Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Question(s):

a) Please provide, using the most recent rate base amounts available, a comparison of:
   i. The total return on equity, in dollars, for the electricity distribution sector in Ontario based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for the electricity distribution sector in Ontario based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

b) Please provide, using the most recent rate base amounts available, a comparison of:
   i. The total return on equity, in dollars, for the electricity transmission sector in Ontario based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for the electricity transmission sector in Ontario based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

c) Please provide, using the most recent rate base amounts available, a comparison of:
   i. The total return on equity, in dollars, for OPG based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for OPG based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

d) Please provide, using the most recent rate base amounts available, a comparison of:
   i. The total return on equity, in dollars, for Enbridge Gas based on Concentric's recommended ROE and change to equity thickness; and
   ii. The total return on equity, in dollars, for Enbridge Gas based on the OEB's current approach to setting the ROE.

   Please provide the supporting calculation as part of the response.

Response to parts (a) – (d):

Please see the response to N-M2-19-SEC-57.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/pp. 23, 115

Question(s):

(Page 23) Concentric stated that the energy transition has already increased both business and policy-related risks for all Ontario utilities.

(Page 115) As utilities plan and execute infrastructure projects to meet policy mandates and reduce climate risk, the increased demand for labor, supplies, and capital, as well the development of new technologies, will create constraints, increase costs and consequently increase the risks (and commensurate return requirements) associated with investment in their securities.

a) (Page 23) Please provide Concentric's views on the differential impact of energy transition risk on: (i) electricity distributors; (b) electricity transmitters; (c) electricity generators; and (d) natural gas utilities. As part of this response, please provide additional commentary on the risk of energy transition for electricity distributors and transmitters beyond the potential need for additional capital spending related to electrification.

b) (Page 115) In the context that regulated utilities are allowed to recover prudently incurred costs, please explain why increased spending in response to climate change/electrification is a risk to utilities.

c) (Page 115) In the context of electricity distributors and transmitters, please provide Concentric's view on the impact on risk of longer-term significant growth in approved rate base, which provides for larger returns on an absolute basis.

Response:

a) Please see response to N-M2-2-SEC-33.

b) Increased capital spending, whether in response to climate change/electrification or for other customer or service/reliability needs adversely affects the risk profile of utilities in two primary ways. First, elevated capital spending increases the risk of under-recovery or delayed recovery of plant investments. Second, elevated capital spending can pressure utility credit metrics. To that point, from a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. To that point, S&P explains the importance of regulatory support for large capital projects:

> When applicable, a jurisdiction's willingness to support large capital projects with cash during construction is an important aspect of our analysis. This is especially true when the project represents a major addition to rate base and entails long lead times and technological risks that make it susceptible to construction delays. Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.[1]

These risks have been identified specifically for Ontario utilities. For instance, as noted in Appendix B to Concentric's report, credit ratings agencies have found the following credit risks related to the utilities:

- DBRS identifies the risk of "potential regulatory lag" at Enbridge Gas, Inc.
- For OPG, S&P identifies the risk of "[r]efurbishment of legacy nuclear exposes it to execution risk," and further identifies that "[r]obust capital spending leads to negative discretionary cash flow, indicating a need for external funding." Moody's identifies that "CAD12.8 billion nuclear refurbishment and planned construction of an SMR have significant execution risk." And DBRS finds that OPG's "[s]ignificant capex program" is a credit negative.
- S&P identifies that Alectra has "[n]egative discretionary cash flow indicating external funding needs."
- S&P identifies for Hydro One that "[e]levated capital spending to replace aging infrastructure over the next several years could lead to weaker financial

1 S&P Global Ratings, "Assessing U.S. Investor-Owned Utility Regulatory Environments," August 10, 2016, at 7.

measures," while DBRS identifies that Hydro One's "[h]igh level of planned capex" is a credit negative.

- For Hydro Ottawa, DBRS identifies a credit risk related to a "[l]arge capex program: Hydro Ottawa is in the middle of major capex programs to enhance the reliability of the system and meet growing demographic demands. The OEB-approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application from 2021 to 2025 includes capex spend averaging more than $115 million per year. DBRS Morningstar expects this will result in Hydro Ottawa continuing to generate modest deficits in free cash flow over the medium term."
- For Toronto Hydro, DBRS identifies "[b]alance sheet pressure as a result of high CapEx" as a credit risk.

c) Growth in rate base occurs through additions to plant (i.e., capital expenditures). As described in Concentric's report and in response to part b) of this interrogatory, significant capital expenditures plans increase risk for regulated utilities.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/p. 29

Question(s):

Please advise whether Concentric agrees that, in addition to a comparison between Ontario utilities and peer groups regarding regulatory and rate-setting mechanisms, it is important to consider the evolution of those mechanisms in Ontario over time.

Response:

Agreed. Concentric further notes that regulatory and rate-setting mechanisms are constantly evolving in all jurisdictions, including Ontario, as new risks arise, and as new ways are devised to mitigate the effect of those risks. While implementation of new regulatory and rate-setting mechanisms may reduce the absolute risk of a utility, they do not necessarily reduce the relative risk of that same utility if other companies in the industry already have implemented similar mechanisms. For purposes of the risk assessment that is typically performed as part of cost of capital proceedings, the most relevant question is how the regulatory and rate-setting mechanisms of the utility for which the return is being set compare to those for the proxy group companies that are being used to estimate the ROE. That risk analysis is a snapshot at a particular point in time when the cost of capital analysis is being performed.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/pp. 46, 47-50 and Exhibit CEA-2
Ex. M1/p. 129

Question(s):

For each company in each proxy group listed in Exhibit CEA-2, please provide a table that includes the following information (if available and as applicable):

a) Company name
b) Credit rating
c) S&P business risk rating
d) S&P financial risk rating
e) Percentage of operating income from, as applicable, electricity distribution, electricity transmission, electricity generation, natural gas operations
f) Percentage of operating income, as applicable, by operating area (i.e., electricity distribution, transmission, generation or natural gas operations) that is regulated
g) Percentage of overall operating income that is regulated
h) Beta information:
   i. Raw beta
   ii. Beta used by expert in CAPM calculation
i) The regulatory agency that regulates the company (i.e., OEB, AUC, CPUC, etc.) and the applicable rating as set out in the "Utility Regulatory Jurisdiction Assessment performed by S&P Global" (see p. 129 of Exhibit M1 – LEI Expert Report)
j) Description of ratemaking approach applied to the company. As part of this response, please include information regarding:
   i. Most prevalent form of ratemaking (e.g., cost of service, cost of service plus IRM, etc.)
   ii. Application of a forward test year approach in cost of service ratemaking CCC
   iii. Availability of Custom IR option (which, as applied in Ontario, allows for multi-year (typically 5 years) recovery of approved capital budgets as proposed by the utility)
   iv. Availability of mechanisms that allow the recovery of incremental capital between rebasing proceedings (and a description of how those mechanisms operate)
   v. Reliance on fixed vs. variable rates (by rate class)

vi. Availability of deferral and variance accounts for non pass-through costs and revenues (and the types of accounts that are available)
vii. Availability of Z-factor relief (and the types of relief available through this mechanism)
viii. Availability of off-ramp provisions when actual ROE falls below a certain threshold

Response:

Please see CCC-4, Attachment 1, for the information requested in parts (a) through (i), to the extent that information was readily available. Concentric does not have the details requested in part (j) at its disposal. However, please see CCC-4, Attachment 2, which provides ratemaking details and regulatory mechanisms of the operating companies of the companies listed in Exhibit CEA-2.

