Energy Probe Interrogatory # N-M1-2-EP-1

Interrogatory

Reference:

Exhibit M1, page 44

Preamble:

At page 44, LEI states:

"By design, regulated entities face less risk than competitive businesses. Existing regulatory mechanisms address load fluctuations, capital recovery, and unforeseen events, whether caused by energy transition or not. Given that ratemaking processes directly deal with these issues and equity thickness is the lever used to address differences between regulated sectors (see Section 4.2.4 wherein LEI has recommended adjusting equity thickness as the appropriate lever for addressing material changes in risk profile), LEI does not believe energy transition issues are a large driver in reviewing the process of setting the cost of capital."

Question:

How does energy transition from gas to electricity change the risk profile of gas utilities compared to electricity utilities?

Response: Note that this interrogatory response has been prepared by LEI.

Energy transition can have different impacts on Ontario's natural gas distributors, electricity distributors and transmitters. However, as stated in the LEI Report: "*…the focus when considering cost of capital implications is not whether and how fast the industry is changing but whether, for regulated businesses, the volatility of net cash flows is changing or there is an increased risk of inability to attract capital or recover associated investments. Neither appears likely in the forthcoming regulatory period.*"

Energy Probe Interrogatory # N-M1-1-EP-2

Interrogatory

Reference:

Exhibit M1, page 50

Preamble:

At page 50, LEI states:

"The Supreme Courts in both the US and Canada have upheld that publicly owned utilities are entitled to a fair return on equity, in the same way that privately owned utilities are entitled to earn a fair return. This will enable utilities to finance their capital investments appropriately.

In Bluefield Waterworks & Improvement Company v. Public Service Commission of the State of West Virginia et al (Bluefield) the US Supreme Court stated: '*A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties*.'"

Question(s):

a) Was the Bluefield Waterworks & Improvement Company owned by the City of Bluefield, West Virgina or by private investors?

b) Public utility is an organization that supplies the public with water, gas, or electricity according to Cambridge Dictionary. The word public does not refer to ownership. Does LEI agree with that definition?

Response: Note that this interrogatory response has been prepared by LEI.

a) While this case is from 1923, meaning ownership records are difficult to review, the case would not have come before the court were the utility not operated on a commercial (for profit) basis.

b) LEI disagrees. The meaning of the word "public utility" depends on context. In some cases, the definition is as suggested. However, in other cases, the word may refer to a government-owned entity.

Energy Probe Interrogatory # N-M1-1-EP-3

Interrogatory

Reference:

Exhibit M1, page 52

Preamble:

At page 52, LEI states:

"Allowing uniform ROE regardless of ownership is also consistent with the comparable investment standard of the FRS. The comparable return standard requires the allowed ROE to be comparable to the return available from the application of invested capital to other enterprises of like risk. The comparable investment standard implies risk determination based on the utilities' business/investment activities, and not the ownership type."

Question(s):

a) Can utilities that are government owned obtain financing on better terms than utilities that are owned by private investors?

b) Is LEI aware of any instance where a government entity that owned a utility guaranteed its debt?

Response: Note that this interrogatory response has been prepared by LEI.

a) While some government-owned entities have access to below market financing, government-owned utilities cannot necessarily always obtain financing on better terms than privately owned utilities.

b) Yes, Hydro Quebec, BC Hydro, and Manitoba Hydro are some examples.[1] As of December 31st, 2023, debentures and medium-term notes worth $52.5 billion were guaranteed unconditionally by the Québec government.

[1] A debt guarantee fee may also be charged. Source: Government of Manitoba.

Energy Probe Interrogatory # N-M1-2-EP-4

Interrogatory

Reference:

Exhibit M1, page 55 and 65

Preamble:

At page 55 and 65, LEI states:

"Policy risk refers to the impacts of Ontario, federal or municipal government policies/legislations."

Question(s):

a) Was the passage by Ontario of Bill 93, known as the Getting Ontario Connected Act (GOCA) a policy risk for Ontario gas and electricity utilities?

b) Are Ontario utilities compensated for policy risks through the ROE?

c) Did OEB approval of a GOCA variance account in its EB-2023-0143 decision reduce the policy risk of Ontario utilities?

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes.

b) Yes, through the authorized ROE and the capital structure.

The GOCA Order dated October 31st, 2023, in EB-2023-0143, notes the following:

"OEB staff and all intervenors, except for Energy Probe, generally supported the approval of a generic variance account.

Energy Probe submitted that utilities are compensated for business risk caused by legislative change through equity thickness and the rate of return on equity[2] and therefore a variance account is not required."

LEI would like to add that it agrees with the OEB staff in this matter. Relative policy risk may increase in future assessments if no attempt is made to mitigate new policy risks.

c) Yes.

Energy Probe Interrogatory # N-M1-3-EP-5

Interrogatory

Reference:

Exhibit M1, page 75

Preamble:

At page 75, LEI states:

"LEI recommends impact assessments for major regulatory changes at the time of introduction i.e., before the changes goes into effect (similar to the UK example) in addition to the status quo."

Question:

Please describe impact assessments that LEI is recommending. What would they consist of and who would carry them out?

Response: Note that this interrogatory response has been prepared by LEI.

The UK case study (page 73 of the LEI report) provides an example of the impact assessment ("IA") that LEI recommends. In the UK, the IAs are carried out by the regulator Ofgem. The IA process is summarized in Figure 18 of the LEI report.

Energy Probe Interrogatory # N-M1-10-EP-6

Interrogatory

Reference:

Exhibit M1, page 127

Preamble:

At page 127, LEI states:

"LEI recommends using CAPM to determine the base ROE (average estimate of 8.95%, low estimate of 8.23%, and a high estimate of 10.22%), as it meets the FRS.

The ROE can be updated annually using the adjustment factors (0.26 for LCBF and 0.13 for utility bond spread) determined simultaneously with multivariate regression analysis (as opposed to independent determination in 2009)."

Question(s):

a) How often would the base ROE be determined using CAPM and who would do it, OEB Staff, outside consultants or the utility?

b) Who would annually update the ROE, OEB Staff, outside consultants or the utility?

Response: Note that this interrogatory response has been prepared by LEI.

a) The updated base ROE would be determined in this proceeding, and the methodology reviewed every five years in a similar proceeding.

b) The OEB staff would be responsible for annual parameter updates.

Electricity Distributors Association Interrogatory # N-M1-0-EDA-1

Interrogatory

Reference:

Exhibit M1

Question:

Please provide responses to all other parties' IRs.

Response: Note that this interrogatory response has been prepared by LEI.

Provided.

Electricity Distributors Association Interrogatory # N-M1-0-EDA-2

Interrogatory

Reference:

Exhibit M1, Appendix D of the LEI Report dated June 21, 2024 and CVs of AJ Goulding, Amit Pinjani, Shashwat Nayak

Question:

Please provide copies of all reports of AJ Goulding, Amit Pinjani, Shashwat Nayak, together, alone or with another expert, concerning in whole or in part cost of capital and/or energy transition.

Response: Note that this interrogatory response has been prepared by LEI.

Please see examples from the last five years (with hyperlinks to download the relevant reports) provided in LEI response to IR #N-M1-0-OEA-1.

Coalition of Concerned Manufacturers and Businesses of Canada Interrogatory # N-M1-1-CCMBC-1

Interrogatory

Reference:

Exhibit M1, page 12

Question:

Members of CCMBC are manufacturers and businesses and the rates they pay will be impacted by the outcome of this proceeding. In general, would the recommendations of LEI if adopted by the OEB result in an increase or a decrease in electricity and gas rates?

Response: Note that this interrogatory response has been prepared by LEI.

While assessing the impact on electricity and gas rates is outside the scope of the LEI report, as stated in the LEI Report, *"Overall, LEI's recommendations are a mix of retaining the status quo and making incremental/evolutionary improvements to the current approaches."* As such, we do not expect LEI's recommendations to have a significant impact on rates.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-1

Interrogatory

Reference:

Exhibit M1, page 12

Preamble:

At page 12, LEI states:

"LEI has devised five overarching principles to evaluate its potential alternatives (derived from OEB's mission and mandate, and its existing principles related to cost of capital and accounting) and arrived at its recommended approach."

One of LEI's five principles is:

"Transitioning away from the status quo only if the associated benefits are material as there is limited merit in modifying aspects of the methodology that have worked well."

Question:

With respect to the second reference, please identify those aspects of the status quo (i.e., the methodology) that LEI considers to "have worked well" and, in each case, explain why.

Response: Note that this interrogatory response has been prepared by LEI.

LEI has summarized the areas that it considers to have worked well (recommending retaining status quo) and the areas where it recommends changes in the "Executive summary" (Section 1 of the LEI Report).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-6-VECC-2

Interrogatory

Reference:

Exhibit M1, pages 27-28 and 84

Preamble:

At page 27, LEI states:

"For natural gas distributors, and OPG's prescribed rate-regulated baseload generation, the long-term debt rates are considered based on the weighted cost of actual embedded debt.

For electricity distributors and transmitters, the OEB's stated policy is to primarily rely on embedded or actual cost for existing long-term debt instruments, albeit with DLTDR acting as a proxy (if the distributor has no debt) or a ceiling (if the actual rate is higher than DLTDR).

The OEB utilizes the long-term debt rate for 56% of the capital structure for electricity distributors and transmitters."

At page 28, LEI states:

"For natural gas distributors and OPG's prescribed rate-regulated baseload generation, the short-term debt rates are considered based on the weighted cost of actual embedded debt. The short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization and is typically a small fraction of total capitalization for rate-setting purposes."

At page 84 the Report outlines the use of the DLTDR when an electric distribution utility has no debt or the debt is held by an affiliate.

Question(s):

a) For electricity distributors and transmitters, if the actual embedded debt is less than 56% of the capital structure, what does the OEB use as the long-term debt rate for the that portion of the rate base that is deemed to be financed by long-term debt? Please provide the relevant references supporting LEI's understanding of the OEB's current approach.

b) For electricity distributors and transmitters, what role (if any) does the DLTDR currently play in determining the regulated rate for long term debt if the debt is not held by an affiliate?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please refer to the 2016 OEB Staff Report in EB-2009-0084:

"Notional debt can be either positive (i.e. deemed debt is greater than actual debt) or negative (where deemed debt is less than actual debt). Since the factors which cause notional debt to arise are largely under the control of the utility, the OEB has determined in a number of cases that notional debt should attract the weighted average cost of actual long-term debt rate rather than the deemed long-term debt rate issued by the OEB.4 An exception to this is where a utility is 100% equity financed and has no current debt or recent history of debt financing. In such a circumstance, the OEB has noted that the deemed long-term debt rate should apply as a ceiling."

b) LEI has summarized its understanding of the OEB's current DLTDR guidelines in page 84 of the LEI report. The relevant portion is reproduced below. Only the second bullet point refers to "debt held by an affiliated party"; the rest applies for debt not held by an affiliate.

"For electricity distributors and electricity transmitters, the OEB's stated policy is to primarily rely on embedded or actual cost for existing long-term debt instruments, albeit with DLTDR acting as a proxy (if the distributor has no debt) or a ceiling (if the actual rate is higher than DLTDR). In particular, these circumstances include:

- *The DLTDR will be used as a proxy for long-term debt rate where an electricity distribution utility has no actual debt;*
- *For debt held by an affiliated party with a fixed rate, the DLTDR at the time of issuance will be used as a ceiling on the rate allowed for that debt (e.g., DLTDR approved for 2019 will be considered for the maturity term if the debt was issued in 2019);*
- *For debt with a variable rate, the DLTDR will be a ceiling on the rate allowed for that debt; This applies whether the debt holder is an affiliate or a third-party.*
- *For debt that is callable on demand (within the test year period), the current DLTDR will be a ceiling on the rate allowed for that debt; and*

  For debt that is callable, but not within the test year period, it will have its debt cost considered as if it is not callable. As such, the debt cost will be treated in accordance with other guidelines pertaining to actual, affiliated or variable-rate debt."

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-3

Interrogatory

Reference:

Exhibit M1, page 28

Preamble:

At page 28, LEI states:

"For natural gas distributors and OPG's prescribed rate-regulated baseload generation, the short-term debt rates are considered based on the weighted cost of actual embedded debt. The short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization and is typically a small fraction of total capitalization for rate-setting purposes.

The OEB utilizes the DSTDR for 4% of the capital structure for electricity distributors and transmitters."

Question(s):

a) For natural gas distributors and OPG's prescribed rate-regulated baseload generation what "actual embedded debt" is used in the determination of the "weighted cost of actual embedded debt" (e.g., is it just short-term embedded debt and, if so, how is short-term defined?).

b) For natural gas distributors and OPG's prescribed rate-regulated baseload generation, is the short-term debt used for the entire unfunded deemed debt portion of the capital structure?

c) If not, for what unfunded portion is it used and what rate is applicable to the balance of the unfunded deemed debt portion of the capital structure?

Response: Note that this interrogatory response has been prepared by LEI.

a) Short-term debt is typically defined as debt with a maturity period of less than 12 months.[2]

[2] PwC. 12.3 Balance sheet classification — term debt. 31st May, 2024.

b) Yes – this is our understanding.[3]

c) N/A.

[3] OEB. EB-2009-0084. Report of the Board on the Cost of Capital for Ontario's Regulated Utilities. December 11th, 2009. Page 55.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-2-VECC-4

Interrogatory

Reference:

Exhibit M1, pages 28-29 and 54

Preamble:

At page 28, LEI states:

"The OEB's guidelines assume that the base capital structure will remain relatively constant over time, and requires undertaking a full reassessment of a utility's capital structure only in the event of significant changes in the company's business and/or financial risk.

The OEB set the deemed capital structure at 60% debt and 40% equity for all electricity distributors and transmitters in 2006."

At page 29, LEI states:

"EPCOR Natural Gas' equity thickness of 40% has remained unchanged since 2006.

Since 2006, the OEB has reassessed the capital structure for the following regulated utilities: OPG in 2008, 2014 and 2017, Enbridge Gas Distribution Inc. in 2007 and 2013, Union Gas Limited in 2006 and 2012, and Enbridge Gas in 2023, following applications from these utilities/intervenors. Only two of the eight reassessments have led to a change in equity ratio (for OPG in 2014 and Enbridge Gas in 2023."

And page 54, LEI states:

"As such, the OEB typically assesses the major risk factors following a utility's application for a change in equity thickness. The most recent assessments for electricity distributors were performed in 2006 (2006 report), Enbridge Gas in 2023 (EB-2022-0200), and OPG in 2017 (EB-2016-0152)."

Question(s):

a) Please confirm that in assessing whether there has been a significant change in one of the regulated entities business and/or financial risk the relevant point of reference would be:
   - For electricity distributors and transmitters, changes since 2006;
   - For EPCOR Natural Gas, changes since 2006;
   - For OPG, changes since 2017; and

- For Enbridge, changes since 2023.

b) If not confirmed, for each such utility please explain why not and what LEI considers to be the appropriate historical reference point for assessing whether significant changes in the company's business and/or financial risk have occurred.

Response: Note that this interrogatory response has been prepared by LEI.

a) Confirmed.

b) Not applicable.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-5

Interrogatory

Reference:

Exhibit M1, page 30

Preamble:

At page 30, LEI states:

"Prior to the cloud computing accounting order, the OEB did not distinguish the accounting treatment for cloud computing related operating/capital expenses and general operating/capital expenses.

To compensate for the additional risks and benefits (if any) associated with the change in methodology, the OEB aims to determine in this Generic Proceeding what type of interest rate, if any, is warranted for the above deferral account."

Question:

What "change in methodology" is the LEI Report referring to?

Response: Note that this interrogatory response has been prepared by LEI.

The LEI report is referring to the methodology stated in the cloud computing accounting order. Prior to the issuance of the cloud computing accounting order, as stated in the LEI report: *"…the OEB did not distinguish the accounting treatment for cloud computing related operating/capital expenses and general operating/capital expenses."*

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-6

Interrogatory

Reference:

Exhibit M1, page 38

Preamble:

At page 38, LEI states:

"LEI has closely considered several underlying principles and objectives formulating recommendations in this report. These include:

- Cost of capital principles adopted by the OEB;
- Regulatory accounting principles adopted by the OEB; and
- OEB's mission and mandate.

LEI then synthesized five guiding principles consistent with this source material."

Question(s):

a) It is noted that LEI makes no reference to having considered the OEB's statutory objectives as set out in the OEB Act, Section 1 (1). Please explain why.

b) Please indicate if/how LEIs five guiding principles align with the OEB's statutory objectives.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI did not specifically consider the OEB Act, Section 1 (1) when devising the five guiding principles. However, LEI believes the principles are consistent with the OEB Act, Section 1 (1). The relevant objectives are reproduced below:

    1. To inform consumers and protect their interests with respect to prices and the adequacy, reliability and quality of electricity service.
    2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.
    3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.
    4. To facilitate innovation in the electricity sector.

b) Where relevant, LEI believes that the status quo cost of capital methodologies have mostly met the above objectives. LEI has, therefore, suggested changes only if it considers that the status-quo can be meaningfully improved upon.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-7

Interrogatory

Reference:

Exhibit M1, page 38

Preamble:

At page 38, LEI cites as one of the OEB's key regulatory principles with respect to determining the cost of capital:

"The overall ROE must be determined solely on the basis of a company's cost of equity capital, regardless of equity ownership, and any resulting rate increase must be an irrelevant consideration in determining the appropriate ROE for regulated utilities."

Question:

Please clarify how LEI has interpreted this principle (e.g., does it mean that the ROE for a utility should consider a company's actual cost of equity (regardless of the impact the nature of its equity ownership has on its actual cost of equity?).

Response: Note that this interrogatory response has been prepared by LEI.

Yes.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-8

Interrogatory

Reference:

Exhibit M1, page 37

Preamble:

At page 37, LEI states:

"The design of the IRM is tailored to accommodate approved material incremental capital expenses, but not incremental operating (or O&M) expenses. Regulated utilities can earn an ROE on their rate base (which is primarily made up of capitalized assets in use) but cannot earn a return on their operating expenses. As such, the current IRM design incentivizes utilities to make in-house infrastructure investments for their computing and storage needs, rather than opting for a cloud computing service (as it is categorized as an O&M expense). The cloud computing costs cannot be amortized over a longer time horizon, despite the long-term benefits of switching to this model."

Question:

What distinguishes cloud computing costs from any other utility investment where there can be a substitution as between carrying out the responsibility as an operating costs (e.g. system maintenance) and a capital cost (e.g. system capital investment? In other words, do utilities have a general incentive to under spend in operating areas and overspend (or substitute) for capital spending? If so what impact if any does this have on setting an appropriate cost of capital?

Response: Note that this interrogatory response has been prepared by LEI.

There are other areas of capital investment which could be substituted with a variety of third party agreements. While LEI would not agree as to a "general incentive to under spend" in operating areas (utilities are required to observe good utility operating practices and are subject to performance expectations), LEI agrees that there is a potential bias towards capital investment in cost of service regulatory regimes; even in performance-based ratemaking regimes, going in rates are influenced by cost of service calculations.

However, LEI does not agree that capital bias should be addressed through changes in the cost of capital. The appropriateness of a particular capital investment is determined by the regulator through separate processes; the cost of capital is set under the assumption that investments are prudent and used and useful. Incentives to diminish capital bias can and should be developed outside of cost of capital proceedings.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-0-VECC-9

Interrogatory

Reference:

Exhibit M1, page 44

Preamble:

At page 44, LEI states:

"However, while the energy transition is bringing dramatic changes to the sector as a whole, the focus when considering cost of capital implications is not whether and how fast the industry is changing but whether, for regulated businesses, the volatility of net cash flows is changing or there is an increased risk of inability to attract capital or recover associated investments. Neither appears likely in the forthcoming regulatory period. This is because the pace of change remains measured, and regulated utilities can use various regulatory mechanisms such as DVAs, Z factor, I factor, and off-ramp mechanisms to manage net cash flow volatility (if any).

By design, regulated entities face less risk than competitive businesses. Existing regulatory mechanisms address load fluctuations, capital recovery, and unforeseen events, whether caused by energy transition or not. Given that ratemaking processes directly deal with these issues and equity thickness is the lever used to address differences between regulated sectors (see Section 4.2.4 wherein LEI has recommended adjusting equity thickness as the appropriate lever for addressing material changes in risk profile), LEI does not believe energy transition issues are a large driver in reviewing the process of setting the cost of capital."

Question(s):

a) With respect to the above statement, what does LEI consider to be the "forthcoming regulatory period".

b) Does LEI agree that energy transition will have significantly different impacts on Ontario's natural gas distributors as opposed to its electricity transmitters and distributors? If not, why not?

c) Please outline what financial or business risks LEI considered that energy transition could introduce for natural gas distributors and how existing regulatory mechanisms will serve to address/mitigate them.

d) Please outline what financial or business risks LEI considered that energy transition could introduce for electricity transmitters and distributors and how existing regulatory mechanisms will serve to address/mitigate them.

e) Please outline what financial or business risks LEI considered that energy transition could introduce for OPG's regulated activities and how existing regulatory mechanisms will serve to address/mitigate them.

f) In the case of Ontario's electricity transmitters & distributors and OPG, does energy transition serve, in any way, to reduce the financial and/or business risks of these entities? If yes, how? If not, why not?

Response: Note that this interrogatory response has been prepared by LEI.

a) 2025-2029 is considered to be the forthcoming regulatory period.

b) Energy transition can have different impacts on Ontario's natural gas distributors, electricity distributors and transmitters. However, as stated in the LEI Report: "*…the focus when considering cost of capital implications is not whether and how fast the industry is changing but whether, for regulated businesses, the volatility of net cash flows is changing or there is an increased risk of inability to attract capital or recover associated investments. Neither appears likely in the forthcoming regulatory period.*"

c) LEI has explored these issues in detail in its report titled "Recommendation for appropriate capital structure for Enbridge Gas in its application for 2024 rebasing and 2025-2028 price cap plan" in EB-2022-0200. Please refer to Section 3 of the referenced report wherein LEI has evaluated the impacts of key business risks (energy transition, volumetric, operational, and regulatory risks) and financial risks raised by Enbridge Gas.

d) As noted on page 44 of the LEI report, LEI does not believe energy transition issues are a large driver in reviewing the process of setting the cost of capital, particularly for electricity distributors and transmitters. Further, LEI believes that the energy transition will likely result in more opportunities than risks for regulated electricity distributors/transmitters and OPG (LEI is unaware of any significant cost disallowances by the OEB concerning OPG).

e) Please see LEI response in d) above.

f) While energy transition is likely to increase the size of the regulated rate base of Ontario's electricity distributors/transmitters and possibly OPG, LEI does not believe that energy transition serves to reduce risks for these entities.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-1-VECC-10

Interrogatory

Reference:

Exhibit M1, page 45

Preamble:

At page 44, LEI states:

"The sources of capital are typically equity and/or debt. Debt funding can come from banks, corporate bonds, or public lending institutions (such as Infrastructure Ontario). Loans received directly by the government or its own controlled agency/development bank often have favourable rates relative to financing obtained from commercial banks and bond issuances. Issue 1a relates to whether the source of capital should matter for OEB when setting the cost of capital and capital structure methodologies."

Question:

Does LEI agree that another source of debt funding could be from an affiliate or the parent company of the utility?

Response: Note that this interrogatory response has been prepared by LEI.

Agreed.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-1-VECC-11

Interrogatory

Reference:

Exhibit M1, page 48, Figure 11

Preamble:

At page 48, Figure 11 shows:

Figure 11. Summary of the jurisdictional review (treatment of public debt in cost of debt determination)

Jurisdiction	Source of funding
Alberta	The cost of debt is based on actual costs determined by the market, not set by the AUC
Australia	The AER sets the benchmark return on debt using a 10-year simple trailing average of the BBB+ corporate bond yield from third-party providers, which is not based on the source of funding
UK	Ofgem sets the benchmark cost of debt reflecting a notional efficient operator who is not systematically under- or over- compensated for the cost, which does not consider the source of funding

Question:

While LEI describes different ways of setting cost of long term debt as outlined in Figure 11 it provides no description of what material difference (if any) results from employing these different methodologies. Does LEI have any insight into the variation of results found when employing these different methods?

