VIA RESS and EMAIL

August 2, 2024

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Nancy Marconi:

Re: Ontario Energy Board – Cost of Capital Review
Exhibit M2 – Concentric Energy Advisors Inc. (Concentric) Evidence
Consumers Council of Canada (CCC) Interrogatories
OEB File No. EB-2024-0063

In accordance with Procedural Order No. 1, dated March 28, 2024, please find attached CCC's interrogatories with respect to Exhibit M2 (Concentric Evidence).

Yours truly,

Lawrie Gluck

Lawrie Gluck
Consultant for the Consumers Council of Canada

cc: All parties in EB-2024-0063

Ontario Energy Board Generic Proceeding

Cost of Capital Review

Exhibit M2 – Concentric Evidence

Consumers Council of Canada

Interrogatories

August 2, 2024

M2-CCC-1

a) Please provide, using the most recent rate base amounts available, a comparison of:

   i. The total return on equity, in dollars, for the electricity distribution sector in Ontario based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for the electricity distribution sector in Ontario based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

b) Please provide, using the most recent rate base amounts available, a comparison of:

   i. The total return on equity, in dollars, for the electricity transmission sector in Ontario based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for the electricity transmission sector in Ontario based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

c) Please provide, using the most recent rate base amounts available, a comparison of:

i. The total return on equity, in dollars, for OPG based on Concentric's recommended ROE and change to equity thickness; and
ii. The total return on equity, in dollars, for OPG based on the OEB's current approach to setting the ROE.

Please provide the supporting calculation as part of the response.

d) Please provide, using the most recent rate base amounts available, a comparison of:

i. The total return on equity, in dollars, for Enbridge Gas based on Concentric's recommended ROE and change to equity thickness; and
ii. The total return on equity, in dollars, for Enbridge Gas based on the OEB's current approach to setting the ROE.

Please provide the supporting calculation as part of the response.

M2-CCC-2
Ref: Ex. M2/pp. 23, 115

(Page 23) Concentric stated that the energy transition has already increased both business and policy-related risks for all Ontario utilities.

(Page 115) As utilities plan and execute infrastructure projects to meet policy mandates and reduce climate risk, the increased demand for labor, supplies, and capital, as well the development of new technologies, will create constraints, increase costs and consequently increase the risks (and commensurate return requirements) associated with investment in their securities.

a) (Page 23) Please provide Concentric's views on the differential impact of energy transition risk on: (i) electricity distributors; (b) electricity transmitters; (c) electricity generators; and (d) natural gas utilities. As part of this response, please provide additional commentary on the risk of energy transition for electricity distributors and transmitters beyond the potential need for additional capital spending related to electrification.

b) (Page 115) In the context that regulated utilities are allowed to recover prudently incurred costs, please explain why increased spending in response to climate change/electrification is a risk to utilities.

c) (Page 115) In the context of electricity distributors and transmitters, please provide Concentric's view on the impact on risk of longer-term significant growth in approved rate base, which provides for larger returns on an absolute basis.

M2-CCC-3
Ref: Ex. M2/p. 29

Please advise whether Concentric agrees that, in addition to a comparison between Ontario utilities and peer groups regarding regulatory and rate-setting mechanisms, it is important to consider the evolution of those mechanisms in Ontario over time.

M2-CCC-4
Ref: Ex. M2/pp. 46, 47-50 and Exhibit CEA-2
Ex. M1/p. 129

For each company in each proxy group listed in Exhibit CEA-2, please provide a table that includes the following information (if available and as applicable):

a) Company name
b) Credit rating
c) S&P business risk rating
d) S&P financial risk rating
e) Percentage of operating income from, as applicable, electricity distribution, electricity transmission, electricity generation, natural gas operations
f) Percentage of operating income, as applicable, by operating area (i.e., electricity distribution, transmission, generation or natural gas operations) that is regulated
g) Percentage of overall operating income that is regulated
h) Beta information:
    i. Raw beta
    ii. Beta used by expert in CAPM calculation
i) The regulatory agency that regulates the company (i.e., OEB, AUC, CPUC, etc.) and the applicable rating as set out in the "Utility Regulatory Jurisdiction Assessment performed by S&P Global" (see p. 129 of Exhibit M1 – LEI Expert Report)
j) Description of ratemaking approach applied to the company. As part of this response, please include information regarding:
    i. Most prevalent form of ratemaking (e.g., cost of service, cost of service plus IRM, etc.)
    ii. Application of a forward test year approach in cost of service ratemaking

iii. Availability of Custom IR option (which, as applied in Ontario, allows for multi-year (typically 5 years) recovery of approved capital budgets as proposed by the utility)
iv. Availability of mechanisms that allow the recovery of incremental capital between rebasing proceedings (and a description of how those mechanisms operate)
v. Reliance on fixed vs. variable rates (by rate class)
vi. Availability of deferral and variance accounts for non pass-through costs and revenues (and the types of accounts that are available)
vii. Availability of Z-factor relief (and the types of relief available through this mechanism)
viii. Availability of off-ramp provisions when actual ROE falls below a certain threshold

M2-CCC-5
Ref: Ex. M2/p. 53

At a general level, when Concentric discusses country risk (and notes that Canada and the US have the same risk), is this commentary only about the risk of operating in each of those countries?

