVID BOYD

FORMER COMMISSIONER, MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd brings a variety of technical, regulatory, and policy expertise to inform approaches to the complex issues faced by today's energy industry. Dr. Boyd was the Vice President of Government and Regulatory Affairs for the Midcontinent Independent System Operator (2015-2019) where he was MISO's primary liaison with the governors, state regulatory, and legislative policymakers in the MISO region. In addition, he monitored and integrated the activities of federal regulators and legislators into MISO's overall policies. Dr. Boyd also served as a member of the Minnesota Public Utilities Commission (2007 to 2015), including three years as chair.

Dr. Boyd served in a variety of domestic and international leadership positions during this time, including the National Association of Regulatory Utility Commissioners (NARUC) Board of Directors and chair of NARUC's Committee on Electricity. Prior to serving as a commissioner, Dr. Boyd was a member of the faculty of the University of St. Thomas' chemistry department for 20 years.

Dr. Boyd received a bachelor's degree with majors in chemistry and biology from St. Olaf College, and a Ph.D. degree in chemistry from the University of Minnesota.

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Mr. Howard Petricoff

National Association of Regulatory Utility Commissioners

Dr. Cathryn Scott

CEER
Council of European Energy Regulators

Commissioner Sergey Aghinyan

ERRA
ENERGY REGULATORS REGIONAL ASSOCIATION

Mr. David Morton

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MR. HOWARD PETRICOFF

FORMER COMMISSIONER AND FORMER CHIEF ANALYST, PUBLIC UTILITIES COMMISSION OF OHIO

M. Howard Petricoff is an attorney and an economist with 40 years of practice in the energy and utility industry. He has served as a Commissioner on the Public Utilities Commission of Ohio as well as the Ohio Commission's Chief Analyst. He began his career in 1977 as an Ohio assistant attorney general.

In 1982, he joined Vorys, Sater, Seymour & Pease LLP a large, general practice law firm in Ohio, where he subsequently become a partner and directed the firm's energy and utility practice. For eight years, Mr. Petricoff served as an adjunct professor teaching energy and natural resources law at Capital University Law School. Mr. Petricoff received a master's degree in public administration from Harvard University, a juris doctorate from the University of Cincinnati College of Law and a bachelor's degree in public administration from American University in Washington, D.C.

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PANDEMIC IMPACTS ON UTILITY FINANCES AND TARIFFS

Observed Financial Impacts

Fear of infection and governmental shut in orders created recession conditions

Utilities have experienced significant reduction in customer revenues

- **Reduction in utility sales**
- **Inability of customers to pay their utility bills**

Increased cost of operations

- **Personal Protective Gear**
- **Added Sanitation Material and Operations**
- **Increased Labor Costs**

PANDEMIC IMPACTS ON UTILITY FINANCES AND TARIFFS

Impact of the Pandemic on Utility Finances

Immediate Issues –

- **Non Payment by customers – Shut offs**
- **Utility revenues inadequate to Fund Ongoing Operations**
- **Utility revenues inadequate to meet Bond Coverages**

Future Issue - Capital Problems

- **Retained earnings inadequate to fund future capital budgets**
- **Inadequate returns needed to attract capital needed for growth**

PANDEMIC IMPACTS ON UTILITY FINANCES AND TARIFFS

Tariff Tools For Revenue Short Falls – 1. Emergency Rate Increases

Features

- Surcharge added on top of existing rates
- Lasts only as long as the emergency
- Subject to audit and review
- Tracker – to prevent over collection

Pros

- Works well when prior conditions are believed to return shortly
- Contrast natural disasters where assets are permanently lost

Cons

- Exacerbate Shut offs for non payment
- Could trigger a "death spiral" as sales fall further when rates rise

PANDEMIC IMPACTS ON UTILITY FINANCES AND TARIFFS

Tariff Tools – 2. Deferrals

Features

Permit the utility to book as a regulatory asset an increase, but delays collection over time to prevent rate shock and further shut offs

Pros

Can address bond coverage or capital attraction

Cons

Does not help cash flow

Adds interest costs that will go into rates

PANDEMIC IMPACTS ON UTILITY FINANCES AND TARIFFS

Tariff Tools – Other Items in the tool box

3. Grants and Loans

Pro Does not affect the existing rate design

Con Often comes with strings attached

4. Shut Off Moratoriums

Pro Addresses social and health concerns

Con Adds to cash flow and capital funding concerns

5. Miscellaneous

Change Rate Design

Reduce non essential services, conveniences or activities

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DR. CATHRYN SCOTT

INTERIM EXECUTIVE DIRECTOR, SYSTEMS & NETWORKS, OFGEM

Dr. Cathryn Scott joined Ofgem in 2013 as the Legal Director for E-Serve environmental schemes and offshore transmission tenders regime. Between 2016 and 2018, she was Partner for Wholesale Markets and Legal in the Energy Systems division, leading on the provision of legal advice and on Ofgem's oversight of the wholesale energy market, gas systems issues and settlement reform. In April 2018, she was appointed Director of Wholesale Markets and Commercial, and in November 2019, the role of Interim Executive Director of Systems and Networks.

