EB-2020-0290

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Ontario Power Generation Inc. for an order or orders approving payment amounts for prescribed generating facilities commencing January 1, 2022.

**INTERROGATORIES TO
LONDON ECONOMICS INTERNATIONAL
FROM THE
SCHOOL ENERGY COALITION**

1. [Exhibit M, p. 1] Please provide the percentage 2020 gross revenue from consulting services (including expert testimony services) of LEI broken down into the following categories of clients:

    a. Regulated entities;
    b. Regulatory bodies and commissions;
    c. Consumer groups; and
    d. Others.

2. [Ex. M, p. 6] Please provide a copy of the discussion paper, presentation, and all other documents from LEI placed on the record in EB-2012-0340. If any were filed in confidence, please file the unredacted version in confidence in this proceeding for determination by the Board panel, and provide a redacted version in response to this interrogatory.

3. [Ex. M, p. 8] With respect to the scope of OPG's proposal to increase its equity thickness:

    a. Please confirm that OPG has proposed that the new 50% equity thickness should apply to both nuclear and hydroelectric prescribed facilities, as its cost of capital is combined, but that the application to the hydroelectric prescribed facilities would be deferred until the end of the rate freeze.

    b. Please confirm that LEI's proposed 47% equity thickness is intended to be applied in the same way as in (a) above.

    c. Please comment on whether, if the OEB establishes an earnings sharing mechanism or other method of protecting against overearnings from the frozen hydroelectric rates, it is the intention of LEI that the calculation of earnings for hydroelectric would include the proposed 47% equity thickness, or the 45% equity thickness underlying the current rates, or some other equity thickness.

4. [Ex. M, p. 15, 51] Please comment on the extent, if any, to which the standalone principle should apply if a declining perception of provincial credit support leads to a lower OPG credit rating.

5. [Ex. M, p. 17] Please confirm LEI's expert opinion that the business risk from the DRP has declined since EB-2016-0152. Please confirm LEI's view that this opinion is shared by the rating agencies.

6. [Ex. M, p. 21] Please confirm LEI's expert opinion that the declining percentage of nuclear revenues (from 72% to 69%) and the declining percentage of nuclear output (from 57% to 47%), should result in reduced business risk for OPG.

7. [Ex. M, p. 25-6, 29] Please confirm LEI's expert opinion that climate change will, on balance, neither increase nor decrease the business risk of OPG in any material way between now and 2027.

8. [Ex. M, p. 27] Please confirm LEI's expert opinion that the risk of political intervention in Ontario energy regulation has not changed materially in the period from 1999 to date. If not confirmed, please identify any periods in which the risk of political intervention has gone up or down, and provide comments on the impact on each change on business or financial risk.

9. [Ex. M, p. 28] Please confirm that prohibitions against strikes or lockouts by unionized employees of utilities is generally perceived by investors as reducing the business risk of utilities.

10. [Ex. M, p. 31] Please confirm LEI's expert opinion that, at the present time, there is no reason to believe – and no evidence on which one could conclude - that the modernization of the OEB will result in any increase or decrease in business or financial risk for OPG.

11. [Ex. M, p. 32] Please provide empirical evidence supporting the view that investors have determined expected increases in DERs constitute an increase in business or financial risk over the period 2022-2026.

12. [Ex. M, p. 35, 38] Please confirm that no rating agency has stated that there has been an increase in business or financial risk for OPG since EB-2016-0152, and that the only changes in business risk assessments by the rating agencies since then have been reductions in business risk.

13. [Ex. M, p. 41] Please confirm LEI's expert opinion that, if the OEB were to maintain OPG's equity thickness at 45%, LEI's forecasts show that OPG would retain its investment-grade rating.

14. [Ex. M, p. 44] Please confirm that inflationary risks are accounted for in the cost of capital through cost of debt and ROE, and are not generally considered a factor in assessing equity thickness.

15. [Ex. M, p. 44] LEI expresses agreement with the statement *"Concentric determined that inflationary pressures pose an incremental financial risk due to OPG's fixed hydroelectric payment amount set under the price-cap incentive model"*. Please provide a forecast of expected hydroelectric ROE for the period 2022-2026, and provide a sensitivity analysis to show at what level of inflation ROE can be expect to fall below the current Board-approved levels.

16. [Ex. M, p. 47-8] With respect to changes in utility betas:

    a. Please confirm that betas are relevant to ROE, but are not generally applied as a factor in determining equity thickness.

b. Please confirm LEI's expert opinion that the current utility betas are similar to those in existence when the OEB set the ROE formula in EB-2009-0084, and that utility betas in the US and in Ontario are expected to decline between now and 2027.

c. Please confirm LEI's expert opinion that, if utility betas are considered by the OEB as a factor in assessing OPG's equity thickness, they would suggest a reduction rather than increase in equity thickness.

17. [Ex. M, p. 51] Please confirm that, on balance, LEI does not believe that provincial/sovereign risk has increased since EB-2016-0152.

18. [Ex. M, p. 52-3] Please confirm LEI's expert opinion that, as a generation utility with a preponderance of non-GHG facilities, OPG is able to tap a larger investor group through Green Bonds, and this reduces OPG's financial risk.

19. [Ex. M, p. 56-7] Please provide details of the adjustment LEI made to its recommended equity thickness to take account of the 12.18% difference in average equity thickness between Canada and the USA. Please reconcile the adjustment with the fact that *"LEI's recommended equity thickness of 47% lies close to the midpoint of [the US] range"*.

20. [Ex. M, p. 60] Please explain why LEI is not recommending a reduction in equity thickness, to bring the equity thickness for OPG's zero-emitting regulated assets closer to the 26% average for Canadian zero-emitting IPPs. Please explain how LEI's answer is consistent with the quoted conclusion from DBRS that OPG's regulated credit risks would be similar to those of IPPs with contracts like those of this comparator group.

21. [Ex. M, p. 63-4] Please reconcile LEI's proposed 47% equity thickness with the trends in Great Britain and Australia, and the fact that all equity thicknesses in those jurisdictions are below that level. Please provide details of how LEI went about "adjusting UK and Australian experience for greater risk".

22. [Ex. M, p. 70] Please describe the basis on which LEI is proposing an equity thickness for OPG that is higher than the equity thickness of any other Canadian gas or electric utility, and almost 9% greater than the average of the utilities listed in Appendix B. Please explain why the Commissioners in this case should ignore this evidence that 47% would, if approved, be an outlier in Canada.

Submitted on behalf of the School Energy Coalition this May 25, 2021.

Jay Shepherd
Counsel for the School Energy Coalition