PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

August 2, 2024 **VIA E-MAIL**

Ms. Nancy Marconi
Registrar (registrar@oeb.ca)
Ontario Energy Board
Toronto, ON

Dear Ms. Marconi:

Re: EB-2024-0063 Generic Cost of Capital Proceeding
Interrogatories of the Vulnerable Energy Consumers Coalition (VECC)
to Concentric Energy Advisors LLC (LEI) Exhibit M2 – Ontario Energy Association (OEA)

Please find attached the revised interrogatories of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

Mark C. Garner
Digitally signed by Mark C. Garner
Date: 2024.08.02 16:49:09 -04'00'

Mark Garner
Consultants for VECC/PIAC

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REQUESTOR NAME	**VECC**
TO:	**CONCENTRIC ENERGY ADVISORS (CONCENTRIC) - OEA**
DATE:	**AUGUST 2, 2024**
CASE NO:	**EB-2024-0063**
APPLICATION NAME	**GENERIC COST OF CAPITAL PROCEEDING**

1.0 Reference: M2: CONCENTRIC Report, page 6

Preamble The Report states:
"*Utility betas have increased substantially for electric and gas utilities since January 2020, and since the OEB last considered this issue in 2009. This indicates that regulated utilities are seen as increasingly risky by investors. Utility betas have been in the range of 0.80 to 0.90 percent since early 2020, as compared to the historical average level of 0.60 to 0.70 in the preceding 10 years, notwithstanding the increase observed in 2009 in the wake of the Great Recession*."

1.1 Please provide (separately) the range of Canadian utility betas and US utility betas for the period since early 2020.

1.2 What were the utility betas at the time the OEB last considered this issue (e.g., the betas used in expert evidence filed for the 2009 proceeding)? If different, please provide (separately) the betas for Canadian vs. US utilities?

1.3 Was there a difference between the betas for electricity distributors/transmitters vs. natural gas distributors vs. utilities with significant generation at the time of the 2009 proceeding? If available, please respond (separately) using Canadian and US utility betas.

1.3.1 If yes, what were the differences?

1.4 Is there currently a difference between the betas for electricity distributors/transmitters vs. natural gas distributors vs. utilities with significant generation at the time of the 2009 proceeding? If available, please respond (separately) using Canadian and US utility betas.

1.4.1 If yes, what were the differences?

2.0 Reference: M2: CONCENTRIC Report, page 9 (Footnote #6)

Preamble: Footnote #6 states:
"*The DCF and CAPM results include an adjustment of 50 basis points for flotation costs and financial flexibility*."

2.1 Please explain why the Risk Premium results were not adjusted for flotation costs and financial flexibility. Is it because the authorized ROEs used in the analysis are assumed to already incorporate such an adjustment?

3.0 Reference: M2: CONCENTRIC Report, page 12

Preamble: The Report states:
"*Equity investors and credit rating agencies consider authorized returns and deemed equity ratios as relevant benchmarks against which to measure whether the return in Ontario is comparable, on a risk-adjusted basis, to the returns in other jurisdictions across North America. On this basis, there is a gap that places Ontario's utilities at a comparative disadvantage when it comes to attracting capital*."

3.1 Is Concentric aware of any instances were Ontario gas distributors have experienced difficulty raising either equity or debt capital when seeking to do so?

3.1.1 If yes, please describe.

3.2 Is Concentric aware of any instances were Ontario electricity transmitter and distributors have experienced difficulty raising either equity or debt capital when seeking to do so?

3.2.1 If yes, please describe.

4.0 Reference: M2: CONCENTRIC Report, page 12

Preamble: The Report states:
"*From our examination, the Ontario ROE formula has generally resulted in ROEs that are in line with authorized returns for other Canadian electric and gas utilities but lower than the average authorized returns for comparable risk U.S. peers, and tend to further deviate from those required by the Fair Return Standard during periods of extreme stress in financial markets such as 2008-2009 and 2020-2021*."

4.1 Please provide historical data for the period 2009-2024 that demonstrates: i) the Ontario ROE formula has generally resulted in ROEs that are in line with authorized returns for other Canadian electric and gas utilities, ii) the OEB's formula results have generally been lower than the average authorized returns for comparable risk U.S. peers, and iii) the OEB's formula results have tended to further deviate from those required by the Fair Return Standard during periods of extreme stress in financial markets such as 2008-2009 and 2020-2021.

4.1.1 With respect to item (iii), what has Concentric used as the benchmark/basis for the return value associated with the Fair Return Standard?

5.0 Reference: M2: CONCENTRIC Report, pages 14 and 153

Preamble: The Report states:
"*However, understanding the Board's historical preference to apply a short-term interest rate to DVAs, Concentric recommends that for DVAs that are to be cleared within one year, the short-term prescribed interest rate continue to apply*." (page 14)
And
"*Concentric recommends, for the reasons discussed above, that the Board apply the WACC to DVA balances that are to remain on utilities' balance sheets for more than one year and retain a short term rate for DVAs that are cleared within one year*."

5.1 Please clarify what Concentric means by "*to be cleared within one year*" in the following contexts:
i) Typically the earliest a DVA balance can be cleared is in the second year (e.g., balance as of year-end 2023 could start to be cleared is 2025). Would a balance accumulated in 2023 and cleared in 2025 be subject to the short-term prescribed interest rate?
ii) For some DVAs balances are cleared annually but only if a materiality threshold is achieved. What interest rate should apply?