CANADIAN PROXY GROUP

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Company Name	Ticker	S&P Credit Rating	S&P Business Rating	S&P Financial Risk Rating	% of Operating Income from Regulated Operations	% of Regulated Operating Income from Regulated Electric Operations	Raw Five-Year Bloomberg Beta	Adjusted Five-Year Bloomberg Beta	Regulatory Agency(ies)	Regulatory Agency S&P Global Credit Supportiveness Rating
AltaGas Limited	ALA	BBB-	Strong	Aggressive	38%	n/a	1.23	1.16	Alberta Utilities Commission, Multiple U.S. Jurisdictions	Highly Credit Supportive; multiple U.S. rankings
Canadian Utilities Limited	CU	A-*	n/a	n/a	92%	n/a	0.79	0.86	Alberta Utilities Commission	Highly Credit Supportive
Emera Inc.	EMA	BBB	Excellent	Aggressive	100%	n/a	0.58	0.72	Nova Scotia Utility and Review Board, Florida Public Service Commission, New Mexico Public Regulation Commission	Credit Supportive, Most Credit Supportive, Credit Supportive
Enbridge Inc.	ENB	BBB+	Excellent	Aggressive	13%	n/a	0.90	0.93	Ontario Energy Board, Régie de l'énergie	Most Credit Supportive (both)
Fortis, Inc.	FTS	A-	Excellent	Significant	99%	n/a	0.58	0.72	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Hydro One, Ltd.	H	A**	Excellent	Significant	102%	n/a	0.54	0.69	Ontario Energy Board	Most Credit Supportive

**Credit rating from Fitch*
***Upgraded from A- to A from S&P on June 10, 2024*

U.S. ELECTRIC PROXY GROUP

Company Name	Ticker	Credit Rating	S&P Business Rating	S&P Financial Risk Rating	% of Operating Income from Regulated Operations	% of Regulated Operating Income from Regulated Electric Operations	Raw Five-Year Bloomberg Beta	Adjusted Five-Year Bloomberg Beta	Regulatory Agency(ies)	Regulatory Agency S&P Global Credit Supportiveness Rating
Alliant Energy Corporation	LNT	A-	Excellent	Significant	97%	91%	0.81	0.87	Iowa Utilities Board, Public Service Commission of Wisconsin	Most Credit Supportive (both)
Ameren Corporation	AEE	BBB+	Excellent	Significant	98%	85%	0.76	0.84	Missouri Public Service Commission, Illinois Commerce Commission	Very Credit Supportive (both)
American Electric Power Company, Inc.	AEP	BBB+	Excellent	Significant	98%	100%	0.77	0.84	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Duke Energy Corporation	DUK	BBB+	Excellent	Significant	95%	90%	0.74	0.82	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Entergy Corporation	ETR	BBB+	Excellent	Significant	99%	99%	0.96	0.97	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Eversource Energy	ES	A-	Excellent	Significant	95%	81%	0.85	0.90	Massachusetts Department of Public Utilities, Connecticut Public Utilities Regulatory Authority, New Hampshire Public Utilities Commission	Highly Credit Supportive, More Credit Supportive, Highly Credit Supportive
Exelon Corporation	EXC	BBB+	Excellent	Significant	100%	91%	0.97	0.98	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Evergy, Inc.	EVRG	BBB+	Excellent	Significant	100%	100%	0.84	0.89	Kansas Corporation Commission, Missouri Public Service Commission	Highly Credit Supportive, Very Credit Supportive
NextEra Energy, Inc.	NEE	A-	Excellent	Significant	88%	100%	0.87	0.91	Florida Public Service Commission	Most Credit Supportive
OGE Energy Corporation	OGE	BBB+	Excellent	Significant	100%	100%	1.03	1.02	Oklahoma Corporation Commission, Arkansas Public Service Commission	Very Credit Supportive, Highly Credit Supportive
Pinnacle West Capital Corporation	PNW	BBB+	Excellent	Significant	100%	100%	0.90	0.94	Arizona Corporation Commission	More Credit Supportive
PPL Corporation	PPL	A-	Excellent	Significant	100%	94%	1.10	1.07	Kentucky Public Service Commission, Pennsylvania Public Utilities Commission, Rhode Island Public Utilities Commission	Most Credit Supportive, Highly Credit Supportive, Very Credit Supportive
Portland General Electric Company	POR	BBB+	Excellent	Significant	100%	100%	0.82	0.88	Oregon Public Utility Commission	More Credit Supportive
Southern Company	SO	A-	Excellent	Significant	94%	82%	0.85	0.90	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Xcel Energy Inc.	XEL	BBB+	Excellent	Significant	100%	86%	0.74	0.83	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)

U.S. GAS PROXY GROUP

Company Name	Ticker	Credit Rating	S&P Business Rating	S&P Financial Risk Rating	% of Operating Income from Regulated Operations	% of Regulated Operating Income from Regulated Gas Operations	Raw Five-Year Bloomberg Beta	Adjusted Five-Year Bloomberg Beta	Regulatory Agency(ies)	Regulatory Agency S&P Global Credit Supportiveness Rating
Atmos Energy Corp.	ATO	A-	Excellent	Significant	100%	100%	0.74	0.83	Multiple (four or more jurisdictions)	Multiple (four or more jurisdictions)
Northwest Natural Gas Company	NWN	A+	Excellent	Intermediate	100%	91%	0.62	0.74	Oregon Public Utility Commission, Washington Utilities and Transportation Commission	More Credit Supportive
ONE Gas, Inc.	OGS	A-	Excellent	Significant	100%	100%	0.75	0.83	Kansas Corporation Commission, Oklahoma Corporation Commission, Railroad Commission of Texas	Highly Credit Supportive, Very Credit Supportive, Highly Credit Supportive
Spire, Inc.	SR	BBB+	Excellent	Aggressive	83%	100%	0.80	0.86	Missouri Public Service Commission, Alabama Public Service Commission, Mississippi Public Service Commission	Very Credit Supportive, Most Credit Supportive, Very Credit Supportive

Notes:
[1] - [3] Source: S&P Global, as of August 15, 2024
[4] - [5] Source: Form 10-Ks; 2021-2023 three-year average
[6] - [7] Source: Bloomberg Professional, as of May 31, 2024
[8] Source: Company websites and filings
[9] Source: S&P Global RatingsDirect, "North American Utility Regulatory Jurisdictions Update: Ontario Remains Unchanged, Notable Developments Elsewhere", March 11, 2024

