

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 THE COALITION OF LARGE DISTRIBUTORS ET. AL. (“CLD”)**

Interrogatory M2-10-CME-1

Ref: Exhibit M2, p. 3

At page 3, Concentric states “Concentric’s primary finding within the context of this generic cost of capital proceeding is that Ontario equity ratios across all industry segments are lower than North American industry peers and fail to meet the comparable return standard component of the Fair Return Standard.”

- (a) Please confirm whether Concentric’s view is that the fair return standard is not met as a result only of Ontario’s equity ratios being lower than Concentric’s deemed peer group (comparable investment standard) and not as a result of failing the capital attraction standard or the financial integrity standard.
- (b) To the extent that a) is not confirmed (ROE’s fail multiple components of the FRS) please cite specific instances of Ontario utilities failing to attract capital on reasonable terms or being in danger of losing financial integrity, or any specific examples that Concentrics believe are likely to happen in the future.

Interrogatory M2-10-CME-2

Ref: Exhibit M2

Concentric conducted an analysis of the comparable return standard.

- (a) In Concentric’s view, does an entity need to earn at least the median or mean of the peer group of “entities of like risk” ROE’s in order to meet the comparable investment standard?
- (b) If the answer to a) is yes, please provide Concentric’ view on the possibility of an upward spiral of ROEs. In other words, every sample of companies will, definitionally, have entities which have ROEs below average and above average or above the median and below the median. If every single entity in a group of “like risk” companies is required to

have at least the average/median ROE in order to satisfy the comparable return standard, wouldn't this, over time, continually increase the average ROEs as each entity with below average ROE has their ROEs increased at least to the previous average, thereby necessitating an increase to each other entities' ROE consistently upwards?

- (c) If the answer to a) is no, on what basis does an entity represent a comparable investment relative to entities of like risk?

Interrogatory M4-10-CME-3

Ref: Exhibit M2, p. 86.

At page 86, Concentric stated: "For example, betas have increased substantially for electric and gas utilities since January 2020. This indicates that regulated utilities are no longer perceived by investors as having well below average market risk."

- (a) Please confirm whether a beta of below 1 indicates that a security has below average market risk.
- (b) Please define Concentric's view of what "well below" average market risk means in terms of a beta value.

Interrogatory M2-10-CME-4

Ref: Exhibit M2, p. 9.

Concentric's analysis includes multiple peer groups in order to review Ontario utility ROE's ability to satisfy the comparable investment standard.

- (a) With respect to the energy transition, does Nexus believe that the increase in load and customers for electric utilities will have any effect decreasing the risk to those electricity distributors? Why or why not?

Interrogatory M2-10-CME-5

Ref: Exhibit M2, p. 43

At page 43, Concentric's report references an error, and states that the source is not found.

Error! Reference source not found.Figure 3 below provides a comparison of key economic and market indicators, including betas (both raw and adjusted) in November 2009 (immediately prior to the Board's 2009 Report) to those in May 2024 (when our analysis in this proceeding was performed.)

- (a) Please provide any reference which was referred to in that section.

Interrogatory M2-10-CME-6**Ref: Exhibit M2, pp. 46-47.**

At pages 46-47, Concentric stated that it chose proxy group peers, in part, that had at least 70% operating income from regulated operations for electric distributors and 65% operating income from regulated operations for gas distributors in the period from 2021-2023.

- (a) What is Concentric's view of companies that have income from unregulated sources? Does this make the entity more risky, or less risky?
- (b) Why does Concentric believe that entities with 70% or more of its operating income from regulated operations are the appropriate proxy group for electricity distributors, rather than a different percentage?
- (c) Why does Concentric believe that those with 65% or more of its operating income from regulated operations are the appropriate proxy group for gas distributors, rather than a different percentage? Why is the percentage chosen different from the electricity proxy group?
- (d) Why did Concentric choose a relatively short time frame (2021-2023) as the dates for reviewing the operating income threshold?
- (e) What adjustments did Concentric make to its analysis or its inclusion to address the difference in risk between entities that had more operating income from regulated operations and those with less.