Response: Note that this interrogatory response has been prepared by LEI.

The approach used in Alberta (i.e., allowing actual debt rates) is similar to the approach used in Ontario (i.e., allowing actual debt rates albeit with a cap). Australia and the UK consider a benchmark debt rate regardless of the actual debt rates. Utilizing a benchmark debt rate may result in a higher or lower debt rate relative to actual debt rates, depending on the benchmark rate.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-1-VECC-12

Interrogatory

Reference:

Exhibit M1, pages 46 and 51

Preamble:

At page 46, LEI states:

"Given that the OEB considers the actual long-term debt rates in most cases, its current methodology already implicitly considers the impacts of different funding sources… In 2009 (EB-2009-0084), the OEB determined that the ownership structure of a utility should not be a relevant factor when determining the cost of capital."

At page 51, LEI states:

"With regards to consideration of ownership type, LEI agrees with the OEB's 2009 report that a utility's ownership structure should not be a relevant consideration in determining its cost of capital parameters. As noted by the OEB, despite differences in ownership structures, all OEB-regulated entities operate as commercial/corporate entities."

Question(s):

a) Does LEI agree that a utilities ownership can impact the sources it has available for debt financing (e.g., municipally-owned electricity distribution utilities have access to lending from Infrastructure Ontario)? Can ownership affect the cost of debt for a utility? For example, might full or partial public ownership of utility have an impact on the terms that a lender is willing to offer?

b) Please provide any analysis that LEI is aware of which shows the cost of difference between debt raised by publicly owned corporations and privately owned companies.

c) If actual debt rates are used by the OEB in determining the cost of capital parameters and if the cost of that debt can be impacted by ownership, then isn't ownership a relevant factor in determining the cost capital for an OEB regulated utility?

Response: Note that this interrogatory response has been prepared by LEI.

a) Unless there is an explicit debt guarantee from the public entity owning the utility, utility ownership is not an important consideration for the cost of debt, particularly for Ontario utilities that operate as commercial/corporate entities.

b) LEI has not conducted such analysis.

c) As the OEB considers the actual debt rate with DLTDR as a ceiling rate, variations in debt rate are considered.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-1-VECC-13

Interrogatory

Reference:

Exhibit M1, pages 50-51 and 52

Preamble:

At pages 50-51, LEI states:

"Considering ownership type as a risk factor: If the OEB believes that the type of ownership significantly changes the risk profile of a utility:

> a. for electricity distributors, the OEB can group the utilities based on risk profiles (with ownership type as one of the key considerations), and determine a slightly different capital structure for each group; and
>
> b. for all other utilities, the OEB may consider ownership type as one of the risk factors in future assessments of capital structure (as part of the rebasing proceedings)."

At page 52, LEI states:

"As such, regulated utilities within a particular sector face very similar risks, given:

- the composition of their rate bases is similar, i.e., the type of physical assets owned does not vary significantly. As such, electric distributors are commonly grouped as peer utilities when determining the appropriate rate of return; and
- they operate in the same regulatory environment. For instance, all Ontario electric distributors' rates are governed by the same OEB regulations and principles, allowing them equal opportunities to recoup their operating costs."

Question:

In LEI's view, does government ownership (either municipal, provincial or First Nations) change a utility's political risk and therefore its overall business risk profile? If not, why not? If yes, how and why?

Response: Note that this interrogatory response has been prepared by LEI.

While performance of government owned vis-a-vis private owned utilities may be perceived differently by investors/lenders, as noted on page 52 of the LEI report:

"…although the performance of the corporatized entity's board/executive team is a relevant factor for investors, the ownership structure should not inherently have any bearing on the ROE allowed by the OEB. And even if a particular ownership structure leads to consistently worse outcomes, it is reasonable for OEB to set a uniform ROE and expect the poor performers to catch up or change their ownership structure."

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-2-VECC-14

Interrogatory

Reference:

Exhibit M1, pages 54-55, 55-60 and 61

Preamble:

At pages 54-55 the Report identifies the following as business risk factors: i) Energy Transition, ii) Volumetric Risk, iii) Operational Risk; iv) Regulatory Risk and v) Policy Risk.

At pages 56-60, the Report identifies the business risk factors considered by other jurisdictions (i.e., Alberta, Australia and British Columbia).

At page 61, LEI states:

"In addition to the business risks and financial risks considered by the OEB in recent applications (see Section 4.2.1), the OEB can review additional risk factors considered in other jurisdictions, such as explicitly considering macroeconomic risk factors (inflation, interest rates, etc.), and energy/commodity price risk. One may argue that these risks are subsumed under existing risk categories. Major macroeconomic risk factors and energy price risk (which LEI views as "affordability risk") ultimately relate to regulatory risk, i.e., the availability of appropriate regulatory mechanisms to mitigate such risks. Examples include the composition of the I factor to mitigate inflation risk, allowed ROE/DLTDR to mitigate interest rate risk, and variance accounts to mitigate the energy price volatility risk… The major risk factors considered in other jurisdictions are similar to the ones considered in OEB proceedings. They can be grouped under the risk factors assessed by the OEB in recent equity thickness applications. LEI believes that the review of existing risk factors listed in Section 4.2.1, considering the current and forecasted macroeconomic conditions, are sufficient to determine the cost of capital parameters and capital structure (however, LEI believes that energy transition risk is primarily a policy risk and may be grouped as such). The key business risk factors include volumetric risk, operational risk, regulatory risk and policy risk (including energy transition risk)."

Question(s):

a) Do the five business risk factors set out on pages 54-55 represent: i) LEI's assessment of the business risk factors the OEB has used in recent proceedings or ii) LEI's view as to what the relevant business risk factors that should be considered? If the former, please provide the relevant references to support this assessment.

b) Please provide a schedule that sets out the five business risk factors identified in the Report (page 54-55) and then, for each of the three jurisdictions, indicate which of the business factors utilized in that jurisdiction are subsumed by each of the business risk factors identified in the Report.

c) Please identify any of the business factors utilized by one of the other three jurisdictions that LEI is not readily able to assign/align with its proposed five business risk factors.

Response: Note that this interrogatory response has been prepared by LEI.

a) The five business risk factors set out on pages 54-55 represent LEI's view of the relevant business risk factors that should be considered. These are also consistent with risk factors that OEB has used in recent proceedings. EB-2022-0200 is a relevant example.

b) Please refer to page 61 of the LEI report (relevant extract quoted below):

"In addition to the business risks and financial risks considered by the OEB in recent applications (see Section 4.2.1), the OEB can review additional risk factors considered in other jurisdictions, such as explicitly considering macroeconomic risk factors (inflation, interest rates, etc.), and energy/commodity price risk. One may argue that these risks are subsumed under existing risk categories. Major macroeconomic risk factors and energy price risk (which LEI views as "affordability risk") ultimately relate to regulatory risk, i.e., the availability of appropriate regulatory mechanisms to mitigate such risks. Examples include the composition of the I factor to mitigate inflation risk, allowed ROE/DLTDR to mitigate interest rate risk, and variance accounts to mitigate the energy price volatility risk."

In addition to the above, the discussion with respect to "Indigenous rights and engagement risk" (British Columbia) can be classified as part of operational risks.

c) Please see LEI response in b) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-2-VECC-15

Interrogatory

Reference:

Exhibit M1, pages 61 and 54 / page 105

Preamble:

At page 61, LEI describes the status quo with respect to assessing business/financial risks and the need to adjust utilities' capital structure as follows:

"the OEB currently undertakes a full reassessment of a utility's capital structure in the event of significant changes in the company's business and/or financial risk."

At page 54, LEI states:

"As such, the OEB typically assesses the major risk factors following a utility's application for a change in equity thickness. The most recent assessments for electricity distributors were performed in 2006 (2006 report), Enbridge Gas in 2023 (EB-2022-0200), and OPG in 2017 (EB-2016-0152)."

Question(s):

a) In LEI's view what specific risks are addressed through the derivation of a return on equity using whatever methodology chosen (i.e., CAPM, Comparable earnings, DCF etc.) and what risks are addressed through the capital structure deemed by the Board?

b) In LEI's view is it methodologically correct to calculate a regulated return on equity for electricity distributors, electricity transmitters, electricity generators and natural gas utilities based on (i) the same methodology (i.e. CAPM, comparable earnings etc.) and (ii) using combined utility data (i.e., using both natural gas utility data and various electricity utility data to in the applied model).

c) To LEI knowledge has the OEB since 2006, on its own initiative, undertaken any assessment as to whether the business/financial risks facing electricity transmitters or distributors have changed significantly enough to warrant a review of their capital structures? If yes, please provide the relevant references and outcomes

Response: Note that this interrogatory response has been prepared by LEI.

a) There is no specific bifurcation of risks being addressed by ROE and capital structure. The dollar value of ROE earned is a function of the allowed percentage ROE and the equity thickness. The OEB's policy/guidelines *assume that the base capital structure will remain relatively constant over time* and require undertaking a full reassessment of a utility's capital structure only in the event of significant changes in the company's business and/or financial risk.[4] As such, the OEB sets a uniform ROE for all regulated entities, and it changes the equity thickness in the capital structure if it assesses that an entity's business and financial risks have significantly increased/decreased relative to the previous assessment.

b) Yes; the methodology utilizes a weighted average beta with weights based on the share of recent year's rate base for the OEB-regulated entities. Distinctions among regulated sectors are addressed in the capital thickness.

c) Under the OEB's current approach, the utility (or other stakeholders) may request a change in equity thickness on an application to the OEB. LEI understands that the OEB has not received such an application for electricity distributors and transmitters since 2006. Given that no such applications have been received, it is unsurprising that LEI is unaware of OEB performing such analysis.

[4] OEB. EB-2009-0094. Report of the Board on the cost of capital for Ontario's regulated utilities. December 11th, 2009. Page 50.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-2-VECC-16

Interrogatory

Reference:

Exhibit M1, pages 54, 61-62 and 75

Preamble:

At page 54, LEI describes the status quo approach of the OEB with respect to determining the capital structure of utilities as follows:

"However, per its stated policy, it undertakes a full reassessment of a utility's capital structure in the event of significant changes in the company's business and/or financial risk.

As such, the OEB typically assesses the major risk factors following a utility's application for a change in equity thickness."

At pages 61-62, LEI states:

"Furthermore, as the OEB highlights in its capital structure policy, most risk factors tend to be stable over time. As such, considering their impacts at pre-defined intervals (as described in Section 4.2.3) is inefficient and unnecessary. LEI recommends that the OEB's current policy (reviewing business/financial risk factors if there is a significant change from the status quo) be retained. Furthermore, LEI believes that adjusting the allowed /deemed equity thickness remains the appropriate lever to address material changes in the utility risk profile."

At page 75, LEI states:

"LEI recommends impact assessments for major regulatory changes at the time of introduction i.e., before the changes goes into effect (similar to the UK example) in addition to the status quo."

At page 158, LEI states:

"Consistent with the OEB's existing policy, the OEB should commit to reviewing the cost of capital policy every five years."

Question(s):

a) Based on the discussion on pages 54 and 61-61, LEI's proposal appears to be that, apart from impact assessments when major regulatory policy changes are

introduced (per page 75), the OEB rely solely on applications by the utilities it regulates as the basis for determining whether or not financial/business risks have significantly changed enough that an adjustment to their capital structure is warranted. Please clarify if this is the intent behind the discussion set out on these pages.

b) If yes, does LEI consider it reasonable to assume that utilities will in those situations where their financial/business risks have changed such that they are significantly more favourable (i.e. lower) than previously assessed file applications for changes in their capital structure (e.g., reductions in their equity thickness)?

c) The referenced quote from pages 61-62 appears to reject reviewing utilities' risks and capital structure at regular intervals. However, at page 158 the Report states that the OEB should commit to reviewing the cost of capital policy every five years. Please reconcile.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI understands that any participant can currently submit the evidence arguing for a change in equity thickness. LEI has noted an example in Figure 8 of the LEI report: *"For OPG, the OEB reduced the allowed equity thickness from 47% to 45% in EB-2013-0321, following submissions from various participants contending that OPG's business risks had reduced relative to prior OEB assessment."*

   LEI has also recommended that this practice be retained on page 160 of the report: "*With respect to the review of the utility's capital structure, the OEB can continue to do so when there is a significant change in business/financial risks, and upon application by the utility or other participants…*".

b) Please see LEI's response above.

c) LEI believes that the two statements are consistent. Reviewing a specific utility's risks and capital structure is different from reviewing the overarching OEB cost of capital policy. LEI has recommended that the cost of capital policies of the OEB should be reviewed every five years (e.g. in a similar proceeding as this ongoing Generic Cost of Capital proceeding), which may include the policy of reviewing the capital structure upon application by the utility or other participants.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-2-VECC-17

Interrogatory

Reference:

Exhibit M1, page 62

Preamble:

At page 62, LEI states:

"The current policy of considering the impact of risk factors when there is a significant change in business/financial risks is a reasonable approach, which LEI recommends be retained."

Question(s):

a) In preparation of its Report, did LEI undertake an assessment or form any opinions as to whether there has been a significant change in the business/financial risk faced by electricity distributors since 2006 (or whatever date LEI considers the OEB to have undertaken its last formal assessment of such risk)? If yes, please provide. If not, why not?

b) In preparation of its Report, did LEI undertake an assessment or form any opinions as to whether there has been a significant change in the business/financial risk faced by OPG since 2017 (or whatever date LEI considers the OEB to have undertaken its last formal assessment of such risk)? If yes, please provide. If not, why not?

c) In preparation of its Report, did LEI undertake an assessment or form any opinions as to whether there has been a significant change in the business/financial risk faced by Enbridge since 2023 or EPCOR Natural Gas since 2006 (or whatever date LEI considers the OEB to have undertaken its last formal assessments of such risks associated with each utility)? If yes, please provide. If not, why not?

Response: Note that this interrogatory response has been prepared by LEI.

a) While Section 4.3 of the LEI report indicates that regulatory risk for electricity distributors has slightly decreased since 2006, a full assessment of business/financial risks (along with forward-looking cash flow modelling) required to assess the appropriateness of the existing equity thickness for electricity

distributors, OPG, EPCOR Natural Gas (and other OEB-regulated utilities) is outside the scope of this report.[5]

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

[5] Utility-specific business and financial risk analysis pertaining to appropriate equity thickness is outside LEI's scope of work for this proceeding.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-3-VECC-18

Interrogatory

Reference:

Exhibit M1, pages 63-70 and 74

Preamble:

At page 63, LEI identifies five major OEB regulatory/policy changes enacted since 2006 that affect electricity distributors and/or transmitters. These policies are then discussed individually on pages 64 to 70. At page 64, LEI states:

"While each of these represented new policies, in almost all cases the impact was to either reduce uncertainty, increase flexibility, or provide compensation for changes in risks."

At page 74, LEI states:

"With respect to the major OEB regulatory mechanisms introduced since 2006, LEI believes that they have generally reduced the risks for electricity distributors."

Question(s):

a) For each of the identified policies please provide LEI's assessment as to whether it: i) reduces uncertainty, ii) increases flexibility and/or provides compensation for changes in risk.

b) For each of the identified new polices please comment on whether LEI considers the policy as: i) reducing uncertainties that existed in 2006 (as opposed to addressing just new uncertainties) and/or ii) providing compensation for risks that existed in 2006 (as opposed to just addressing new risks).

c) It is noted that the list of policies enacted since 2006 that affect distributors does not include either: i) the Incremental Capital Module (ICM) introduced in the Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors issued in July 2008 or ii) the Advanced Capital Module (ACM) introduced in the Report of the Board - New Policy Options for the Funding of Capital Investments in September 2014. Does LEI consider these new regulatory mechanisms as impacting the business risk faced by electricity distribution utilities? if not, why not? If yes, why were these policies not included in LEI's assessment? If yes, do these policy changes serve to reduce uncertainty, increase flexibility, and/or provide compensation for changes in risks? If yes, does LEI consider these new policies as i) reducing uncertainties that existed in 2006 (as

opposed to addressing just new uncertainties) and/or ii) providing compensation for risks that existed in 2006 (as opposed to just addressing new risks).

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see indicative table below:

Policy	Reduce uncertainty	Increase flexibility
Electricity distributors' DVA review initiative	✓	✓
Renewed regulatory framework for electricity		✓
Rate design for electricity distributors	✓	
Rate design for commercial and industrial customers	✓	
Framework for energy innovation: distributed resources and utility incentives	✓	

b) The renewed regulatory framework for electricity and rate design changes reduces uncertainties that existed in 2006 as these policies replaced IRM and rate design that existed in 2006. "Framework for energy innovation: distributed resources and utility incentives" arguably relates to addressing new risks.

c) LEI considered selected major policy initiatives implemented since 2006. Further, ICM was also reiterated in the "Renewed Regulatory Framework for Electricity Distributors" report. LEI's view is that the ACM can be viewed as an extension of the OEB's RRFE report.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-3-VECC-19

Interrogatory

Reference:

Exhibit M1, pages 67-68

Question:

LEI makes the observation that changing rate design to increase the recovery of distribution cost via a fixed rate component, as compared to a volumetric charge, reduces volumetric risk. The Report also notes that predictability of cash flow is considered by utility debt rater agencies. What study has LEI done in order to understand the magnitude of the risk adjustment resulting from the actual electricity rate design changes to greater fixed rate recovery and the proposed changes of Enbridge Gas. Would the change in the proportion of distribution revenues recovered from fixed rates as compared to variable rates provide any insight as to the change in risk?

Response: Note that this interrogatory response has been prepared by LEI.

Fixed charges provide greater revenue certainty because the charges typically remain fixed for about a year, irrespective of the actual electricity usage. Greater revenue certainty reduces risk. Notably, the OEB also made similar conclusions in EB-2012-0410 (report dated April 2nd, 2015): *"Currently, a distributor's revenues vary depending on conservation, weather and economic activity. However, these factors have very little influence (in the short-term) on the costs a distributor pays. Under a fixed monthly charge, distributor revenues will be more stable and more predictable."*

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-3-VECC-20

Interrogatory

Reference:

Exhibit M1, pages 74 and 75

Preamble:

At page 74, LEI states:

"With respect to alternate ways of considering the risk factors, the OEB may adopt one of the three options below:

> 1. Status quo: The OEB considers regulatory risks whenever it assesses potential change in business/financial risks following an application from the utility/intervenors."

And

"As such, LEI recommends that any regulatory mechanism that can significantly impact the stability of future cash flows must be considered for review as part of regulatory risks."

At page 75, LEI states:

"LEI recommends impact assessments for major regulatory changes at the time of introduction i.e., before the changes goes into effect (similar to the UK example) in addition to the status quo. This will enable the OEB to proactively increase/decrease the deemed equity thickness if warranted following material regulatory changes. As such, LEI recommends reviewing business /financial risks for electricity distributors at the time of major regulatory changes and adjusting the allowed equity thickness accordingly based on the review's outcome."

Question(s):

a) Does LEI consider the regulatory policy changes enacted since 2006 as having a significant impact on the business or financial risks of electricity distributors and/or transmitters? If not, why not? If yes, how are these risks impacted (i.e., do the policies significantly increase or significantly decrease business and/or financial risk)?

b) Overall, in LEI's view, have the business (including regulatory) risks and financial risks faced by electricity transmitters and distributors changed sufficiently since 2006 to warrant change in the capital structure (i.e., equity thickness) for either

electricity transmitters or distributors? If not, why not? If yes, what changes would LEI recommend and why?

c) Since 2006 have there been regulatory policy changes applicable to natural gas distributors that have significantly impacted EPCOR Natural Gas' business and/or financial risks? If yes, what are they? If yes, how are these risks impacted (i.e., do the policies significantly increase or significantly decrease business and/or financial risk)?

d) Overall, in LEI's view, have the business (including regulatory) risks and financial risks faced by EPCOR Natural Gas changed sufficiently since 2006 to warrant change in the capital structure (i.e., equity thickness) for EPCOR? If not, why not? If yes, what changes would LEI recommend and why?

e) Since 2017 have there been regulatory policy changes applicable to OPG that have significantly impacted its business and/or financial risk? If yes, what are they? If yes, how are these risks impacted (i.e., do the policies significantly increase or significantly decrease business and/or financial risk)?

f) Overall, in LEI's view, have the business (including regulatory) risks and financial risks faced by OPG changed sufficiently since 2017 to warrant change in the capital structure (i.e., equity thickness) for OPG? If not, why not? If yes, what changes would LEI recommend and why?

g) Since 2023 have there been regulatory policy changes applicable to Enbridge Gas that have significantly impacted its business and/or financial risk? If yes, what are they? If yes, how are these risks impacted (i.e., do the policies significantly increase or significantly decrease business and/or financial risk)?

h) Overall, in LEI's view, have the business (including regulatory) risks and financial risks faced by Enbridge Gas changed sufficiently since 2023 to warrant change in the capital structure (i.e., equity thickness) for OPG? If not, why not? If yes, what changes would LEI recommend and why?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-2-VECC-17 a).

b) Please see LEI answer in a) above.

c) Please see LEI answer in a) above.

d) Please see LEI answer in a) above.

e) Please see LEI answer in a) above.

f) Please see LEI answer in a) above.

g) Please see LEI answer in a) above.

h) Please see LEI answer in a) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-4-VECC-21

Interrogatory

Reference:

Exhibit M1, pages 77 and 79-83

Preamble:

At page 77, LEI states:

"For electricity distributors and electricity transmitters, the DSTDR is used to set short-term debt rates.

For natural gas distributors and OPG, the DSTDR is not used to set short-term debt rates. Short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization (the portion is generally small).7 In rate applications, natural gas distributors and OPG provide forecasts of short-term debt rates based on their actual debt portfolio."

At pages 79-80, LEI states:

"LEI has identified the following four alternatives for determining DSTDR:

1. CORRA as a reference rate plus spread determination based on a confidential survey of banks;
2. CORRA as a reference rate (similar to #1) plus spread determination based on a survey of regulated utilities;
3. Current 3-month CORRA futures rate plus spread determination based on #1; and
4. Average of 3-month CORRA futures rates for the next 12-month period plus spread determination based on #1."

At page 83, LEI states:

- ""For reference rate, LEI recommends considering the average of 3-month CORRA futures rates for the next 12-month period.
- The spread for a R1-low rated utility over CORRA to be determined from an annual confidential survey of banks (slightly modified from status quo vis-à-vis larger sample size of 6-10 banks and limited exclusion of outliers).
- DSTDR to be applied as a cap for all utilities."

Question(s):

a) Is LEI recommending that the DSTDR continue to be used to set the short-term rates for electricity distributors and transmitters and, if not, how will the short-term rates be set for these entities?

b) Is LEI recommending that for natural gas distributors and OPG the utilities forecasts of short-term debt rates based on their actual debt portfolio be used to set the short-term borrowing rates, subject to a cap equivalent to the DSTDR?

c) Based on recent data available please provide the following:

- The current value for CORRA,
- The current 3-month CORRA futures rate, and
- Average of 3-month CORRA futures rates for the next 12-month period.

d) Does LEI anticipate that the spread for a R1-low rated utility over CORRA will vary depending on the values of CORRA (all else being equal)? If not, why not? If yes, why is it appropriate to use the same spread for Alternatives 3 and 4 as established for Alternative 1?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI has recommended that the DSTDR be applied as a cap for all utilities (Section 4.5.2 of the LEI Report).

b) Yes.

c) As of August 13th, 2024: (i) the value of CORRA is 4.53%; (ii) the 3-month CORRA futures rate for September 2024 is 4.08%; and (iii) the average of 3-month CORRA futures rates for the next 12-month period is 3.48%.

d) The spread for an R1-low rated utility over CORRA is not likely to vary significantly depending on the values of CORRA, as there is less uncertainty concerning the reference CORRA due to shorter loan durations.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-4-VECC-22

Interrogatory

Reference:

Exhibit M1, page 77

Preamble:

At page 77, LEI states:

"Some regulators will exclude short-term debt with the view that it is temporary and will eventually be replaced with long-term capital."