Before joining Ofgem, Dr. Scott worked in both the public and private sectors. She was the Deputy General Counsel at the Department for Transport, having headed up teams advising on aviation and rail regulation. She has extensive competition, regulatory and procurement law experience, having also worked for the Competition Commission and Linklaters EU and Competition Group. Previously, she worked in the litigation division of the Treasury Solicitor's Department and as Assistant to the European Speakers Counsel at the House of Commons.

She holds a PhD from the European University Institute in Florence.

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USAID/NARUC/CEER/ERRA joint webinar: Covid-19 transition plans and cost recovery

OFG1161

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From crisis to recovery: an overview

Phase 1

Internal: Set ourselves up for social distancing and lockdown

External:

- Understand impact on industry and reinforce government guidance with industry
- Identify and manage immediate risks to customers and security of supply

Establish **internal governance arrangements** and risk monitoring tools

Weekly CEO calls & intensive working-level engagement

Regular blogs in support of industry workers and industry doing the right thing

Monitoring / engagement with licensees (suppliers, generators, shippers, networks and reviewing contingency plans

Close **collaboration** and info sharing with gov't and Citizens Advice

Phase 2

Internal: Reprioritise work to resource covid workstreams

External: Communicate expectations & provide space and resilience for industry to manage the crisis; risk mitigation activities

Published letters providing some **regulatory flexibility** to suppliers, network companies and system operator

Completed Ofgem **reprioritisation exercise** and publicly communicated priorities + a number of areas 'on pause' for the next three months

Continuing significant **industry monitoring/ engagement**

Significant **retail policy development** to alleviate supplier cost pressures, e.g. around deferral of network charges

Examine tools and costs required for ESO to **operate the system** during record-breaking low demand

Planning for exit from lockdown and 'covid recovery'

Phase 3

Internal: Establish "new normal" working arrangements; align our longer term work programme with wider economic recovery

External:

- Balance pragmatic sector support with tough line on unacceptable consumer outcomes
- Continue to monitor and manage key risks to consumers and security of supply

Revising regulatory flexibility arrangements to move towards BAU

Further re-prioritisation to resource covid-driven work and deliver benefits to consumers on BAU work (e.g. price control)

Monitoring ongoing health of energy sector across a range of criteria including customer service levels, bad debt and supplier resilience

Feeding into wider Green Recovery strategy

Phase 1: Crisis Response — MARCH

Phase 2: Stabilisation — ~ APRIL-JUNE

Phase 3: Recovery ("new normal") — ~ JULY onwards

Transitioning to a new normal

Returning to BAU customer service

- We published guidance on June 16 for suppliers, network companies and the Electricity System Operator announcing that from July 1, normal regulatory rules will apply except where companies cannot deliver to required standards because need to comply with government Covid-19 guidance
- We will continue to closely monitor the impact of Covid-19 on the industry's ability to meet regulatory obligations

Flexibility on network charges

- We announced on June 2 that we are discussing w/ network companies about the development of schemes whereby suppliers could pay some of their network charges at a later date, giving them some flexibility with their cash flow.
- The aim of this scheme is to ensure suppliers are able to deliver good service and support to customers and to minimise disruption consumers would experience if multiple suppliers left the market; and to mitigate the risk to consumers of a material decline in competition arising from potential exit of otherwise efficient suppliers

Our work programme

- When we put in place measures, we postponed some of Ofgem's forward work programme
- In the coming weeks we will set out how we intend to return to important areas of policy develop, while being mindful of extra pressures on industry

Current landscape

Economic snapshot

- Rates of infection & sickness absence declining but workforce availability & productivity patchy
- Social distancing measures continue
- Bank of England predicts a decline of 25 percent from March, "dramatically reducing jobs and incomes
- Unemployment has doubled to 9 percent