6.0 Reference: M2: CONCENTRIC Report, pages 10 & 22

Preamble: The Report states:
"*Concentric recommends that should OPG bring forward a proposal and evidence in its payment amounts application regarding whether and what amount of additional risk premium should be applied to its authorized ROE, the OEB consider that proposal at its discretion as part of that proceeding*." (page 10) And
"*Concentric recommends that utility-specific factors continue to be used in determining whether a utility's equity thickness, in combination with the generic ROE, meets the Fair Return Standard*." (page 22)

6.1 The first reference suggests that there are cases where the ROE should be adjusted to recognize utility specific (e.g., OPG) risk factors. However, the second reference suggests there should be a common/generic ROE and utility specific risk factors recognized in determining utility's equity thickness in combination with the generic ROE. Please reconcile.

7.0 Reference: M2: CONCENTRIC Report, page 22

Preamble: The Report states:
"*Business risk for a regulated utility results from variability in cash flows and earnings that impact the ability of the utility to recover its costs, including a fair return on and of its capital in a timely manner. These risks must be evaluated <u>on a prospective basis</u>*." (emphasis added)

7.1 Assuming Concentric's recommendation (page 162) that periodic cost of capital reviews with refreshed market data on ROE and capital structure be undertaken every five years, how far forward should the prospective assessment of a utility's business risk look?

8.0 Reference: M2: CONCENTRIC Report, pages 23 & 27
British Columbia Utilities Commission, Generic Cost of Capital Proceeding (Stage 1), Exhibit B1-8-1, Appendix C, CONCENTRIC's Cost of Capital Report, page 125

Preamble: The Report states (page 23):
"*The Energy Transition affects nearly every aspect of existing utilities' businesses, from their growth prospects, to the capital projects pursued, to their fundamental ability to secure and offer investors the opportunity to earn a fair return on capital. In Ontario alone, gross capital spending across electric distributors increased from $1.8 billion annually in 2012 to over $2.5 billion annually in 2022*."
And
"*Consequently, the Energy Transition has already increased both business and policy-related risks for all Ontario utilities and is inevitably going to continue to do so*."
And
"*Other business risks that should be considered when evaluating the appropriate cost of capital include severe weather events (more frequent and severe weather events, such as wildfires, hurricanes, and floods that pose the highest physical risk to utilities than any other sector), competition from alternative fuels (displacement of fossil fuels with cleaner alternatives) and system bypass, technology risk and two-way power flows, increased expectations regarding reliability, and changes in government policies*"

Concentric's Evidence in the BCUC Generic Cost of Capital Proceeding (Stage 1) states the following in its discussion of FortisBC's business risk profile:
"*In addition, I also considered FBC's risk evidence, which includes the following risk categories: 1) business profile; 2) economic conditions; 3) political; 4) Indigenous rights and engagement; 5) energy price; 6) demand/market; 7) energy supply; 8) operating and 9) regulatory*."

8.1 Please confirm that the gross capital spending values quoted for 2012 and 2022 including both spending driven by growth and spending to sustain/replace existing assets.

8.1.1 If confirmed, can Concentric indicate what portion of the spending each of these years was driven by growth?

8.2 What was the average annual gross capital spending by Ontario electricity distributors over the period 2010-2012 as compared to 2020-2022?

8.3 The second reference from the current Report suggests that policy (i.e. political) risk is distinct from business risk. However, both the third reference from the current Report and the reference from Concentric's evidence in the BCUC proceeding suggest policy risk is one of the elements of business risk. Please reconcile.

8.4 Also, with respect to the second reference, has Energy Transition also increased business risk (including political risk) for the Canadian and US peers of Ontario's

utilities? In responding please separately address the question for: i) Ontario's electricity transmitters and distributors; ii) Ontario's natural gas distributors and iii) OPG. Note in the case of OPG please consider as peers companies whose asset base/revenues are primarily associated with generation.

8.4.1 If yes, has the business risk faced by Ontario's utilities due to Energy Transition increased or decreased relative to that of its peers?

9.0 Reference: M2: CONCENTRIC Report, pages 23-24

Preamble: The Report states:
"*In their analysis and ratings, credit rating agencies assess whether the utility's regulatory environment is constructive and supports the predictability of cash flow. For example, Moody's Investors Service ("Moody's") weighs the "stability and predictability of regulatory regime" at fifteen percent in its regulated electric and gas network methodology*." (page 23) And
"*Ratings agencies similarly consider the supportiveness of the regulatory framework, or "the extent to which the regulatory formula is supportive of cost recovery, including the mechanism by which one-off costs or over-spends are recovered, if at all*."" (page 24)

9.1 How do Moody's and S&P rate/rank the regulatory regime in Ontario relative to the regulatory regimes in other Canadian and US jurisdictions?

10.0 Reference: M2: CONCENTRIC Report, page 29

Preamble: The Report states:
"*Concentric disagrees with LEI's position regarding the impact of Energy Transition issues on the cost of capital. LEI states that utilities' cash flows are protected via various regulatory mechanisms (i.e., DVAs, Z factor, I factor, and off-ramp mechanisms). However, the risks resulting from the Energy Transition are not fully mitigated by these mechanisms and are likely to continue to increase*."
And
"*For example, as utilities adopt new technologies and build first-of-a-kind projects, they encounter challenges such as shortages of skilled labour and increased competition across the supply chain, in addition to technology risks. Increased operational risk may lead to funding risks if investors are not compensated fairly for their investments as capital availability tightens with more utilities entering the capital markets to fund construction projects*."