Interrogatory M2-10-CME-7**Ref: Exhibit M2, p. 51**

At page 51, Concentric quotes from a Board decision which stated that when reviewing cost of capital in Canada and the United States, practitioners should make adjustments to account for the differences in jurisdiction.

- (a) Does Concentric agree that it is appropriate to make adjustments or account for differences between United States and Canadian entities as a result of operational, legislative, regulatory or other differences? Alternatively, does it think that the Board's decision is wrong in this respect?
- (b) Please list any adjustments Concentric made or account it took of any difference between Canadian and United States entities.

Interrogatory M2-10-CME-8**Ref: Exhibit M2, p. 62**

At page 62, Concentric states: "We place more weight on the results of the North American proxy groups because the companies in those groups are more representative of Ontario's utilities than the Canadian proxy group companies."

- (a) At pages 125-127, Concentric discusses its view of the comparability of Ontario's utilities to the North American proxy group, and discusses particular points of what it views to be comparability. However, we did not find a discussion of the relative comparability of the Canadian proxy group companies and why it was a less comparable proxy group. To the extent it is not already in the report, please provide Concentric's view of areas where the North American group is more representative of Ontario's utilities than the Canadian proxy group.

Interrogatory M2-11-CME-9**Ref: Exhibit M2, p. 113**

At page 113, Concentric states: "Climate risk and the vulnerability of utilities' assets have increased since the OEB's last generic cost of capital proceeding, as demonstrated by the number of negative rating actions: S&P Global downgraded only two investor-owned utilities from 2005 to 2017, and downgraded nineteen utilities from 2018 to 2023."

- (a) The article cited at footnote 117 requires a login. Please file a copy of the article on the record.
- (b) Please confirm whether the referenced S&P downgrades included any Canadian utilities, and specifically any Ontario utilities.
- (c) To the extent that S&P is downgrading utilities in other jurisdictions, but not Ontario, does that signal that Ontario utilities are facing less climate change risk than utilities in other jurisdictions? In Concentric's view, Would that have an impact on Ontario utilities' ROE and whether they are entities of like risk as compared to other jurisdictions.

Interrogatory M2-11-CME-10**Ref: Exhibit M2, p. 117**

At page 117, Concentric states: "Natural gas distributors face the risk of a decline in demand and potential asset decommissioning as customers switch to alternative sources of energy. Moreover, initiatives aimed at reducing emissions raise concerns about the future viability and competitiveness of the gas distribution business model."

- (a) Is it Concentric's view that the switch in customers from natural gas to electricity has a correspondence reduction of risk for electricity distributors. In other words, there is an increased comfort or security about the future viability and competitiveness of the electricity distribution business model?
- (b) Please confirm whether Moody's or any other rating service has downgraded EGI as a result of these concerns about natural gas distributors.
- (c) Please confirm whether there have been any analyst downgrades of OPG as a result of the energy transition.

Interrogatory M2-11-CME-11

Ref: Exhibit M2, p. 130

At page 130 Concentric discusses that individual instances where a utility may not recover the entirety of its capital budget may impact the perception of investors about the risks of investing, and thereby might increase the required ROE in order to meet, for instance, the capital attraction standard.

If we assume that the full costs of a hypothetical project are found not to be recoverable because a utility has been imprudent (and therefore should not recover the entire cost of the project):

- (a) Please provide Concentric's view on the appropriateness of increasing ROE's as a result of the impacts of imprudent behavior.
- (b) Does Concentric believe that increasing ROE as a result of imprudent utility management could, in effect, negate the Board's disallowance, insofar as the shareholder would be able to recover as much or more (through increased ROE) then it would have through additional rate base?

Interrogatory M2-19-CME-12

Ref: Exhibit M2, p. 132

At page 132 Concentric provides reasons why natural gas distributors risks are increasing.

- (c) Please provide a list of any differences in Concentric's risk analysis for EGI between EB-2022-0200 and this proceeding
- (d) Please provide Concentric's view of the appropriateness of altering the capital structure of EGI a year after the Board selected the appropriate capital structure after having the benefit of a fulsome record, including Concentric's report, in EB-2022-0200.