Consumer snapshot

- So far, payment levels better than expected.
- Ofgem continues to gather information from consumers about the impacts of the crisis on financial well-being and energy consumption (see example here)

Retail snapshot

- Suppliers are concerned about a build-up of debt
- Low demand along with challenges related to consumer non-payment could create cash-flow challenges for some suppliers – especially non-domestic

Systems & networks snapshot

- Networks performing resiliently and adapted to measures to protect staff and customers & work reprioritisation
- Significant fall in electricity demand (c. 20% lower than pre-Covid forecasts) created challenges for Electricity System Operator
- ESO implemented tools to deal with this, including contracting to reduce output at Sizewell B nuclear power plant

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Looking ahead

Monitoring risks

- We continue to monitor necessary information, such as:
  - Customer service levels: working with charities to understand if consumer needs met
  - Supplier resilience: weekly financial info, e.g. on cash flow, DD cancellations, etc.
  - System operability risk: for example, due to low demand

Implications of consumer debt

- We are monitoring levels of bad debt – meaning debt not expected to be repaid
- We currently have a cap in place protecting consumers on default tariffs. This cap is reviewed every 6 months to reflect underlying costs
- We will judge if bad debt costs need to be taken into account in the future

Supporting a Green Recovery

- Working with government and industry to determine what measures we can put in place to help a government green recovery effort
- Some potential considerations future investment in the energy industry, particularly in relation to infrastructure and technology key to enabling us to meet our Net Zero target by 2050

CEER

Throughout, we have been getting updates from CEER about the impact of Covid-19 and responses across other CEER members, which has helped inform thinking on our responses.

A summary of CEER observations regarding responses to the crisis include:

- Wholesale prices dropped because of a drop in demand
- Crisis showed that diversification, integration and sustainability of energy production are important, as Renewable Energy Sources (RES) "took over" with increased share in production
- Increased RES usage reduced CO2 emissions, which had a positive effect on climate goals
- The transition to a "clean energy system" is being pushed ahead
- Regulators are adopting agile "dynamic regulation" to support the energy transition and to adapt swiftly to developments without forgetting the need for predictability
- Regulatory principles worked well and Europe's energy system remains stable and strong based on the internal energy market legislation in place
- Economic recovery in Europe will be and must be supported by the EU Commission's Green Deal aim of a carbon neutral Europe by 2050

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Our core purpose is to ensure that all consumers can get good value and service from the energy market.
In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

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MR. SERGEY AGHINYAN

COMMISSIONER, PUBLIC SERVICE COMMISSION OF ARMENIA

Commissioner Sergey Aghinyan was elected to Public Services Regulatory Commission (PSRC) of Armenia in May 2019. During his term, he has been actively involved in transforming and liberalizing the electricity market of Armenia with support from USAID. Commissioner Aghinyan is also involved in developing and improving the regulatory legislative framework for renewable energy, investments, procurement processes, and service quality monitoring processes. He is also responsible for coordinating the review of investment and procurement activities of licensees as well as the tariff review process.

Prior to being elected, Commissioner Aghinyan worked at PSRC for 19 years in different positions performing a wide range of activities, including monitoring and control of utilities and other energy sector companies. He was also involved in financial, technical, legal, and economic aspects that included evaluation of projects and control of expenses and procurements.

He holds an MBA from American University of Armenia and a Bachelor's degree from the State Engineering University of Armenia.

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Chronology

- March 14 - State of Emergency declared
- March 24 - Quarantine declared
- March 25 - Deadline for service interruptions
- March 25 - Force majeure for households declared
- April 14 - State of Emergency planned to end (extended by 1 month)
- April 22 - The end of Universal Force Majeure
- April 25 - Deadline for service interruptions

Force Majeure

- March 25 - Universal Force Majeure for households was declared, which means that utilities were not allowed to cut off services in case of non-payment

- April 22 - end of Universal Force Majeure, but utilities had to recognize force majeure in terms of non-payment for services in individual cases taking into account all circumstances

Support programs

		Program1	Program2	Program3
Electricity	AMD	<5000	5000-10000	10000-15000
	USD	<10	10-20	20-30
	kW*H	<111	111-222	222-333
Natural Gas	AMD	<10000	10000-30000	30000-40000
	USD	<20	20-60	60-80
	M3	<72	72-216	216-288
Drinking water	AMD			<3000
	USD			<6
	M3			<17
Amount of support	mln USD	1.57	3.69	4.29

Commission's suggestion

Households, which consume below average, are allowed to make payment during three months until 1 of July.