Filed: 2024-08-22, EB-2024-0063, Exhibit N-M2-CCC-4, Attachment 2, Page 1 of 4

Proxy Group Regulatory Risk Assessment

Company	Ticker	Operating Subsidiary	Service Type	Jurisdiction	[1] Test Year	[2] Credit Rating	[3] Credit Rating (numerical)	[4] Authorized ROE (%)	[4] Authorized Equity Ratio (%)	[5] Electric fuel/gas commodity/purch. power	[5] Full Decoupling	[5] Partial Decoupling	[5] Conserv. program expense	[5] Renewables/ Non-Traditional Generation	[5] Environmental compliance	[5] Delivery infrastructure	[5] Transmission costs	[5] Capital Cost Recovery
Canadian Proxy Group																		
AltaGas Limited	ALA	ENSTAR Natural Gas Company	Natural Gas	AK	Historical	NR		11.88	54.11	✓								
		Washington Gas Light Company	Natural Gas	DC	Historical	A-	7	9.65	52.00	✓				✓		✓		✓
		Washington Gas Light Company	Natural Gas	MD	Historical	A-	7	9.50	52.60	✓		✓	✓			✓		✓
		SEMCO Energy, Inc.	Natural Gas	MI	Fully Forecasted	BBB	9	9.87	54.00	✓			✓			✓		✓
		Washington Gas Light Company	Natural Gas	VA	Historical	A-	7	NA	52.53	✓		✓				✓		✓
Canadian Utilities Limited	CU	ATCO Electric	Electric	Alberta	Historical	NR		9.28	37.00	NA						✓	✓	✓
		ATCO Gas	Natural Gas	Alberta	Historical	NR		9.28	37.00	NA		✓				✓	✓	✓
Emera Inc.	EMA	Tampa Electric Company	Electric	FL	Fully Forecasted	BBB+	8	9.95	45.07	✓			✓	✓	✓			✓
		Peoples Gas System	Natural Gas	FL	Fully Forecasted	A-	7	10.15	NA	✓			✓		✓	✓		✓
		New Mexico Gas Company, Inc.	Natural Gas	NM	Historical	NR		9.38	52.00	✓		✓	✓					✓
		Nova Scotia Power Inc.	Electric	Nova Scotia	Fully Forecasted	BBB-	10	9.00	40.00	✓		✓				✓		✓
Enbridge	ENB	Enbridge Gas	Natural Gas	Ontario	Fully Forecasted	A-	7	9.21	38.00	✓		✓						
		Gazifere	Natural Gas	Quebec		NR		9.05	40.00	✓								
Fortis Inc.	FTS	Central Hudson Gas & Electric Corp.	Electric	NY	Fully Forecasted	BBB+	8	9.00	50.00		✓		✓	✓		✓		✓
		Central Hudson Gas & Electric Corp.	Natural Gas	NY	Fully Forecasted	BBB+	8	9.00	50.00	✓	✓		✓		✓	✓		✓
		Tucson Electric Power Company	Electric	AZ	Historical	A-	7	9.55	54.32	✓		✓	✓	✓	✓		✓	✓
		UNS Electric, Inc.	Electric	AZ	Historical	A3	7	9.75	53.72	✓		✓	✓	✓	✓		✓	✓
		UNS Gas, Inc.	Natural Gas	AZ	Historical	A3	7	9.75	50.82	✓		✓	✓					✓
		FortisBC	Electric	British Columbia	Fully Forecasted	A-	7	9.65	41.00	✓	✓		✓			✓		✓
		FortisBC Energy	Natural Gas	British Columbia	Fully Forecasted	A-	7	9.65	45.00	✓	✓		✓			✓		✓
		Newfoundland Power Inc	Electric	Newfoundland & Labrador	Fully Forecasted	Baa1	8	8.50	45.00	✓		✓	✓			✓		✓
		Maritime Electric Company Ltd.	Electric	Prince Edward Island	Fully Forecasted	BBB+	8	9.35	40.00	✓		✓	✓			✓		✓
HydroOne Inc.	H	Hydro One Inc.	Electric	Ontario	Fully Forecasted	A-	7	9.21	40.00	✓			✓		✓	✓	✓	✓
U.S. Electric Proxy Group																		
Alliant Energy Corporation	LNT	Interstate Power and Light Company	Electric	IA	Historical	A-	7	10.02	51.00	✓			✓	✓	✓		✓	✓
		Interstate Power and Light Company	Natural Gas	IA	Historical	A-	7	9.60	51.00	✓								
		Wisconsin Power and Light Company	Electric	WI	Fully Forecasted	A	6	9.80	53.70	✓								
		Wisconsin Power and Light Company	Natural Gas	WI	Fully Forecasted	A	6	9.80	53.70	✓								
Ameren Corporation	AEE	Ameren Illinois Company	Electric	IL	Historical	BBB+	8	8.72	50.00			✓	✓	✓	✓		✓	✓
		Ameren Illinois Company	Natural Gas	IL	Fully Forecasted	BBB+	8	9.44	50.00	✓		✓	✓		✓	✓		✓
		Union Electric Company	Electric	MO	Historical	BBB+	8	NA	NA	✓		✓	✓	✓		✓	✓	✓
		Union Electric Company	Natural Gas	MO	Historical	BBB+	8	NA	NA	✓		✓				✓		✓
American Electric Power Company, Inc.	AEP	Southwestern Electric Power Company	Electric	AR	Historical	BBB+	8	9.50	44.54	✓		✓	✓		✓		✓	✓
		Indiana Michigan Power Company	Electric	IN	Fully Forecasted	BBB+	8	9.85	NA	✓		✓	✓	✓	✓	✓	✓	✓
		Kentucky Power Company	Electric	KY	Historical	BBB	9	9.75	41.25	✓		✓	✓		✓			✓
		Southwestern Electric Power Company	Electric	LA	Historical	BBB+	8	9.50	NA	✓		✓	✓					✓
		Indiana Michigan Power Company	Electric	MI	Fully Forecasted	BBB+	8	9.86	46.56	✓		✓	✓	✓				✓
		Ohio Power Company	Electric	OH	Partially Forecasted	BBB+	8	9.70	54.43			✓	✓	✓		✓	✓	✓
		Public Service Company of Oklahoma	Electric	OK	Historical	BBB+	8	9.30	52.00	✓		✓	✓	✓		✓	✓	✓
		Kingsport Power Company	Electric	TN	Fully Forecasted	NR		9.50	48.90	✓								
		AEP Texas Inc.	Electric	TX	Historical	BBB+	8	9.40	42.50				✓			✓	✓	✓
		Southwestern Electric Power Company	Electric	TX	Historical	BBB+	8	9.25	49.37	✓			✓			✓	✓	✓
		Appalachian Power Company	Electric	VA	Historical	BBB+	8	NA	NA	✓			✓		✓		✓	✓
		Wheeling Power Company	Electric	WV	Historical	BBB+	8	NA	NA	✓			✓		✓			✓