Question:

Why is the above noted methodology that is used by some regulators not superior or at least equivalent to the Board's policy of providing a short-term debt component and associated cost rate in its deemed capital structure?

Response: Note that this interrogatory response has been prepared by LEI.

There is potential to observe variation between short-term and long-term rates. For example, the OEB approved DSTDR as 6.23% and DLTDR as 4.58% in October 2023. Distinguishing between long-term and short-term debt rates will likely result in more cost-reflective estimates.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-6-VECC-23

Interrogatory

Reference:

Exhibit M1, page 89

Preamble:

At page 89, LEI states:

"The 30-year maturity period considered for LCBF is similar to that of most long-term bonds issued by utilities in Ontario. LEI analyzed the current debt maturity profile for Enbridge Gas, OPG, Hydro One Limited, Toronto Hydro Corporation, Alectra Inc., and Hydro Ottawa Holding Inc. The average maturity period is ~21 years. As the GoC does not issue a 20-year bond, a 30-year GoC bond yield is the most appropriate indicator to consider for estimating the LCBF/risk-free rate.

The 30-year A-rated Utility Bond Yield Spread (utility series C29530Y published by Bloomberg) is also consistent with the senior debt rating of most OEB-regulated entities. However, Bloomberg has ceased updating the utility series (C29530Y) as of February 2024. LEI, in consultation with the OEB Staff, has identified Bloomberg's alternative BVCAUA30 BVLI Index. LEI compared the two indices over the May 2023-January 2024 period and found no meaningful difference between the two indices. As such, the switch to the BVCAUA30 BVLI Index does not impact the calculation of DLTDR and ROE under the current methodology."

Question(s):

a) It is noted that it is the larger electricity distribution utilities that LEI referenced for its analysis of the debt maturity period for utilities in Ontario. Has LEI analyzed the debt maturity period for smaller electricity distributors in Ontario? If yes, what were the results? If not, why not?

b) Given the average maturity period is 21 years, why wouldn't it be more appropriate to use the average of the 10-year GOC and 30-year GOC rates?

c) Please provide internet link for where Bloomberg's BVCAUA30 BVLI Index can be accessed.

d) What does Bloomberg's BVCAUA30 BVLI Index measure and how, in terms of definition, does it differ from Bloomberg's utility series (C29530Y)?

e) Does Bloomberg publish an index similar to the BVCAUA30 BVLI Index, but based on a 10 year period?

f) Please provide the comparative analysis performed by LEI with respect to the C29530Y index versus the BVCAUA30 BVLI Index which indicates that there was "no meaningful difference between the two indices".

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI took into account publicly available information. Further, the sample of six large utilities represents a significant portion of Ontario customers. Enbridge Gas represents 3.9 million customers in Ontario and has a market share of ~99.7% based on gas sales volumes. OPG's share of total generation output during calendar year 2023 was 54%. Hydro One Limited, Toronto Hydro Corporation, Alectra Inc., and Hydro Ottawa Holding Inc. collectively represent ~58% of the total electricity distribution customers in 2022.

b) LEI has recommended that the DLTDR be applied as a cap. Bonds with longer maturities generally have higher interest rate risk than similar bonds with shorter maturities.[6]

c) Bloomberg's BVCAUA30 BVLI Index is not publicly available. It requires a subscription to the Bloomberg Terminal.

d) Bloomberg's BVCAUA30 BVLI Index tracks the rate for 30 year A-rated utility bonds (similar to Bloomberg's utility series C29530Y).

e) Yes, Bloomberg publishes a BVCAUA10 BVLI Index.

f) Please see "Attachment - N-M1-6-VECC-23".

[6] U.S. Securities and Exchange Commission. Interest rate risk — When Interest rates Go up, Prices of Fixed-rate Bonds Fall. Accessed on August 11th, 2024.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-6-VECC-24

Interrogatory

Reference:

Exhibit M1, pages 89 and 92-93

Preamble:

At page 89, LEI states:

"The monthly Consensus Forecasts survey report (dated April 8th, 2024) provides 10-year GoC bond yield forecasts from the Economist Intelligence Unit, Economap, BMO Capital Markets, University of Toronto, Scotia Economics, CIBC Capital Markets, Institute for Fiscal Studies, Desjardins, Toronto Dominion Bank, Informetrica, Royal Bank of Canada, Conference Board of Canada, National Bank of Canada, Citigroup, and Oxford Economics."

At pages 92-93, LEI states:

"LEI recommends considering reputable publicly available sources for 30-year bond forecasts for LCBF/risk-free rate."

And

"Bloomberg's BVCAUA30 BVLI Index continues to be appropriate for considering the spread over LCBF for a 30-year A-rated utility, as there is no comparable publicly available index available for substitution (but 12-month trailing average, instead of one month)."

Question(s):

a) For which of the sources used by Consensus Forecasts is the forecast data for the 30-year LCBF/risk-free rate "publicly available" such that it could be used per LEI recommendation? Are these the sources LEI is recommending the OEB used for the 30-year bond forecasts for LCBF/risk-free rate? If not, which sources is LEI recommending be used? Please provide a revised version of Figure 26 that incorporates all of these sources.

b) Does LEI recommend simply using an average of the forecasts from all the recommended publicly available sources or should outliers (on both the high and low side) be excluded to avoid skewing the results?

c) Do the publicly available sources that LEI recommends be used for forecasts of the GoC 30-year bond yield also provide forecasts for US 30-year bond yields? If yes, please provide a revised version of Figure 26 that includes the forecasts for 2024 and 2025 for US Government 30-year bonds.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI checked all the sources considered by Consensus Forecasts and found that seven sources publish their forecasts in the public domain (to the best of LEI's knowledge). Forecasts from each of the seven sources are presented in Figure 26 of the LEI report.

b) Similar to the LEI recommendation for DSTDR, LEI recommends that the OEB may consider excluding outliers from the sample only if they are significantly different from their nearest quotes (for instance, if the outlier lies outside the range of 2 standard deviations from the mean).

c) The seven sources provided in Figure 26 of the LEI report also publish forecasts for the US 30-year bond yields. The sources listed in Figure 26 provide the source links for each forecast (included as hyperlinks).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-6-VECC-25

Interrogatory

Reference:

Exhibit M1, pages 84 and 93

Preamble:

At page 84, LEI sets out how the DLTDR is used in the case of electricity transmitters and distributors.

At page 93, LEI states:

"With respect to the application of DLTDR, LEI recommends the modified status quo approach with DLTDR as a cap but uniformly applicable for all utilities (not just electricity distribution and transmission utilities). All OEB-regulated entities reviewed have a similar senior debt credit rating, and there is no reason to only subject electricity distributors and transmitters to a cap."

Question(s):

a) Please outline LEI understanding as to whether or not, for electricity transmitters and distributors, the DLTDR is used as a cap in those situations where there is actual debt held by a non-affiliate and the debt is at a fixed rate and not callable.

b) Please clarify whether, in such situations, LEI is proposing that the DLTDR at the time of issuance be used as a cap for the applicable debt rate for all OEB-regulated utilities.

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-6-VECC-2.

b) For fixed-rate debt, LEI has recommended using the prevailing DLTDR (as a cap) during the year of issuance. Further, if the OEB revises the DLTDR methodology, LEI recommends that existing DLTDR policies be applied for fixed-rate debt issued before the effective date of the new methodology.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-8-VECC-26

Interrogatory

Reference:

Exhibit M1, page 93

Preamble:

At page 93, LEI states:

"The OEB currently does not consider transaction/financing costs associated with obtaining debt when determining the DLTDR/DSTDR. The utilities reviewed by LEI record the transaction costs as interest expense, amortizing them using the effective interest rate method over the term of the related debt instrument."

Question(s):

a) Please describe what LEI means by the "effective interest rate method".

b) Do all transmitters and distributors treat transaction/financing costs associated with obtaining debt as an interest expense and amortize them over the term of the debt instrument?

c) Do the interest rates referenced/requested by transmitters and distributors in their cost of service rate applications include the amortization of the transaction/financing costs associated with obtaining the related debt?

Response: Note that this interrogatory response has been prepared by LEI.

a) Under the "effective interest rate method", the transaction costs are amortized over the debt payment period.

b) The sample of utilities reviewed by LEI (Enbridge Inc., OPG, Hydro One, and Alectra Inc.) use the "effective interest rate method".

c) Yes.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-8-VECC-27

Interrogatory

Reference:

Exhibit M1, pages 95-96

Preamble:

At pages 95-96, LEI states:

"For instance, in EB-2022-0200 (Exhibit 5), Enbridge Gas has claimed account maintenance and admin fees (upfront fees paid to credit facility agent(s) and lenders) and standby fees (compensation charges for undrawn credit facility amounts) under financing charges."

Question:

Were any of the account maintenance & admin fees and standby fees claimed by Enbridge Gas related to long-term debt or just related to short-term debt?

Response: Note that this interrogatory response has been prepared by LEI.

The claimed fees are related to both short-term and long-term debt.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-8-VECC-28

Interrogatory

Reference:

Exhibit M1, page 96

Preamble:

At page 96, LEI states:

"Based on the reasons discussed in alternative #3 above (i.e., irregularity in frequency and amount of debt issuance), LEI believes that considering transaction costs as operating expenses is the most reasonable approach. Consistent with the principles outlined by LEI in Section 3.1, this approach is also fairer to consumers because there is less likelihood of higher cost allowances for utilities, i.e., more than the actual transaction costs incurred by utilities. As such, LEI believes that the benefits to consumers justify the transition away from the status-quo."

Question(s):

a) Please explain more fully why Alternative #3 means there is less likelihood of higher cost allowances for utilities than Alternative #1 (status quo), since Alternative #1 involves the amortization of the actual costs incurred.

b) Please explain why Alternative #3 is fairer from an intergenerational perspective.

Response: Note that this interrogatory response has been prepared by LEI.

a) The LEI Report indicates that Alternative #3 can be perceived to be a more cost-reflective alternative. For instance, the LEI Report (page 95) noted that *"[n]ot all transaction/financing charges are associated with debt issuance. For instance, in EB-2022-0200 (Exhibit 5), Enbridge Gas has claimed account maintenance and admin fees (upfront fees paid to credit facility agent(s) and lenders) and standby fees (compensation charges for undrawn credit facility amounts) under financing charges".* Nonetheless, LEI does not see a major issue with Alternative #1 (status quo), and believes that the prevailing "effective interest rate" method is also a reasonable approach.

b) Please see LEI response in a) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-6-VECC-29

Interrogatory

Reference:

Exhibit M1, page 89, Figure 24

Preamble:

At page 89, Figure 24 shows:

Figure 24. Summary of the jurisdictional review (long-term debt determination)

Jurisdiction	Approach to determining allowed cost of debt	Description
Australia	Formulaic	• Simple average of a benchmark debt portfolio with a credit rating of BBB+ for existing NSPs • On-the-day cost of debt as at end of December 2022 for new NSPs
California	Case by case	Based on actual or embedded costs of long-term debt
New York	Case by case	Based on actual or embedded costs of long-term debt
United Kingdom	Formulaic	• Indexation of the cost of debt allowance using the yield of the iBoxx GBP Utilities 10yr+ index • Addition of additional costs of borrowing and infrequent issuer premium • Calibration of the index • Deflation to CPIH real yields

Question:

LEI recommends the Board continue with its current methodology for DLTDR which uses an embedded cost of debt. While the calculation of the different methodologies are explained in detail no analysis is provided as to the merits of employing what appear to be two different regulatory philosophies – one using embedded (actual) debt and the other calculating a "debt cost proxy" via a formulaic approach. What are the advantages and disadvantages of these two methods and why is one method to be preferred over the other?

Response: Note that this interrogatory response has been prepared by LEI.

While the debt cost proxy approach sets a benchmark for utilities to meet, it also may or may not be fully reflective of market conditions. Ontario's hybrid approach allows for relatively small deviations between utilities while retaining the benchmark as a cap. Customers benefit when rates are lower than the cap. While LEI finds benchmark approaches to be a reasonable approach to setting the cost of debt, LEI does not see a compelling reason to move away from current practice.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-7-VECC-30

Interrogatory

Reference:

Exhibit M1, pages 90-101

Preamble:

LEI states:

"LEI recommends continuation of the status-quo approach (considering deemed capital structure regardless of the actual capital structure)."

Question(s):

a) Where a utility's actual long-term debt is less than that provided in its deemed capital structure, what is LEI's recommendation as to how the debt rate that should be calculated for the notional component of long-term?

b) If a utility's actual long-term debt is greater than the approved deemed structure how should the regulatory cost of long-term debt be calculated?

c) If actual long or medium debt is to be used to calculate the weighted cost of long-term debt at what point of divergence of actual to deemed capital structure become problematic. For example, smaller utilities may have very little debt and as such one or two issuances become the proxy for the entire deemed structure. Does setting debt based on actual debt that might represent less than 50% of the deemed structure remain reasonable? Conversely, if a utility is over leveraged as compared to the deemed structure what is the argument for allowing potentially high cost debt in the portfolio be allowed to be used in the calculation of the deemed amount?

d) Should any adjustment be made if using actual long-term debt rates if the actual debt is not long-term but rather of a medium term (e.g. 5-10 years)?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please refer to the 2016 OEB Staff Report in EB-2009-0084:

"Notional debt can be either positive (i.e. deemed debt is greater than actual debt) or negative (where deemed debt is less than actual debt). Since the factors which cause notional debt to arise are largely under the control of the utility, the OEB has determined in a number of cases that notional debt should attract the weighted average cost of actual long-term debt rate rather than the deemed long-term debt

rate issued by the OEB. An exception to this is where a utility is 100% equity financed and has no current debt or recent history of debt financing. In such a circumstance, the OEB has noted that the deemed long-term debt rate should apply as a ceiling."

LEI recommends that the status quo described above be retained.

b) Please see LEI response in a) above.

c) LEI does not see any issue in considering the actual embedded debt rate regardless of the debt portion in the capital structure, particularly because the rates are capped at DLTDR/DSTDR.

d) Please see LEI response in c) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-31

Interrogatory

Reference:

Exhibit M1, pages 102-103

Preamble:

LEI states:

"The ERP submitted by the above participants is shown in Figure 30 below. The OEB considered the low end of the ERP submitted by the participants."

Question:

With respect to Figure 30, for each of those instances where the values varied between low, medium and high, please explain what the basis for the low values was.

Response: Note that this interrogatory response has been prepared by LEI.

Figure 30 represents the summary of participant submissions for ERP provided by the OEB in EB-2009-0084 (report dated December 11th, 2009). LEI is not aware of the specific basis for each participant's low estimate of the ERP.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-32

Interrogatory

Reference:

Exhibit M1, page 103, Figure 31

Question:

Please confirm (or otherwise explain) that Dr. Vander Weide's calculated value for the LCBF adjustment factor was 0.55 (and not -0.55).

Response: Note that this interrogatory response has been prepared by LEI.

The LCBF adjustment factor was -0.55. The OEB notes the following in the 2009 report (emphasis added by LEI): *"Dr. Vander Weide determined that when the yield to maturity on long-term government bonds **increases** by 100 basis points, the allowed ERP tends to **decrease** by approximately 55 basis points, and when the yield to maturity on long-term government bonds decreases by 100 basis points, the allowed ERP tends to increase by approximately 55 basis points."*

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-33

Interrogatory

Reference:

Exhibit M1, pages 105-108

Preamble:

At page 107, LEI states:

"The AUC considered results generated from the three models and determined the forecast ERP to be 5.9% and the resulting base ROE to be 9.0%."

Question(s):

a) For purposes of applying the formula in Figure 33 what is the base year?

b) If the base year is not 2024, what was the ROE approved by the AUC for 2024?

Response: Note that this interrogatory response has been prepared by LEI.

a) In its ROE adjustment formula, the AUC determined the base ROE to be 9%, the base LCBF to be 3.1%, and the base utility bond yield spread to be 1.58%. Using the approved ROE formula shown in Figure 30 of the LEI report, the AUC determined the 2024 ROE as 9.28%. This implies a base year of 2023.

b) Please see the LEI response in a) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-34

Interrogatory

Reference:

Exhibit M1, pages 110-112

Question:

What is the currently approved ROE and equity thickness for each of FEI and FBC?

Response: Note that this interrogatory response has been prepared by LEI.

The allowed equity thickness is 45% and 41% for FEI and FBC, respectively.[7] The allowed ROE is 9.65%.

[7] FortisBC. FortisBC receives cost of capital decision from the BC Utilities Commission. September 5th, 2023

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-35

Interrogatory

Reference:

Exhibit M1, page 110

Preamble:

At page 110, LEI states:

"The BCUC uses a benchmark methodology where it designates a Benchmark Utility and sets the cost of capital parameters of the Benchmark Utility, and then uses the Benchmark Utility as a reference to set the cost of capital parameters of other regulated utilities by adjusting various risk factors. FortisBC Energy Inc. ("FEI") has been selected as the Benchmark Utility for natural gas utilities, while FortisBC Inc. ("FBC") has been selected as the Benchmark Utility for electric utilities."

Question(s):

a) What are the various risk factors employed in BCUC' Benchmark Utility methodology which are used to adjust cost of capital parameters for the non-FEI utilities? How are these risk factors employed with respect to adjustments to capital structure and return on equity.

b) Why would a benchmark approach not be preferable in Ontario where the Board regulates various types of utilities both in function (natural gas, electricity transmission and distribution, and electricity production) and in size (some of the smallest utilities in Canada and the largest)?

Response: Note that this interrogatory response has been prepared by LEI.

a) In Decision G-6-24, the BCUC determined that *"FEI will be the Benchmark Utility for all types of utilities"* and FBC's approved capital structure and ROE will be used as an additional data point such that *"utilities should perform their Stage 2 analysis in relation to FEI as the Benchmark Utility, but they should also consider how their proposals in Stage 2 relate to the FBC earned return values as determined by the BCUC in the GCOC Stage 1 Decision."*

   BCUC considers the same risk factors as FEI to determine the capital structure and return on equity for a non-FEI utility. In Decision G-6-24, the BCUC stated that the focus would be on *"business risks as opposed to financial models"*. Specifically, the business risks are business profile, economic conditions, political, indigenous rights and engagement, energy price, demand/market, energy supply,

operating, and regulatory risks. A non-FEI utility analyzes its risks in relation to FEI, using FBC as an additional data point, and then proposes its capital structure and equity ratio.

It is notable that BCUC regulates a smaller number of utilities relative to Ontario.

b) Please see Sections 4.12.4 and 4.13.4 of the LEI Report.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-36

Interrogatory

Reference:

Exhibit M1, pages 113-114

Preamble:

LEI describes Alternative #1 for the ROE methodology as follows:

"Status quo with updated values for base ROE (using ERP approach), base LCBF, base utility bond spreads, and adjustment factors based on current data."

And

"The base LCBF using March 2024 data is 3.15%. As such, the base ROE is 8.65% (3.15% + 5.50%) using the existing methodology."

Question(s):

a) With respect to Figure 36, how was the average bond yield value calculated for each of the two periods: i) 2001-2024 and ii) 2010-2024 and is it just coincidence that the values are the same (i.e., 3.37%)?

b) In EB-2009-0084 did Dr. Vander Weide use historical premiums observed between 30-year GoC bond yields and both: i) returns from the S&P/TSX composite index (total returns, including dividend returns) and ii) from the BMO equal weight utilities index ETF to determine the base ROE for the ERP approach?

c) With respect to Figure 36, please provide a revised version with two additional rows: i) Use the S&P/TSX composite (total return) index results for the period 2010 to 2024 and ii) Use the BMO equal weight utilities index ETF results for the period 2001-2024. Note: If the BMO equal weight utilities index ETF does not have values back to 2001, please provide two rows where: i) the first provides the BMO equal weight utilities index ETF results from its starting year to 2024 and ii) second provides the S&P/TSX composite (total return) index results based on the same period.

d) Is 2024 the "base year" for the calculated base ROE of 8.65%? If not why not and what is the associated base year?

e) With respect to Alternative #1, please set out the formula that would be used to calculate the ROE in future years.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI inadvertently considered average bond yields as 3.37% for both periods. The corrected calculations are provided below:

Comparable group	Period of study	Average stock return	Average bond yield	ERP
S&P/TSX utilities	2001-2024	6.77%	3.37%	3.40%
BMO utilities	2010-2024	10.98%	2.50%	8.48%
Average				**5.94%**

b) Dr. Weide used the historical data on ROEs in S&P/TSX utilities stock index with the period of study between 1956 – 2008 and a basket of Canadian utility stocks created by the BMO CM with the period of study between 1983 – 2008.[8]

c) The BMO equal-weight utilities index ETF was launched on January 20th, 2010, with an average return of 10.98% as of May 14th, 2024. Therefore, LEI added a row showing the average return of the S&P/TSX composite (total return) index from January 20th, 2010, to May 14th, 2024. The resulting average ERP is 5.1%.

Comparable group	Period of study	Average stock return	Average bond yield	ERP
S&P/TSX utilities	2001-2024	6.77%	3.37%	3.40%
S&P/TSX utilities	2010-2024	5.91%	2.50%	3.41%
BMO utilities	2010-2024	10.98%	2.50%	8.48%
Average				**5.10%**

d) 2024 is the "base year" for the calculated base ROE of 9.09% (updated after accounting for the change discussed in a)).

e) ROE_t =9.09% + 0.39 x ($LCBF_t$ - 3.15%) + 0.33 x ($UtilBondSpread_t$ – 1.385%)

[8] Union Gas Inc. Appendix A to response to questions raised as issues for discussion at stakeholder conference. September 8th, 2009.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-37

Interrogatory

Reference:

Exhibit M1, pages 113-115
Exhibit M2, pages 46-48

Preamble:

LEI describes Alternative #2 for the ROE methodology as follows:

"Same as #1 but determining base ROE with the discounted cash flow ("DCF") approach instead of the ERP approach".

At pages 114-115 the LEI Report describes how the peer companies were chosen for purpose of the DCF approach.

At pages 46-48 the Concentric Evidence sets out it proposed Canadian proxy group, US electric proxy group and US gas proxy group.

Question(s):

a) While not mentioned on page 114, was one of the selection criteria used by LEI a requirement that the company be paying dividends?

b) Please explain why LEI's selection criteria did not include the requirement (similar to that used by the BCUC per page 110) that the company have an investment grade credit rating?

c) For each of the utilities included in Concentric's Canadian proxy group and which was not included in either LEI's generation, wires or gas distribution proxy groups (i.e., Canadian Utilities, Emera and Fortis), please explain why.

d) For each of the utilities included in Concentric's US electric proxy group and which was not included in either LEI's generation or wires proxy groups, please explain why.

Response: Note that this interrogatory response has been prepared by LEI.

a) No, paying dividends was not one of the criteria used by LEI. LEI believes that restricting the sample to those entities paying dividends artificially reduces the sample size, and may lead to a less accurate portrayal of industry dynamics.

b) The shortlisted peer companies for electricity transmission/distribution and natural gas distribution have investment-grade credit ratings. However, four shortlisted generation companies (Vistra, TransAlta, NRG and Clearway) have credit ratings one or two notches below investment grade (as rated by S&P Global).