M2-CCC-6
Ref: Ex. M2/p. 66 and Exhibit CEA-7.1

a) Please confirm that the average Value Line and Bloomberg betas shown in Figure 16 reflect a simple average of the betas shown in CEA-7.1 for each proxy group.

b) Please confirm that the betas shown in Exhibit CEA-7.1 reflect adjusted betas.

c) Please explain the applicability of the statement that an “individual company beta is more likely than not to move toward the market mean of 1.0 over time” in the context of the regulated utility sector.

d) Please advise whether Concentric is aware of the beta estimate for any Canadian regulated utility ever reaching 1.0.

e) Please provide Concentric’s views on the differential in risk between Canadian and US utilities as expressed by the beta estimates. Historically, do US utilities have higher beta estimates than Canadian firms?

f) Please provide revised ROE results using historical MRP, similar to what is set out in Figure 18, that use raw betas (as opposed to adjusting betas toward 1.0).

g) To understand the CAPM-derived ROE sensitivity to changes in beta estimates using Concentric's recommended approach, please provide the ROE based on:

   a. A beta of 0.5
   b. A beta of 0.25

M2-CCC-7
Ref: Ex. M2/pp. 74-79 and p. 100

(Page 74) For our Risk Premium analyses, we have relied on authorized returns from a large sample of U.S. electric utilities and U.S. gas distribution companies. In addition, we have conducted a Risk Premium analysis based on authorized returns for Canadian electric and gas utility companies since 2000.

a) Please explain why it is appropriate to use approved returns (or, "authorized returns") for regulated utilities to determine the risk premium in the calculation of an appropriate ROE for an Ontario regulated utility. As part of the response, please comment on the logic of using approved ROEs from other jurisdictions to determine risk premiums for Ontario utilities when those approved ROEs would have also, presumably, been underpinned by DCF, CAPM and/or Risk Premium based ROE determinations when they were initially calculated.

M2-CCC-8
Ref: Ex. M2/pp. 95-98
Ex. M4/p. 24

(Page 95) The base LCBF in the new AUC formula is based on an average of the forecast of the quarterly 30-year GOC bond yield for each of the four quarters in the coming year from three Canadian investment banks – RBC, TD Bank, and Scotia Bank – which receives a 75% weight, and the current 90-day average 30-year GOC bond yield, which receives a 25% weight. Concentric prefers this latter approach.

a) (Page 95) Please explain Concentric's preference for an approach that weights the forecast 30-year GOC bond yield in the manner described above.

b) (Exhibit M4, Page 24) Please comment on Dr. Cleary's recommendation to use the actual prevailing bond yields (as opposed to a forecast of bond yields) in the calculation of the long-term debt rate. Please include in this response a discussion of the benefits/drawbacks relative to Concetric's recommended option.

c) (Pages 96 and 98) With respect to the LCBF and utility bond spread adjustment factors, at a more general level, please discuss why using a regression analysis to set these factors is appropriate. As part of the response, please discuss why any adjustment factor is needed and explain why simply passing through the annual change in the LCBF and utility bond spreads in the ROE formula is inappropriate.

M2-CCC-9

Ref: Ex. M2/pp. 126 and Appendix B

(Page 126) The average S&P Global credit rating for the operating utilities held by the North American proxy group is A-. By comparison, S&P Global credit ratings for Ontario's electric and gas utilities range from BBB+ to A.

a) (Page 126) Please provide the average S&P global rating for Ontario's electric and gas utilities.

b) (Page 126) Please provide the average S&P global rating for only Ontario's electricity distribution and transmission utilities.

c) (Appendix B) Please confirm that all Ontario utilities that have credit ratings from any of S&P, DBRS, or Moody's are listed in Appendix B.

d) Please advise whether Concentric is aware of any utility in Ontario having difficulties attracting capital (either debt or equity).

M2-CCC-10

Ref: Ex. M2/p. 127

Several of the Ontario utilities are exposed to fluctuations in throughput due to changes in load or loss of customers, while more than 60 percent of the North American proxy group utilities are protected from volumetric risk through decoupling mechanisms.

a) Please explain what decoupling mechanisms Concentric is referring to in the above statement that Ontario utilities do not have available to them.

M2-CCC-11
Ref: Ex. M2/p. 153

Concentric recommended that the Board apply the WACC to DVA balances that are to remain on utilities' balance sheets for more than one year and retain a short term rate for DVAs that are cleared within one year.

a) Please advise whether Concentric's proposal to apply the WACC is applicable to all DVA balances (i.e., all pass-through (Group 1) and non pass-through (Group 2) accounts) that are not disposed of within 1 year.

b) Please advise whether Concentric's proposal to apply the WACC applies to any type of cost recorded in a DVA (i.e., capital and non-capital costs).