10.1 With respect to the first reference, for each of Ontario's electricity distributors, Ontario's electricity transmitters, Ontario's natural gas distributors and OPG, please indicate Concentric's understanding as to the regulatory mechanisms available to protect case flows that lead to the conclusion that "*the risks resulting from the Energy Transition are not fully mitigated by these mechanisms and are likely to continue to increase*".

10.2 With respect to the second reference, is it reasonable to assume that a prudently managed utility would consider technical and operational risks and mitigation

strategies for addressing them when deciding whether or not to undertake a specific investment project?

11.0 Reference: M2: CONCENTRIC Report, page 30

Preamble: The Report states:
"*A demonstration that the regulated utility has actually earned its allowed return is a retrospective view of a constructive regulatory environment and a well-functioning utility, but not a measure of the business risk and financing requirements companies face in the future and not the basis on which prospective investors make investment decisions*."

11.1 In Concentric's view does the fact that regulated utilities in a jurisdiction generally earn their allowed return (on equity) indicate that the allowed return met the FRS?

12.0 Reference: M2: CONCENTRIC Report, page 31

Preamble: The Report states:
"*Changes in relative risk are not predicated on the establishment of significant changes in the applicant's risk, which the current OEB approach requires. While the implementation of a new regulatory mechanism may reduce a utility's absolute risk, it does not necessarily reduce the cost of capital if peer utilities have similar risk-mitigating mechanisms available to them. Further, in Concentric's experience, the regulatory regime and regulatory mechanisms should be considered in their entirety and compared to the suite of mechanisms available in peer jurisdictions*."

12.1 Given that "*the regulatory regime and regulatory mechanisms should be considered in their entirety and compared to the suite of mechanisms available in peer jurisdictions*", unless a similar mechanism has only recently (i.e. since the last relative risk assessment) been introduced in the peer jurisdictions, wouldn't the implementation of a new regulatory mechanism in Ontario that reduced utilities' absolute regulatory risk also reduce their overall regulatory risk relative to that of the peer jurisdictions?

13.0 Reference: M2: CONCENTRIC Report, page 33 and 96

Preamble: The Report states (page 33):
"*Concentric recommends continuing to use the same benchmark plus spread framework. However, in response to the discontinuation of the BA market on June 28, 2024, transitioning to a measure of short-term loan rates, such as a three-month average of the Canadian Overnight Repo Rate Average ("CORRA"), is the most reasonable alternative. The methodology would subsequently use an A-rated corporate short-term loan spread over the CORRA rate instead of the BA rate*". (emphasis added)
And
"*Concentric notes that to the extent OEB-regulated utilities can reasonably achieve A or A-ratings under the regulatory framework, then the use of an A-rated spread is generally appropriate. However, to the*

extent utilities cannot reasonably achieve such ratings, a BBB spread may become more applicable."
And
"*LEI further recommends that the spread for a R1-low rated utility over CORRA should be applied in the short-term debt rate calculation, with the spread to be determined from an annual confidential survey of 6-10 banks*."

The Report also states (page 96):
"*An additional consideration is that not all Ontario utilities have an A-rating*."

13.1 What is the difference between the R1-low rating referred to by LEI and the A/A- and BBB ratings referred to by Concentric?

13.2 What ratings do Ontario utilities currently have?

14.0 Reference: M2: CONCENTRIC Report, page 39

Preamble: The Report states:
'*In Concentric's view, debt issuance costs are a legitimate cost of funding the operations of the utilities and should be recovered in rates through the embedded cost of long-term debt, as is the OEB's current practice. Debt issuance costs include fees and expenses for underwriting the debt security, legal services, security exchange registration, and fees paid to credit rating agencies*."

14.1 Is Concentric aware of any Ontario-regulated utilities that receive debt through an affiliate (i.e. the debt is actually borrowed by an affiliate) and the utility is charged a transaction fee by the affiliate?

14.1.1 If yes, and that the "transaction fee" is not cost-based, should the utility be permitted to recover the transaction fee from its customers?

14.2 If the Board allows debt issuance costs to be embedded and recovered in long-term debt rates what if any other debt related financial treasury related costs should a utility (as provided directly or by an affiliate) be allowed to include in operating costs?

15.0 Reference: M2: CONCENTRIC Report, page 41

Preamble: The Report states:
"*LEI recommends continuation of the OEB's status quo approach regarding this issue, which LEI describes as "consider deemed capital structures regardless of actual capital structures." As described above, Concentric agrees with this recommendation*."

15.1 Where a utility's actual long-term debt is less than that associated with its deemed capital structure, what is Concentric's recommendation as to the debt rate that should be attributed to the notional long-term debt portion of the capital structure?

15.2 If a utility's actual long-term debt exceeds its deemed capital structure what, if any adjustment should be made to calculating the weighted long-term debt rate for the purpose of rate setting.

15.3 Is there any point at which the magnitude of divergence between actual and deemed long-term debt should cause the regulator to make cost of debt or cost of equity adjustments?

16.0 Reference: M3: CONCENTRIC Report, page 42

Board Decision, EB-2016-0152, page 105

Preamble: The Report states:
"*Further, and as previously found by the Board, OPG faces a different and heightened level of risk compared to distributors and transmitters. As such, the base ROE recommendation of 10.0 percent understates the ROE for OPG. In addition, the OEB has previously found that there is a heightened risk of nuclear generation relative to hydroelectric generation, which is important to consider as OPG embarks on first-of-a-kind nuclear projects in addition to refurbishing its existing nuclear units*."

In its EB-2016-0152 Decision the OEB states:
"*The OEB finds that given the planning, the approval of the spending in this proceeding and the regulatory protections afforded OPG, the DRP does not materially increase OPG's business risk*."