   Maintaining an investment-grade credit rating is less common for the generation business. As it is important to reflect the underlying requirements of each sector, having investment-grade credit rating as a strict criteria can artificially reduce the sample size.

c) LEI focused on pure-play transmission and generation companies because this more accurately reflects Ontario conditions. LEI believes its approach provides a more realistic depiction of Ontario's risk profile. Many of the peer companies in Concentric's sample are vertically integrated. However, LEI also tested the beta using only publicly traded vertically integrated companies as an alternative. Please refer to footnote 310 (page 119) of the LEI report: *"For comparison, LEI reviewed the average levered 1-year and 3-year betas for 39 publicly traded North American utilities (companies included in LEI peer groups were not considered for this analysis). As of May 2024, the average levered 1-year beta and 3-year beta is 0.50. Source: S&P Capital IQ."*

d) Please see LEI response in c) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-38

Interrogatory

Reference:

Exhibit M1, page 115
Exhibit M2, page 58
Exhibit M3, page 69

Preamble:

The NEXUS Report sets out the formula for calculating the DCF ROE as:

$k_e=d_0(1+g)/P+g$

In contrast, instead of $k_e=d_0(1+g)/P+g$, the Concentric Report uses the following as the dividend yield component in the formula:

$Y = D_0(1+0.5g)/P_0$

Question(s):

a) With respect to Figure 37, please explain more fully how the Dividend Yield (Apr 2023 - Mar 2024) value for each company was determined (i.e., how was the annual dividend value calculated over the April 2023 – March 2024 period and why this approach was used) and how the stock price used in the denominator was determined (e.g., over what period was it averaged and why this period was selected)?

b) With respect to Figure 37, please provide the actual equity thickness for each of the companies listed and the resulting average equity thickness for each of the three groupings.

c) Please provide the formula used by LEI to calculate the DCF ROE using: i) the Dividend Yield and ii) the 2024-2026 annual EPS growth estimate. To the extent LEI approach differs from that used by NEXUS or Concentric, please explain why the approach used by LEI is appropriate.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI obtained the dividend yield figures directly from S&P Capital IQ. These were not calculated by LEI. LEI used the April 2023 – March 2024 period as it was the latest 12-month period based on completed quarters.

b) LEI has already provided the average debt/equity ("D/E") ratios (2021 to 2023) for each company in Figure 37. The equity thickness can be derived using the formula: 1/(1+D/E ratio).

c) LEI has summed up the expected dividend yield and the EPS growth yield to arrive at the DCF ROE estimate, which is similar to the approach used by Concentric and Nexus.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-39

Interrogatory

Reference:

Exhibit M1, pages 111 and 115-116

Question(s):

a) At page 111 the Report indicates that there are various sources for the dividend growth rates. What was the basis for the growth rates used by LEI in Figure 37 and why?

b) At page 111 the Report makes reference to the three-stage DCF model. For purposes of calculating the DCF ROEs for each company (Figure 37), did LEI use a three-stage DCF model? Alternatively, was a single stage or two-stage DCF model used? If a single-stage DCF model was used, please provide LEI's rationale for adopting this approach. If a two or three-stage DCF model was used please indicate the length of time assumed for each stage and the basis for the growth rates used in each stage.

c) At page 116 the Report states: "This approach resulted in a weighted average DCF ROE of 10.77% (as presented in Figure 38 below)." Is 2024 the base/reference year for the calculated DCF ROE of 10.77%? If not, why not and what is the associated base/reference year?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI obtained the dividend yields from S&P Capital IQ. As forecasts are based on the actual dividend yield from April 2023 to March 2024, a single reputable source was deemed sufficient.

b) LEI used a single-stage DCF approach. LEI does not perceive DCF methodology to be a preferred approach to estimating ROE (for reasons provided in Section 4.10 of the LEI Report and LEI's response to IR #N-M1-0-SEC-3). As such, LEI did not see a need to test multiple variations of the DCF methodology.

c) LEI understands that the base ROE determined in this proceeding (with updated data as of September 2024) will be used as an input to update the authorized ROE annually for the years 2025-2029.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-40

Interrogatory

Reference:

Exhibit M1, page 116

Preamble:

At page 116, LEI states:

"Considering the two variables simultaneously (the weighted average ROEs allowed by US regulators for electric and gas utilities as the dependent variable; 30-year GoC government bond yields and Moody's seasoned Baa corporate bond yields as independent variables) using multivariate regression analysis lowers the adjustment factors for each variable, i.e., 0.26 for the LCBF adjustment factor and 0.13 for the utility bond spread adjustment factor."

At page 118 (Figure 69), LEI provides the actual regression results and lists US 30-year Treasury bonds as one of the independent variables.

Question(s):

a) At page 116 the Report indicates that 30-year GoC government bond yields were used as one of the independent variables. However, in Figure 69, the independent variable is indicated to be US 30-year Treasury bonds. Please reconcile and indicate which government's bonds were used in the regression analysis.

b) Using LEI's regression equation, the current Moody's seasoned Baa corporate bond yields and the current yields for the appropriate government's 30-year bond what is the resulting ROE?

c) If US 30-year Treasury bonds were used as the independent variable, please re-estimate the equation using 30-year GoC government bond yields instead and provide the results. Using this revised equation, the current Moody's seasoned Baa corporate bond yields and the current 30-year GoC government bond yields, what is the resulting ROE?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI performed regression analyses using US data to determine the adjustment factors of LCBF and A-rated utility bond yields. The reference to 30-year GoC government bond yields on page 116 of the LEI report is a typographical error.

b) The purpose of this regression analysis was to determine the appropriate adjustment factors, not estimating ROE.

c) Please see the answer in b) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-41

Interrogatory

Reference:

Exhibit M1, pages 111, 113 and 117-119
Exhibit M2, pages 66 and 83

Preamble:

At page 113, LEI describes Alternative #4 for the ROE methodology as follows:

"Determination of base ROE using CAPM and adjustment of ROE using CAPM formula parameters".

At page 66, Concentric states:

"LEI's CAPM analysis relies on raw, unadjusted betas calculated using daily return data for the past five years. LEI then adjusts these betas for differences in financial leverage between Ontario's utilities and the companies in LEI's various proxy groups. We do not agree with LEI's approach to beta, and in particular the use of raw betas, as discussed below in our response to LEI."

And at page 83, Concentric states:

"With regard to beta, Concentric believes it is appropriate and consistent with empirical financial research to use Blume adjusted betas rather than raw betas for the reasons discussed earlier in our Report."

Question(s):

a) At page 111 the Report makes reference to average Blume-adjusted beta estimates from Value Line and Bloomberg using five years of data. Please confirm that, per Concentric's Report, LEI did not use Blume adjusted beta estimates. If confirm, please explain why LEI considers it appropriate to use raw, unadjusted betas versus Blume adjusted betas for purposes of the CAPM.

b) Please explain more fully why it is necessary to re-lever the betas.

c) Please provide a sample calculation illustrating how the raw betas are un-levered and then re-levered.

d) Please provide revised versions of Figures 40 and 41 based on the un-levered betas.

e) For purposes of its ROE analysis based on CAPM LEI relies on the re-levered 5-yr betas (Figure 40). However, the relative 5-year betas for electricity transmission/distribution and generation (0.67 and 0.64 respectively) suggest that electricity transmission/distribution requires a higher adjustment for risk than generation. Is this result, consistent with LEI's understanding as to the relative business and financial risks faced by electricity generation vs. electricity transmission/distribution? If not, why is it appropriate to rely on the 5-year betas?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI did not use Blume Adjustment as it inflates the beta estimates. The detailed reasoning is provided in LEI's response to IR #N-M1-0-SEC-3.

b) Un-levering beta removes the impact of a peer company's debt, theoretically isolating the business risk from financial risk. This gives a clearer picture of the inherent risk of the company's operations and allows for a fairer comparison between companies with different capital structures. Re-levering beta adjusts the un-levered beta to reflect the company's actual or target capital structure.

c) For peer companies, the raw beta is unlevered using the following formula: unlevered beta = levered beta ÷ [1 + (1 – tax rate) * (debt ÷ equity)]. For the calculations, LEI has used peer companies' average debt and equity for the last three years. Tax rate assumptions are based on the prevailing corporate tax rates in jurisdictions where the peer companies are headquartered.

   The average of unlevered betas is re-levered using the following formula: levered beta = unlevered beta × [1 + (1 – tax rate) × (debt ÷ equity)]. For the calculations, tax rate, debt, and equity inputs are for Ontario utilities.

d) Using un-levered betas to estimate the CAPM ROE is methodologically incorrect.

e) LEI generally expects electricity generation to have a slightly higher beta than electricity distribution/transmission if operating in a competitive wholesale market on a merchant basis. However, many generation companies have a significant proportion of their output under long term contracts. Generally, using a longer time horizon (5-year data) is more appropriate as it reduces the impact of short term market fluctuations. Further, results from data analysis should not be excluded just because they differ from expectations.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-42

Interrogatory

Reference:

Exhibit M1, pages 115 and 118

Question(s):

a) Please explain why Figure 39 (which derives the beta values for electricity generation, wires (electricity transmission/distribution) and gas transmission/distribution for purposes of the CAPM) includes as peers, companies that are not used as peers in Figure 37 (for purposes of the DCF model).

b) Please re-do Figures 39, 40 and 41 using only those companies included in Figure 37 for purposes of determining the beta values.

Response: Note that this interrogatory response has been prepared by LEI.

a) The reasoning for excluding some peer companies is provided as a note in Figure 37. The note is reproduced here for reference: *"LEI has excluded some outlier companies from the generation peer group due to very high or very low 2024-2026 annual EPS growth estimates that resulted in implausible estimates of DCF ROE for the generation peer group. The excluded companies include Brookfield Renewable Corporation, Clearway Energy, Inc., Innergex Renewable Energy Inc., Northland Power Inc., and TransAlta Corporation. Others, such as Talen Energy, lacked sufficient historical data."*

b) Please see LEI response in a).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-43

Interrogatory

Reference:

Exhibit M1, pages 119-122

Preamble:

At page 119, LEI states:

"For reasons provided in Section 4.7.2, LEI recommends considering publicly available reputable sources (such as average forecasts from major Canadian banks) for 30-year bond forecasts for LCBF/risk-free rate. As presented earlier in Figure 26, this approach results in the average forecast yield for 2025 to be 3.19%".

At page 122, LEI states:

"Under this approach, the OEB may update the risk-free rate/LCBF annually. However, the beta and MRP are more stable and can be updated after five years. For instance, the US MRP recommended by Kroll (formerly Duff & Phelps) has ranged between 5% and 6% since 2008 (Kroll has updated the recommended MRP 33 times during this period).

Alternatively, the OEB can update the LCBF and ERP annually, using the same beta for five years."

Question(s):

a) Please provide the forecast LCBF yield for 2024 based on actuals for Q1 and the forecasts for Q2 – Q4.

b) Please confirm that the CAPM ROE values set out in Figure 41 are for a base year of 2025. If not confirmed, please explain why given the risk free rate (3.19%) is based on a LCBF for 2025.

c) With respect to Figure 41, please provide the results for a seventh option where the MRP is calculated as "1928-2023 S&P 500 total returns - US 30-year treasury bond yields".

d) With respect to the alternatives set out on page 122 for setting the ROE for subsequent years, under the second alternative (last sentence in referenced quote) would the value for the MRP be updated annually? If so, would the most recent 10-year, 20-year and 30-year US MRP values be calculated and then averaged?

Response: Note that this interrogatory response has been prepared by LEI.

a) 3.40%.

b) LEI understands that the base ROE, base LCBF, and base utility bond spreads determined in this proceeding (with updated data as of September 2024) will be used as inputs to update the authorized ROE annually for the years 2025-2029.

c) LEI does not have the data for US 30-year bond yields before 1977.

d) The value for MRP would not be updated annually in LEI's recommendation.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-44

Interrogatory

Reference:

Exhibit M1, pages 122-123

Preamble:

LEI describes Alternative #5 as follows:

"Determination of base ROE using CAPM, with ROE updated annually using adjustment factors determined in #3."

"Using the base LCBF of 3.19% (see Figure 41) and the base utility bond spread determined as of March 2024 (see Figure 44 below), the Annual ROE formula (for year "t") will be as follows:

$ROE_t = 8.95\% + 0.26 \times (LCBF_t - 3.19\%) + 0.13 \times (UtilBondSpread_t - 1.385\%)$".

Question(s):

a) What is the assumed base year for the formulae?

b) All of the values used in the formulae do not appear to reflect the same base year" as: i) the 8.95% and the 3.19% are based on 2025 whereas ii) the UtilBondSpread is based on 2024 data. Please reconcile.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI understands that the base ROE, base LCBF, and base utility bond spreads determined in this proceeding (with updated data as of September 2024) will be used as inputs to update the authorized ROE annually for the years 2025-2029. This implies a base year of 2024.

b) To the best of LEI's knowledge, there are no 2025 forecasts available for utility bond spreads. As such, the utility bond spread is estimated based on recently available 2024 data (LEI recommends updating this as of September 2024).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-45

Interrogatory

Reference:

Exhibit M1, pages 123-124

Preamble:

LEI describes Alternative #6 as follows:

“Determination of an average base ROE from CAPM, ERP and DCF methodologies, with annual updating of ROE based on #3”

And

“This results in a base ROE of 9.46%, which is an average of 8.95% (CAPM approach), 10.77% (DCF approach), and 8.65% (ERP approach). The ROE can be updated annually based on the formula described in alternative #5.”

Question:

All of the values referenced from page 124 do not appear to reflect the same base year as: i) the ERP result (8.65%) and the DCF result (10.77%) both appear to use 2024 as the base year (per pages 113 and 115 respectively) while ii) the CAPM result (8.95%) appears to use 2025 as the base year (per page 119). Please reconcile.

Response: Note that this interrogatory response has been prepared by LEI.

Please see the LEI response in IR #N-M1-10-VECC-44.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-46

Interrogatory

Reference:

Exhibit M1, pages 125-127

Preamble:

LEI states:

"LEI recommends using CAPM to determine the base ROE (average estimate of 8.95%, low estimate of 8.23%, and a high estimate of 10.22%), as it meets the FRS.

The ROE can be updated annually using the adjustment factors (0.26 for LCBF and 0.13 for utility bond spread) determined simultaneously with multivariate regression analysis (as opposed to independent determination in 2009)."

Question:

For purposes of applying the annual adjustment is the base year associated with LEI's recommended 8.95% 2024 or 2025?

Response: Note that this interrogatory response has been prepared by LEI.

Please see the LEI response in IR #N-M1-10-VECC-44 a).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-12-VECC-47

Interrogatory

Reference:

Exhibit M1, pages 135-136

Preamble:

At page 135, LEI states:

"The AUC is required to determine a fair return on the deemed equity component of invested capital (i.e. the deemed equity ratio) to satisfy the FRS. It adjusts deemed equity ratios to recognize risk differentials among utilities that have a uniform approved ROE."

Question:

What is the current range of deemed equity for those utilities regulated by the AUC in each of the following categories: i) electricity generation; ii) wires (electricity transmission/distribution) and iii) gas transmission/distribution?

Response: Note that this interrogatory response has been prepared by LEI.

The equity ratio is 37% for all utilities except for Apex Utilities Inc., (39%) which is a gas and electric distribution company.[9] AUC does not regulate returns or capital structure for generation, as these are set by the market.

[9] AUC. Rate of return. Accessed August 15th, 2024.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-12-VECC-48

Interrogatory

Reference:

Exhibit M1, page 134

Question(s):

a) Is LEI recommending both “unique” financial and business risk be considered in adjusting capital structures for individual utilities?

b) What business risks and financial risks which should be considered in adjusting capital structure and that are not already captured in the methodology that establishes the return on equity or are incorporated in the debt costs incurred?

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes.

b) Please see LEI response in IR #N-M1-2-VECC-14.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-12-VECC-49

Interrogatory

Reference:

Exhibit M1, page 138, Figure 50

Preamble:

At page 138, Figure 50 shows:

Figure 50. Deemed capital structure allowed to electricity distributors in Ontario from 1999 to 2006

Rate base	Deemed capital structure		Deemed debt rate
	Debt	Equity	
> $1.0 billion	65%	35%	5.8%
$250 million - $1.0 billion	60%	40%	5.9%
$100 million - $250 million	55%	45%	6.0%
< $100 million	50%	50%	6.25%

Source: OEB. Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. December 20th, 2006. Page 4.

Question(s):

a) Does LEI agree that a utility's rate base or customer size could affect business or financial risk?

b) Does LEI believe that utility size (by number of customers or rate base) may affect a utility's cost of debt?

c) If an electricity or natural gas distributor is heavily reliant upon a very small number of large customers (as may occur in rural towns) how should this be addressed in either the setting of equity returns or capital structure (or at all)?

d) LEI notes that the Board moved away from variation of capital structure for electric distributors in order to encourage (or at least not discourage) utility consolidation. Why is this not a violation of the principle articulated by LEI that utility ownership should not influence cost of capital determination?

e) Why is it not a violation of the fair return standard if the regulator acknowledges a difference in risk among utilities but then ignores that difference in order to achieve a different policy outcome?

f) What jurisdiction and legislative authority does the Ontario Energy Board rely upon which would allow it to prioritize utility consolidation over the fair return standard?

g) The Board regulates a small gas utility (EPCOR). Given the Board's stated policy on consolidation was generally in respect to electricity distributors should the OEB consider varying capital structure adjustment for small gas utilities?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI has explored these questions in detail in Section 4.12.4 and Section 4.13.4 of the LEI Report.

b) Please see the response in a) above.

c) Please see the response in a) above.

d) LEI understands that the OEB recommendations for consolidation are uniformly applicable for utilities of all ownership structures.

e) LEI does not believe encouraging utility consolidation violates the FRS. All Ontario utilities retain the option to pursue consolidation if size is a constraint.

f) Please see LEI response in e) above.

g) The OEB may consider the suggested implications if there is an equity thickness application by EPCOR or other participants.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-12-VECC-50

Interrogatory

Reference:

Exhibit M1, pages 138-140

Preamble:

At pages 138-139, LEI states:

"LEI believes the OEB's status quo approach, with one modification, is sound, administratively efficient, and meets the FRS. Alternative #2 (setting capital structure using rating agency benchmarks) has merits, but the benefits from changing the status quo approach are not material. However, the OEB should mandate forward-looking cash flow analysis with scenarios for utilities (or participants) within the status quo approach (as part of financial risk analysis) when requesting a change in equity thickness."

And at page 140, LEI states:

"LEI recommendation - Issue 12

- The OEB's current approach of revising the capital structure upon application if warranted due to increase in business/financial risks is a reasonable practice, as OEB has noted that risks rarely change meaningfully in a short period of time.
- LEI believes that the existing approach meets the FRS.
- Applicants should be required to include forward cash flow modeling and scenario analysis showing impact on credit metrics to support their case."

Question(s):

a) Please confirm that the "one modification" recommended by LEI is that "the OEB should mandate forward-looking cash flow analysis with scenarios for utilities (or participants) within the status quo approach (as part of financial risk analysis) when requesting a change in equity thickness."

b) If confirmed, how far forward (i.e., number of years) should the cash flow analysis look?

c) In assessing a utility's forward-looking cash flow analysis how should the OEB assess the reasonableness/appropriateness of future forecasts for O&M expense and capital expenditures?

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes, confirmed.

b) At least five years, covering the period of rate application.

c) The OEB already assesses the reasonableness of O&M expense and capital expenditures when approving the base year revenue requirement. The OEB can verify if the cash flow forecasts are consistent with its assessment.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-14-VECC-51

Interrogatory

Reference:

Exhibit M1, page 144

Preamble:

At page 144, LEI states:

"Transmitters (big and small) cannot diversify customer risk or economic risk but are likely insulated from volume risk based on their tariff structure."

Question:

Please explain why LEI considers that transmitters are "likely insulated from volume risk based on their tariff structure."

Response: Note that this interrogatory response has been prepared by LEI.

Transmission tariffs are designed to recover a transmission utility's complete anticipated revenue requirement.[10] The OEB structures the transmission tariff to be recovered on a $/kW/Month basis. Although the actual kW demand may vary slightly from the forecasted kW demand, *existing variance accounts will be used to track differences between a distributor's transmission costs and the associated revenues it receives from its customers, in order to ensure that its customers pay the true cost of transmission service over time*.[11]

[10] OEB. EB-2024-0183. 2024 Uniform Transmission Rates Update. June 27th, 2024.

[11] Ibid.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-14-VECC-52

Interrogatory

Reference:

Exhibit M1, pages 144-145

Preamble:

LEI states:

"LEI has been retained by the OEB to prepare these quarterly reports since 2019. These quarterly reports comprise of two key analytical components:

- first, the quarterly reports use updated data to recalculate the cost of capital parameters, which are then compared to the values published as part of the OEB's annual cost of capital updates; and
- simultaneously, the quarterly reports incorporate a review of the current macroeconomic outlook on a global, North American, and provincial scale, including key macroeconomic developments that have unfolded in the previous quarter."

Question(s):

a) Do the quarterly reports incorporate a review of recent changes in federal policy and/or legislation or OEB policies/procedures that would impact the business/financial risks faced by OEB-regulated utilities?

b) In LEI's view should such changes be considered in the OEB's ongoing monitoring of the cost of capital parameters/values? If not, why not?

Response: Note that this interrogatory response has been prepared by LEI.

a) While the quarterly reports cover any relevant changes to federal policy and/or legislation, the focus of the quarterly reports is to provide updates on relevant macroeconomic developments and whether the OEB cost of capital parameters (updated quarterly for internal purposes) remain appropriate considering the macroeconomic developments.

b) In Section 4.3.4 of the LEI Report, LEI has recommended impact assessments for major regulatory changes at the time of introduction, i.e., before the changes go into effect.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-15-VECC-53

Interrogatory

Reference:

Exhibit M1, page 148

Preamble:

At page 148, LEI states:

"Ongoing monitoring of the cost of capital parameters enables the OEB to ensure the FRS continues to be met. It is also simple to administer – even though monitoring takes place fairly frequently (each quarter), the quarterly reports need only be prepared for internal review purposes. Finally, continuing with the status quo provides confidence to all stakeholders regarding the durability of the monitoring approach."

And

"LEI recommendations – Issue 14

Consistent with the OEB's existing policy, OEB staff should continue to monitor the cost of capital parameters and test their reasonableness in the context of prevailing macroeconomic conditions on a quarterly basis, through reports prepared for internal review purposes only."

Question(s):

a) Does LEI consider it important that stakeholders have confidence in the OEB's monitoring processes and its responsiveness to changes identified through such monitoring? If not, why not?

b) If yes, please explain how only reporting the results internally provides all stakeholders with confidence regarding the effectiveness of the OEB's monitoring.

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes

b) While LEI does not oppose public reporting, LEI would provide the analogy of a security guard in a downtown office tower. Tenants do not need to stand behind the security guard and monitor video footage to know that the building is being monitored. LEI notes that public reporting may increase regulatory burden, and be less efficient if it constrains the topics to be reviewed and the way in which they

are discussed, as well as the increase in internal approvals that would be required before material is released publicly.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-15-VECC-54

Interrogatory

Reference:

Exhibit M1, pages 148 and 151

Preamble:

At page 148, LEI states:

"As described by the OEB, "each time a formulaic approach is used to calculate an allowed ROE, it must generate a number that meets the Fair Return Standard, as determined by the OEB using its experience and informed judgment." For example, as part of the 2024 annual cost of capital update letter, the OEB determined that the formula-generated "cost of capital parameter values … and the relationships between them, [are] reasonable and representative of market conditions at this time. For this reason, the OEB concludes that the numerical results from the formulaic methodologies meet the Fair Return Standard."

And at page 151, LEI states:

"LEI recommendations – Issue 15

The OEB should continue to annually confirm that the FRS is being met, as it currently does through its cost of capital update letters. In addition, the OEB should direct utilities, as part of the annual reporting requirements, to provide credit ratings and details regarding new short-term and long-term debt and equity issued/borrowed during the year. The OEB can use this information to monitor the credit ratings and pace of capital injections for the regulated utilities on an ongoing basis, as a further test of whether the FRS continues to be met."

