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BY EMAIL AND WEB POSTING

April 22, 2024

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

Dear Ms. Marconi:

Re: Generic Proceeding – Cost of Capital and Other Matters
Ontario Energy Board File Number: EB-2024-0063

In accordance with Procedural Order No. 1, Ontario Energy Board (OEB) staff advises that all parties have come to an agreement regarding a proposed issues list for this proceeding. The proposed issues list is attached to this letter (both a clean version and a comparison version showing changes to OEB staff's original draft).

Parties also reached agreement regarding the following items that were listed in Procedural Order No. 1:

- a) Whether any issues could be expeditiously heard in writing
- b) Whether there is urgency to determine the cloud computing issues through a written process, to enable an earlier determination

There was agreement that it was premature at this time to identify issues that could be expeditiously heard in writing. Also, there was agreement that there is no urgency to determine the cloud computing issues earlier.

Any questions relating to this letter should be directed to Fiona O'Connell at fiona.oconnell@oeb.ca.

Yours truly,

Fiona O'Connell
Senior Advisor, Regulatory Accounting, Operations Decision Support
c: All parties to EB-2024-0063

Proposed Issues List
Cost of Capital and Other Matters
EB-2024-0063

A. General Issues

1. Should the approach to setting cost of capital parameters and capital structure differ depending on:
 - a) The source of the capital (i.e., whether a utility finances its business through the capital markets or through government lending such as Infrastructure Ontario, municipal debt, etc.)?
 - b) The different types of ownership (e.g., municipal, private, public, co-operative, not for profit, First Nation / utility partnership, etc.)
2. What risk factors (including, but not limited to, the energy transition) should be considered, and how should these risk factors under the current and forecasted macroeconomic conditions be considered in determining the cost of capital parameters and capital structure?
3. What regulatory and rate-setting mechanisms impact utility risk, and how should these impacts be considered in determining the cost of capital parameters and capital structure?

B. Short-Term Debt Rate

4. Should the short-term debt rate for electricity transmitters, electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report?¹
5. If no to Issue #4, how should the short-term debt rate be set ?

¹ EB-2009-0084, *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (OEB Report), December 11, 2009, pp. iii, 55-59

C. Long-Term Debt Rate

6. Should the long-term debt rate for electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report and as set out in the Staff Report for electricity transmitters?²
7. If no to Issue #6, how should the long-term debt rate be set?
8. How should transaction costs incurred by utilities be considered when setting the long-term debt rate?
9. What are the implications of variances from the deemed capital structure (i.e., notional debt and equity) and how should they be considered in setting the cost of long-term debt?

D. Return on Equity

10. Does the OEB's methodology, including the base inputs, currently produce a return on equity that satisfies the Fair Return Standard (FRS)?
11. If no to Issue #10, what alternative methodology, methodology components, and/or base inputs should be considered?
12. Are the perspectives of debt and equity investors in the utility sector relevant to the setting of cost of capital parameters and capital structure? If yes, what are the perspectives relevant to that consideration, and how should those perspectives be taken into account for setting cost of capital parameters and capital structure?

E. Capital Structure

13. How should the capital structure be set for electricity transmitters, electricity distributors, natural gas utilities, and OPG to reflect the FRS?

² OEB Report, pp. 50-55, 59; EB-2009-0084, OEB Staff Report, *Review of the Cost of Capital for Ontario's Regulated Utilities* (Staff Report), January 14, 2016, p. 3 Table 1

14. Should the OEB take a different approach for setting the capital structure for electricity transmitters depending on whether they are a single versus multiple asset transmitter?

F. Mechanics of Implementation

15. What on-going monitoring indicators to test the reasonableness of the results generated by its cost of capital methodology should the OEB consider, including the monitoring of market conditions?

16. How should the OEB regularly confirm that the FRS continues to be met and that rate-regulated entities are financially viable and have the opportunity to earn a fair, but not excessive, return?

17. What should be the timing of the OEB's annual cost of capital parameters updates, including the timing, as required, of the underlying calculations?

18. What should be the defined interval (for example, every three to five years) to review the cost of capital policy (including, but not limited to, a review of the ROE formula and the capital structure)? Should the OEB adopt trigger mechanism(s) for a review and if so, what would be the mechanisms?

19. How should any changes in the cost of capital parameters and/or capital structure of a utility be implemented (e.g., on a one-time basis upon rebasing or gradually over a rate term)?