Average:
9000 drams or 18$ for electricity or 210 kwatt hours,
15000 drams or 30$ for natural gas or 100 cubic meters,
2200 drams or 4.4$ for drinking water or 11 cubic meters.

		deficit	cost in tariff
Collection 80%	mln AMD	5000	75
	mln USD	10	0.15
Collection 30%	mln AMD	7700	116
	mln USD	15.4	0.23

Solidarity formula

If you don’t need the financial aid provided by the Government, you can pay this amount for others in need

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MR. DAVID MORTON

CHAIR AND CEO, BRITISH COLUMBIA UTILITIES COMMISSION

Mr. David Morton was appointed Chair and CEO of the BCUC in December 2015. Chair Morton's responsibility is to deliver on the vision of the BCUC: to be a trusted and respected regulator that contributes to the well-being and long-term interests of British Columbians. In addition, to being the Chair and CEO, he is also a Commissioner - a role he has had since 2010. He considers this to be a key part of his leadership role. As a result, he continues to participate, usually as the Panel Chair, in several key proceedings. Significant proceedings that he recently led include the Site C Inquiry, the largest proceeding ever undertaken by the BCUC, and the Gasoline and Diesel Prices Inquiry.

Chair Morton also has more than 25 years of experience as a consultant in the information technology sector. He is a Professional Engineer in British Columbia, has a Licentiate in Accounting from the Society of Management Accountants Canada, is certified with the ICD.D designation in 2013 by the Institute of Corporate Directors and holds a Bachelor of Applied Science from the University of Toronto. He also serves as a director for the Arts Club Theatre Company, and as President of the West Vancouver Community Arts Council.

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Transition Plans and Cost Recovery Following the COVID-19 Pandemic

David Morton
Chair, BCUC

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June 24, 2019

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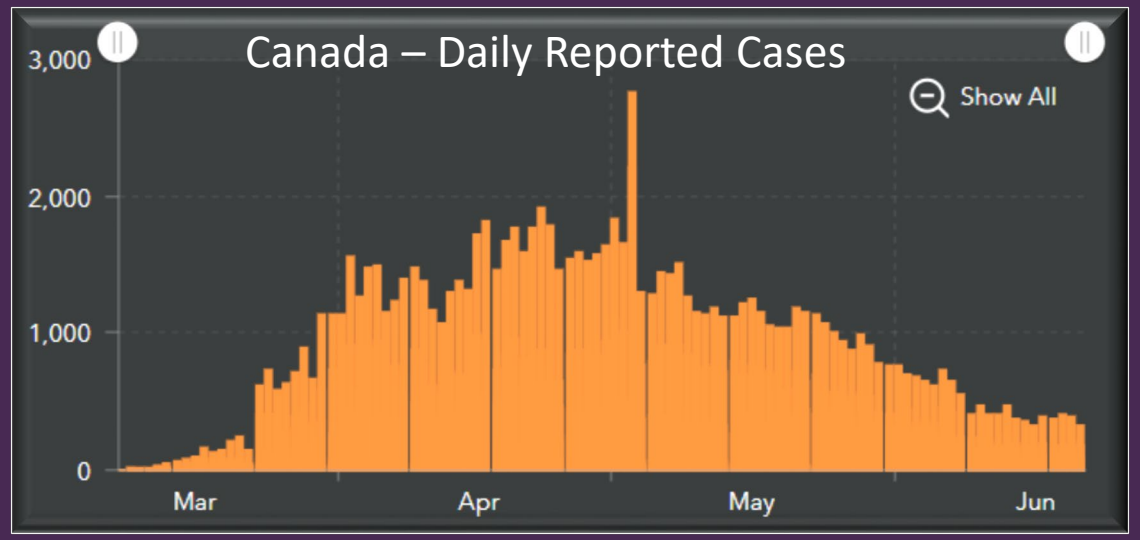
Canada COVID-19 Cases

