ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sch. B;

AND IN THE MATTER OF a generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates

INTERROGATORIES OF CANADIAN MANUFACTURERS & EXPORTERS ("CME") TO INDUSTRIAL GAS USERS ASSOCIATION ("IGUA")

Interrogatory M4-10-CME-1

Ref: Exhibit M4, p. 33-34

At page 33, Dr. Cleary opines that LEI's CAPM estimate of a 8.95% ROE is upwardly biased for several reasons, including that the sample LEI used included American utilities. CME understands that Dr. Cleary's view is that utilities in the United States are riskier than their Canadian counterparts. Dr. Cleary includes Appendix B and Appendix C in support of that conclusion.

(a) Appendix C describes the betas for a wide variety of Canadian utilities in contrast to their U.S. counterparts. However, Appendix B is more focused on the Enbridge Gas Inc. ("**EGI**") example (as the evidence was originally used in that proceeding). Please confirm that Dr. Cleary's view is that Canadian utilities are broadly less risky than U.S. utilities.

(b) Some of the evidence in Appendix B confirms that EGI is less risky than U.S. utilities by reviewing EGI's long standing track record of over-earning its ROE. The evidence from some other parties (Exhibit M3, Expert Report on the Cost of Capital and Certain Accounting Issues EB-2024-0063, Nexus Economics, p. 11) is that many Ontario distributors under-earn their allowed ROE. Does this change Dr. Cleary's view of the relative risk of Canadian utilities versus their U.S. peers? Why or why not?

Interrogatory M4-10-CME-2

Ref: Exhibit M4, p. 29

At page 29, Dr. Cleary stated that "U.S. utilities are NOT reasonable comparators for Canadian utilities. This is true because they have significantly higher business risk – partly due to their holding company structure and business holdings, partly due to operating in the U.S. and not in Canada, and partly due to the nature of their operations which entail more risk."

(a) Please elaborate on why holding company structure makes a business more risky? Is it that a holding company is inherently more risky, or is it that a holding company might hold other unregulated business which may be riskier, thereby increasing risk to the holding company? If the latter, could you please point out examples of companies used in either LEI or other experts' comparator groups that own other businesses that are significantly more risky?

(b) Please elaborate on why operating in the U.S. increases risk? Does the additional risk come from being regulated by different regulatory or legal regimes or other factors?

(c) Please elaborate on the nature of U.S. utilties' operations and their effect on risk.

Interrogatory M4-10-CME-3

Ref: Exhibit M4, p. 41

In addition to a CAPM and DCF calculation, Dr. Cleary also uses the Bond Yield Plus Risk Premium estimate calculation.

(a) Please compare Dr. Cleary's BYPRP methodology to the "risk premium model" used by LEI, Concentric's "risk premium analysis" and Nexus' "risk premium method". What are the benefits (if any) to using the BYPRP over those other analyses?