

**EB-2024-0063 Generic Cost of Capital**

**Energy Probe Research Foundation  
and  
the Coalition of Concerned Manufacturers and Businesses of Canada**

**Compendium for**

**Panel 2 - Concentric Energy Advisors**

<b>Tab</b>	
<b>1</b>	<b>ENERGY AT A GLANCE, Ontario Energy Board</b> <a href="https://www.oeb.ca/sites/default/files/2024-04/Energy-at-a-glance-2022-2023-en.pdf">https://www.oeb.ca/sites/default/files/2024-04/Energy-at-a-glance-2022-2023-en.pdf</a>
<b>2</b>	<b>Table 1: Rate-Setting Overview - Elements of Three Methods</b> <a href="https://www.oeb.ca/applications/applications-oeb/electricity-distribution-rates/2024-electricity-distribution-rate">https://www.oeb.ca/applications/applications-oeb/electricity-distribution-rates/2024-electricity-distribution-rate</a> <a href="https://www.oeb.ca/sites/default/files/uploads/Report_Renewed_Regulatory_Framework_RRFE_20121018.pdf">https://www.oeb.ca/sites/default/files/uploads/Report_Renewed_Regulatory_Framework_RRFE_20121018.pdf</a> page 13
<b>3</b>	<b>Exhibit N-M2-1-EP-7</b>
<b>4</b>	<b>Ontario Electricity Financial Corporation</b> <a href="https://www.oefc.on.ca/index.html">https://www.oefc.on.ca/index.html</a>

**Tab 1**

# ENERGY AT A GLANCE

## PROVIDING CONSUMER VALUE

Electricity distribution customers:

**5,408,706**

Residential and small business customers:

**5,358,026**

Natural gas distribution customers:

**3,851,809**

Residential and small business customers:

**3,829,002**

## Sector Oversight

In the electricity sector, the Ontario Energy Board (OEB) rate regulated or licensed:

<b>61<sup>1</sup></b> Distributors	<b>8<sup>2</sup></b> Transmitters	<b>430</b> Generators	<b>2</b> Agencies: Independent Electricity System Operator and Smart Metering Entity	<b>143</b> Wholesalers	<b>71</b> Retailers	<b>25</b> Unit sub-meter providers	<b>20</b> Electricity storage providers
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In the natural gas sector, the OEB rate regulated or licensed:

<b>2</b> Distributors	<b>23</b> Marketers
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## Consumer Participation

**\$4,745,097**

Amount provided to intervenor groups to fund their participation including consumer groups, manufacturers, farmers, landowners and Indigenous communities

Number of OEB hearings and consultations where intervenors participated: **53**

**65** compliance reviews and **32** inspections completed, with **26** enforcement actions leading to **\$483,250** in administrative penalties

## Compliance and Enforcement

## Consumer Contacts

**6,861**  
Total interactions

**4,323**  
Enquiries

Complaints about regulated entities: **1,201**

**Top issues:** LEAP, targeted scams, utility billing rates, utility billing errors, OESP

## Assistance for Low-income Energy Customers

LEAP assisted **18,066<sup>3</sup>** customers with **\$13,012,107<sup>4</sup>** in emergency funding to help with their natural gas and electricity bills

OESP assisted an average of **229,272** households a month with almost **\$156,660,961** in monthly on-bill credits over the year