Question:

In LEI's view is it sufficient, for purposes of maintaining stakeholder confidence in the process, for the OEB to simply state/confirm in its annual cost of capital update letter that it has determined that the formula-generated "cost of capital parameter values … and the relationships between them, [are] reasonable and representative of market conditions at this time" or should it provide details supporting such assessments?

Response: Note that this interrogatory response has been prepared by LEI.

It is sufficient as long as OEB is undertaking regular assessments of the appropriateness of the cost of capital parameters.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-15-VECC-55

Interrogatory

Reference:

Exhibit M1, pages 153 and 158

Preamble:

At page 153, LEI states:

"The OEB's 2009 decision established the process of periodically reviewing the cost of capital policy every five years. This five-year interval was found to "provide an appropriate balance between the need to ensure that the formula-generated return on equity continues to meet the Fair Return Standard and the objective of maintaining regulatory efficiency and transparency." Following the 2009 decision, the OEB subsequently commenced a review on schedule in 2014. This review culminated in a 2016 report by OEB Staff, which concluded that the cost of capital methodology continued to "work as intended", such that "movement in the parameters [had] followed macroeconomic trends and activity, and [had] not resulted in excessive or anomalous volatility." Since the 2016 report no other comprehensive reviews of the formulaic cost of capital policy have been conducted by the OEB, until the current GCOC proceeding."

And at page 158, LEI states:

"LEI recommendations – Issue 17

Consistent with the OEB's existing policy, the OEB should commit to reviewing the cost of capital policy every five years. The OEB should also maintain the existing trigger mechanisms, including allowing utilities to apply for different cost of capital parameters during their individual rate hearings, as well as triggering a regulatory review through the off-ramp mechanism (which may or may not include a review of the cost of capital parameters and/or capital structure). In the event that a regulatory review is triggered, the utility and/or intervenors should be allowed to submit evidence for the OEB's consideration regarding the extent to which the cost of capital parameters and/or capital structure caused or contributed to triggering the off-ramp. The OEB can then exercise its own judgement (based on the evidence presented) as to whether the cost of capital parameters and/or capital structure are to be included in the regulatory review."

Question(s):

a) Please confirm that neither utilities nor intervenors were allowed to submit either expert evidence or submissions/comments as part of the 2014-2016 review process.

b) In LEI's view should utilities and intervenors be allowed to submit expert evidence and/or comments as part of the cost of capital policy review LEI recommends should occur every five years?

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes, this is LEI's understanding, based on review of publicly available documents.

b) Yes.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-18-VECC-56

Interrogatory

Reference:

Exhibit M1, page 160

Preamble:

At page 160, LEI states:

"LEI's recommendation to retain the status quo is consistent with the principles outlined in Section 3.1, particularly promoting the objectives of predictability and stability. With respect to the review of the utility's capital structure, the OEB can continue to do so when there is a significant change in business/financial risks, and upon application by the utility or other participants (see LEI recommendation in Issue 2/Section 4.2.4)."

And

"LEI recommendations – Issue 18

Consistent with the OEB's existing policy, the OEB should continue to implement changes in the cost of capital parameters and capital structure upon rebasing."

Question:

The highlighted portion of the first reference appears to suggest that a utility's capital structure can be changed upon (successful) application by the utility even between rebasing applications whereas the second reference suggests it would only be changed upon rebasing. Please reconcile.

Response: Note that this interrogatory response has been prepared by LEI.

To clarify this recommendation, OEB's existing policy is to implement changes in:

(i) the cost of capital parameters upon rebasing; and

(ii) capital structure only if applied for, typically upon rebasing.

Please refer to LEI's complete recommendation in Section 4.18.4 (emphasis added): *"LEI is not convinced that the OEB needs to alter the way in which cost of capital parameter updates are implemented and therefore recommends continuation of the current approach. LEI believes it remains appropriate to implement the updated cost of capital parameters upon rebasing, so long as implementation of these changes in this way continues to meet the FRS and does not directly result in rate shock. LEI's*

recommendation to retain the status quo is consistent with the principles outlined in Section 3.1, particularly promoting the objectives of predictability and stability. ***With respect to the review of the utility's capital structure, the OEB can continue to do so when there is a significant change in business/financial risks, and upon application by the utility or other participants.***"

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-20-VECC-57

Interrogatory

Reference:

Exhibit M1, page 163

Preamble:

At page 163, LEI states:

"LEI recommendations – Issue 19

Consistent with the OEB's existing policy, the OEB should continue to implement changes in the cost of capital parameters and capital structure upon rebasing. However, to ensure the FRS continues to be met, the OEB should also introduce an option for parties to request implementation of such changes prior to rebasing, so long as the two-factor test is met – (i) the utility should have more than 60% of its rate term remaining, and (ii) deviations in the cost of capital parameters should be material (100 bps or more)."

Question(s):

a) Please explain how the 100 bps materiality threshold applies in the case of a change in capital structure (e.g., would a change from an equity thickness of 40% to 41% be considered a 100 bps change?).

b) How is the 100 bps materiality threshold to be applied if both the ROE and equity thickness are changed but neither change meets the 100 bps threshold?

c) How is the 100 bps materiality threshold to be applied if the ROE is increased but the equity thickness decreased (or vice-versa)?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please refer to LEI response in IR #N-M1-18-VECC-56. The 100 bps materiality threshold in LEI recommendation only applies to the ROE, not to capital structure.

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-22-VECC-58

Interrogatory

Reference:

Exhibit M1, pages 174-175

Preamble:

At page 174, LEI states:

"LEI believes that cloud computing is less risky compared to in-house investments, however, a deemed WACC is necessary as a means of aligning incentives for utilities to transition to cloud computing solutions."

At page 175, LEI states:

"LEI recommends that the OEB employ a deemed capital additions approach (Alternative #2 in Section 4.22.3) to increase utility flexibility and align incentives with customers."

Question(s):

a) If the move to cloud computing solutions is less risky compared to the traditional in-house investments, is this an additional factor that should be taken into account when assessing the change in the business risk faced by OEB-regulated utilities and the need to adjust their capital structure?

b) Please explain how adopting Alternative #2 "aligns incentives with customers".

Response: Note that this interrogatory response has been prepared by LEI.

a) While this is likely not a significant change in business risk, OEB can assess the impact within an equity thickness review.

b) In-house capital investments currently earn a WACC as they are added to the rate base. The cloud computing deferral account should at least earn a return equal to the deemed WACC to incentivize the utilities to move away from capital investments. Changing incentives better aligns utility management focus with customer long term interests.

Vulnerable Energy Consumers Coalition Interrogatory #N-M3-10-VECC-59

Interrogatory

Reference:

Exhibit M3, pages 5-7, 38-39, 40-41, and 47-53

Preamble:

At pages 5-7 the NEXUS Report identifies three points of disagreement with LEI's approach to and recommendation regarding ROE. These points are further explained at pages 38-39; 40-41 and 47-53.

Question(s):

a) Does LEI agree with the points made by NEXUS?

   i If yes, how does this impact LEI's recommendations?

   ii If not, why not?

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-0-SEC-3.

Vulnerable Energy Consumers Coalition Interrogatory #N-M3-10-VECC-60

Interrogatory

Reference:

Exhibit M3, pages 57-58 and 78-79

Preamble:

At the referenced pages NEXUS comments on LEI's application of the risk premium approach and the use of its results for purposes of making annual adjustments to the ROE.

Question(s):

a) Does LEI agree with the points made by NEXUS?

   i If yes, how does this impact LEI's recommendations?

   ii If not, why not?

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI responses in IR #N-M1-0-SEC-3 and IR #N-M1-10-CCC-5 m).

Vulnerable Energy Consumers Coalition Interrogatory #N-M3-10-VECC-61

Interrogatory

Reference:

Exhibit M3, pages 62-64

Preamble:

Nexus states that:

"In order to determine the MRP value for input in to the CAPM based on forward-looking data, NEXUS used the DCF method and estimated the input for earning growth ("g") using "the so-called br formula".

Question:

Please provide LEI's views on NEXUs' use of the DCF method and, more specifically the "so-called *br* formula" to estimate the growth factor input to the formula to determine a forward-looking MRP value.

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-0-SEC-3. Further, LEI has requested additional information/backup calculations for "Table 7 - Market Risk Premium" in Nexus Report in one of the IRs.

Vulnerable Energy Consumers Coalition Interrogatory #N-M2-10-VECC-62

Interrogatory

Reference:

Exhibit M2, pages 45-50

Question:

Please provide LEI's views on the appropriateness of the five proxy groups established by Concentric and the screening criteria used by Concentric to determine the companies to be included in each proxy group for purposes of determining the cost of capital parameters for Ontario's regulated utilities.

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-10-VECC-37 c).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-10-VECC-63

Interrogatory

Reference:

Exhibit M1, page 120
Exhibit M2, page 69

Preamble:

At page 120, LEI states:

"Regarding the historical period to consider when determining the appropriate MRP, LEI prefers longer term averages (at least 10 years) as year over year MRP tends to be volatile."

At page 69, Concentric states:

"In Canada, the historical MRP is based on return data from 1919-2023, while in the U.S., the historical MRP is calculated using return data from 1926-2023."

Question:

Given LEI's stated preference for using longer term averages when determining MRP, why didn't LEI use even longer time frames such as those used by Concentric?

Response: Note that this interrogatory response has been prepared by LEI.

While historical data is a valuable input for forecasting, market conditions can change significantly over longer periods. LEI believes that the pre-World War II economies were significantly different from those that arose post-war, and thus does not use data that incorporates pre-war periods. As such, there is a risk of overweighting the importance of historical events that occurred a long time back (say more than 30 or 50 years ago), which may result in an unrepresentative picture of the future. Further, LEI has provided detailed reasoning for its MRP assumptions in pages 119-121 of the LEI report.[12]

[12] It is also worth noting that data prior to the 1970s is more challenging to obtain from official sources (such data is typically obtained from third-party sources like Kroll).

Vulnerable Energy Consumers Coalition Interrogatory #N-M1-14-VECC-64

Interrogatory

Reference:

Exhibit M1, pages 144-145

Preamble:

At page 144, LEI states:

"As described by OEB Staff, "macroeconomic conditions and their impact on cost of capital are monitored throughout the year, and any major changes could trigger an updated calculation." This ongoing monitoring process is conducted through quarterly reports that are prepared for internal review purposes only and thus are not released publicly. LEI has been retained by the OEB to prepare these quarterly reports since 2019."

Question:

a) Subject to receiving the OEB's consent, please provide a copy of one of LEI's quarterly reports.

b) If the appropriate consent is not provided, please provide a more detailed description of the actual items/issues covered by the report than that set out on page 145.

Response: Note that this interrogatory response has been prepared by OEB staff.

Please see attached a copy of LEI's most recent quarterly report, dated August 6, 2024.

Three Fires Group and Minogi Corp. Interrogatory #N-M1-12-TFG/Minogi-1

Interrogatory

Reference:

Exhibit M1, pages 134-140

Preamble:

In considering Issue 12, which addresses the Fair Return Standard and its application to capital structures, LEI considers Ontario regulatory assets only on a class or group basis: i.e., “electricity transmitters, electricity distributors, natural gas utilities, and OPG”.

Indigenous groups and/or First Nations are increasingly becoming participants in Ontario’s regulated utilities through partial equity ownership of individual regulated assets (such as individual transmission lines or electricity generating stations).

While large regulated utilities have many assets of varying risk attributes which average to a certain overall level, investments by Indigenous groups and/or First Nations are on a single-asset basis and do not benefit from such risk averaging. Yet if the Fair Return Standard is applied only on a class basis or from a large utility perspective, unique risks faced by Indigenous groups and/or First Nations investors may be obfuscated.

Question(s):

a) Did LEI consider the implications of the Fair Return Standard for the capital structure of such single asset regulated entities rather than traditional multi-asset regulated utility companies?

b) Did LEI consult with any Indigenous groups and/or First Nations with respect to this issue?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI considered the implications of excluding size-based risk determination on the FRS in Sections 4.12 and 4.13 of the LEI Report.

b) It is neither usual nor appropriate for an independent consultant in a litigated proceeding to consult with any potential participant in drafting a report. Doing so raises the risk of perceived bias especially given that all parties have the opportunity to comment in the proceeding itself.

   LEI notes that issues specific to First Nations would be worthy to consider as part of a separate proceeding.

Three Fires Group and Minogi Corp. Interrogatory #N-M1-21-TFG/Minogi-2

Interrogatory

Reference:

Exhibit M1, pages 166-168

Preamble:

LEI recommends the continuation of the status quo with respect to the prescribed rate of interest applicable to the CWIP account for regulated utilities in Ontario.

Question(s):

a) Did LEI review the practice with respect to prescribed interest rate for CWIP in the relevant jurisdictions considered elsewhere in the LEI Report?

b) Do any of the relevant jurisdictions considered in the LEI Report have prescribed rates of interest for CWIP that are based exclusively on indices of debt rates of interest, similarly to the existing OEB policy that relies on a specific debt interest rate index?

c) Which relevant jurisdictions otherwise addressed in the LEI Report currently rely on WACC calculations to set the prescribed rate of interest for CWIP accounts?

d) Did LEI investigate the commercial logic, implied by the exclusive reliance on a debt rate interest index to set the prescribed rate of interest for CWIP, of assuming that all construction projects – regardless of size, complexity or longevity – will be 100% financed by debt, and will only be financed by equity investment after entering operation?

e) Did LEI determine that it is practically feasible, in all cases regardless of the size and longevity of utility construction projects, to finance them during construction exclusively with debt capital?

f) Did LEI consider the recent practice in Ontario among regulated utilities to invite the equity participation of Indigenous groups and/or First Nations into large capital projects, and how the prescribed interest rate for CWIP affects the viability and timing of such participation?

g) Did LEI consult with any Indigenous groups and/or First Nations with respect to this issue?

Response: Note that this interrogatory response has been prepared by LEI.

a) The OEB Staff noted the following in EB-2006-0117 (emphasis added by LEI): *"In the energy industry, the interest rate used for the purposes of calculating the interest applied to the construction work in progress (CWIP) account for the cost of financing incurred during the construction period is approved by the regulator. This interest rate is referred to as the interest during construction (IDC). In terms of financing, some utilities who use short-term financing during the construction phase, replace it with mid-term financing when the completed asset is placed in service. Other utilities finance construction as part of their general borrowing program or from equity.* ***Note the Board has never approved an equity component with respect to an allowance for interest on construction work in progress.****"*

   While jurisdictions may adopt varying approaches, LEI agrees with OEB Staff's view on allowing ROE on the equity component before the project is capitalized. This practice also partially disincentivizes timely project completions if utilities earn WACC during the construction phase. It is also worth noting that interest accrued during construction of capital projects, referred to as interest during construction ("IDC") is added to the capital cost (when the capital project is capitalized and added to rate base). LEI, therefore, sees no reason to change the status quo approach.

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

d) Please see LEI response in a) above.

e) Yes, LEI believes that the status-quo methodology is feasible and has been working well in practice since at least 2006.

f) LEI does not believe that the CWIP provisions should vary based on the nature of the investors. If there are specific needs for historically underrepresented investor groups, they should be addressed outside of a cost of capital proceeding.

g) Please see LEI response in IR #N-M1-12-TFG/Minogi-1 b).

School Energy Coalition Interrogatory #N-M1-0-SEC-1

Interrogatory

Reference:

Exhibit M1

Question:

Please provide LEI's views on the recommendations and analysis contained in the expert report from Concentric on behalf of the OEA.

Response: Note that this interrogatory response has been prepared by LEI.

The key disagreements with Concentric's report relate to its recommended methodology for determining ROE, particularly the use of Blume Adjustment and assumptions associated with the DCF methodology. LEI's views on these matters are provided in response to IR #N-M1-0-SEC-3.

LEI also disagrees with Concentric's claim that using forward cash flow modelling *creates a methodology that is too rigid and limiting for supporting changes that may need custom approaches in the future, and also raises confidentiality concerns*. If an application is being filed asserting a significant change in business/financial risks, showing the potential impacts on cash flows and credit metrics should be straightforward. Without any quantitative modelling of the company's cash flows, the discussion on risk assessment becomes theoretical and subjective.

Further, the inputs needed for such analysis are already submitted by utilities during rate proceedings. LEI does not believe this raises confidentiality concerns, and if they arise, they can be dealt with in normal board proceedings.

LEI has performed such cash flow modeling and illustrated indicative impact of changes in capital structure on credit metrics in prior proceedings: report titled "Recommendation for appropriate capital structure for Enbridge Gas in its application for 2024 rebasing and 2025-2028 price cap plan" in EB-2022-0200

Other key areas of disagreement (in addition to some other minor aspects) include:

- Concentric's view that *OEB modify its approach to assessing utility risk to incorporate comparative risk and comparable return assessments* ***regardless of whether a significant change in risk has been demonstrated***;
- Including 50 bps transaction costs in the ROE;
- Allowing WACC on the DVAs CWIP accounts; and

- Concentric's view that DLTDR and DSTDR should not be applied as a cap.

LEI's views associated with the above areas, among others, are detailed in the LEI Report and in multiple LEI responses to IRs received from the OEA.

School Energy Coalition Interrogatory #N-M1-0-SEC-2

Interrogatory

Reference:

Exhibit M1

Question:

Please provide LEI's views on the recommendations and analysis contained in the expert report from Dr. Clearly on behalf of AMPCO/IGUA.

Response: Note that this interrogatory response has been prepared by LEI.

LEI's disagreement with Dr. Cleary's report primarily relates to Issue 10 (determination of ROE). LEI believes that Dr. Cleary's recommendation of 7.05% does not meet the FRS. Dr. Cleary relies heavily on a small sample size of Canadian companies. The Canadian companies are mostly holding companies with significant operations in the US, which further adds to the argument that the US data is relevant for determining ROE. The eight major pension funds in Canada (informally known as the Maple 8) allocate only about 25% of their portfolio to domestic Canadian investments, which indicates that investors are more likely to consider their investment opportunity costs.[13,14] As such, the ROE methodology needs to consider US returns. However, this does not necessarily mean that the outcome of the methodology needs to match US returns exactly to be valid.

[13] Omers. Terms Explained: Pensions. November 12th, 2021.

[14] The Globe and Mail. Opinion: Pension funds need to seek out more investments in Canada. November 30th, 2023.

School Energy Coalition Interrogatory #N-M1-0-SEC-3

Interrogatory

Reference:

Exhibit M1

Question:

Please provide LEI's views on the recommendations and analysis contained in the expert report from Nexus on behalf of the EDA.

Response: Note that this interrogatory response has been prepared by LEI.

LEI has only commented on key points of disagreement below:

a. Issue 2: Nexus Economics states that LEI has ignored a key risk category: strategic risk.
    - LEI believes that strategic risk is already part of business risks. Further, LEI's recommendation for Issue 2 explicitly mentions that utilities should be allowed to highlight additional risk categories in their rate applications if they consider them material.

b. Issue 10: Nexus Economics has recommended an ROE of 11.08% based on single-stage DCF, CAPM, and Risk Premium methodologies. It also adds that using multiple methodologies reduces *real-world uncertainty* and solves *hidden problems*.
    - CAPM (with reasonable beta and market risk premium inputs) sufficiently accounts for real-world uncertainty. Nexus Economics inflates its CAPM ROE estimate by adding a Blume Adjustment to its beta estimate. LEI believes the Blume Adjustment is not required, particularly for the regulated utility sector. No empirical evidence is presented to justify the argument that the beta for regulated utilities moves towards one over the long term.

    - LEI believes that the DCF methodology is unsuitable for the determination of the ROE for several reasons: (i) over-reliance on earnings forecasts, which tend to overvalue the cost of equity and are consistently overly optimistic; (ii) When valuing a company or an asset using DCF methodology, a terminal value is frequently considered to capture the value of a business beyond the projection period (typically 10 to 30 years, assuming a steady state growth beyond the projection period) in a DCF

analysis. As such, DCF methodology is poorly suited for ROE determination using only a 3-5 years forward-looking outlook and is likely to result in an unrepresentative estimate of the ROE; and (iii) an assessment of weighted average ROEs authorized by US regulators (78% and 22% weights to electric utility ROEs and gas utility ROEs respectively) indicates an average authorized ROE of 9.82% and a standard deviation of 0.34% since 2009. As such, Nexus Economics' DCF ROE estimate of 10.92% (even before adding the 50 bps transaction costs) is beyond the range of even three standard deviations above the average i.e., the probability of it occurring is less than 0.15% in a normal distribution. LEI believes using an ROE estimate with such a low probability of occurrence for the upcoming 5-year period is not a sound practice. Further, many of the authorized ROEs implicitly assume transaction costs. Excluding them from the data series would indicate that the 10.92% (11.42% including transaction costs) is an even more unrealistic outlier than what the ~0.15% probability suggests.

- Using multiple methodologies with unrealistic assumptions will NOT reduce the uncertainties in estimating the ROE. On the other hand, it will add more noise to the data thereby obscuring a more reasonable and realistic ROE estimate.

- LCBF is an appropriate proxy for the risk-free rate as the country risk for the US and Canada is similar. LEI's estimate of MRP is based on comparing the US market returns and the US risk-free rate. The resulting MRP is compared with the risk-free rate, which LEI believes is technically consistent.

c. Issue 11: Nexus Economics claims that OEB-approved cost of capital parameters fails to meet the FRS, citing Figure 19 from the LEI report as one of the critical reasons i.e., Ontario distributors' achieved average ROE between 2015 and 2022 is slightly less than the deemed ROE.
    - Nexus Economics fails to consider other Ontario utilities (OPG, electricity transmitters and gas distributors) when making its conclusions.

    - Nexus Economics' conclusions cannot be reconciled with the fact that Ontario utilities, to the best of LEI's knowledge, have not had difficulty obtaining debt and equity capital at reasonable terms since 2009, and the assessment of major credit rating agencies such as S&P Global that Ontario be classified as "most credit supportive".

School Energy Coalition Interrogatory #N-M1-0-SEC-4

Interrogatory

Reference:

Exhibit M1

Question:

Please provide a copy of the retainer agreement and all instructions provided to LEI.

Response: Note that this interrogatory response has been prepared by OEB staff.

Please see attached the Statement of Work effective as of March 1, 2024, between London Economics International LLC (LEI) and the OEB.

As noted in OEB staff's August 22, 2024 cover letter to its interrogatory responses, contract pricing information has been redacted, on the basis of irrelevance.

School Energy Coalition Interrogatory #N-M1-0-SEC-5

Interrogatory

Reference:

Exhibit M1

Question:

For each proceeding where the authors of the LEI report have provided expert evidence on utility cost of capital, please provide the following information regarding those proceedings, as applicable:

i Jurisdiction
ii Date
iii Docket Number
iv Applicant
v Client
vi Existing equity ratio
vii Author's recommended equity ratio
viii Approved equity ratio
ix Existing ROE
x Author's recommended ROE
xi Approved ROE
xii A copy or web link to the authors written report/testimony
xiii A copy or web link to the commission/regulatory decision

Response: Note that this interrogatory response has been prepared by LEI.

Please see examples from the last five years (with hyperlinks to download the relevant reports) provided in LEI response to IR #N-M1-0-OEA-1.

School Energy Coalition Interrogatory #N-M1-0-SEC-6

Interrogatory

Reference:

Exhibit M1

Question:

Please provide copies of the documents contained in the LEI report for the following footnotes: 176, 177, 179, 324, and 325.

Response: Note that this interrogatory response has been prepared by LEI.

Please see the following attachments:

- Attachment - N-M1-0-SEC-6 - Footnote 177
- Attachment - N-M1-0-SEC-6 - Footnote 179
- Attachment - N-M1-0-SEC-6 - Footnote 324
- Attachment - N-M1-0-SEC-6 - Footnote 325

Footnote 176 in the LEI Report states: "…*S&P and DBRS generally consider the Ontario regulatory regime to be very credit-supportive*…". Please see *Attachment N-M1-0-SEC-6 - Footnote 324* as one of the sources associated with this footnote.