16.1 Please provide references to support Concentric's statement – "*as previously found by the Board, OPG faces a different and heightened level of risk compared to distributors and transmitters.*"

16.2 Is it Concentric's view that the heightened level of risk faced by OPG should be reflected through an adjustment in the allowed ROE or the allowed equity thickness?

16.2.1 If both, please explain how this can be done without "double-counting" the impact of the risk.

16.3 Please reconcile Concentric's last sentence in the referenced quote from the Report with the OEB's conclusion in EB-2016-0152 that "*the DRP does not materially increase OPG's business risk*".

17.0 Reference: M2: CONCENTRIC Report, page 44

Preamble: The Report states:
"*Specifically, monetary policy in both Canada and the U.S. is significantly more restrictive in May 2024 in response to higher inflation as compared to November 2009, when central banks were seeking to stimulate the global economy following the financial crisis*."

17.1 Apart from the change in the betas and utility bond ratings, please confirm that the changes in economic conditions set out in Figure 3 will impact all companies (not just Ontario-regulated utilities).

17.2 With respect to the referenced quote, is it not also the case that in recent months monetary policy in both Canada and the US is becoming less restrictive?

18.0 Reference: M2: CONCENTRIC Report, pages 45-50
British Columbia Utilities Commission, Generic Cost of Capital Proceeding (Stage 1), Exhibit B1-8-1, Appendix C, CONCENTRIC's Cost of Capital Report

Preamble: At the referenced pages the Report sets out the screening criteria used to establish Concentric's various proxy groups and resulting companies selected for each group.

18.1 Please describe how the definitions of the proxy groups used in Concentric's current evidence differ (if at all) from the proxy groups used in Concentric's Cost of Capital Report filed in recent BCUC Generic Cost of Capital Proceeding.

18.2 For those proxy groups with the same definition in both proceedings, please indicate any differences in the companies selected to be included in the proxy group and explain why.

18.3 In its Decision and Order G-236-23 did the BCUC accept Concentric's the companies included in each of Concentric's proposed proxy groups?

18.3.1 If not, what revisions were made?

18.3.2 If not, do Concentric's currently proposed proxy groups reflect the revisions made by the BCUC and, if not, why not?

18.4 With respect to the Canadian Proxy Group (Figure 4) please provide a schedule that sets out the following for each of the utilities in the group: i) annual revenues, ii) credit rating and iii) value of regulated assets/rate base.

18.5 With respect to the US Gas Distribution Proxy Group (Figure 5) please provide a schedule that sets out the following for Enbridge and each of the utilities in the group: i) annual revenues, ii) credit rating and iii) value of regulated assets/rate base.

18.6 With respect to the US Electric Proxy Group (Figure 21) please provide a schedule that sets out the following for each of the utilities in the group: i) annual revenues, ii) credit rating and iii) value of regulated assets/rate base.

18.7 For those utilities included in the North American Electric Proxy Group (Figure 7) is information readily available as to the percentage of regulated operations (either revenue or assets) that is made up of generation as opposed to transmission and distributions related operations?

18.7.1 If yes, please provide the relevant breakdown for each of the companies listed in Figure 7.

18.7.2 If not, can Concentric provide a rough break down (base on its understanding of each companies' operations) as between those that are: i) primary generation; ii) primarily transmission & distribution and iii) a balanced mix of both.

19.0 Reference: M2: CONCENTRIC Report, page 46

Preamble: One of the screening criteria for US companies is:
"*Have positive earnings growth rate projections from at least two sources*."

19.1 Please explain why this criterion is necessary.

19.2 Would replacement of this criterion with one that only required "earnings growth projections from at least two sources" have resulted in additional companies being included in either the US Electric Proxy Group (Figure 5) or the US Gas Proxy Group (Figure 6)?

19.2.1 If yes, please identify the additional companies that would have been included.

19.2.2 If yes, please re-calculate the results for the Constant Stage DCF and the Multi-Stage DCF (similar to Figure 13) using proxy groups that include these additional companies.

19.2.3 If yes, please re-calculate the CAPM results (Figures 16 and 18) using the companies in the revised proxy groups to determine the beta values.

20.0 Reference: M2: CONCENTRIC Report, pages 45-50 and pages 81-84
M1: LEI Expert Evidence, pages 114-115

Preamble: In its discussion of LEI's application of the various methodologies Concentric (pages 81-84) does not make any reference or comments regarding the proxy groups used by LEI or LEI's selection criteria for choosing the companies to include in each proxy group.

20.1 Please provide Concentric's views on the appropriateness of the proxy groups established by LEI and the screening criteria used by LEI 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.

21.0 Reference: M2: CONCENTRIC Report, pages 44 and 55

Preamble: The Report states (page 55):
"*Our cost of capital analysis is framed by the conclusion that Canada and the U.S. have comparable macroeconomic and investment environments*."

21.1 Please reconcile the referenced statement on page 55 with the fact that (per Figure 3) while the yield on A-rated Canadian utility bonds decreased between November 2009 and May 2024, the yield on Moody's A-rated utility bonds increased.

22.0 Reference: M2: CONCENTRIC Report, page 59

22.1 With respect to Figure 10, please explain why the historical GDP growth (2009-2023) varies across the three North American proxy groups.

22.2 With respect to Figure 10, please explain why the forecast GDP growth (2030-2034) varies across the three North American proxy groups.

22.3 Are the historical results in Figure 10 skewed at all by the fact the starting point of the period used is 2009 – the time of financial crisis (per pages 44, 64 and 96)?