Company	Ticker	Operating Subsidiary	Service Type	Jurisdiction	Test Year	Credit Rating	Credit Rating (numerical)	Authorized ROE (%)	Authorized Equity Ratio (%)	Electric fuel/gas commodity/purch. power	Full Decoupling	Partial Decoupling	Conserv. program expense	Renewables/ Non-Traditional Generation	Environmental compliance	Delivery infrastructure	Transmission costs	Capital Cost Recovery
Duke Energy Corporation	DUK	Duke Energy Florida, LLC	Electric	FL	Fully Forecasted	BBB+	8	10.10	NA	✓			✓	✓	✓			✓
		Duke Energy Indiana, LLC	Electric	IN	Historical	BBB+	8	9.70	40.98	✓		✓	✓	✓	✓	✓	✓	✓
		Duke Energy Kentucky, Inc.	Electric	KY	Fully Forecasted	BBB+	8	9.75	52.15	✓		✓	✓		✓			✓
		Duke Energy Kentucky, Inc.	Natural Gas	KY	Fully Forecasted	BBB+	8	9.38	51.34	✓		✓	✓			✓		✓
		Duke Energy Carolinas, LLC	Electric	NC	Historical	BBB+	8	10.10	53.00	✓			✓	✓	✓			✓
		Duke Energy Progress, LLC	Electric	NC	Historical	BBB+	8	9.80	53.00	✓			✓	✓	✓			✓
		Piedmont Natural Gas Company, Inc.	Natural Gas	NC	Historical	BBB+	8	9.60	51.60	✓	✓		✓			✓		✓
		Duke Energy Ohio, Inc.	Electric	OH	Partially Forecasted	BBB+	8	9.50	50.50			✓	✓	✓		✓	✓	✓
		Duke Energy Ohio, Inc.	Natural Gas	OH	Partially Forecasted	BBB+	8	9.60	52.32	✓					✓	✓		✓
		Duke Energy Progress, LLC	Electric	SC	Historical	BBB+	8	9.60	52.43	✓			✓		✓			✓
		Duke Energy Carolinas, LLC	Electric	SC	Historical	BBB+	8	9.50	53.00	✓			✓		✓			✓
		Piedmont Natural Gas Company, Inc.	Natural Gas	SC	Historical	BBB+	8	9.30	53.13	✓		✓	✓					✓
		Piedmont Natural Gas Company, Inc.	Natural Gas	TN	Fully Forecasted	BBB+	8	9.80	50.09	✓		✓				✓		✓
Entergy Corporation	ETR	Entergy Arkansas, LLC	Electric	AR	Fully Forecasted	A-	7	NA	38.65	✓		✓	✓	✓		✓	✓	✓
		Entergy New Orleans, LLC	Electric	LA	Partially Forecasted	BB	12	9.35	50.00	✓			✓	✓	✓		✓	✓
		Entergy New Orleans, LLC	Natural Gas	LA	Partially Forecasted	BB	12	9.35	50.00	✓								
		Entergy Louisiana, LLC	Electric	LA	Historical	BBB+	8	9.95	NA	✓		✓	✓		✓			✓
		Entergy Mississippi, LLC	Electric	MS	Partially Forecasted	A-	7	10.07	NA	✓		✓					✓	✓
		Entergy Texas, Inc.	Electric	TX	Historical	BBB+	8	9.57	51.21	✓			✓			✓	✓	✓
Eversource Energy	ES	The Connecticut Light and Power Company	Electric	CT	Historical	A	6	9.25	53.00		✓		✓			✓	✓	✓
		Yankee Gas Services Company	Natural Gas	CT	Historical	A-	7	9.30	53.76	✓	✓		✓			✓		✓
		Eversource Gas Company of Massachusetts	Natural Gas	MA	Historical	A-	7	9.70	53.25	✓	✓		✓		✓	✓		✓
		NSTAR Electric Company	Electric	MA	Historical	A	6	NA	NA		✓		✓	✓		✓	✓	✓
		NSTAR Gas Company	Natural Gas	MA	Historical	A-	7	NA	NA	✓	✓		✓		✓	✓		✓
		Public Service Company of New Hampshire	Electric	NH	Historical	A	6	9.30	54.40	✓		✓				✓	✓	✓
Evergy, Inc.	EVRG	Evergy Kansas Central, Inc.	Electric	KS	Historical	BBB+	8	NA	NA	✓		✓	✓	✓	✓		✓	✓
		Evergy Kansas South, Inc.	Electric	KS	Historical	BBB+	8	10.40	50.13	✓		✓	✓	✓	✓		✓	✓
		Evergy Metro, Inc.	Electric	KS	Historical	A-	7	NA	NA	✓			✓			✓	✓	✓
		Evergy Metro, Inc.	Electric	MO	Historical	A-	7	NA	NA	✓		✓	✓			✓	✓	✓
		Evergy Missouri West, Inc.	Electric	MO	Historical	BBB+	8	NA	NA	✓		✓	✓	✓		✓	✓	✓
Exelon Corporation	EXC	Delmarva Power & Light Company	Electric	DE	Historical	A-	7	9.60	50.50				✓			✓	✓	✓
		Delmarva Power & Light Company	Natural Gas	DE	Historical	A-	7	9.60	49.94	✓					✓	✓		✓
		Potomac Electric Power Company	Electric	DC	Historical	A-	7	9.28	50.68			✓		✓		✓		✓
		Commonwealth Edison Company	Electric	IL	Historical	A-	7	8.91	50.00				✓	✓	✓	✓	✓	✓
		Baltimore Gas and Electric Company	Electric	MD	Historical	A	6	9.50	52.00		✓		✓					✓
		Baltimore Gas and Electric Company	Natural Gas	MD	Historical	A	6	9.45	52.00	✓	✓		✓			✓		✓
		Delmarva Power & Light Company	Electric	MD	Historical	A-	7	9.60	50.50		✓		✓					✓
		Potomac Electric Power Company	Electric	MD	Historical	A-	7	9.55	50.50		✓		✓			✓		✓
		Atlantic City Electric Company	Electric	NJ	Partially Forecasted	A-	7	9.60	50.20			✓	✓		✓	✓		✓
		PECO Energy Company	Electric	PA	Fully Forecasted	BBB+	8	NA	NA				✓			✓	✓	✓
		PECO Energy Company	Natural Gas	PA	Fully Forecasted	BBB+	8	NA	NA	✓			✓			✓		✓
NextEra Energy, Inc.	NEE	Florida Power & Light Company	Electric	FL	Fully Forecasted	A	6	10.80	NA	✓			✓	✓	✓			✓
		Pivotal Utility Holdings, Inc.	Natural Gas	FL	Fully Forecasted	NR		9.50	59.60	✓			✓		✓	✓		✓
		Lone Star Transmission, LLC	Electric	TX	Historical	NR		NA	NA							✓	✓	✓
OGE Energy Corporation	OGE	Oklahoma Gas and Electric Company	Electric	AR	Historical	A-	7	NA	38.39	✓		✓	✓	✓	✓	✓	✓	✓
		Oklahoma Gas and Electric Company	Electric	OK	Historical	A-	7	9.50	53.37	✓		✓	✓		✓	✓	✓	✓
Pinnacle West Capital Corporation	PNW	Arizona Public Service Company	Electric	AZ	Historical	BBB+	8	9.55	51.93	✓		✓	✓	✓	✓		✓	✓
PPL Corporation	PPL	Kentucky Utilities Company	Electric	KY	Fully Forecasted	A-	7	9.43	NA	✓		✓	✓		✓			✓
		Louisville Gas and Electric Company	Electric	KY	Fully Forecasted	A-	7	9.43	NA	✓		✓	✓		✓			✓
		Louisville Gas and Electric Company	Natural Gas	KY	Fully Forecasted	A-	7	9.43	NA	✓		✓	✓			✓		✓
		PPL Electric Utilities Corporation	Electric	PA	Fully Forecasted	A	6	NA	NA				✓			✓	✓	✓
		The Narragansett Electric Company	Electric	RI	Historical	A-	7	9.28	50.95		✓		✓			✓	✓	✓
		The Narragansett Electric Company	Natural Gas	RI	Historical	A-	7	9.28	50.95	✓	✓		✓		✓	✓		✓
		Kentucky Utilities Company	Electric	VA	Historical	A-	7	NA	NA	✓								
Portland General Electric Company	POR	Portland General Electric Company	Electric	OR	Fully Forecasted	BBB+	8	9.50	50.00	✓			✓	✓	✓		✓	✓
Southern Company	SO	Alabama Power Company	Electric	AL	Historical	A	6	NA	NA	✓				✓	✓			✓
		Atlanta Gas Light Company	Natural Gas	GA	Partially Forecasted	A-	7	NA	56.00						✓	✓		✓
		Georgia Power Company	Electric	GA	Partially Forecasted	A	6	10.50	56.00	✓					✓			✓
		Northern Illinois Gas Company	Natural Gas	IL	Fully Forecasted	A-	7	9.51	50.00	✓		✓	✓		✓	✓		✓
		Mississippi Power Company	Electric	MS	Partially Forecasted	A-	7	NA	53.00	✓		✓			✓			✓
		Chattanooga Gas Company	Natural Gas	TN	Fully Forecasted	NR		9.80	49.23	✓	✓							
		Virginia Natural Gas, Inc.	Natural Gas	VA	Historical	NR		NA	NA	✓		✓				✓		✓
Xcel Energy Inc.	XEL	Public Service Company of Colorado	Electric	CO	Historical	A-	7	9.30	55.69	✓		✓	✓	✓			✓	✓
		Public Service Company of Colorado	Natural Gas	CO	Historical	A-	7	9.20	53.78	✓		✓	✓			✓		✓
		Northern States Power Company	Electric	MN	Fully Forecasted	A-	7	9.25	52.50	✓		✓	✓	✓	✓		✓	✓
		Northern States Power Company	Natural Gas	MN	Fully Forecasted	A-	7	9.57	52.50	✓			✓			✓		✓
		Southwestern Public Service Company	Electric	NM	Historical	BBB	9	9.50	54.70	✓			✓	✓				✓
		Northern States Power Company	Electric	ND	Fully Forecasted	A-	7	9.50	52.50	✓				✓		✓	✓	✓
		Northern States Power Company	Natural Gas	ND	Fully Forecasted	A-	7	9.80	52.54	✓								
		Northern States Power Company	Electric	SD	Historical	A-	7	NA	NA	✓		✓	✓		✓	✓	✓	✓
		Southwestern Public Service Company	Electric	TX	Historical	BBB	9	NA	NA	✓			✓				✓	✓
		Northern States Power Company	Electric	WI	Fully Forecasted	A-	7	9.80	52.50	✓								
		Northern States Power Company	Natural Gas	WI	Fully Forecasted	A-	7	9.80	52.50	✓								

Company	Ticker	Operating Subsidiary	Service Type	Jurisdiction	Test Year	Credit Rating	Credit Rating (numerical)	Authorized ROE (%)	Authorized Equity Ratio (%)	Electric fuel/gas commodity/purch. power	Full Decoupling	Partial Decoupling	Conserv. program expense	Renewables/ Non-Traditional Generation	Environmental compliance	Delivery infrastructure	Transmission costs	Capital Cost Recovery
US Gas Proxy Group																		
Atmos Energy Corp	ATO	Atmos Energy Corporation	Natural Gas	KS	Historical	A-	7	NA	NA	✓		✓				✓		✓
		Atmos Energy Corporation	Natural Gas	KY	Fully Forecasted	A-	7	9.23	54.50	✓		✓	✓			✓		✓
		Atmos Energy Corporation	Natural Gas	LA	Historical	A-	7	10.77	53.25	✓		✓						
		Atmos Energy Corporation	Natural Gas	MS	Partially Forecasted	A-	7	12.94	77.76	✓		✓				✓		✓
		Atmos Energy Corporation	Natural Gas	TN	Fully Forecasted	A-	7	NA	62.20	✓		✓						
		Atmos Energy Corporation	Natural Gas	TX	Historical	A-	7	9.80	60.12	✓		✓				✓		✓
Northwest Natural Holding Company	NWN	Northwest Natural Gas Company	Natural Gas	OR	Fully Forecasted	A+	5	9.40	50.00	✓		✓	✓		✓			✓
		Northwest Natural Gas Company	Natural Gas	WA	Historical	A+	5	NA	NA	✓			✓					✓
ONE Gas, Inc.	OGS	Kansas Gas Service Company, Inc.	Natural Gas	KS	Historical	NR		NA	NA	✓		✓				✓		✓
		Oklahoma Natural Gas Company	Natural Gas	OK	Historical	NR		NA	NA	✓		✓	✓					✓
		Texas Gas Service Company, Inc.	Natural Gas	TX	Historical	NR		9.70	59.07	✓		✓				✓		✓
Spire, Inc.	SR	Spire Missouri Inc.	Natural Gas	MO	Partially Forecasted	BBB+	8	NA	NA	✓		✓				✓		✓
		Spire Alabama Inc.	Natural Gas	AL	Historical	BBB+	8	NA	NA	✓		✓						
		Spire Gulf Inc.	Natural Gas	AL	Historical	NR		13.60	46.99	✓		✓						
Proxy Group Results				**Total:**	Fully Forecasted = 33%	**Average:**	7	9.66	50.53	**Adjustment Clauses Count & Percentages of Total Proxy Group:**								
				130	Partially Forecasted = 9%	A-				111	17	64	88	34	48	71	44	113
					Historical = 57%					85%	13%	49%	68%	26%	37%	55%	34%	87%

Notes:
[1] Source: S&P Capital IQ Pro, as of May 31, 2024
[2] Bloomberg Professional. S&P Rating, unless noted. May 31, 2024
[3] Bloomberg Professional
[4] Source: S&P Capital IQ Pro, rate cases as of May 31, 2024. "NA" indicates either undisclosed ROE, most recent rate case prior to 2010, or operating subsidiary is not covered by S&P, or an equity ratio observed in a state including zero-cost-of-capital items (AR, IN, FL, MI)
[5] Source: Regulatory Research Associates, "Adjustment Clauses: A State by State Overview", July 18, 2022

AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
BB+	11
BB	12
BB-	13

Aaa	1
Aa1	2
Aa2	3
Aa3	4
A1	5
A2	6
A3	7
Baa1	8
Baa2	9
Baa3	10
Ba1	11
Ba2	12
Ba3	13

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/p. 53

Question(s):

At a general level, when Concentric discusses country risk (and notes that Canada and the US have the same risk), is this commentary only about the risk of operating in each of those countries?