	Canada	BC
Active Cases	28,848	346
Total Cases	101,568	2,790
Deaths	8,434	168



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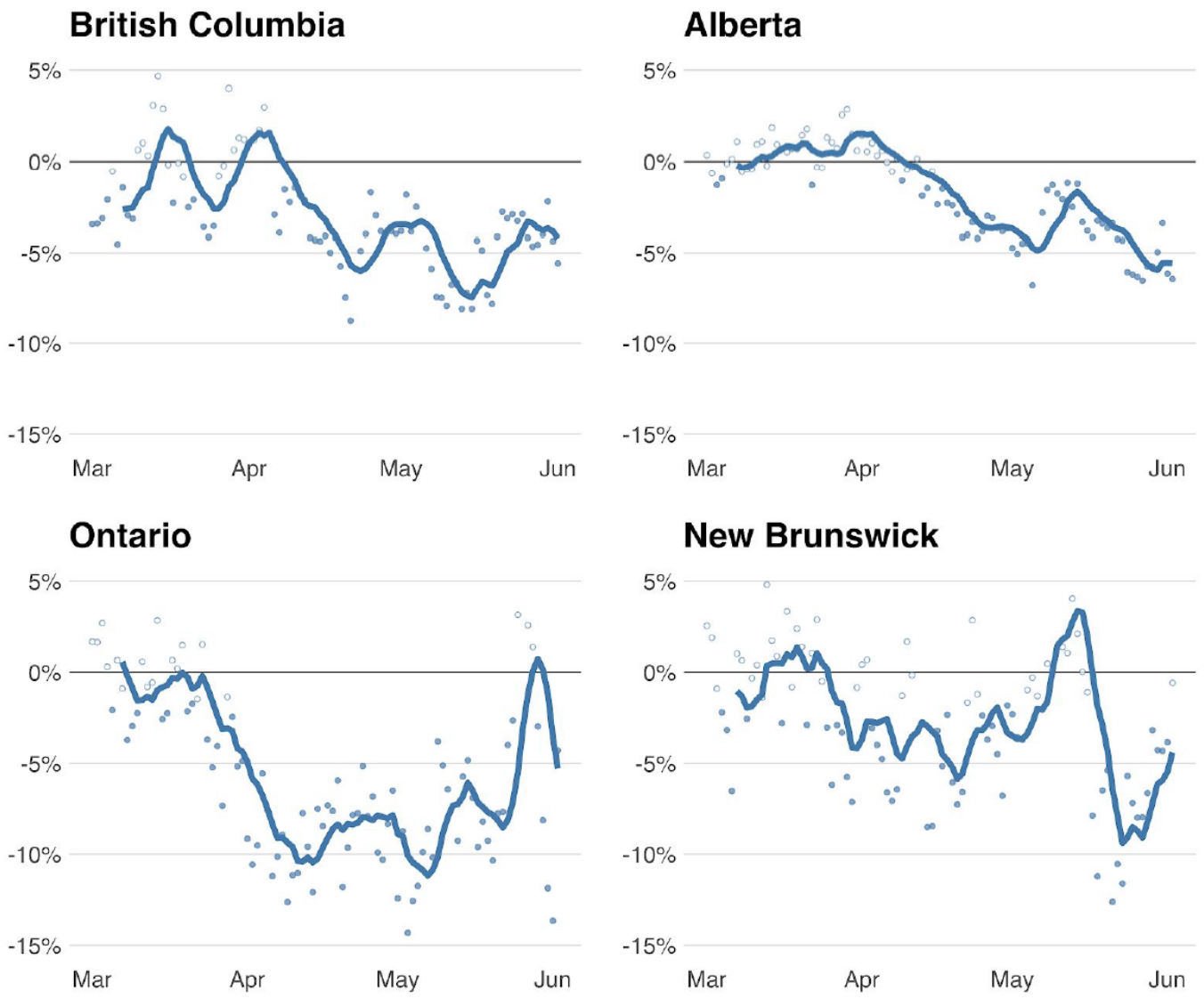
Reduced Load

- Recovery - revenue decoupling
- Longer term implications – increased load forecast uncertainty

Figure 1 - Daily electricity demand relative to expected demand during COVID-19



Source: Andrew Leach, Nic Rivers and Blake Shaffer (2020 Working Paper)

Recovery of COVID-19 Related Costs

Recovery considerations

- Consider all impacts – positive and negative
- Consider who should bear the risk – ratepayer vs. shareholder
- Mechanisms:
  - Deferral Accounts
  - PBR – exogenous factor

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Cost Impacts & Liquidity

- BC
  - Deferral accounts
  - Liquidity – increase in borrowing capacity, shares
- Alberta
  - Deferral accounts
  - Liquidity – backstop mechanisms
- Ontario
  - Deferral accounts
  - Liquidity – considering interim disposition of deferral accounts
  - Temporary reporting requirements
- Nova Scotia
  - No deferral accounts have been requested

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Other COVID-19 Regulatory Considerations

Planning and rate setting

Emergency planning

New ways of working

Thank you

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Q&A SESSION

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