20. Should changes in the cost of capital parameters and/or capital structure arising out of this proceeding (if any) be implemented for utilities that are in the middle of an approved rate term, and if so, how?

G. Other Issues

a) Prescribed Interest Rates

21. Should the prescribed interest rates applicable to DVAs and the construction work in progress (CWIP) account for electricity transmitters, electricity

distributors, natural gas utilities, and OPG continue to be calculated using the current approach?³

22. If no to Issue #21, how should the prescribed interest rates applicable to DVAs and the CWIP account be calculated?

b) Cloud Computing Deferral Account

23. Should carrying charges and/or another type of rate apply to the Cloud Computing deferral account? If so, what rate should be applied?⁴

³ OEB [website](#); EB-2006-0117, OEB [Letter](#), Approval of Accounting Interest Rates Methodology for Regulatory Accounts November 28, 2006; Accounting Procedures Handbook For Electricity Distributors, Issued: December 2011, Effective: January 1, 2012, Article 220, p. 200; Article 410, pp. 27 & 28

⁴ Please refer to the OEB's Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, issued November 2, 2023.

Proposed Issues List (Tracked Changes)
Cost of Capital and Other Matters
EB-2024-0063

~~OEB staff has developed a Draft Issues List, organized into eight areas as follows: A) General Issues, B) Short-Term Debt Rate, C) Long-Term Debt Rate, D) Return on Equity, E) Capital Structure, F) Prescribed Interest Rates, G) Cloud Computing Deferral Account, and H) Mechanics of Implementation. This Draft Issues List was developed as a starting point for discussions at the Issues Conference, and to assist in organizing the issues.~~

A. General Issues

- ~~1. Should the approach to setting cost of capital parameters values and the capital structure differ depending on:
 - ~~a) The source of the capital (i.e., whether a utility finances its business through the capital markets or through government lending such as (e.g., Infrastructure Ontario, municipal debt, etc.)~~
 - ~~b) The different types of ownership (e.g., municipal, private, public, co-operative, not for profit, First Nation / utility partnership, etc.)~~~~

~~If so, what would be the implications, if any, of doing so?~~

- ~~2. What ~~How should all identified~~ risk factors (including, but not limited to, the energy transition) should be considered, and how should these risk factors under the current and forecasted macroeconomic conditions be considered in determining the cost of capital parameters and capital structure?~~

- ~~3. What regulatory and rate-setting mechanisms impact utility risk, and how should these impacts be considered in determining the cost of capital parameters and capital structure?~~

- ~~1. Has the transition to fixed electricity distribution rates reduced the business risk to electricity distributors to a degree that would warrant a change to the cost of capital parameters and capital structure that apply to them, and if so, how should this be addressed?~~

- ~~2. Do deferral or variance accounts (DVAs) reduce business risk to utilities to a degree that would warrant a change to the cost of capital parameters and capital structure that apply to them, if so how should this be addressed?~~

B. Short-Term Debt Rate

~~3.4.~~ Should the short-term debt rate for electricity transmitters, electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report?⁵

~~4.5.~~ If no to Issue #~~54~~, how should the short-term debt rate be set ~~to appropriately reflect the risk profile and short-term liquidity needs of rate-regulated entities (i.e., electricity transmitters, electricity distributors, natural gas utilities, and OPG)?~~

C. Long-Term Debt Rate

~~5.6.~~ Should the long-term debt rate for electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report and as set out in the Staff Report for electricity transmitters?⁶

~~7.~~ If no to Issue #~~76~~, how should the long-term debt rate be set ~~to appropriately reflect the risk profile and long-term financing needs of rate-regulated entities (i.e., electricity transmitters, electricity distributors, natural gas utilities, and OPG)?~~

8. How should transaction costs incurred by utilities be considered when setting the long-term debt rate?

9. What are the implications of variances from the deemed capital structure (i.e., notional debt and equity) and how should they be considered in setting the cost of long-term debt?