Response:

First, as a point of clarification, Concentric's position is not that Canada and the U.S. have the same country risk, but rather that "there are no fundamental dissimilarities between Canada and the U.S. (in terms of economic growth, inflation, or government bond yields) that would cause a reasonable investor to have a materially different return expectation for a group of comparable risk utilities in the two countries," as stated on page 55 of Concentric's report, Exhibit M2. When Concentric refers to country risk, we not only mean the risk of operating in each of those countries, but also other factors such as the regulatory environment. In that regard, Moody's published a report in 2013 in which the rating agency changed its view of U.S. regulation relative to Canadian regulation. Moody's had previously viewed the regulatory environment for utilities in the U.S. as less favorable than in Canada. In September 2013, Moody's revised that view based primarily on the increasing use of forecast test years and the approval of adjustment mechanisms for utilities in the U.S. that helped to mitigate some of the risks associated with regulatory lag and timely cost recovery.

In addition, please see pages 50-52 of Concentric's report, where we discuss the use of North American proxy groups and the determinations of utility regulators in Ontario, British Columbia and Alberta as it relates to the appropriateness of using U.S. companies and U.S. return data to set the authorized return for Canadian utility companies.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/p. 66 and Exhibit CEA-7.1

Question(s):

a) Please confirm that the average Value Line and Bloomberg betas shown in Figure 16 reflect a simple average of the betas shown in CEA-7.1 for each proxy group.

b) Please confirm that the betas shown in Exhibit CEA-7.1 reflect adjusted betas.

c) Please explain the applicability of the statement that an "individual company beta is more likely than not to move toward the market mean of 1.0 over time" in the context of the regulated utility sector.

d) Please advise whether Concentric is aware of the beta estimate for any Canadian regulated utility ever reaching 1.0.

e) Please provide Concentric's views on the differential in risk between Canadian and US utilities as expressed by the beta estimates. Historically, do US utilities have higher beta estimates than Canadian firms?

f) Please provide revised ROE results using historical MRP, similar to what is set out in Figure 18, that use raw betas (as opposed to adjusting betas toward 1.0).

g) To understand the CAPM-derived ROE sensitivity to changes in beta estimates using Concentric's recommended approach, please provide the ROE based on:
   i. A beta of 0.5
   ii. A beta of 0.25

Response:

a) Confirmed.

b) Confirmed. Concentric has used Blume-adjusted betas in its CAPM analysis.

c) The conclusion of the Blume study is that betas for all companies tend to migrate toward the market mean of 1.0 over time. Based on Dr. Blume's research, this is true both for high beta companies (i.e., those with betas in excess of 1.0) and low betas companies (i.e., those with betas lower than 1.0). As explained on page 67 of Concentric's report, Exhibit M2, Dr. Blume studied four groups of betas, ranging from a very low beta group (averaging 0.5) to a very high beta group. Dr. Blume found that his adjustment best predicted future betas for each of the four groups over the next seven years.

d) Yes, Concentric is aware of betas for Canadian and U.S. utilities exceeding 1.0. For example, as shown in Exhibit CEA-7.1, the Bloomberg beta for AltaGas Ltd. was over 1.0 as of May 31, 2024. In addition, the Bloomberg beta for Algonquin Power and Utilities Corp. (which is not included in Concentric's Canadian proxy group) also was over 1.0 at the end of May 2024. In the U.S., the Bloomberg betas for OGE Energy and PPL Corporation were over 1.0 at the end of May, and the Value Line betas for NextEra Energy Inc, OGE Energy, and PPL Corporation exceeded 1.0. In those situations, the Blume adjustments serve to reduce the raw beta, which are higher than those used in Concentric's CAPM analysis.

e) In Concentric's experience over the past decade, betas for Canadian utility companies are generally, although not always, slightly lower than betas for U.S. electric utility companies. The table below shows the betas used in Concentric's ROE analysis for a sample of cases involving Canadian utilities. As shown in the table, the differential between Canadian and U.S. electric betas has narrowed in recent years.

Canadian Utility	Date	Canadian proxy group avg. beta	US proxy group avg. beta	Differential
Hydro Quebec	2013	0.54	0.59	9.26%
Newfoundland Power	2015	0.64	0.73	14.06%
ENMAX	2020	0.66	0.57	-13.64%
Nova Scotia Power	2021	0.90	0.92	2.22%
FortisBC	2022	0.89	0.91	2.25%
Newfoundland Power	2023	0.87	0.89	2.30%

f) Please see revised ROE results using raw betas rather than Blume adjusted betas.

Proxy Group	Historical MRP
Canadian	8.55%
U.S. Electric	10.39%
U.S. Gas	9.46%
North American Electric	9.88%
North American Gas	9.47%
North American Combined	9.87%

g) Please see revised ROE results using betas of 0.50 and 0.25.

a. 0.50 Betas

Proxy Group	Historical MRP
Canadian	7.18%
U.S. Electric	7.85%
U.S. Gas	7.85%
North American Electric	7.71%
North American Gas	7.51%
North American Combined	7.69%

b. 0.25 Betas

Proxy Group	Historical MRP
Canadian	5.57%
U.S. Electric	6.25%
U.S. Gas	6.25%
North American Electric	6.10%
North American Gas	5.91%
North American Combined	6.08%

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/pp. 74-79 and p. 100

Question(s):

(Page 74) For our Risk Premium analyses, we have relied on authorized returns from a large sample of U.S. electric utilities and U.S. gas distribution companies. In addition, we have conducted a Risk Premium analysis based on authorized returns for Canadian electric and gas utility companies since 2000.

a) Please explain why it is appropriate to use approved returns (or, “authorized returns”) for regulated utilities to determine the risk premium in the calculation of an appropriate ROE for an Ontario regulated utility. As part of the response, please comment on the logic of using approved ROEs from other jurisdictions to determine risk premiums for Ontario utilities when those approved ROEs would have also, presumably, been underpinned by DCF, CAPM and/or Risk Premium based ROE determinations when they were initially calculated.

Response:

It is reasonable to use the Risk Premium model, as Concentric has done in this proceeding, because authorized returns in other jurisdictions are used as a benchmark by investors in setting their return expectations. The Risk Premium model is based on the fundamental concept that investors require a higher return for investing in common equity than they do for debt. The model also demonstrates the inverse relationship between the level of interest rates and the equity risk premium. In other words, as interest rates decrease, the equity risk premium increases, and vice versa.

Concentric uses the Risk Premium model, along with the Multi-Stage DCF model and the CAPM, to estimate the ROE for proxy groups of companies with comparable risk to Ontario’s electric and gas utilities. Regulators in other jurisdictions have found the Risk Premium model to be useful in setting the authorized ROE for utilities. In particular, the BCUC’s September 2023 Order noted that the benefits of the Risk Premium model outweighed any shortcomings. For that reason, the BCUC gave the results of the Risk Premium model equal weight as the Multi-Stage DCF model and the CAPM using an average market risk premium. The fact that authorized ROEs in other jurisdictions may have been underpinned by DCF, CAPM and/or Risk Premium based determination does not diminish the usefulness of the Risk Premium model in Ontario.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/pp. 95-98
Ex. M4/p. 24

Question(s):

(Page 95) 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.

a) (Page 95) Please explain Concentric's preference for an approach that weights the forecast 30-year GOC bond yield in the manner described above.

b) (Exhibit M4, Page 24) Please comment on Dr. Cleary's recommendation to use the actual prevailing bond yields (as opposed to a forecast of bond yields) in the calculation of the long-term debt rate. Please include in this response a discussion of the benefits/drawbacks relative to Concetric's recommended option.

c) (Pages 96 and 98) With respect to the LCBF and utility bond spread adjustment factors, at a more general level, please discuss why using a regression analysis to set these factors is appropriate. As part of the response, please discuss why any adjustment factor is needed and explain why simply passing through the annual change in the LCBF and utility bond spreads in the ROE formula is inappropriate.