23.0 Reference: M2: CONCENTRIC Report, page 64

Preamble: The Report states:
"*We selected a three-year forecast of the Canadian bond yield because it reflects the medium-term outlook for government bond yields as central banks continue to focus on bringing inflation down to target levels. Even with an annual adjustment formula, a forward looking bond yield is appropriate, as the cost of capital is a forward-looking estimate. Although the current spread between 10- and 30-year government bond yields in Canada is negative, the average spread between 10- and 30-year government bond yields over the past 10 years has been approximately 33 basis points in Canada and 47 basis points in the U.S. As illustrated in Figure 15 the projected yields on 30-year government bonds over the period 2025-2027 are 3.46 percent in Canada and 4.14 percent in the U.S. By comparison, the 30-day average of the 30-year bond yields in Canada and the U.S. stood at 3.37 percent and 4.50 percent, respectively, as of June 30, 2024*." (emphasis added)

23.1 Given the cost of capital is meant to be a forward looking estimate why is it appropriate to use a 10-year historic period to establish the average spread between 10- and 30-year government bond yields?

23.2 What would be the average Canadian and US spreads based on: i) a five-year historic average or ii) a three-year historic average?

23.3 Is there now a more recent Consensus Forecast for 10-year Canada and US bond yields?

23.3.1 If yes, please provide an updated version of Figure 14

23.4 Based on the April 2024 Consensus Forecast what are the forecast for 10-year Canada and US government bond yields for 2024?

23.4.1 If a more recent Consensus Forecast is available, what are its forecasts for 10-year Canada and US government bond yields for 2024?

24.0 Reference: M2: Concentric Report, page 66

Figure 16: Value Line and Bloomberg Betas

Proxy Group	Value Line	Bloomberg
Canadian	0.77	0.85
U.S. Electric	0.95	0.91
U.S. Gas	0.85	0.82
North American Electric	0.92	0.88
North American Gas	0.83	0.87
North American Combined	0.90	0.88

24.1 Please clarify the data period used for this table.

24.2 Please recalculate the Betas shown in figure 16 using the time period of 2022 to 2024 and separately, 2018-2024

25.0 Reference: M2: CONCENTRIC Report, page 69
M1: LEI Report, page 120

Preamble: The Report states:
"*The historical MRP is based on the arithmetic mean of the equity market returns for large company stocks over the income only return on long-term government bonds, based on data from Kroll (formerly Duff & Phelps). 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.*

The LEI Report calculates it historic MRP value using S&P 500 total returns averaged over three time periods."

25.1 In calculating the historical MRP the Report states that Concentric used the equity return for large company stocks. Please explain how (if at all) this differs from the S&P 500 used by LEI. As part of the response, please explain how the "large companies" were chosen.

25.2 Please explain why Concentric chose to use the equity return for large company stocks as opposed to the S&P 500 returns.

26.0 Reference: M2: CONCENTRIC Report, page 69

Preamble: The Report states:
"*The forward-looking MRP is calculated by subtracting the risk-free rate for each country from the estimated total return for the overall market, as calculated using the DCF methodology for the S&P/TSX Composite Index in Canada and the S&P 500 Index in the U.S.*"

26.1 In using the DCF methodology to determine the total return for the entire market, did Concentric use a single-stage DCF model or a multi-stage DCF model?

26.1.1 If a single stage model was used, what would be the MRP and ROE results using a multi-stage model similar to that used by Concentric in its DCF calculations?

26.2 In using the S&P/TSX Composite Index in Canada and the S&P 500 Index in the U.S., did Concentric include in the calculations all the companies listed in each index?

26.2.1 If not, which companies were excluded and why?

27.0 Reference: M2: CONCENTRIC Report, page 71

Preamble: The Report states:
"*It is common practice for Canadian regulators to approve an adjustment for flotation costs and financing flexibility, with 50 basis points being the norm*."
And
"*The adjustment for flotation costs compensates the equity holder for the costs associated with the sale of new issues of common equity. These costs include out-of-pocket expenditures for the preparation, filing, underwriting and other costs of issuance of common equity*."
And
"*The adjustment also takes into account the need for financial flexibility, meaning that utilities are capital intensive businesses and must be able to access capital markets at all necessary times regardless of conditions in capital markets or the economy. The adjustment is particularly necessary because authorized ROEs in Canada tend to be lower and Canadian utilities are more thinly capitalized than US utilities*"

27.1 For utilities that actually issue common equity, can Concentric provide an estimate as to the portion of the 50 basis points that would be required to compensate the equity holder for the costs associated with the sale of new issues of common equity?

27.2 For those Ontario-regulated utilities that do not issue common equity (e.g., where the equity is held by the municipality), why is appropriate to include in the ROE an allowance designed to compensate the equity holder for the costs associated with the sale of new issues of common equity?

28.0 Reference: M2: CONCENTRIC Report, pages 75 and 78

28.1 With respect to the Risk Premium Results set out in Figures 21 and 22 for US electric and gas utilities respectively, what was the basis for 30-year US Treasury bond associated with each authorized ROE (e.g., was it the current yield at the time the decision was made)?

28.2 With respect to the Risk Premium Results set out in Figure 25 for Canadian electric and gas utilities, what was the basis for 30-year GOC bond associated with each authorized ROE (e.g., was it the current yield at the time the decision was made)?

28.3 Is there any way Concentric can subdivide the results for the over 900 US electric utility cases as between utilities whose assets are primarily related to generation versus transmission & distribution such that separate Risk Premium analyses can be performed for each sub-set?