School Energy Coalition Interrogatory #N-M1-2-SEC-7

Interrogatory

Reference:

Exhibit M1, page 28

Question:

Is it LEI's view that the OEB should assess changes in utility business and financial risk as compared to the risks in 2006 or 2009?

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-2-VECC-4.

School Energy Coalition Interrogatory #N-M1-2-SEC-8

Interrogatory

Reference:

Exhibit M1, page 44

Question:

LEI states that it "does not believe energy transition issues are a large driver in reviewing the process of setting the cost of capital". Please explain what LEI means by this, and is there a distinction between the *process* in setting the cost of capital and the *result* in setting the cost of capital (i.e. determining ROE, capital structure, etc.).

Response: Note that this interrogatory response has been prepared by LEI.

LEI's explanation has been provided in the LEI Report. Relevant text is reproduced below:

"However, while the energy transition is bringing dramatic changes to the sector as a whole, the focus when considering cost of capital implications is not whether and how fast the industry is changing but whether, for regulated businesses, the volatility of net cash flows is changing or there is an increased risk of inability to attract capital or recover associated investments. Neither appears likely in the forthcoming regulatory period. This is because the pace of change remains measured, and regulated utilities can use various regulatory mechanisms such as DVAs, Z factor, I factor, and off-ramp mechanisms to manage net cash flow volatility (if any).

By design, regulated entities face less risk than competitive businesses. Existing regulatory mechanisms address load fluctuations, capital recovery, and unforeseen events, whether caused by energy transition or not. Given that ratemaking processes directly deal with these issues and equity thickness is the lever used to address differences between regulated sectors (see Section 4.2.4 wherein LEI has recommended adjusting equity thickness as the appropriate lever for addressing material changes in risk profile), LEI does not believe energy transition issues are a large driver in reviewing the process of setting the cost of capital."

School Energy Coalition Interrogatory #N-M1-3-SEC-9

Interrogatory

Reference:

Exhibit M1, pages 54-55

Question:

Does regulatory lag impact business risk, financial risk, or both?

Response: Note that this interrogatory response has been prepared by LEI.

Yes, however, there are regulatory mechanisms in place such as deferral and variance accounts to mitigate the impacts.

School Energy Coalition Interrogatory #N-M1-3-SEC-10

Interrogatory

Reference:

Exhibit M1, page 59

Question:

In discussing the BCUC's recent FEI decision, LEI notes that the BCUC commented that declining demand, resulting in "declining market share, would be perceived negatively by investors thereby affecting the shareholders' expected returns." Does LEI agree with the BCUC, and if so, would the inverse also be true that if a utility is increasing demand for an energy source, this would be perceived negatively by investors thereby affecting the shareholders' expected returns?

Response: Note that this interrogatory response has been prepared by LEI.

The regulated utility industry is a relatively low-risk industry given the predictability of cash flows to prudent actors.[15] LEI believes fluctuations in market share are not relevant to determination of the cost of capital if the regulatory regime allows for appropriate opportunities to recover invested capital at a reasonable return. Investors are not entitled to an additional return because a business has a finite life; nor should they receive a discounted return because the volumes sold are robust – in a regulated context, fluctuations in net cash flows are ultimately driven by the nature of the regulatory regime rather than fluctuations in the quantities of billing determinants sold.

[15] S&P Global Ratings classifies regulated utilities as a 'low risk' sector in cyclicality assessment and as 'very low risk' in competitive risk and growth environment assessment, as well as global industry risk assessment. Source: S&P Global Ratings. Updated: January 25th, 2021.

School Energy Coalition Interrogatory #N-M1-3-SEC-11

Interrogatory

Reference:

Exhibit M1, page 63

Question:

LEI has outlined a number of OEB regulatory/policy changes since 2006. Appendix A to these interrogatories outlines a number of additional OEB regulatory/policy changes since 2014. For each, please provide LEI's view on how each would impact utility business and financial risk.

Appendix A
Additional OEB Regulatory Policy Changes (Over the Last 10 Years)

i Introduction of Advanced Capital Module (ACM). See Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (September 18, 2014)

ii MAAD transaction deferred rebasing lengthened from 5 to up to 10 years, at discretion of utility. See Report of the Board Rate-Making Associated with Distributor Consolidation (March 26, 2015)

iii OEB requiring residential customers to be billed on a monthly basis (previously many were bi-monthly). See Distribution System Code (DSC) Amendments (April 15, 2015). Related, reduced billing lag as demonstrated by OEB's reduction in default working capital from 13% to 7.5%. See OEB Letter, Allowance for Working Capital for Electricity Distribution Rate Applications, June 3, 2015)

iv Reduction of ACM/ICM deadband from 20% to 10%. See Supplemental Report: New Policy Options for the Funding of Capital Investments (Jan 22, 2016)

v Expansion of eligibility for ICM for utilities on deferred rebasing period. See OEB Letter Re: Incremental Capital Modules During Extended Deferred Rebasing Periods (Feb 10, 2022)

vi Annual update to LV Rates through IRM/rate adjustment process, whereas previously only updated at rebasing. See Updated Filing Requirements for Electricity Distribution Rate Applications, Chapter 3 (June 15, 2023)

vii UTRs issued earlier in year allowing for more up to date RTSRs included in annual rate adjustments applications. See OEB Letter, 2024 Preliminary Uniform Transmission Rates and Hydro One Sub Transmission Rates (September 28, 2023)

viii Introduction of OEB NWS Guidelines which provides opportunities for utilities during IRM (or even in circumstances existing Custom IR plan) to seek additional

funding opportunities for non-wires solutions. See Non-Wires Solutions Guidelines for Electricity Distributors (March 28, 2025)

Response: Note that this interrogatory response has been prepared by LEI.

LEI was asked by the OEB to review major policy changes only. It is notable that ICM/ACM is a cross-cutting theme in several policy changes identified in the question. ICM was also reiterated in the "Renewed Regulatory Framework for Electricity ("RRFE") Distributors" report, which is already covered in Section 4.3 of the LEI Report. LEI's view is that the ACM can be viewed as an extension of the OEB's RRFE report.

School Energy Coalition Interrogatory #N-M1-3-SEC-12

Interrogatory

Reference:

Exhibit M1, page 66

Question:

For electricity distributors, please provide LEI's view on the relative business and financial risk between Custom IR and IRM rate frameworks.

Response: Note that this interrogatory response has been prepared by LEI.

The difference in relative business and financial risk between Custom IR and IRM rate frameworks is minimal. However, the utilities opting for Custom IR have more flexibility in tailoring the IR formula to be more adaptive to their circumstances/ company-specific needs.

School Energy Coalition Interrogatory #N-M1-6-SEC-13

Interrogatory

Reference:

Exhibit M1, pages 26 and 90

Question:

Please provide the Bloomberg utility series (C29530Y) and the BVLI (BVCAUA30) Index for each day since 2009. Please provide the data in Excel format.

Response: Note that this interrogatory response has been prepared by LEI.

Please see “Attachment - N-M1-6-SEC-13”.

School Energy Coalition Interrogatory #N-M1-6-SEC-14

Interrogatory

Reference:

Exhibit M1, page 26

Question:

Please provide a copy of the Government of Canada 30-year bond yield for each day since 2009. Please provide the data in Excel format.

Response: Note that this interrogatory response has been prepared by LEI.

The Government of Canada 30-year bond yields can be downloaded on the Bank of Canada website.

School Energy Coalition Interrogatory #N-M1-6-SEC-15

Interrogatory

Reference:

Exhibit M1, page 34

Question:

Has LEI done any analysis to determine if the DLTDR reflects the actual utility debt rates? If so, please provide details.

Response: Note that this interrogatory response has been prepared by LEI.

For DSTDR, LEI reviewed the debt rates for new issuances for a sample of utilities via quarterly/annual reports, rate applications and actual bond issuances However, the same analysis was more challenging to perform for DLTDR as each utility's debt portfolio comprises bond issuances that span several years. As such, LEI has recommended in Section 4.15.4 that the utilities be asked to regularly submit relevant details concerning actual short-term and long-term debt rates for new loans/bond issuances.

School Energy Coalition Interrogatory #N-M1-6-SEC-16

Interrogatory

Reference:

Exhibit M1, page 89

Question:

The OEB's DLTDR is a forecast based on information regarding 30-year bond rates. Ontario utilities often issue debt (either by way of bond or other debt instruments) with different terms (e.g. 5, 10, 15, or 20 years).

a) Does LEI believe that the current and its proposed revision to the methodology in setting the DLTDR reflects a proxy for interest rate for terms less than 30 years? If so, please explain.

b) Does LEI believe there is merit in determining multiple DLTDRs reflecting different terms of debt?

c) Regardless of the answer to part (b), if the OEB were to determine multiple DLTDRs based on the term of the debt, please provide recommendations regarding the methodology.

Response: Note that this interrogatory response has been prepared by LEI.

a) Bonds with longer maturities generally have higher interest rate risk than similar bonds with shorter maturities.[16] As LEI recommends that DLTDR be applied as a cap, LEI believes that DLTDR acts as an appropriate proxy regardless of the composition of debt maturities.

b) No.

c) If the OEB were to determine multiple DLTDRs based on the term of the debt, it may consider the yield of the closest sovereign bond term as a proxy (plus a spread based on credit profile). However, as highlighted above, LEI believes such a methodology would not add meaningful value to the DLTDR estimate.

[16] U.S. Securities and Exchange Commission. Interest rate risk — When Interest rates Go up, Prices of Fixed-rate Bonds Fall. Accessed on August 11th, 2024.

School Energy Coalition Interrogatory #N-M1-10-SEC-17

Interrogatory

Reference:

Exhibit M1, pages 115, 118, 119

Question:

Please provide all the underlying data and calculations used for Figures 37, 39, and 40.

Response: Note that this interrogatory response has been prepared by LEI.

Please see the Excel file "LEI_Figures_OEB cost of capital_20240627" filed on June 27th, 2024 in this Proceeding.

School Energy Coalition Interrogatory #N-M1-10-SEC-18

Interrogatory

Reference:

Exhibit M1, page 120

Question:

LEI notes, that it does not believe a CAPM ROE based on Canada market data is appropriate as compared to US MRP. Please provide a CAPM ROE calculation weighted 72/25 (Canada and US), 50/50 (Canada/USA), 25/75 (Canada/US).

Response: Note that this interrogatory response has been prepared by LEI.

CAPM ROE based on weights of 75/25 (Canada and US), 50/50 (Canada/USA), 25/75 (Canada/US) would result in ROE of 6.13%, 7.10%, and 8.07%, respectively.

As noted in the LEI report: *"LEI believes that CAPM ROE based on Canadian market data (5.14%) does not reflect investors' expected equity returns. The eight major pension funds in Canada (informally known as the Maple 8) allocate only about 25% of their portfolio to domestic Canadian investments, which indicates that investors are more likely to consider their MRP opportunity costs based on the US MRP.[17,18] As such, LEI prefers CAPM determined using US MRP."*

[17] Omers. Terms Explained: Pensions. November 12th, 2021.

[18] The Globe and Mail. Opinion: Pension funds need to seek out more investments in Canada. November 30th, 2023.

School Energy Coalition Interrogatory #N-M1-10-SEC-19

Interrogatory

Reference:

Exhibit M1, page 123

Question:

Using March 2024 data, what would the ROE be based on the existing ROE formula?

Response: Note that this interrogatory response has been prepared by LEI.

9.19%.

School Energy Coalition Interrogatory #N-M1-10-SEC-20

Interrogatory

Reference:

Exhibit M1

Question:

Are any changes in the OEB's ROE formula also picked up as part of the OEB's annual inflation factor?

Response: Note that this interrogatory response has been prepared by LEI.

The OEB uses a nominal ROE, which means inflation is included in the ROE. However, the I factor does not apply to the ROE. As such, the two generally move together in the same direction but apply to different parts of the revenue requirement.

School Energy Coalition Interrogatory #N-M1-10-SEC-21

Interrogatory

Reference:

Exhibit M1

Question:

Please provide LEI's views on the impact to business and financial risk, ROE methodology peer groups, capital structure, and any other aspect of cost of capital, of electricity distributors, electricity transmitters, and OPG's regulated business, of:

a) Utilities being eligible for various green and sustainable bond frameworks.

b) Utilities being considered attractive investments to meet various ESG, and/or sustainable investing goals.

Response: Note that this interrogatory response has been prepared by LEI.

LEI briefly analyzed the implications of ESG criteria in financing for Enbridge Gas (Section 3.2.2 of the report titled "Recommendation for appropriate capital structure for Enbridge Gas in its application for 2024 rebasing and 2025-2028 price cap plan" in EB-2022-0200). LEI found that the assessment of Enbridge Gas' ESG metrics by credit rating agencies indicated no material impact on credit rating.

School Energy Coalition Interrogatory #N-M1-12-SEC-22

Interrogatory

Reference:

Exhibit M1, pages 74 and 143

Question:

LEI states: i) “With respect to the major OEB regulatory mechanisms introduced since 2006, LEI believes that they have generally reduced the risks for electricity distributors” (p.74), and ii) “The risk profile of electricity transmitters is similar to, if not lower than, that of electricity distributors.” (p.143). Based on those conclusions, please provide LEI’s specific recommendation for equity thickness for each of the electricity distributors and electricity transmitters.

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-2-VECC-17 a).

School Energy Coalition Interrogatory #N-M1-12-SEC-23

Interrogatory

Reference:

Exhibit M1, page 179

Question:

Please revise Figure 59, 60, 64 and 65 to show information back to 2014.

Response: Note that this interrogatory response has been prepared by LEI.

Please see “Attachment - N-M1-12-SEC-23”.

School Energy Coalition Interrogatory #N-M1-19-SEC-24

Interrogatory

Reference:

Exhibit M1, page 163

Question:

Please explain, using an illustrative example, how LEI proposes that a utility on IRM would implement a change in the cost of capital parameters and capital structure in advance of rebasing.

Response: Note that this interrogatory response has been prepared by LEI.

Please see LEI response in IR #N-M1-18-VECC-56.

School Energy Coalition Interrogatory #N-M1-22-SEC-25

Interrogatory

Reference:

Exhibit M1, pages 173-174

Question:

LEI recommends that unamortized portions of cloud-based contracts be deemed a capital addition at rebasing and attract WACC. Please explain how this recommendation addresses the matter at issue in Issue 22, "[s]hould carrying charges and/or another type of rate apply to the Cloud Computing deferral account? If so, what rate should be applied?"

Response: Note that this interrogatory response has been prepared by LEI.

As stated in Section 4.22.4 of the LEI Report, *LEI recommends that the OEB employ a deemed capital additions approach (Alternative #2 in Section 4.22.3) to increase utility flexibility and align incentives with customers*.

With respect to the cloud computing deferral account, Section 4.22.3 of the LEI Report (i.e., Alternative #2) states *the OEB can allow the prescribed interest rate for the DVAs on the incremental operating costs*.

School Energy Coalition Interrogatory #N-M1-22-SEC-26

Interrogatory

Reference:

Exhibit M1, pages 174

Question:

Please provide an illustrative example of LEI's recommended approach, including all calculations.

Response: Note that this interrogatory response has been prepared by LEI.

Illustrative example: If the remaining cloud computing contract is $3 million, with three years remaining, it may be amortized equally over the three years. This implies that deemed WACC will be calculated on $2.5 million in the first year (assuming $3 million at the beginning of the first year and $2 million at the end of the first year, i.e., an average of $2.5 million), $1.5 million in the second year, $0.5 million in the last year.

School Energy Coalition Interrogatory #N-M1-22-SEC-27

Interrogatory

Reference:

Exhibit M1, pages 174

Question:

Please confirm that LEI's approach to cloud computing may result in an over-compensation to a utility as compared to a traditional capital expenditure, since if the full amount of a cloud-based contract expense was not paid up-front, then it does not actually borrow any funds which the WACC is meant to compensate the utility for.

Response: Note that this interrogatory response has been prepared by LEI.

Not confirmed. LEI does not believe that over-compensation would occur, and also anticipates that the contracts would be prepaid. Regardless, company borrowings are normally for general corporate purposes, not for a specific expenditure. Some capital expenditures may be paid upfront, and some over time; this does not mean that the company is being overcompensated by the WACC if there is not an exact alignment in timing of expenditure versus the timing of the borrowing.

Ontario Energy Association Interrogatory #N-M1-0-OEA-1

Interrogatory

Reference:

Exhibit M1, page 24 and Appendix D

Preamble:

LEI staff have relevant experience in cost of capital and capital structure matters, reviewing regulatory dockets and supporting regulatory staff with filing interrogatories. A selection of relevant work is provided in “Appendix D: Selected relevant LEI experience”, and further information is included in the curriculum vitae for Mr. Goulding, Mr. Pinjani, and Mr. Nayak (provided separately).

In Appendix D, LEI lists the following five engagements relating to the cost of capital:

Capital structure analysis in Ontario: LEI was retained by the Ontario Energy Board ("OEB") staff as capital structure expert in respect of Ontario Power Generation ("OPG")’s 2022-2026 Payment Amounts Application (EB-2020-0290).

Testimony support to OEB in equity thickness review: In 2023, LEI was retained by the OEB Staff as capital structure expert in respect of Enbridge Gas Inc.’s application (EB-2022-0200).

Assisting in updating cost of capital and inflation parameters for the OEB: LEI has been engaged by OEB Staff (since July 2019) to provide quarterly updates on the macroeconomic conditions facing the utility sector in Ontario, and their potential impact on the cost of capital, interest, and inflation parameters.

Independent expert evidence on ROE for IRAC: LEI was retained by the legal counsel for the Prince Edward Island Regulatory and Appeals Commission (“IRAC”) to provide independent expert evidence on a just and reasonable return on equity (“ROE”) for the Maritime Electric Company Limited (“MECL”), associated with their General Rate Application (“GRA”) for 2023-2025 [IRAC Docket: UE20946].

Independent technical consultation for a rate case involving Montana-Dakota Utilities Company: LEI was engaged by the North Dakota Public Service Commission as the outside independent technical consultant supporting the Commission's ratepayer advocacy staff in a rate case involving Montana-Dakota Utilities Company.

Question:

Have the authors of LEI's report in this proceeding been accepted as experts in these or any other proceedings on the cost of capital? If so, please identify those proceedings.

Response: Note that this interrogatory response has been prepared by LEI.

- Capital structure analysis in Ontario (EB-2020-0290): AJ Goulding and Amit Pinjani were accepted as experts.
- Testimony support to OEB in equity thickness review (EB-2022-0200): AJ Goulding, Amit Pinjani, and Shashwat Nayak were accepted as experts.
- Independent expert evidence on ROE for IRAC (IRAC Docket: UE20946): AJ Goulding, Amit Pinjani, and Shashwat Nayak were accepted as experts.
- Independent technical consultation for a rate case involving Montana-Dakota Utilities Company (PU-22-194): Shashwat Nayak contributed as cost of capital expert. The parties involved reached a settlement before oral testimony.

Ontario Energy Association Interrogatory #N-M1-0-OEA-2

Interrogatory

Reference:

Exhibit M1, page 38

Preamble:

Fair Return Standard ("FRS"): The FRS establishes a legal framework for setting a fair and reasonable return on capital for regulated electricity and gas utilities, as described in the text box below.

It is important to note that *[m]eeting the standard is not optional; it is a legal requirement*.

Question(s):

a) Does LEI agree that the Fair Return Standard applies to both the authorized ROE and the deemed capital structure? If not, please explain.

b) Please confirm that, in this proceeding, LEI has not performed an analysis of Ontario utility equity thicknesses to those of comparable utilities in North America. If LEI has performed such an analysis, please provide that analysis.

c) The OEB's current policy is to only adjust a utility's deemed capital structure if there has been a significant or material change in the utility's business risk since the capital structure was last reviewed by the Board. LEI recommends that this approach to evaluating capital structure be retained. Please explain how it is possible for the OEB to determine that an authorized ROE or a deemed equity ratio meets the Fair Return Standard if the Board does not also consider those authorized ROEs and/or deemed equity ratios relative to a peer group of companies that is comparable in risk to the utility for which the return is being set.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI agrees.

b) The analysis of specific equity thickness for each of the Ontario utilities is outside the scope of the LEI Report (please see LEI response in IR #N-M1-2-VECC-17 a)). The LEI Report, however, addresses issues related to capital structure (i.e., primarily Issues 2,3,12 and 13).

c) LEI does not agree with the following assertion in this question: "*… the Board does not also consider those authorized ROEs and/or deemed equity ratios relative to a peer group of companies….*" LEI believes the Board considers comparative peer

group analysis in every application for a change in equity thickness. Please also see LEI response in IR #N-M1-11-OEA-12.

Ontario Energy Association Interrogatory #N-M1-0-OEA-3

Interrogatory

Reference:

Exhibit M1, page 42

Preamble:

LEI began with a long list comprising US states, Canadian provinces, the United Kingdom ("UK"), and Australia. As shown in Figure 9 below, after applying the five criteria listed above, LEI selected six jurisdictions for further study: Alberta, Australia, British Columbia ("BC"), California, New York ("NY"), and the United Kingdom ("UK").

Question(s):

a) For the North American jurisdictions listed in LEI's Figure 9, please provide a table showing the most recently authorized ROE and approved equity ratio for the regulated electric and gas utilities in that jurisdiction.

b) How does LEI's recommended ROE of 8.95% for Ontario's utilities compare to the authorized ROE for regulated electric and gas utilities in Alberta, British Columbia, California, and New York?

c) How do the deemed equity ratios for Ontario's utilities compare to the approved equity ratios for regulated electric and gas utilities in Alberta, British Columbia, California, and New York?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see the requested table below:

Utility	Year	Allowed ROE	Allowed equity ratio
Alberta			
Apex Utilities Inc.	2024	9.28%	39.00%
All other utilities	2024	9.28%	37.00%
British Columbia			
FortisBC Energy Inc.	2024	9.65%	45.00%
FortisBC Inc.	2024	9.65%	41.00%
California			
Pacific Gas and Electric Co.	2023	10.70%	52.00%
PacifiCorp	2023	10.00%	52.25%
Southern California Edison Co.	2023	10.75%	52.00%
Southern California Gas Co.	2023	10.50%	52.00%
New York			
Central Hudson Gas & Electric	2024	9.50%	48.00%
KeySpan Gas East Corp.	2024	9.35%	48.00%
The Brooklyn Union Gas Co.	2024	9.35%	48.00%
Consolidated Edison Company of New York, Inc.	2023	9.25%	48.00%
NY State Electric & Gas Corp	2023	9.20%	48.00%
Rochester Gas & Electrci Corp.	2023	9.20%	48.00%

b) Please see LEI response in #N-M1-11-OEA-13 b).

c) Please see LEI response in IR #N-M1-11-OEA-12 b).

Ontario Energy Association Interrogatory #N-M1-3-OEA-4

Interrogatory

Reference:

Exhibit M1, pages 74-75

Preamble:

At pages 74-75, with respect to the major OEB regulatory mechanisms introduced since 2006, LEI believes that they have generally reduced the risks for electricity distributors:

…

The revenue stability for distributors is visible in actual revenue earned per customer (CPI adjusted) since 2015 (see blue bars in Figure 19 below). The achieved ROE (relative to deemed ROE) has also been generally stable since 2015, with the exception of 2020 which was affected by the COVID-19 pandemic (see the line in Figure 19 below).

Question(s):

a) Has LEI done any independent analysis or research on the regulatory risks of Ontario's utilities? If so, please provide that research.

b) Has LEI examined achieved ROE (relative to deemed ROE) back to 2006? If so, please provide that analysis.

c) How does LEI interpret the Customer weighted average achieved ROE minus deemed ROE being negative, ranging from approximately -0.40% down to -1.7% over the entire 2015-2022 period?

d) Does this data demonstrate, in LEI's view, a reduction in regulatory risk?