Response:

a) Please see the response to N-M2-10-AMPCO/IGUA-14(a).

b) Concentric disagrees with Dr. Cleary's recommendation to use the current yield on the 30-year GOC bond as the base LCBF. In particular, Concentric does not agree with Dr. Cleary's recommendation to use a spot yield as of a specific day due to the inherent volatility in interest rates. For example, the 30-year GOC bond ranged from

3.19% to 3.74% for the 90-day period ending June 28, 2024. Further, the cost of equity is a forward-looking concept, and to the extent possible, it is best to use forward-looking market data in the models used to estimate the ROE such as forecast bond yields, projected earnings growth rates, etc. In our experience working with other clients, Dr. Cleary's preference for historical interest rates on a particular day is not consistent with the method used by most investors to set their return expectations.

c) The adjustment factors signify the relationship between authorized ROEs and government bond yields/utility credit spreads, or the "lockstep" with which they move, and are included in the ROE formula so that future movements in government bond yields and utility credit spreads can be accurately reflected in the authorized ROE formula. The best way to determine the correct adjustment factors to use is to empirically observe the historical relationship. Conducting a regression analysis is the standard way to observe historical relationships between two or more data series. Concentric's multivariate regression analysis uses historical authorized ROEs, bond yields, and credit spreads dating back to 1993 to estimate the appropriate coefficients to assign to bond yield and credit spread changes in specifying the allowed ROE.

Simply passing through the annual change in the LCBF and utility bond spread (i.e., using adjustment factors of 1.00) would be inappropriate because allowed ROEs historically have not moved at that level of variability; i.e., a +100 bps change in the government bond yield has *not* generally corresponded to a one-to-one +100 bps change in authorized ROEs. Rather, based on Concentric's analysis, a +100 bps change in government bond yields reasonably corresponds to a +40 bps change in authorized ROEs. Therefore, Concentric recommends implementing a 0.40 adjustment factor for the change in LCBF, with similar reasoning for the 0.33 adjustment factor for the change in utility credit spread.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/pp. 126 and Appendix B

Question(s):

(Page 126) The average S&P Global credit rating for the operating utilities held by the North American proxy group is A-. By comparison, S&P Global credit ratings for Ontario's electric and gas utilities range from BBB+ to A.

a) (Page 126) Please provide the average S&P global rating for Ontario's electric and gas utilities.

b) (Page 126) Please provide the average S&P global rating for only Ontario's electricity distribution and transmission utilities.

c) (Appendix B) Please confirm that all Ontario utilities that have credit ratings from any of S&P, DBRS, or Moody's are listed in Appendix B.

d) Please advise whether Concentric is aware of any utility in Ontario having difficulties attracting capital (either debt or equity).

Response:

a) The average S&P global rating for Ontario's electric and gas utilities is approximately A-. Please see CCC-9a, Attachment 1.

b) The average S&P global rating for Ontario's electric distribution and transmission utilities only is approximately A. Please see CCC-9a, Attachment 1.

c) Not confirmed. Appendix B lists only Enbridge Gas., the Coalition of Large Distributors, Ontario Power Generation, and Upper Canada Transmission 2, Inc.

d) Please see response to N-M2-11-OEB Staff-17(a).

Sector	**Company**	**S&P Global Credit Rating**	*Numerical*
Gas	Enbridge Gas inc.	A-	*7*
Electric Generation	Ontario Power Generation	BBB+	*8*
Electric Distribution	Alectra Utilities Corporation	A-	*7*
Electric Distribution	Elexicon Energy Inc.	n/a	
Electric Distribution and Transmission	Hydro One Networks Inc.	A	*6*
Electric Distribution	Hydro Ottawa Limited	n/a	
Electric Distribution	Toronto Hydro-Electric System Limited	A	*6*
Electric Transmission	Upper Canada Transmission Inc.	n/a	
	Average Electric & Gas	**A-**	***6.8***
	Average Electric Distribution & Transmission	**A**	***6.3***

S&P Rating	**Numerical**
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB+	9
BBB-	10

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/p. 127

Question(s):

Several of the Ontario utilities are exposed to fluctuations in throughput due to changes in load or loss of customers, while more than 60 percent of the North American proxy group utilities are protected from volumetric risk through decoupling mechanisms.

a) Please explain what decoupling mechanisms Concentric is referring to in the above statement that Ontario utilities do not have available to them.

Response:

As discussed on pages 126-127 of Concentric's report, Exhibit M2, Enbridge Gas currently has regulatory mechanisms that provide partial volumetric risk mitigation, as it relates to average use changes, but Enbridge Gas is subject to volumetric risk due to weather. In addition, OPG continues to be at risk for variability in generation output, which is a factor that distinguishes OPG from other North American regulated generators.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Consumers Council of Canada (CCC)

INTERROGATORY

Reference:

Ex. M2/p. 153

Question(s):

Concentric recommended 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.

a) Please advise whether Concentric's proposal to apply the WACC is applicable to all DVA balances (i.e., all pass-through (Group 1) and non pass-through (Group 2) accounts) that are not disposed of within 1 year.

b) Please advise whether Concentric's proposal to apply the WACC applies to any type of cost recorded in a DVA (i.e., capital and non-capital costs).

Response:

a) Concentric's proposal to apply the WACC is applicable to all DVA balances that are not disposed of within one year. Please see the response to N-M2-21-OEB Staff-27 for further discussion of Concentric's proposal regarding carrying charges on DVAs.

b) Concentric's proposal to apply the WACC is applicable to any type of cost recorded in a DVA. Please see the response to N-M2-21-OEB Staff-27 for further discussion of Concentric's proposal regarding carrying charges on DVAs.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC)

INTERROGATORY

Reference:

Exhibit M2 (Concentric Report), page 5

Question(s):

Members of CCMBC are manufacturers and businesses and the rates they pay will be impacted by the outcome of this proceeding. In general, would the recommendations of Concentric result in an increase or a decrease in electricity and gas rates?

Response:

In order to meet the Fair Return Standard, Concentric recommends increasing the base ROE in the OEB formula from 9.75% to 10.00% and creating a minimum deemed equity thickness of 45.0% (with utilities having discretion to maintain their current equity thickness). With the exception of OPG's deemed equity thickness, those recommendations represent increases from the current cost of capital parameters in Ontario and, all else equal, would increase the revenue requirements for Ontario utilities. The ultimate impact on electricity and gas rates for manufacturers and businesses, however, will depend on a number of factors that are outside of the scope of Concentric's report, and will also include macroeconomic factors such as underlying interest rates and credit spreads.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC)

INTERROGATORY

Reference:

Exhibit M2 (Concentric Report), page 29

Preamble:

“However, the risks resulting from the Energy Transition are not fully mitigated by these mechanisms and are likely to continue to increase. For example, as utilities adopt new technologies and build first-of-a-kind projects, they encounter challenge s such as shortages of skilled labour and increased competition across the supply chain, in addition to technology risks.”

Question(s):

a) Please confirm that utility customers may be opposed to adaption of risky new technologies such replacement of natural gas with hydrogen or large battery storage projects.

b) Why should utilities be compensated by customers for the increased risk of new technologies that their customers do not want?

Response:

a) Concentric agrees that certain utility customers may not have a favorable view of new technologies that are developed as solutions to reduce carbon emissions.

b) Concentric did not consider this issue as part of its evidence in this proceeding. In our view, this is ultimately a decision for policymakers as they determine the best path forward to providing energy solutions that meet the needs of customers, utilities, and society more generally.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 3

Question(s):

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.

Response:

a) Confirmed, to the extent that Ontario utilities historically have been able to attract capital on reasonable terms and financial integrity has not been a significant concern. The cost of capital, however, is a forward-looking concept, and equity ratios that do not meet the comparability standard will threaten the Ontario utilities' ability to attract capital at reasonable terms going forward. Further, as the OEB stated on page 19 of the 2009 Decision, EB-2009-0084, all three requirements or standards of the fair return standard must be met, and none ranks in priority to the others.

b) Concentric is not aware of Ontario utilities failing to attract capital or being in danger of losing their financial integrity since the 2009 Decision; Concentric is not able to answer the second part of the question because it requires speculation about the future. Given the uncertainty due to the Energy Transition and other risk factors, Concentric cannot know if Ontario utilities will be able to attract capital and maintain financial integrity in the future, but our recommendations will place Ontario's utilities in a stronger position to do so.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2

Question(s):

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?