28.3.1 If yes, please do so and provide the Risk Premium results (per Figure 21) for each sub-set.

28.4 Is there any way Concentric can subdivide the results for the approximately 60 Canadian decisions for electric and gas utilities from 1994 through 2023, as between gas utilities and electric utilities that separate Risk Premium analyses can be performed for each sub-set?

28.4.1 If yes, please do so and provide the Risk Premium results (per Figure 25) for each sub-set.

29.0 Reference: M2: CONCENTRIC Report, pages 76 and 79

Preamble: The Report states (page 76):
"*In order to apply this relationship to current and expected bond yields, we consider three estimates of the 30-year U.S. Treasury yield: the current 30-day average, a near-term Blue Chip consensus forecast for Q3 2024 –Q3 2025, and a long-term Blue Chip consensus forecast for 2025–2029. We find this five-year result to be most applicable because investors typically have a multi-year view of their required returns on equity*."

29.1 In the case of the US utility analyses, which of the three estimates of the 30-year U.S. Treasury yields most closely matches the basis for the actual yield values used in the estimation of the Risk Premium equations (Figures 21 and 22).

29.1.1 If it was not the historical values consistent with the long-term Blue Chip consensus forecast, why is it appropriate to use this forecast in the equation to estimate the ROE?

30.0 Reference: M2: CONCENTRIC Report, pages 81 and 136-137
British Columbia Utilities Commission, Generic Cost of Capital Proceeding (Stage 1), Exhibit B1-8-1, Appendix C, Concentric's Cost of Capital Report, pages 4 & 6

Preamble: The Report states (page 81):
"*For example, in September 2023, the BCUC issued a decision in the generic cost of capital proceeding for FortisBC Energy Inc. (FEI, a gas utility) and FortisBC Inc. (FBC, an electric utility) in which the authorized ROE was increased to 9.65 percent for both FEI and FBC, while the deemed equity ratio for FEI was raised from 38.5 percent to 45.0 percent and for FBC from 40.0 percent to 41.0 percent*."

Concentric's evidence in the recent BCUC Generic Cost of Capital Proceeding (Stage 1) states:
"*In addition, FEI's proposed common equity ratio of 45.0 percent is reasonable, if not conservative*" (page 4)

And
"*In addition, FBC's proposed common equity ratio of 40.0 percent is reasonable, if not conservative*" (page 6)

30.1 What is Concentric's understanding as to why the BCUC only increased the equity ratio for FBC by one percentage point, while increasing the equity ratio for FEI by 6.5 percentage points such that FEI equity ratio now exceeds that of FBC whereas before it was lower?

30.2 In Concentric's view are the business and financial risks similar for electricity generation (in general as opposed to OPG specifically) vs. electricity transmission/distribution?

30.2.1 If yes, why?

30.2.2 If not, which is "riskier" and why?

30.3 Given the Concentric's evidence and the BCUC decision (both of which called for FEI and FBC to have different capital structures) in the recent BCUC proceeding, why is Concentric recommending a common equity thickness (45%) for both gas distribution and electricity transmission/distribution in this proceeding?

31.0 Reference: M2: CONCENTRIC Report, page 83

Preamble: The Report states:
"*LEI then adjusts these raw betas for differences in financial leverage between the proxy group companies and Ontario's electric and gas utilities. Concentric has performed a similar calculation using the Hamada equation, although we have not relied on that version of our CAPM analysis in our ROE recommendation. If LEI had used Blume adjusted betas calculated weekly over five years in Figure 39 of its report, the weighted average beta for the companies in LEI's three proxy groups (as shown in Figure 40 of LEI's report) would be 0.827, and the average CAPM result (as shown in Figure 41 of LEI's report) would be 10.07 percent, not including an adjustment for flotation costs and financial flexibility*." (emphasis added)

31.1 Please provide Concentric's calculated beta values for each of the three proxy groups in LEI's Figure 40 using the Blume adjusted betas.

31.2 In Concentric's calculation of LEI's results using Blume adjusted betas did Concentric adjust the raw betas (or the Blume adjusted betas) for differences in financial leverage between LEI's proxy groups and Ontario's electric and gas utilities (as was done by LEI)?

32.0 Reference: M2: CONCENTRIC Report, pages 85-87 and 93

Preamble: The Report states:
"*Concentric's analysis demonstrates that the OEB formula has produced a comparable return for Ontario's electric and gas utilities to the average equity return for Canadian electric and gas utilities in most years since the formula was modified in 2009. The exception is during periods of very low interest rates in 2020-2022 when the COVID-19 pandemic caused central banks in Canada and around the globe to reduce short-term interest rates to near zero and to engage in purchases of government and corporate bonds in order to support the stability of financial markets and stimulate the economy. Because the OEB formula is tied to bond yields, the formula return declined during these years even though the risk premium for equity investors increased substantially*." (page 87)
And
"*The OEB's formula return in most years from 2010 through 2019 was in the range of 20 to 50 basis points higher than the average authorized ROE for electric distribution companies in Canada*." (page 93)

32.1 Does Concentric agree that, except for the 2020-2022 period, Figures 28 and 29 indicate that Ontario's ROE formula produced results that generally exceeded the average authorized returns for Canadian electric and gas utilities?

32.1.1 If not, why not?

32.1.2 If yes, in Concentric's view, what was the reason for this?

32.2 During the 2020-2022 period did the regulators in other Canadian jurisdictions reset their authorized ROE's annually or just retain the ROEs authorized in previous years?