Response: Note that this interrogatory response has been prepared by LEI.

a) The OEB retained LEI as an independent expert for this proceeding. As such, all analyses presented in the LEI Report can be classified as independent analysis/research. Further, as mentioned in LEI response to IR #N-M1-2-VECC-17 a), a full assessment of business/financial risks (along with forward-looking cash flow modelling) required to assess the appropriateness of the existing equity thickness for electricity distributors, OPG, EPCOR Natural Gas (and other OEB-regulated utilities) is outside the scope of this report.

b) No. As noted in Figure 19 of the LEI report, the relevant data in the OEB open data portal is only available since 2015.

c) With the exception of 2020, which was affected by the COVID-19 pandemic, the achieved ROE has been relatively stable. Notably, the utilities only saw a ~1.3% reduction in achieved ROE relative to authorized ROE in response to one of the most disruptive economic events in recent history. LEI believes this speaks to effective regulatory mechanisms for ensuring cash flow stability and the relatively low-risk nature of the regulated utilities industry.

   Further, underachievement of ROE is unrelated to setting authorized ROEs. If some utilities consistently underearn, setting a higher authorized ROE would not resolve their underlying reasons for underachievement.

d) This data does not demonstrate a reduction or increase in regulatory risk.

Ontario Energy Association Interrogatory #N-M1-5-OEA-5

Interrogatory

Reference:

Exhibit M1, page 83

Preamble:

At page 83, with respect to the application of DSTDR, LEI recommends considering the DSTDR for all utilities, not just electricity distributors.

…

LEI recommendations – Issue 5

- The spread for a R1-low rate utility over CORRA to be determined from an annual confidential survey of banks (slightly modified from status quo vis-à-vis larger sample size of 6-10 banks and limited exclusion of outliers).

Question:

Under LEI's recommendation to apply a DSTDR cap for all utilities, would a utility be prevented from requesting and the OEB be prevented from approving a cost of debt higher than the cap if the utility demonstrates that its cost of debt is higher than the cap, for instance due to a lower credit rating and/or credit spreads that are higher than for R1-low rated utilities?

Response: Note that this interrogatory response has been prepared by LEI.

Under LEI's recommendation, a utility will not be prevented from requesting and the OEB will not be prevented from approving a cost of debt higher than the cap if the utility demonstrates that its cost of debt is higher than the cap.

Ontario Energy Association Interrogatory #N-M1-7-OEA-6

Interrogatory

Reference:

Exhibit M1, page 93

Preamble:

At page 93, With respect to the application of DLTDR, LEI recommends the modified status quo approach with DLTDR as a cap but uniformly applicable for all utilities (not just electricity distribution and transmission utilities). **All OEB-regulated entities reviewed have a similar senior debt credit rating, and there is no reason to only subject electricity distributors and transmitters to a cap**. [bold added for emphasis]

…
LEI recommendations – Issue 7

- Bloomberg's BVCAUA30 BVLI Index (12-month trailing average) is appropriate for considering the spread over LCBF for an A-rated utility.

Question(s):

a) Has LEI examined the senior debt ratings of all OEB-regulated utilities to corroborate this statement?

b) If so, please provide a table listing the senior debt ratings for each OEB-regulated utility.

c) Are all OEB-regulated utilities A-rated?

d) Is LEI aware of any other North American regulator that "caps" the cost of long-term debt?

e) If so, please provide the decisions implementing these caps

f) Under LEI's recommendation to apply a DLTDR cap for all utilities, would a utility be prevented from requesting and the OEB be prevented from approving a cost of debt higher than the cap if the utility demonstrates that its cost of debt is higher than the cap, for instance due to a lower credit rating and/or credit spreads that are higher than for A-rated utilities?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI could only obtain the senior debt rating for 17 Ontario-regulated utilities (parent companies in some cases).

b) Please see “Attachment - N-M1-7-OEA-6”.

c) All OEB-regulated entities reviewed by LEI had a DBRS senior debt rating of A.

d) It is not necessary for a practice to exist in other jurisdictions for it to be relevant and appropriate for Ontario. Further, using benchmark/deemed debt rating is a common practice in advanced international jurisdictions (including in the UK and Australia, as detailed in Section 4.6.2 of the LEI report).

e) Please see LEI response in d) above.

f) Under LEI’s recommendation, a utility would not be prevented from requesting and the OEB would not be prevented from approving a cost of debt higher than the cap if the utility demonstrates that its cost of debt is higher than the cap.

Ontario Energy Association Interrogatory #N-M1-10-OEA-7

Interrogatory

Reference:

Exhibit M1, page 116

Preamble:

Considering the two variables simultaneously (the weighted average ROEs allowed by US regulators for electric and gas utilities as the dependent variable; 30-year GoC government bond yields and Moody's seasoned Baa corporate bond yields as independent variables) using multivariate regression analysis lowers the adjustment factors for each variable, i.e., 0.26 for the LCBF adjustment factor and 0.13 for the utility bond spread adjustment factor. The multivariate regression analysis performed by LEI had an R squared value of 0.61 which indicates that a reasonably high amount of variance in the dependent variable (allowed ROEs) has been explained by the variance in dependent variables since 2001.

Question(s):

a) Would LEI agree that an important factor in the OEB's ROE formula is that the authorized ROE should be sensitive to changes in government bond yields and the spread between government and utility bonds?

b) If the OEB were to adopt the adjustment factors recommended by LEI, does LEI believe the OEB formula would be sufficiently sensitive to changes in government bond yields and utility credit spreads? Please explain your response and provide any analysis LEI has conducted to test the sensitivity of the OEB's formula return under its proposed adjustment factors.

c) Please explain why LEI used Moody's seasoned Baa corporate bond yield rather than Moody's A-rated utility bond yield in its regression analysis.

d) Please confirm whether LEI used the credit spread (i.e., the spread between the 30-year GoC bond and the Moody's seasoned Baa corporate bond) or the actual Baa seasoned corporate bond yield itself in the regression analysis. If LEI did not use the credit spread, please explain why.

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes, however sensitivity must be consistent with historical observed relationships.

b) Yes. The analysis is provided in Appendix B of the LEI Report.

c) Regulated utility bond yields in the US are correlated with Moody's seasoned Baa corporate bond yield with a relatively significant R-squared value (0.55). In addition, recent Bank of America US Power & Utilities Global Research analysis states *"…utility valuations correlate significantly to Moody's Baa corporate bond yields…Since 1980, regulated utility dividend yields are 96.5% correlated to Moody's Baa corporate bond yields".*[19]

d) Using credit spread results in a significantly lower R-squared value of 0.02. It is also notable that using corporate bond yields (instead of spreads) is consistent with the OEB descriptions of the analysis done in the OEB 2009 report.

[19] BofA Global Research. US Power & Utilities – Industry Overview. August 15th, 2024.

Ontario Energy Association Interrogatory #N-M1-10-OEA-8

Interrogatory

Reference:

Exhibit M1, page 111

Preamble:

At page 111, in its summary of the BCUC's September 2023 Order in the Generic Cost of Capital Proceeding (Stage 1), LEI states:

For the CAPM, the risk-free rate is based on forecast 30-year government bond yields (LCBF for Canadian utilities in each proxy group and forecast 30-year Treasury bond yields for US utilities in each proxy group). The beta for each proxy group is calculated as the average Blume-adjusted beta estimates from Value Line and Bloomberg using five years of data.

Question(s):

a) Did LEI consider the use of Blume-adjusted beta estimates in its CAPM analysis? If not, why not?

b) Does LEI disagree with the Blume adjustment? Please explain your response.

Response: Note that this interrogatory response has been prepared by LEI.

a) No. LEI believes that using Blume-adjusted beta for regulated utilities has no empirical basis. LEI's reasoning is provided in its response to IR #N-M1-0-SEC-3.

b) Please see LEI response in a) above.

Ontario Energy Association Interrogatory #N-M1-10-OEA-9

Interrogatory

Reference:

Exhibit M1, pages 117-118, and Figure 39

Preamble:

To estimate the beta, LEI utilized a three-step process:

i. first, LEI used the raw beta for peer companies;

ii. second, the raw betas were unlevered using the operating leverage of each of the peer companies (to diversify away the firm-specific unsystematic risk); and

iii. finally, the average unlevered beta of the peer group was re-levered using the OEB allowed deemed capital structure.

Question(s):

a) Please explain the source of the tax rates and debt to equity ratios used in Figure 39.

b) Did LEI use the same tax rates to both unlever and relever beta?

c) Is LEI aware of any North American regulator who has followed the procedure used in Figure 39 to estimate the cost of capital? If so, please provide the case reference(s).

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI used the corporate tax rate assumption of 21% for the US states and the combined provincial and federal tax rates provided by EY for Canadian provinces.

b) No. Please see LEI response in IR #N-M1-10-VECC-41.

c) Unlevering and relevering beta is a common practice, as noted by the National Association of Regulatory Utility Commissioners ("NARUC").

Ontario Energy Association Interrogatory #N-M1-10-OEA-10

Interrogatory

Reference:

Exhibit M1, page 122

Preamble:

Notably, LEI's ERP estimate does not include 50 bps of transaction costs implicitly assumed in the 2009 ERP determination. As with LEI's recommendation for the treatment of transaction costs from debt issuances, LEI recommends considering the transaction costs associated with equity issuances as operating costs for similar reasons. Equity issuances do not happen with predictable regularity, which makes it more suitable to recover such costs as and when the utility incurs expenses.

Question(s):

a) Does LEI agree that transaction costs are not expenses that flow through the income statement? If LEI disagrees, please explain.

b) Does LEI agree that transaction costs reduce the proceeds of the securities issuances, resulting in a permanent net reduction to the common equity portion of the balance sheet? If LEI disagrees, please explain.

c) Has LEI researched whether other Canadian jurisdictions include an adjustment for flotation costs and financial flexibility? If so, please provide the results of that research.

d) If the OEB has previously included an adjustment of 50 basis points for transaction costs in the authorized ROE, why should the Board deviate from that practice in this proceeding?

e) Has LEI studied whether treating transaction costs as operating expenses is compliant with International Financial Reporting Standards ("IFRS")? If so, what were LEI's conclusions from that study?

Response: Note that this interrogatory response has been prepared by LEI.

a) According to PwC, "*Common stock issuance costs are incremental costs directly associated with issuance. These costs typically include fees paid to bankers or underwriters, attorneys, accountants, as well as printers and other third parties. As discussed in ASC 340-10-S99-1 (SAB Topic 5.A), certain period costs such as management salaries or other general and administrative expenses are not*

considered costs of issuance. Common stock issuance costs are generally recorded as a reduction of the share proceeds."

b) LEI agrees; however, equity issuances do not occur consistently every year, and allowing an additional 50 bps ROE every year can lead to overcompensation.

c) LEI is aware that multiple North American regulators allow 50 bps transaction costs, typically justified with circular referencing. The allowance of 50 bp continues to have no empirical evidence.

d) "*OEB has previously included an adjustment of 50 basis points for transaction costs….*" does not justify this practice to be continued, without empirical evidence that an allowance of 50 bp is reasonable.

e) No, however, there remains no empirical basis for the current approach.

Ontario Energy Association Interrogatory #N-M1-10-OEA-11

Interrogatory

Reference:

Exhibit M1, pages 123-124, and Figure 45

Preamble:

To determine base ROE, the OEB can also consider the average ROE from different methodologies (CAPM, DCF and ERP methodologies) to reduce the overreliance on a single methodology. Although international jurisdictions reviewed by LEI rely on CAPM to determine ROE (Australia and the UK), LEI acknowledges that most North American jurisdictions consider a mix of ROE methodologies. A summary of methodologies used in other jurisdictions is shown in Figure 45 below.

Question(s):

a) Please confirm that on pages 36-37 of the OEB's 2009 Report (EB-2009-0084), the Board determined that it was appropriate to use more than one methodology to estimate the authorized ROE for Ontario's utilities.

b) Please confirm that the Alberta Utilities Commission also considered the results of multiple methodologies including the constant growth and multi-stage forms of the DCF model and the CAPM in its October 2023 decision (Decision 27084-D02-2023) in which it reset the base ROE for Alberta's electric and gas utilities.

c) If other North American jurisdictions surveyed by LEI commonly rely on multiple models to determine the authorized ROE as shown in Figure 45, and if the OEB has previously indicated that it is better to use multiple methodologies than to place reliance on the results of a single model, please explain why LEI has relied solely on the results of the CAPM in making its base ROE recommendation in this proceeding.

d) If the results of one particular model substantially diverge from the results of other commonly-employed models to estimate the authorized ROE, is that another reason to give weight to the results of multiple methodologies? Please elaborate.

Response: Note that this interrogatory response has been prepared by LEI.

a) Confirmed.

b) Confirmed.

c) LEI has explained its reasons for not recommending multiple methodologies in the LEI Report and the LEI response in IR #N-M1-0-SEC-3.

d) No. Please see LEI response in IR #N-M1-0-SEC-3.

Ontario Energy Association Interrogatory #N-M1-11-OEA-12

Interrogatory

Reference:

Exhibit M1, pages 127-128

Preamble:

OEB is also among the few North American regulators to annually update the cost of capital parameters to ensure they align with the current macroeconomic environment. As such, LEI is not aware of OEB-regulated entities facing notable issues in attracting equity and debt capital since 2009. This is also reflected in the utility credit ratings and the regulator assessments performed by the credit rating agencies. For instance, S&P Global assesses the US and Canadian regulatory regimes based on analysis of quantitative and qualitative factors such as regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation.

Based on its assessment, S&P groups US states and Canadian provinces into 5 categories: (i) credit supportive; (ii) more credit supportive; (iii) very credit supportive; (iv) highly credit supportive; and (v) most credit supportive.

Question(s):

a) Is LEI aware of the authorized ROEs and capital structures for the utilities in the other nine jurisdictions in S&P Global's "Most Credit Supportive" category?

b) Is it LEI's view that the authorized ROEs and deemed capital structures for Ontario's utilities should be comparable to the other nine jurisdictions in this category? Please explain why or why not.

Response: Note that this interrogatory response has been prepared by LEI.

a) The table below shows the authorized ROEs and capital structures for utilities in the other nine jurisdictions in S&P Global's "Most Credit Supportive" category. Since the U.S. states in the table decide utilities' ROEs and equity ratios on a case-by-case basis, the table shows the average authorized ROE and equity ratio based on approved rate cases as of the fourth quarter of 2023 for each state. For Québec, LEI averaged the allowed ROE and capital structure of Énergir and Gazifère Inc.

Jurisdiction	ROE	Equity ratio
Ontario	**9.21% (effective January 1st, 2024)**	• **40% for electric distributors and transmitters and EPCOR Natural Gas**

Jurisdiction	ROE	Equity ratio
		• **45% for OPG** • **38% for Enbridge Gas**
Alabama	9.70%	55.5%
British Columbia	9.65%	45% for FEI 41% for FBC
Federal Energy Regulatory Commission (electric)	10.02%	50%
Florida	10.37% for electric utilities 10.15% for gas utilities	45.07% for electric utilities 52.38 for gas utilities
Iowa	10.02% for electric utilities 9.60% for gas utilities	51.00% for electric utilities 51.50% for gas utilities
Kentucky	9.75% for electric utilities 9.55% for gas utilities	41.25% for electric utilities 54.50% for gas utilities
Michigan	9.9% for electric utilities 9.85% for electric utilities	41.13% for electric utilities 39.23% for gas utilities
Québec	9.00%	39.25%
Wisconsin	9.77%	54.09%

Source: SNL, FERC, Énergir, and Gazifère Inc

b) Comparable peer group analysis is one of key inputs for assessing the comparable return standard; and not the only input. Relative business and financial risk changes (compared to previous equity thickness assessments) are also considered.

The fact that S&P Global has classified 10 North American jurisdictions as "Most Credit Supportive" despite variations observed in ROE and equity ratio within these jurisdictions further supports the view that 'comparable return standard' is not the only consideration.

To the best of LEI's knowledge, Ontario utilities have been able to raise capital at reasonable terms since at least 2006, which is one of the best indicators that the FRS is being met. Relative business and financial risk assessment should ensure that FRS continues to be met in the future. The perception of major credit rating agencies is also another key input in these assessments.

Further, meeting the FRS means fairness for both utilities and their customers. In *Northwestern Utilities v. City of Edmonton*, the Supreme Court of Canada defined "fair return", stating (emphasis added by LEI): *"The duty of the Board was to fix fair and reasonable rates; rates which, under the circumstances,* ***would be fair to the consumer on the one hand, and which, on the other hand, would secure to the company a fair return for the capital invested****."* As such, it is worth noting that an unreasonably high ROE and/or equity thickness also fails to meet the FRS.

Ontario Energy Association Interrogatory #N-M1-11-OEA-13

Interrogatory

Reference:

Exhibit M1, page 134

Preamble:

LEI believes that the OEB's existing cost of capital regime (including the determination of deemed capital structure) appropriately considers investor perspectives, as market data included in the formula and risk assessment when determining the appropriate equity thickness, when considered appropriately, should reasonably reflect investors' perspectives. The OEB can slightly modify the reporting requirements to enable better monitoring of the actual utility cost of capital.

Question(s):

a) In Section 4.11, LEI mentions how credit rating agencies such as S&P Global and DBRS view the Ontario regulatory environment. Has LEI also considered the perspective of equity investors in reaching its conclusion with respect to Issue #11? If so, please explain how the perspective of equity investors was taken into account in LEI's report.

b) Has LEI undertaken any analysis comparing the authorized base ROE it is recommending for Ontario's utilities to the authorized ROEs for other North American utilities that LEI views as being comparable in business and financial risk to the Ontario utilities? If so, please provide that analysis.

c) If the answer to part (b) above is "no", please explain the basis for LEI's conclusion that its recommended ROE of 8.95% for Ontario's utilities satisfies the capital attraction standard and the comparable return standard?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please refer to page 134 of the LEI Report: "*LEI believes that the OEB's existing cost of capital regime (including the determination of deemed capital structure) appropriately considers investor perspectives, as market data included in the formula and risk assessment when determining the appropriate equity thickness, when considered appropriately, should reasonably reflect investors' perspectives.*" While LEI did not contact a sample of "investors" to obtain their perspectives for the purposes of this LEI Report, the views of rating agencies incorporate perspective of both debt and equity investors.

b) Considering transaction costs (which LEI has recommended be treated as operating costs instead of allowing them within the ROE), the indicative base ROE of 8.95%[20] is within 1 SD (0.43%) of the average ROE (9.6%) for US utilities authorized between 2022 and 2024. Further, examples of US jurisdictions with authorized ROEs lower than 8.95% include Illinois, Vermont, and Connecticut.

c) N/A.

[20] Note that LEI's recommendation is to update the formula as of September 2024, which may or may not result in the ROE of 8.95%.

Ontario Energy Association Interrogatory #N-M1-12-OEA-14

Interrogatory

Reference:

Exhibit M1, page 137

Preamble:

At page 137, LEI states that:

"FEI's independent expert endorsed FEI's proposed ratio and compared the weighted ROEs, equal to the authorized ROE multiplied by the deemed equity ratios, for FEI and companies in its proxy group. He concluded that the proposed ratio is justified by FEI's risk profile and market data."

Question(s):

a) In this proceeding, did LEI perform an analysis of the deemed equity ratios for Ontario's regulated utilities? If so, please provide that analysis.

b) In this proceeding, did LEI compare the weighted ROEs, equal to the authorized ROE multiplied by the deemed equity ratios, for Ontario utilities and companies in its proxy group.? If so, please provide that analysis.

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-0-OEA-2 b).

b) No.

Ontario Energy Association Interrogatory #N-M1-21-OEA-15

Interrogatory

Reference:

Exhibit M1, page 168

Preamble:

For CWIP, LEI recommends continuing the current approach of basing the prescribed interest rate on the FTSE Canada Mid Term Bond Index All Corporate yield for all construction projects, regardless of duration. LEI also recommends continuing the current CWIP accounting procedures as set out in Article 220 (p. 200) and Article 410 (p. 27-28) of the OEB's *Accounting Procedures Handbook for Electricity Distributors*.

Question(s):

a) Did LEI perform a survey of the regulatory treatment of carrying costs on CWIP in other jurisdictions? If so, please provide that survey.

b) Does LEI agree that the majority of North American regulatory jurisdictions allow for the reflection of an equity component in the return on CWIP for investor-owned utilities? Please explain your answer.

Response: Note that this interrogatory response has been prepared by LEI.

Please see the LEI response in IR #N-M1-21-TFG/Minogi-2.

Pollution Probe Interrogatory #N-M1-2-PP-1

Interrogatory

Reference:

Exhibit M1, page 44

Preamble:

At page 44, LEI states:

"The term 'energy transition' refers to a shift from an energy system that primarily relies on fossil fuel-based energy sources (such as natural gas, coal and oil) to net zero-emitting renewable energy sources (such as batteries, solar and wind power, and carbon capture and storage). Electrification of heating and transportation is often a large part of such policies, with impacts on regulated utilities in both the electricity and gas sectors."

Question(s):

a) Please provide sources and references for the Energy Transition definition LEI notes above.

b) Please confirm that the Energy Transition is already underway and what changes are expected over the next 5, 10 and 15 year periods that are material to Cost of Capital.

c) The Province of Ontario already dictated a 'status quo' approach in Bill 165 related to regulatory treatment (e.g. temporarily maintain revenue assumptions pertaining to fossil fuel Capital despite the Energy Transition). Why should Energy Transition be treated differently for Cost of Capital assumptions?

d) Given the Energy Transition is a more complex issue that impacts specific items (e.g. useful life of assets) more than others, please explain whether it should be more appropriately addressed in those more specific manners (e.g. rule changes to asset lives) rather than broader Cost of Capital.

e) Enbridge does not currently have any assessment of Energy Transition risk in its Capital Asset Management. If Energy Transition risk is not included in Ontario gas Capital planning, why apply it to Cost of Capital? Shouldn't mitigating any (potential) risks be done during Capital planning in advance of determining any residual risk for the utility?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI are experts in the energy sector with nearly three decades of experience. LEI does not need to rely on third parties to define energy transition. Other entities such as S&P Global and Deloitte also use similar definitions of the energy transition.

b) While the energy transition may already be underway, LEI believes that it is only relevant to the cost of capital if it increases the risk that utility investments cannot be recovered. LEI is not aware of any utility whose prior investments have been disallowed and unrecovered due to the energy transition, and has no reason to believe that there will be a material change in utility ability to recovery their costs in the forthcoming regulatory period.

c) It should not be treated differently.

d) LEI agrees that these matters should be addressed outside of the cost of capital hearing.

e) LEI agrees that energy transition influences capital planning, and that this need not be addressed in a cost of capital hearing.

Pollution Probe Interrogatory #N-M1-3-PP-2

Interrogatory

Reference:

Exhibit M1

Question:

Please describe the difference between the Cost of Capital of electric utilities and gas utilities in Ontario and how those differences should be considered and applied when determining Cost of Capital parameters.

Response: Note that this interrogatory response has been prepared by LEI.

LEI has recommended that the existing OEB practice be retained, i.e., (i) authorizing a common ROE; and (ii) adjusting for differences in business/financial risks by adjusting the capital structure.

Further, LEI has recommended that several methodologies/policies such as DLTDR, DSTDR, interest on DVAs/CWIP accounts, and consideration of ownership structure in the cost of capital be commonly applied to both electric and gas utilities in Ontario.