Response:

a) Assuming the question means "be authorized" in place of "earn", no, not necessarily. While the peer group is "comparable" to the Ontario utilities, as stated in the 2009 Decision, "comparable" does not mean "the same". Therefore, one must look at the risk profiles of the individual companies making up the proxy group. In addition, an analysis of proxy companies will inevitably provide a range of results, and the median or mean results of proxy company analyses generally indicate average risk. The fair return for the subject utility depends on the business and financial risk of the company for which the return is being set as compared to the business and financial risks of the peer group companies to determine where, within the range of results, the subject utility's cost of capital reasonably falls. The question of earned returns (as opposed to authorized) compared to the FRS is addressed in VECC-11.1.

b) N/A

c) In this context, companies that are of like risk are generally comparable investments. The companies in Concentric's North American proxy groups were screened to ensure that they, on the whole, have similar risks as, and therefore are comparable investments to, the Ontario utilities. However, specific proxy group company authorized returns may differ from Concentric's recommendation for the Ontario utilities due to company-specific differences in business and financial risks not captured in the wider North American proxy group.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 86.

Question(s):

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.

Response:

a) Confirmed. Betas represents the risk of the security relative to the general market. A Beta coefficient of 1.0 indicates a security whose returns generally move in the same direction as the overall market and by the same percentage. Positive beta coefficients of less than or greater than 1.0 also tend to move in the same direction as the overall market, but to a lesser (for securities with Beta coefficients of less than 1.0) or greater (for securities with Beta coefficients of more than 1.0) extent.

b) Concentric has not performed a specific analysis to measure average market risk and/or standard deviations below average risk to define “well below”. However, utility betas before 2020 generally averaged 0.60-0.70 and now are closer to 0.90, which indicates that investors now perceive utilities as having closer to average (1.00) market risk.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 9.

Question(s):

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?

Response:

a) We assume this question is directed to Concentric. No. To the contrary, an increase in electricity load requires greater capital investment to meet the greater demand. Further, uncertain increases in load, as exacerbated by the Energy Transition, will increase risk, as electric utilities contend with uncertain levels of load they must serve in the future, new large peak-demand users such as data centers, and new patterns of usage brought on by DERs, electric vehicles, etc.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 43

Question(s):

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

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

Response:

a) The "Error! Reference source not found" text is an outdated reference to Figure 3 that was inadvertently left in the report. There is no missing reference in that section.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, pp. 46-47.

Question(s):

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.

Response:

a) Concentric does not have a view on the specific unregulated businesses of the companies in the proxy groups and their impacts on risk. The percentage screens were intended to capture any business profile comparability or lack thereof to the Ontario utilities.

b) The specific threshold is chosen to ensure that the proxy group is sufficiently sized, as well as to screen out companies that are sufficiently dissimilar to the subject company. However, it is important to note that the threshold does not indicate the actual percentages of the proxy group, but rather a minimum percentage, with the actual percentages usually being substantially higher (90%+), indicating that the proxy group is reasonably comparable to the subject company. Please see Exhibit CEA-2 for the percentage of regulated operating income for each proxy group company.

c) Please see the answer to part (b).

d) The business profile examinations are intended to be on a current and forward-looking basis. As such, Concentric used relatively recent data to perform our screens while not relying on only a single year, which could reflect anomalous conditions.

e) Concentric did not make any such adjustments.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 51

Question(s):

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.

Response:

a) Concentric assumes the question is referring to the 2016 proceeding involving OPG. In this proceeding, in which Concentric has carefully selected comparable companies based on a series of screening criteria that are intended to produce a proxy group of risk-comparable utilities to Ontario's utilities, Concentric does not believe an adjustment is warranted to the proxy group results to account for operational, legislative, regulatory or other differences. Concentric, however, has considered the OEB's findings in the 2016 proceeding and reflected those findings in our cost of capital evidence in Ontario, either explicitly or implicitly. For instance, in EB-2020-0290, Concentric found that OPG's equity ratio could reasonably be set at 55% to 56%, being the upper end of the proxy group results. In consideration of the results of our analysis together with the OEB's findings in EB-2016-0152, however, Concentric conservatively recommended an equity ratio of no less than 50% for OPG in that case. Further, in this proceeding, Concentric's recommendations fall short of parity between Ontario and U.S. utilities but would advance the ability of Ontario's utilities to compete for investment capital on a comparable basis with their North American peers.

b) See the response to part (a).

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 62

Question(s):

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.

Response:

Concentric’s view is that the use of a North American proxy group, which includes Canadian companies, is appropriate. In its 2023 GCOC Decision, the British Columbia Utilities Commission agreed, stating that:

> *“[W]e find the use of the Canadian proxy groups and US proxy groups alone to be inferior to that of using a North American proxy group which has a reasonable mix of both Canadian and US comparators, and the averaging of the results of these three groups to be a poor compromise. On balance, we find that having a proxy group of North American comparators trumps any jurisdictional or structural differences. In making this determination, we rely on the facts that financial and capital markets are highly integrated and that utility regulatory regimes in North America are sufficiently similar for the purpose of establishing a comparable ROE.”*

See Decision and Order G-236-23, September 5, 2023, p. 16. Concentric agrees with the findings of the BCUC in this regard.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 113

Question(s):

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.

Response:

a) Please see N-M2-11-CME-9 - Attachment 1 (Confidential), which is the article titled "A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities' Credit Quality", published by S&P in November 2023. Page 3 states: "From 2005-2017, we only downgraded two North American IOUs because of physical risks, but from 2018-2023 we downgraded 19."

b) S&P did not name the twenty-one downgraded utilities referenced in its article. Concentric was not able to confirm which exact downgrades were a result of climate change risk out of all utility rating actions since 2005. However, Concentric conducted a non-exhaustive review of S&P rating actions since 2005 and found that no Ontario utility downgrade was specifically due to climate risk.

c) No, it does not signal that Ontario utilities are facing less climate change risk than utilities in other jurisdictions. Please see the response to VECC-37.1.1. In addition, as stated on page 112 of the Concentric report, “the Ontario government has recently recognized [climate change risk] for utilities, for instance in its Vulnerability Assessment for Ontario’s Electricity Distribution Sector, where Ministry of Energy found that ‘[i]n addition to direct physical risks to their systems, evidence suggests that utilities face secondary financial, legal and reputational risks as a result of climate change, particularly if they fail to take action to adapt.’” This is especially true in relation to conditions in Ontario in 2009. To that point, the governments of Canada and Ontario recently recognized the increased risk of wildfires in Ontario, stating “With another challenging wildfire season underway and wildfires increasing in frequency and severity across Canada — impacting our health, economies, communities and wildlife — the Governments of Canada and Ontario are supporting Canadians and residents of Ontario who are threatened by wildfires.”[1]

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Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 117

Question(s):

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.

Response:

a) Please see the response to CME-4(a).

b) There have not been any downgrades to EGI’s S&P’s credit ratings as a result of declining demand concerns. EGI, however, is on negative outlook due to “potential for a gradual increase in its business risk given the Ontario Energy Board's (OEB) view on the future of gas local distribution companies in Ontario.” In addition, the report stated that “…the energy transition poses a risk and that gas assets used to serve existing and new EGI customers run the risk of becoming stranded.” Please see CME-10, Attachment 1, which is the S&P Research Update titled “Enbridge Gas Inc. 'A-' Rating Affirmed; Outlook Remains Negative”, published in June 2024.

c) There have not been any changes to OPG’s credit ratings over the last five years.

S&P Global
Ratings

RatingsDirect®

Research Update:

Enbridge Gas Inc. 'A-' Rating Affirmed; Outlook Remains Negative

June 28, 2024

Rating Action Overview

- On June 3, 2024, Enbridge Inc. announced that it had completed the acquisition of Questar Gas Co. On June 18, S&P Global Ratings revised the outlook on Enbridge to stable from negative and affirmed our ratings, including the 'BBB+' issuer credit rating.
- Our outlook on Enbridge subsidiary Enbridge Gas Inc. (EGI) remains negative, and we affirmed the 'A-' issuer credit rating and 'A-2' short-term rating.
- We continue to assess EGI as having sufficient insulating measures to rate it up to one notch above its parent.
- At the same, we affirmed our 'A-' rating on EGI's senior unsecured debt and 'A-2' rating on its global commercial paper, which corresponds to an 'A-1(low)' rating on the Canadian national scale.
- The negative outlook reflects the uncertainty around upcoming regulatory outcomes related to EGI's gas utility operations and the potential for increased business risk from the energy transition.