33.0 Reference: M2: CONCENTRIC Report, page 87

Preamble: The Report states:
"*Market data indicate that the cost of capital has increased for all North American utilities, including those in Ontario since the Board last examined this issue*."

33.1 In the quoted sentence, is the reference to "*Ontario since the Board last examined this issue*" referring to 2009 or 2016?

33.2 What market data is Concentric referring to that demonstrates the point being made?

34.0 Reference: M2: CONCENTRIC Report, page 95

Preamble: The Report states:
"*The second approach is to use a 30-year bond yield forecast, which is the method recently adopted by the AUC in October 2023 and that was recommended by LEI in this proceeding. The base LCBF in the new AUC formula is based on an average of the forecast of the quarterly 30-year GOC bond yield for each of the four quarters in the coming year from three Canadian investment banks – RBC, TD Bank, and Scotia Bank – which receives a 75% weight, and the current 90-day average 30-year GOC bond yield, which receives a 25% weight.*
Concentric prefers this latter approach. Based on the most recent information available as of May 31, 2024, using the Alberta methodology, the LCBF would be set at 3.36 percent. If the OEB adopts this recommendation, we suggest updating these data closer to when a final decision is made in this proceeding."

34.1 If the ROE is being set for the coming year, why is it appropriate to give a 25% weight to the current 90-day average 30-year GOC bond yield?

34.2 Does Concentric consider forecasts from just three Canadian investment banks to be appropriate or should forecasts by other Canadian banks also be included?

35.0 Reference: M2: CONCENTRIC Report, pages 97-98

Preamble: The Report states:
"*To determine updated adjustment factors for both the LCBF and utility credit spread, Concentric ran a multivariate regression analysis using historical data between January 1, 1993 and May 31, 2024. The regression tested U.S. authorized ROEs for electric and gas utilities, as the dependent variable, against both U.S. government bond yields and utility credit spreads as the independent variables*."
And
"*The regression yielded a government bond yield coefficient of 0.3984 and a utility credit spread coefficient of 0.3340, with an R-squared of 0.5445. Based on this analysis, Concentric recommends lowering the LCBF adjustment factor from 0.50 to 0.40 and the utility credit spread adjustment factor from 0.50 to 0.33. These changes recognize that the relationship between ROEs and government bond yields has weakened slightly over the past fifteen years, while still maintaining the formula's ability to be sufficiently sensitive to changes in interest rates and utility credit spreads*."

35.1 How were the U.S. government bond yields and utility credit spreads associated with each authorized ROE determined? Note: The question is no seeking the sources used but rather the basis for the value (i.e., was it the yields and spreads at the time of the decision, was it the yields and spreads for the first year the authorized ROE would apply, or some other basis?).

35.2 Please re-estimate the equation using: i) just US electric utilities and ii) just US gas utilities.

35.3 Given that the weights have been estimated using US government bond yields, why is it appropriate to use GOC bond yields spreads when applying the formula?

35.4 Is the data available to estimate as similar equation using authorized ROE for Canadian utilities and GOC bond yields?

35.4.1 If not, why not?

35.4.2 If yes, please do so.

36.0 Reference: M2: CONCENTRIC Report, page 105

Preamble: The Report states:
"*Concentric finds the following flaws with LEI's analysis:*
-The LEI regression considers BBB-rated corporate bond yields rather than A-rated utility bond yields;
-The LEI regression considers the absolute level of corporate bond yields rather than spreads over government bond yields;
-As such, LEI's multivariate regression suffers from multicollinearity issues, in which the two independent variables are highly correlated, leading to results that are imprecise and subject to large volatility if presented with small variations in input data."

36.1 Given that not all Ontario utilities have an A-rating (per page 96), why is the fact LEI regression considers BBB-rated corporate bond yields rather than A-rated utility bond yields considered to be a "flaw".

36.2 On what information does Concentric conclude that "LEI's multivariate regression suffers from multicollinearity issues"?

37.0 Reference: M2: CONCENTRIC Report, pages 112-115

Preamble: The Report states (page 114):
"In summary, increased climate risk and the energy transition require utilities to be financially prepared and flexible to withstand financial pressures associated with response to these risks, whether in the form of after-the-fact action or proactively increased resilience."

37.1 Have risks related to climate increased for both Ontario'-regulated utilities and the relevant peers in the US and Canada?

37.1.1 If yes, in Concentric's view has the change in risks related to climate been similar for both Ontario-regulated utilities and their relevant peers? If not, why not?

38.0 Reference: M2: CONCENTRIC Report, pages 114 and 115-118

Preamble: The Report states:
"*In summary, increased climate risk and the energy transition require utilities to be financially prepared and flexible to withstand financial pressures associated with response to these risks, whether in the form of after-the-fact action or proactively increased resilience*." (page 114)

And
"*Uncertainty about the pace of the Energy Transition will also increase planning risk in the near-term for electric distributors and transmitters*." (page 116)
And
"*Investors are acutely aware of the Energy Transition risk that natural gas utilities currently bear and seek returns commensurate with the increased risk of uncertainty resulting from environmental policy and increased focus on ESG*."

38.1 Have risks related to energy transition increased for both Ontario' electricity transmitters/distributors and the relevant peers in the US and Canada?

38.1.1 If yes, in Concentric's view has the change in risks related to energy transition have been similar for both Ontario's electricity transmitters/distributors and their relevant peers? If not, why not?

38.2 Have risks related to energy transition increased for both Ontario' gas distributors and the relevant peers in the US and Canada?

38.2.1 If yes, in Concentric's view has the change in risks related to energy transition have been similar for both Ontario's gas distributors and their relevant peers? If not, why not?