⁵ EB-2009-0084, *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (OEB Report), December 11, 2009, pp. iii, 55-59

⁶ OEB Report, pp. 50-55, 59; EB-2009-0084, OEB Staff Report, *Review of the Cost of Capital for Ontario's Regulated Utilities* (Staff Report), January 14, 2016, p. 3 Table 1

D. Return on Equity

~~6. Should the ROE for electricity transmitters, electricity distributors, natural gas utilities, and OPG continue to be calculated using the same approach as set out in the OEB Report?⁷~~

~~If no to Issue #9, how should the ROE be calculated to appropriately reflect the Fair Return Standard and the risk profile of rate-regulated entities (i.e., electricity transmitters, electricity distributors, natural gas utilities, and OPG)?~~

~~10. Does the OEB's methodology, including the base inputs, currently produce a return on equity that satisfies the Fair Return Standard (FRS)?~~

~~11. If no to Issue #10, what alternative methodology, methodology components, and/or base inputs should be considered?~~

~~7.12. Are the perspectives of debt and equity investors in the utility sector relevant to the setting of cost of capital parameters and capital structure? If yes, what are the perspectives relevant to that consideration, and how should those perspectives be taken into account for setting cost of capital parameters and capital structure?~~

E. Capital Structure

~~8. Should the capital structure for electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report and as set out in the Staff Report for electricity transmitters?⁸~~

~~13. If no to Issue #11, how should the capital structure be set for electricity transmitters, electricity distributors, natural gas utilities, and OPG to reflect the FRS for the sectors of the industry and to appropriately reflect the risk profile of rate-regulated entities (i.e., electricity transmitters, electricity distributors, natural gas utilities, and OPG)?~~

⁷OEB Report, p. 59

⁸OEB Report, pp. 49 & 50; Staff Report p. 3 Table 4

~~9-14.~~ Should the OEB take a different approach for setting the capital structure for electricity transmitters depending on whether they are a single versus multiple asset transmitter?

F. Mechanics of Implementation

~~10-15.~~ What on-going monitoring indicators to test the reasonableness of the results generated by its cost of capital methodology should the OEB consider, including the monitoring of market conditions?

~~11-16.~~ How should the OEB regularly confirm that the FRS Fair Return Standard continues to be met and that rate-regulated entities are financially viable and have the opportunity to earn a fair, but not excessive, return?

~~12-17.~~ What should be the timing of the OEB's annual cost of capital parameters updates determination, including the timing, as required, of the underlying calculations ~~and issuance by the OEB of its annual updates~~?

~~13-18.~~ What should be the defined interval (for example, every three to five years) to review the ROE formula cost of capital policy (including, but not limited to, a review of the ROE formula and the capital structure)? Should the OEB adopt trigger mechanism(s) for a review and if so, what would be the mechanisms?

~~14-19.~~ How should any changes in the cost of capital parameters and/or capital structure of a utility be implemented (e.g., on a one-time basis upon rebasing or gradually over a rate term)?

~~20.~~ How sShould changes in the cost of capital parameters and/or capital structure arising out of this proceeding (if any) be implemented for utilities that are in the middle of an approved rate term, and if so, how?

G. Other Issues

a) Prescribed Interest Rates

~~15-21.~~ Should the prescribed interest rates applicable to DVAs and the construction work in progress (CWIP) account for electricity transmitters,

electricity distributors, natural gas utilities, and OPG continue to be calculated using the current approach?⁹

~~16-22.~~ If no to Issue #~~2143~~, how should the prescribed interest rates applicable to DVAs and the CWIP account be calculated ~~for the sectors of the industry (i.e., electricity transmitters, electricity distributors, natural gas utilities, and OPG)?~~

b.) Cloud Computing Deferral Account

~~For further detail regarding the scope of matters to be addressed in respect of the Cloud Computing Deferral Account, please refer to the OEB's Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, issued November 2, 2023.~~

~~17. How should the costs of cloud computing solutions be recovered? How should the risk profile of both cloud computing solutions and on-premise solutions be assessed in this proceeding, including whether the risk profile of utilities that have adopted cloud computing solutions has changed?~~

~~18-23.~~ Should carrying charges and/or another type of rate apply to the Cloud Computing deferral account? If so, what rate should be applied?¹⁰

⁹ OEB [website](#); EB-2006-0117, OEB [Letter](#), Approval of Accounting Interest Rates Methodology for Regulatory Accounts November 28, 2006; Accounting Procedures Handbook For Electricity Distributors, Issued: December 2011, Effective: January 1, 2012, Article 220, p. 200; Article 410, pp. 27 & 28

¹⁰ [Please refer to the OEB's Accounting Order \(003-2023\) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, issued November 2, 2023.](#)