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Rating Action Rationale

Our negative outlook on EGI reflects the potential for a gradual increase in its business risk given the Ontario Energy Board's (OEB) view on the future of gas local distribution companies in Ontario. In 2022, EGI filed an application with OEB to set new rates for 2024-2028. OEB addressed this in two phases: phase 1 to primarily establish 2024 rates, and phase 2 primarily establish rates for 2025-2028. In December 2023, OEB issued an order on the phase 1 application, which included a reduced capital budget, revised depreciation rate, excluding undepreciated capital costs related to integration capital from the 2024 rate base, reduced customer revenue horizon associated with new natural gas connections for small commercial and residential developments from 40 years to zero, and determination of equity thickness at 38%. The order stated that the energy transition poses a risk and that gas assets used to serve existing and new EGI customers run the risk of becoming stranded.

In January 2024, EGI filed a notice of motion with OEB, requesting review of certain aspects of the decision. While the outcome of this appeal is uncertain, OEB's order suggested higher operating risk for EGI. Additionally, in May 2024, the Government of Ontario passed a legislation which effectively reversed OEB's decision related to the customer revenue horizon period, allowing EGI to continue to add new customers.

OEB is scheduled to address phase 2 this year to establish the incentive rate-making mechanism. While EGI has taken adequate measures to trim costs and capital spending in 2024, the impact of OEB's regulatory decisions on EGI's business long-term is uncertain. We expect more clarity during phase 2 and notice of motion proceedings.

We continue to assess EGI's business risk profile as excellent. This reflects the low-risk nature of the company's business, effective regulatory risk management, and large size that is partially offset by its limited regulatory diversity. Our view of OEB's regulatory framework, which we believe to be transparent, consistent, and predictable, underpins EGI's steady and consistent cash flow. Largely, we believe that regulatory support remains credit supportive, given the approval of 2024 rates and the increase of equity thickness to 38% from 36%. EGI's regulatory construct includes timely recovery of commodity costs, prudently spent capital, and operating expenses.

The company has a large customer base, serving almost all of Ontario's gas distribution network with about 3.9 million customers, most of which are residential and small business customers.

We continue to assess EGI's financial risk profile as significant. We use our low-volatility financial benchmark table, reflecting the company's low-risk regulated gas distribution operations and effective management of regulatory risk. Our base-case scenario includes a stable regulatory environment with no material adverse regulatory decisions, annual capital spending remains elevated at about C$1.3 billion-C$1.5 billion annually through 2026, and dividend payments averaging about C$130 million annually through 2026. We expect funds from operations (FFO) to debt of 11%-13% between 2024 and 2026. Our base case also assumes a discretionary cash flow deficit over our forecast period, indicating external funding needs.

Outlook

The negative outlook on EGI over the next 12 months reflects the uncertainty around upcoming regulatory outcomes related to EGI's gas utility operations and the potential for increased business risk from the energy transition. OEB believes this is underway, creating a risk of stranded assets for EGI, which could impede EGI's long-term capital spending initiatives, indicating higher business risk. Our base case assumes stand-alone FFO to debt will remain 11%-13% through 2026.

Downside scenario

We could lower our ratings on EGI over the next 12 months if:

- Stand-alone financial measures deteriorate, including FFO to debt consistently below 10%; or
- Business risk increases from adverse regulatory developments or elevated risk concerning OEB's view of the long-term prospects for capital investment in the Ontario gas utility business.

Upside scenario

We could affirm our ratings on EGI and revise our outlook to stable over the next 12 months if:

- EGI maintains stand-alone FFO to debt above 10%, with no increase in business risk; and
- There is a clear indication of OEB's long-term support for the Ontario gas business.

Company Description

EGI operates as a rate-regulated natural gas distribution, storage, and transmission utility in Canada. Its distribution system carries natural gas from the point of local supply to customers and consists of approximately 151,000 kilometers of main and service pipelines, as well as 3,800 kilometers of high-pressure transmission pipelines and five mainline compressor stations. The company distributes natural gas to approximately 3.9 million residential, commercial, and industrial heating customers in Ontario. It also provides natural gas storage and transportation services. The company was founded in 1848 and is headquartered in North York, Ontario. EGI operates as a subsidiary of Enbridge.

Our Base-Case Scenario

- Stable and predictable cash flow from EGI's regulated gas distribution operations and modest new customer growth.
- A stable regulatory regime in Ontario with no material adverse regulatory decisions.
- EGI earning close to its authorized return on equity.
- EGI operating at or close to its authorized capital structure across the outlook period.
- Continuing to pass through natural gas costs to ratepayers.
- Annual capital spending of C$1.3 billion-C$1.5 billion through 2026.

Liquidity

We base the 'A-2' short-term rating on our long-term issuer credit rating on EGI. We assess EGI's liquidity as adequate, with sources covering uses by 1.1x in the coming 12 months, and that sources will cover uses even if forecast EBITDA declines 10%.

We believe the predictable regulatory framework provides cash flow stability even in economic stress, giving it the ability to absorb high-impact, low-probability events and supporting our use of slightly lower thresholds to assess liquidity. EGI maintains $2.5 billion in committed credit facilities through July 2025. We believe the company can reduce capital spending (averaging about C$1.4 billion per year over the next three years) during stress.

Furthermore, our assessment reflects sound relationships with its banking group and a generally satisfactory standing in the credit markets. Overall, we believe EGI will be able to withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect EGI to manage upcoming long-term debt maturities and refinance well in advance of scheduled due dates.

Principal sources of liquidity:

- Cash balances of about C$10 million;
- Committed credit facility availability of C$2.5 billion; and
- Cash FFO of about C$1.35 billion.

Principal uses of liquidity:

- Long-term debt maturities over the next 12 months of about C$635 million, as of March 2024;
- Working capital outflow of about C$10 million;
- Capital spending of about C$1.3 billion; and
- Dividend payments of about C$40 million over the next 12 months.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of EGI, reflecting energy transition risk. We believe that EGI could likely face a gradual increase in business risk given OEB's long-term view on the future of gas local distribution companies.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2024, EGI's capital structure consists of about C$335 million of commercial paper outstanding and C$10.6 billion of long-term debt.

Analytical conclusions

We rate EGI's senior unsecured debt 'A-', the same as our issuer credit rating on EGI, because the debt is issued by a qualifying investment-grade regulated utility.

Ratings Score Snapshot

Issuer credit rating: A-/Negative/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Core (insulated)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Enbridge Inc. Outlook Revised To Stable From Negative On Close Of Acquisitions, Financing; Ratings Affirmed, June 18, 2024

Ratings List

Ratings Affirmed	
Enbridge Gas Inc.	
Issuer Credit Rating	A-/Negative/A-2
Enbridge Gas Inc.	
Senior Unsecured	A-
Commercial Paper	A-1(LOW)
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 130

Question(s):

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?

Response:

a) Concentric is not recommending an increase in ROE as a result of the impacts of imprudent behavior. Rather, Concentric's analysis, consistent with investment analysts (see, e.g., the response to N-M2-CCC-2), considers the elevated risk to utilities of expanded capital programs. Those risks extend beyond prudence determination-related risks, and include impacts to cash flows, under-recovery of carrying costs during construction, and regulatory lag.

b) See the response to part (a).

Ontario Energy Association (OEA)

Answer to Interrogatory from
Canadian Manufacturers & Exporters (CME)

INTERROGATORY

Reference:

Exhibit M2, p. 132

Question(s):

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

a) Please provide a list of any differences in Concentric's risk analysis for EGI between EB-2022-0200 and this proceeding.

b) 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.

Response:

a) Concentric's risk analysis for EGI in this proceeding builds on our analysis in EB-2022-0200, considers Energy Transition activities across North America since we developed our evidence in EB-2022-0200, and includes new evidence such as S&P's finding in June 2024 that Enbridge was on a negative credit outlook that "reflects the uncertainty around upcoming regulatory outcomes related to EGI's gas utility operations and the potential for increased business risk from the energy transition."

b) Concentric's analysis in this proceeding, which covers all segments of Ontario's utilities sector, indicates that a minimum equity ratio of 45.0% is appropriate for Ontario utilities. Given that the Board has opened this issue for all Ontario utilities in this proceeding, our recommendation is that the OEB increase the equity ratio for EGI from 38.0% to 45.0%.