39.0 Reference: M2: CONCENTRIC Report, pages 121-122

Preamble: The Report states (page 121):
"*As owners and operators of critical infrastructure, utilities face a heightened risk from cyber security breaches, in addition to the typical risks borne by all other sectors (e.g., personal information and data breaches, ransomware attacks,* etc.)."

39.1 Have risks related to cyber security increased for both Ontario'-regulated utilities and their relevant peers in the US and Canada?

39.2 If yes, in Concentric's view has the change in risks related to cyber security been similar for both Ontario-regulated utilities and their relevant peers? If not, why not?

40.0 Reference: M2: CONCENTRIC Report, page 124

Preamble: The Report states:
"*UBS placed British Columbia in tier one, Ontario, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island in tier three, and Alberta in tier five*."

40.1 What is Concentric's understanding as to why British Columbia received a higher rating than Ontario?

41.0 Reference: M2: CONCENTRIC Report, page 126

Preamble: The Report states:
"*The average S&P Global credit rating for the operating utilities held by the North American proxy group is A-. Credit ratings take into account both business and financial risk from the perspective of debt investors, who are concerned with the timely repayment of debt obligations. By comparison, S&P Global credit ratings for Ontario's electric and gas utilities range from BBB+ to A*."

41.1 What is the range of the S&P Global credit rating for the operating utilities held by the North American proxy group?

42.0 Reference: CONCENTRIC Report, pages 134-136

Preamble: The Report states:
"*As shown in Figure 35 below, the deemed equity ratio for Ontario's electric distribution and transmission utilities of 40 percent is slightly lower than the Canadian average of 41 percent but substantially lower than the U.S. average of approximately 51 percent. The deemed equity ratio for OPG of 45 percent falls in between. Similarly, the deemed equity ratio for Enbridge Gas of 38 percent is slightly below the Canadian average of 39.9 percent (which includes the BCUC's recent increase to FortisBC Energy Inc.'s deemed equity ratio from 38.5 percent to 45.0 percent due primarily to risks associated with Energy Transition) and significantly lower than the U.S. average of slightly more than 52 percent*." (page 134)
And
"*Based on our analysis, we find that Ontario's regulated distribution and transmission utilities generally have comparable business risk to the companies in the North American Electric and Gas comparator groups. We also conclude that Ontario's utilities have similar financial risk to other electric and gas utilities in Canada and substantially greater financial risk than their U.S. peers due to the relatively low deemed equity ratios of 38 percent for Enbridge Gas, 40 percent for electric distribution and electric transmission, and 45 percent for OPG*." (page 136)

42.1 Contrary to the above reference, Figure 35 does not include historical data regarding the equity ratio for Canadian utilities. Please provide a revised version of Figure 35 that includes the results for Canadian utilities.

42.2 At the time the OEB approved the current equity ratio of 40% for Ontario electric distribution and transmission utilities, how did this value compare with the average for US electric utilities?

42.3 In comparing the equity ratios for Ontario's electricity transmitters and distributors with the ratios for either Canadian or US electric utilities, how does Concentric account/adjust for the fact that the latter typically also include generation operations?

42.4 Please provide a version of Figure 36 based on 2009 data (i.e., at the time the OEB issued its 2009 Generic Cost of Capital Report).

43.0 Reference: M2: CONCENTRIC Report, page 137

Preamble: The Report states:
"*The Fair Return Standard requires consideration of both changes in the utility's risk profile over time, as well as how the utility's business risk and deemed capital structure compares to the proxy group companies*."

43.1 Rather than considering "how the utility's business risk and deemed capital structure compares to the proxy group companies", would it be appropriate to consider: i) how the utility's business risk has changed over time relative to changes in business risk for the proxy group's companies and ii) whether the deemed capital structure of the proxy group has changed over time?

44.0 Reference: M2: CONCENTRIC Report, pages 138, 142 and 144

Preamble: The Report states:
"*Concentric does not support LEI's recommendation to modify annual reporting to include results of recent credit and equity issuances as this information would be retrospective for the prior year. Independently, these reports would not provide sufficient indication of future costs of capital or business risks on the horizon*." (page 138)
And
"*Concentric recommends the OEB track and compare the following key utility and broader macroeconomic parameters:*
• Authorized ROEs and equity ratios in other Canadian jurisdictions (individually) and the U.S. by industry segment (electric, gas) as reported by RRA
• 10 and 30-year Treasury Bond Yields (Canada and the U.S.)
• A- and BBB-Rated Utility Bond Yields (Canada and the U.S.)
• Betas for the North American Proxy Group as defined in Section V
This comparison should be done on an annual basis." (page 142)
And
"*so in addition to the monitoring outlined in Issue #14, Concentric recommends monitoring:*
• Credit ratings from each agency covering Ontario's rate-regulated utilities." (page 144)

44.1 Apart from the items mentioned on pages 142 and 144, in Concentric's view what should the OEB assess and include in its annual reporting?

45.0 Reference: M2: CONCENTRIC Report, page 148

Preamble: The Report states: "*Depending on the magnitude of change in the <u>deemed</u> capital structure, the Board may want to consider changes in capital structure implemented over a period of up to three years. This incremental approach would serve two purposes: 1) to allow the utility treasury functions to manage the transition (e.g., retiring debt and investing new equity as appropriate), and 2) to mitigate the effects of any rate impacts. Unlike ROE and debt rates, changes in the capital structure can require time to implement*." (emphasis added)

45.1 Please explain why implementing changes in the deemed capital structure can require time.

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