## **Tab 2**

Table 1: Rate-Setting Overview - Elements of Three Methods

		4 <sup>th</sup> Generation IR	Custom IR	Annual IR Index
<b>Setting of Rates</b>				
<b>"Going in" Rates</b>		Determined in single forward test-year cost of service review	Determined in multi-year application review	No cost of service review, existing rates adjusted by the Annual Adjustment Mechanism
<b>Form</b>		Price Cap Index	Custom Index	Price Cap Index
<b>Coverage</b>		Comprehensive (i.e., Capital and OM&A)		
<b>Annual Adjustment Mechanism</b>	<b>Inflation</b>	Composite Index	Distributor-specific rate trend for the plan term to be determined by the Board, informed by: (1) the distributor's forecasts (revenue and costs, inflation, productivity); (2) the Board's inflation and productivity analyses; and (3) benchmarking to assess the reasonableness of the distributor's forecasts	Composite Index
	<b>Productivity</b>	Peer Group X-factors comprised of: (1) Industry TFP growth potential; and (2) a stretch factor		Based on 4 <sup>th</sup> Generation IR X-factors
<b>Role of Benchmarking</b>		To assess reasonableness of distributor cost forecasts and to assign stretch factor		n/a
<b>Sharing of Benefits</b>		Stretch factor	Productivity factor Case-by-case	Highest 4 <sup>th</sup> Generation IR stretch factor
<b>Term</b>		5 years (rebasings plus 4 years).	Minimum term of 5 years.	No fixed term.
<b>Incremental Capital Module</b>		On application	N/A	N/A
<b>Treatment of Unforeseen Events</b>		The Board's policies in relation to the treatment of unforeseen events, as set out in its July 14, 2008 EB-2007-0673 Report of the Board on 3 <sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors, will continue under all three menu options.		
<b>Deferral and Variance</b>		Status quo	Status quo, plus as needed to track capital spending against plan	Disposition limited to Group 1 Separate application for Group 2
<b>Performance Reporting and Monitoring</b>		A regulatory review may be initiated if a distributor's annual reports show performance outside of the $\pm 300$ basis points earnings dead band or if performance erodes to unacceptable levels.		

**Tab 3**

Ontario Energy Association (OEA)

Answer to Interrogatory from  
Energy Probe Research Foundation (EP)

INTERROGATORY

Reference:

Exhibit M2 (Concentric report), page 20

Preamble:

“Assuming that investors in Ontario’s utility businesses have comparable investment alternatives, the determinative factor is the use of funds.”

Question(s):

Considering that most Ontario utilities are owned by a municipality or the Province, why does Concentric believe that investors have comparable investment alternatives?

Response:

Ontario’s utilities are owned by a combination of private and public investors. As outlined in Concentric’s report, Exhibit M2, practically speaking, if the Board were to find the source of funds was determinative, the Board would be required to distinguish between the cost of equity from different investors, and the sources of potential investment are numerous. Rather, the most appropriate way to measure the cost of capital is to analyze current market data for a proxy group of companies with comparable business and financial risk as Ontario’s regulated utilities. This is consistent with the economic principle of the “opportunity cost” of capital where the investor (including municipal governments) invest capital where the returns are comparable to those in alternative investments. In order to attract funds from other municipal functions (schools, water, safety), the returns must be sufficient for these governments to divert funds to utility service.

**Tab 4**





# Ontario Electricity Financial Corporation



About OEFC

Publications

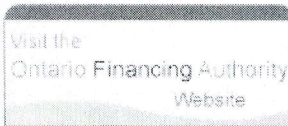
Bondholder Information

Operations

Electricity Sector Updates



Mandate and Governing Legislation
Governance
Board of Directors
Travel, Meal and Hospitality Expense Disclosure
Links



## Mandate and Governing Legislation

Ontario Electricity Financial Corporation (OEFC or the Corporation) is one of five entities established by the *Electricity Act, 1998* (the Act) as part of the restructuring of the former Ontario Hydro.

Under the Act, the former Ontario Hydro was restructured into Ontario Power Generation Inc. (OPG), Hydro One Inc. (now a subsidiary of Hydro One Ltd., or Hydro One), the Independent Electricity System Operator (IESO), the Electrical Safety Authority and OEFC.

In accordance with the Act, OEFC has the following mandate:

- managing its debt, financial risks and liabilities, including the debt of the former Ontario Hydro;
- managing the former Ontario Hydro's contracts with non-utility generators (NUGs);
- receiving all payments and administering other assets, liabilities, rights and obligations of the Corporation that were not transferred to another of the former Ontario Hydro successor corporations and disposing of any of these items as it deems appropriate or as directed by the Minister of Finance;
- providing financial assistance to the successor corporations of Ontario Hydro;
- entering into financial and other agreements relating to the supply and demand management of electricity in Ontario; and
- performing any additional objects specified by the Lieutenant Governor in Council.

OEFC retains the services of the Ontario Financing Authority (OFA) and the Ministry of Finance to carry out its daily operations on a cost-recovery basis. The OFA is the agency of the Province of Ontario (the Province) responsible for Provincial borrowing and debt management.

The official Website of the Ontario Electricity Financial Corporation of the Province of Ontario, Canada

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