Consumers Council of Canada Interrogatory #N-M1-5-CCC-1

Interrogatory

Reference:

Exhibit M1, page 80
Exhibit M4, page 22

Question(s):

a) For 2024 (or another recent year where the data is available), please provide the short-term debt rate resulting from:

   i. Option 1 (excluding the confidential survey of banks)

   ii. Option 3 (excluding the confidential survey of banks)

   iii. Option 4 (excluding the confidential survey of banks)

b) Please comment on Dr. Cleary's commentary on the use the existing CORRA rate as of September 30 of each year as the base CORRA rate. Please include in this response a discussion of the benefits/drawbacks relative to LEI's recommended option?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please refer to LEI response in #N-M1-4-VECC-21.

b) LEI believes there is merit in considering the expected futures rates (or forecasts). For example, as of August 13th, 2024, the value of CORRA is 4.53%, but the average of 3-month CORRA futures rates for the next 12-month period is 3.48%. The forward-looking rate in this example captures the widely expected Bank of Canada policy rate cuts.

Consumers Council of Canada Interrogatory #N-M1-7-CCC-2

Interrogatory

Reference:

Exhibit M1, pages 90-91
Exhibit M4, page 24

Question(s):

a) For 2024 (or another recent year where the data is available), please provide the long-term debt rate resulting from Option 1 and Option 2.

b) Please advise whether Bloomberg's BVCAUA30 index includes only Canadian utilities. If not, please explain what companies are included in that index and provide rationale supporting its use in the calculation of the utility bond spread.

c) 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 LEI's recommended option.

Response: Note that this interrogatory response has been prepared by LEI.

a) For 2024 (data as of June 2024), the long-term debt rate for: (i) Option 1 would result in 3.15%; and (ii) Option 2 would result in 3.4%.

b) LEI understands that the BVCAUA30 index comprises 30-year yields for A-rated Canadian utilities.

c) Please see LEI response in IR #N-M1-5-CCC-1 b).

Consumers Council of Canada Interrogatory #N-M1-8-CCC-3

Interrogatory

Reference:

Exhibit M1, page 96

Question:

Please explain how LEI's recommendation to treat transaction costs as operating expenses would be operationalized from a ratemaking perspective. For example, would the utility be required to include a forecast of its test year transaction costs in its rebasing application for OEB approval?

Response: Note that this interrogatory response has been prepared by LEI.

Yes, utilities can provide a forecast of transaction costs in their rebasing applications. Any incremental costs can be recorded in a DVA.

Consumers Council of Canada Interrogatory #N-M1-9-CCC-4

Interrogatory

Reference:

Exhibit M1, page 97

Preamble:

At page 97, LEI notes that, on average, the actual debt ratio for Ontario LDCs is lower than the deemed ratio of 60%. However, the customer-weighted average debt ratios are meaningfully higher than the simple average, which indicates that the capital structure of larger utilities is closer to the deemed capital structure, while smaller utilities finance more of their rate base with equity.

Question(s):

a) Please confirm that in the customer-weighted debt ratio analysis, Ontario LDCs have a lower actual debt ratio than the deemed ratio.

b) Please provide any insight that LEI may have as to why the simple average actual debt ratio and customer-weighted average actual debt ratio are lower than the deemed ratio for Ontario electricity distributor.

c) Please provide any insight that LEI may have regarding why smaller LDCs finance more of their rate base with equity relative to larger LDCs.

d) Please advise whether the overall LDC trend of funding more of rate base with equity (relative to the deemed amounts) provides any insight into a LDC's shareholders' views on earning only the debt rate on, at least a portion of, its invested equity capital.

Response: Note that this interrogatory response has been prepared by LEI.

a) Yes, confirmed.

b) Capitalization approaches vary by utility and are appropriately left to management discretion. Companies may choose by effectively self-funding a portion of their debt to simplify their lending relationships or provide additional flexibility regarding coverage ratios and other bank covenants which may interfere with company decisions with regards to distributions (dividends).

c) Shareholders of smaller utilities tend to be municipalities who are more comfortable informally self-funding the debt portion of the deemed capital structure

either because the debt return is acceptable or to increase flexibility with regards to distributions as noted in b) above.

d) Please see answers to b) and c) above.

Consumers Council of Canada Interrogatory #N-M1-10-CCC-5

Interrogatory

Reference:

Exhibit M1, pages 113-126

Question(s):

CCC acknowledges LEI's recommendation that the allowed base ROE be determined based on only the CAPM approach. However, we are also interested in understanding the other methodologies set out in LEI's report.

a) (Page 113) With respect to the ERP calculated in Figure 36, please provide rationale supporting the indexes used (comparable group column) and the period of analysis selected. As part of this response, please discuss whether longer time periods of market returns would provide any benefit to the ERP calculation.

b) (Pages 113-114) Please confirm that the determination of the updated ERP does not rely on information regarding the allowed ROEs by US regulators for electric and gas utilities. Instead, the allowed ROEs granted by US regulators is used to calculate the LCBF and utility bond spread adjustments in LEI's report.

c) Please comment on Concentric's and Nexus' use of approved returns (or, "authorized returns") for US 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.

d) (Pages 114 and 118) Please confirm that the difference between the peer groups used for the DCF ROE calculation (Figure 37) and the calculation of betas (Figure 39) is the removal of five generation companies due to high or low annual EPS growth estimates that were unusable for the purposes of calculating DCF ROE. If so, please explain why it was appropriate to keep those companies in the peer group for the calculation of betas.

e) (Page 116) With respect to the LCBF and utility bond spread adjustment factors, at a more general level, please discuss why using either an independent or combined 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.

f) (Page 117) Please confirm that in calculating a 1-year beta, the most recent year for which information is available is used. For the longer-term betas (i.e., 3 and 5-year) is it the most recent 3- and 5-year periods that are used? Please explain why the 5-year beta was selected and not a longer historical period.

g) (Page 117) Please provide an illustrative example of the beta estimation calculation (i.e., moving from raw to unlevered to re-levered betas).

h) (Page 117) Please discuss in more detail why it is necessary to calculate unlevered and re-levered betas.

i) (Page 118) Please add additional columns that provide the re-levered betas (1-, 3- and 5-year) for each peer company.

j) (Page 118) Please provide LEI's views on the differential in risk between Canadian and US utilities as expressed by the betas. Historically, do US utilities have higher betas than Canadian firms?

k) (Page 120) Please confirm that in LEI's approach to calculating the MRP there is no weighting applied to the Canadian market. If so, please explain why that is appropriate.

l) (Page 120) LEI noted that the major Canadian pension funds allocate 25% of their portfolio to the Canadian market. Please explain whether LEI is of the view that, at least some percentage of the calculation of the market returns for the MRP, should reflect Canadian returns.

   i. Please provide MRP values using a 50/50 split of US and Canadian market returns for the periods 1994-2023, 2004-2023, and 2014-2023.

   ii. Please provide MRP values using a 75/25 split of US and Canadian market returns for the periods 1994-2023, 2004-2023, and 2014-2023.

m) (Page 120) Please provide rationale supporting the use of Canadian bond rates in the calculation of RF and US market returns for the MRP.

n) (Page 121) LEI stated that, "investor expectations of the MRP may be shaped by the high US market return observed during the last 10 years. However, the current macroeconomic environment has more similarities to macroeconomic environments observed in the 1990s and 2000s."

   i. Please confirm that LEI's MRP weighting methodology operates to increase the weighting towards more recent years (i.e., 2014-2023). If so, please explain why that is appropriate in the context of the above referenced statement.

ii. Please provide revised CAPM ROE estimates where no weighting is applied in the calculation (i.e., each 10-year period is weighted equally).

iii. Please provide LEI's views on using the 1928-2023 S&P 500 total returns (Row 1 of Figure 41) for the calculation of the MRP.

o) (Page 125) Please advise whether the recommended change to the calculation of the ROE (i.e., Option 5) is intended to address a fundamental change in utility risk since the last time the OEB established the ROE for regulated utilities (2009) or are the changes more appropriately viewed as refinements to the approach for calculating the ROE?

p) Does LEI have any information with respect to the cost of capital treatment applied to publicly owned utilities in the US? How are those publicly owned utilities compensated (e.g., do they earn a return, do they recover actual debt costs, etc.)?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-10-VECC-36.

b) Confirmed.

c) Please see LEI responses in IRs #N-M1-0-SEC-1 and #N-M1-0-SEC-3.

d) Confirmed. Further, see LEI response in #N-M1-10-VECC-37 c).

e) There is a statistically significant relationship between utility bond yields and authorized ROEs. As such, using adjustment factors has merit and is in line with the existing approach.

f) As stated on page 117 of the LEI Report: *"LEI has determined 1-year, 3-year and 5-year betas, with a preference for a 5-year beta, which tends to be more stable over time."*

g) Please see LEI response in #N-M1-10-VECC-41. LEI has also filed the relevant calculations in this proceeding. Please see the Excel file "LEI_Figures_OEB cost of capital_20240627" filed on June 27th, 2024.

h) Please see LEI response in #N-M1-10-VECC-41.

i) If CCC would like to add additional columns, it can do so using the formulas provided by LEI for unlevering and relevering betas in #N-M1-10-VECC-41 c). The relevant inputs needed are already provided in Figure 39 of the LEI Report.

j) The sample size of publicly traded Canadian utilities is significantly smaller compared to the US. As such, it is challenging to perform a fair comparison.

k) Confirmed. Further, please see LEI response in #N-M1-10-SEC-18.

l) Please see LEI response in k) above.

m) Canada and US bonds are considered to be of similar risk. As such, Canadian sovereign bonds act as appropriate risk-free rates. Further, the MRP is determined only using US data (i.e., US market returns minus US risk-free rate).

As noted in the LEI report: *"LEI believes that CAPM ROE based on Canadian market data (5.14%) does not reflect investors' expected equity returns. The eight major pension funds in Canada (informally known as the Maple 8) allocate only about 25% of their portfolio to domestic Canadian investments, which indicates that investors are more likely to consider their MRP opportunity costs based on the US MRP.[21,22] As such, LEI prefers CAPM determined using US MRP."*

n) Please see the responses below:

i. LEI has acknowledged higher weightage to more recent data on page 121 of the LEI report: *"The investor expectations of MRP may be shaped by the high US market returns observed during the last 10 years. However, the current macroeconomic environment has more similarities to the macroeconomic environments observed during the 1990s and the 2000s. For instance, the prevailing interest rate environment aligns more with the Federal Reserve ("Fed") policy rates observed in the 1990s and 2000s (see Figure 43 below). This is further complicated by the expectation of policy rate cuts over the coming years, albeit the policy rates are not expected to decline to levels observed in the 2010s. LEI, therefore, considers CAPM ROE computed using 10-year, 20-year, and 30-year market data to be valid and reasonable. This provides a high CAPM ROE estimate of 10.22% (shaded in green in Figure 41), a low CAPM ROE estimate of 8.23% (shaded in green in Figure 41), and an average CAPM ROE estimate of 8.95%, which implies an average ERP of 5.75%. This average ERP estimate provides more weightage to recent 2014-2023 data."*

ii. LEI has intentionally applied higher weighting to more recent data. As such, LEI sees no merit in applying "no weighting" to the MRP estimates. For underlying calculations, please see the Excel file "LEI_Figures_OEB cost of capital_20240627" filed on June 27th, 2024.

iii. Please see LEI response in IR #N-M1-10-VECC-63.

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[21] Omers. Terms Explained: Pensions. November 12th, 2021.

[22] The Globe and Mail. Opinion: Pension funds need to seek out more investments in Canada. November 30th, 2023.

o) Please see LEI response in #N-M1-2-VECC-15 a).

p) Where relevant, the LEI Report has provided examples associated with cost of capital treatment across multiple North American jurisdictions.

Consumers Council of Canada Interrogatory #N-M1-5-CCC-6

Interrogatory

Reference:

Exhibit M1, page 118

Question(s):

For each company in each proxy group listed in Exhibit M1 at page 118, 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

Response: Note that this interrogatory response has been prepared by LEI.

Figure 39 in the LEI Report already provides relevant information. Providing the detailed information requested here is unnecessary to support LEI's conclusions.

Consumers Council of Canada Interrogatory #N-M1-11-CCC-7

Interrogatory

Reference:

Exhibit M1, page 129

Question:

If available, please provide the "Utility Regulatory Jurisdiction Assessment performed by S&P Global" for each year 2009-2022 (or any subset of that period that is available).

Response: Note that this interrogatory response has been prepared by LEI.

Please see the following attachments for the S&P Global assessments that LEI was able to locate:

- Attachment - N-M1-11-CCC-7 – 2018
- Attachment - N-M1-11-CCC-7 – 2020
- Attachment - N-M1-11-CCC-7 - 2021

Consumers Council of Canada Interrogatory #N-M1-12-CCC-8

Interrogatory

Reference:

Exhibit M1, page 140
Exhibit M2, page 137

Question(s):

LEI's recommendation is to maintain the status quo with respect to the capital structure (i.e., no change to equity thickness in the generic proceeding and to review equity thickness at rebasing as necessary).

a) Please advise whether LEI is of the view that the overall risk faced by Ontario electricity distributors has significantly changed since 2009.

    i. If yes, why should the OEB only consider changes to the capital structure for Ontario electricity distributors at the time of each distributor's rebasing application. Does LEI agree that it would be more efficient (in the context of the number of LDCs regulated by the OEB) to consider changes to the capital structures for all electricity distributors in the current generic proceeding.

b) Please provide LEI's views on Concentric's recommended increase to equity thickness for Ontario LDCs (from 40% to 45%).

c) If the OEB is inclined to make changes to the equity thickness for Ontario LDCs in the current proceeding (e.g., due to the large number of LDCs and the potential inefficiency in addressing equity thickness in each rebasing), please provide your directional view on whether the equity thickness for LDCs should increase or decrease.

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-2-VECC-17 a).

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

Consumers Council of Canada Interrogatory #N-M1-22-CCC-9

Interrogatory

Reference:

Exhibit M1, page 175

Question(s):

LEI recommended that the OEB should employ a deemed capital additions approach, which allows deemed WACC on the unamortized portions of cloud computing contracts.

a) In the context that capital additions are placed into rate base at the time of rebasing, please explain the above cited recommendation in terms of the Cloud Computing Deferral Account (i.e., is this really a recommendation for the treatment of cloud computing costs at the time of a utilities next rebasing or is the suggestion to apply the WACC to calculate the interest on the deferral account balance)?

b) Please advise whether LEI agrees that utilities may have a capital bias across all their investment/spending decisions.

    i. If so, please explain why cloud computing (as opposed to another category of costs that are traditionally treated as an expense) should be treated differently. Does LEI agree that spending on IT is a common business expense for a utility.

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI's recommendation for the treatment of unamortized cloud computing costs at the time of a utility's next rebasing. However, the OEB may allow for midterm rebasing using its judgement, depending upon the timing of utility's next rebasing.

b) Please see LEI response in IR #N-M1-0-VECC-8.

Consumers Council of Canada Interrogatory #N-M1-0-CCC-10

Interrogatory

Reference:

Exhibit M3, page 39

Question:

Please provide LEI's comments on the adjustments made to its calculations in Table 4 at p. 39 of Nexus' expert report.

Response: Note that this interrogatory response has been prepared by LEI.

In LEI's response to IR #N-M1-0-SEC-3, LEI has briefly discussed the rationale for utilizing the Canadian risk-free rate and the reasons for not recommending the DCF methodology. Issues with DCF methodology are also described in Section 4.10 of the LEI Report. Further, to the best of LEI's knowledge, there is no empirical basis for allowing 50 bps within the allowed ROE on an annual basis (without consideration of actual cost and timing for new equity issuances). As such, the adjustments made in Table 4 by Nexus have no merit/basis in LEI's view.

Caldwell First Nation Interrogatory #N-M1-1-CFN-1

Interrogatory

Reference:

Exhibit M1, pages 45-53 and 178-187

Preamble:

LEI recommends that the OEB maintain its status quo policy regarding the source of funding and the ownership type.

Question(s):

a) Did LEI consult with any Indigenous groups and/or First Nations in preparing the Report?

b) Please provide details and discuss all analysis undertaken by LEI that specifically considered ownership structures that include Indigenous groups and/or First Nations partnerships. In your response, please discuss the disadvantages of not considering types of ownership structure in a determination of cost of capital methodologies and what advantages arise from a model that does include ownership structures such as Indigenous ownership partnerships.

c) Given the varied ownership structures (including Indigenous partnerships), what specific considerations were made in the Report and/or LEI's analysis for (i) Indigenous groups and/or First Nations seeking to partner with utilities regarding the source of capital and (ii) developing recommendations for the cost of capital and capital structure methodologies?

d) The Report recommends maintaining the current approaches to setting cost of capital based on ownership structures. Please discuss how the recommendations and conclusions:

    (i) apply to an Indigenous groups and/or First Nations partnering with a utility;

    (ii) may result in any anticipated financial impacts on such Indigenous groups, First Nations, and/or utilities;

    (iii) may impact Indigenous groups and/or First Nations' ability to secure favorable financing terms;

    (iv) may impact Indigenous groups and/or First Nations that rely on government funding (e.g., Infrastructure Ontario) as a source of capital compared to those accessing private capital markets; and

(v) would change if there was an identified priority to promote Indigenous groups and/or First Nations equity participation and explain.

e) Are there adjustments to ownership structure and related OEB methodologies that can be made that would increase the likelihood of Indigenous groups and/or First Nations equity participation and, if so, what are they?

f) Did LEI consider the implications of different deemed equity ratios on utilities that include Indigenous groups and/or First Nations as equity partners compared to other utilities? If not, please identify and discuss possible implications and how the recommendations of the Report may mitigate or address any identified issues.

g) Please discuss whether and/or how the jurisdictional review considered approaches that address or fail to address the unique needs of utilities with Indigenous groups and/or First Nations partnerships? In your answer, please discuss whether LEI is aware of any jurisdictions where there is a policy or requirement to support Indigenous groups and/or First Nations equity participation and what this means for developing cost of capital determination.

h) Did LEI consider whether the proposed recommendations could impact Indigenous groups and/or First Nations' ability to access capital at lower or higher rates. If yes, please provide LEI's analysis and discuss. If no, please explain why not.

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-12-TFG/Minogi-1 b).

b) LEI's recommendations in Issue 1 (b) (i.e., *should the approach to setting cost of capital parameters and capital structure differ depending on different types of ownership*) remain the same regardless of unique utility circumstances. Please refer to Section 4.1.4 of the LEI report for detailed reasoning.

c) Please see LEI response in b) above.

d) Please see LEI response in b) above.

e) Please see LEI response in b) above.

f) Please see LEI response in b) above.

g) Please see LEI response in b) above.

h) Please see LEI response in b) above.

Caldwell First Nation Interrogatory #N-M1-2-CFN-2

Interrogatory

Reference:

Exhibit M1, pages 44, 53-62

Preamble:

LEI's review and recommendations considers the impacts of various macroeconomic conditions. LEI states that energy transition is bringing drastic changes to the energy sector as a whole, but there is neither a change in the volatility of net cash flows or an increased risk of inability to attract capital or recover associated investments.

LEI's jurisdictional review also identified other risks such as Indigenous rights and engagement risk as a risk factor.

Question(s):

a) As part of LEI's review and analysis undertaken in preparing the Report, did LEI determine or identify any other Indigenous-related risks. If yes, please discuss how the identification of such risks is addressed in LEI's recommendation and the best way to mitigate these risks as part of determining the cost of capital parameters and capital structure. If no, please discuss why not and/or why no such risks were addressed as part of LEI's recommendation.

b) In your opinion, what are the reasons that the OEB would not include in some way recognition of Indigenous Peoples in terms of the framework and methodologies being considered and developed as part of this proceeding?

c) How were the risk factors identified by LEI as part of its review weighted in determining LEI's recommendations, particularly in relation to projects involving Indigenous groups and/or First Nations partnerships, and are there any specific risks unique to Indigenous groups and/or First Nations that were identified and considered by LEI in preparing the Report?

d) Did LEI consider and analyze the business and financial risks specific to long-term projects that involve Indigenous groups and/or First Nations, such as access to capital and financial stability? If yes, please discuss. If no, please discuss why not and whether there are any unique risks related to such partnerships.

e) How and to what extent does (i) effective or ineffective Indigenous engagement, (ii) Indigenous groups and/or First Nations participation, and (iii) Indigenous groups and/or First Nations equity partnership in a project impact or effect risks related to

the cost of capital? In your response, please discuss how this should or could be made part of a risk framework?

f) What are the most likely early indicators that could occur in the near to medium term future related to the energy transition and that would cause LEI to reconsider or revisit its conclusion?

Response: Note that this interrogatory response has been prepared by LEI.

a) Indigenous-related risks may be highlighted in equity thickness applications to the OEB if the change in risks are deemed to be material.

As mentioned in LEI response to IR #N-M1-2-VECC-17 a), a full assessment of business/financial risks (along with forward-looking cash flow modelling) required to assess the appropriateness of the existing equity thickness for electricity distributors, OPG, EPCOR Natural Gas (and other OEB-regulated utilities) is outside the scope of this report.

Further, please see LEI response in IR #N-M1-12-TFG/Minogi-1 b).

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

d) Please see LEI response in a) above.

e) Please see LEI response in a) above.

f) Please see LEI response in a) above.

Caldwell First Nation Interrogatory #N-M1-3-CFN-3

Interrogatory

Reference:

Exhibit M1, pages 62-76

Preamble:

LEI recommends that any regulatory mechanism that can significantly impact the stability of future cash flows must be considered for review as part of regulatory risks and recommends the OEB maintain its current approach.

Question(s):

a) Does the regulatory and rate-setting mechanisms recommendation identified in the Report consider and address any specific business risks identified in relation to impacts on utilities with Indigenous groups and/or First Nations partnerships?

b) Are there specific regulatory barriers faced by Indigenous groups and/or First Nations which are not fully discussed in the Report? Please provide examples and how such barriers and/or risks are best mitigated in the context of this proceeding.

c) Are there any mechanisms available to specifically mitigate the regulatory risks that may impact the cost for capital for Indigenous groups and/or First Nations seeking to partner with utilities and for projects with Indigenous equity participation? If yes, how effective are these mechanisms? If no, in LEI's view, what would need to be considered to develop such mechanisms?

Response: Note that this interrogatory response has been prepared by LEI.

a) Please see LEI response in IR #N-M1-2-CFN-2 a)

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.

Caldwell First Nation Interrogatory #N-M1-5-CFN-4

Interrogatory

Reference:

Exhibit M1, pages 79-82

Preamble:

LEI notes that the average CRA (3-month CORRA futures) determined over the relevant forward-looking 12-month period is more representative of investor expectations of short-term rates over the next year, in line with potential Bank of Canada policy rate reduction expectations.

Question(s):

a) The Report proposes an alternative methodology for short-term debt rates. How might such an alternative methodology impact the financial planning and participation of Indigenous groups and/or First Nations with utilities?

b) Does LEI's recommendation consider and/or address the unique financial constraints of many Indigenous groups and/or First Nations, and are there any expected benefits for utilities that partner with Indigenous groups and/or First Nations as a result of LEI's recommended change?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI does not have specific knowledge of First Nations financial planning but does not believe that the proposed alternative would have a meaningful impact on financial planning for any entity.

b) While LEI believes the unique circumstances of First Nations are important, LEI believes that the recommended change has a neutral impact on all parties.

Caldwell First Nation Interrogatory #N-M1-8-CFN-5

Interrogatory

Reference:

Exhibit M1, pages 93-96

Preamble:

The Report discusses and provides recommendations for the inclusion of transaction costs in setting long-term debt rates.

Question(s):

a) Are there specific issues related to transaction costs that may impact Indigenous groups and/or First Nations that participate and partners with and utilities related to the raising of debt and equity capital? If yes, did LEI consider these impacts when developing its recommendation?

b) How should transaction costs associated with Indigenous groups and/or First Nations equity participation be considered when setting long-term debt rates?

c) Are there recommended practices for managing transaction costs that could be particularly beneficial for partnerships with Indigenous groups and/or First Nations?

Response: Note that this interrogatory response has been prepared by LEI.

a) LEI does not see any specific issues as long as the actual transaction costs are included in the utility revenue requirement. A uniform approach can be considered for all utilities.

b) Please see LEI response in a) above.

c) Please see LEI response in a) above.