Ontario Energy Association Interrogatory #N-M1-11-OEA-12

Interrogatory

Reference:

Exhibit M1, pages 127-128

Preamble:

OEB is also among the few North American regulators to annually update the cost of capital parameters to ensure they align with the current macroeconomic environment. As such, LEI is not aware of OEB-regulated entities facing notable issues in attracting equity and debt capital since 2009. This is also reflected in the utility credit ratings and the regulator assessments performed by the credit rating agencies. For instance, S&P Global assesses the US and Canadian regulatory regimes based on analysis of quantitative and qualitative factors such as regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation.

Based on its assessment, S&P groups US states and Canadian provinces into 5 categories: (i) credit supportive; (ii) more credit supportive; (iii) very credit supportive; (iv) highly credit supportive; and (v) most credit supportive.

Question(s):

a) Is LEI aware of the authorized ROEs and capital structures for the utilities in the other nine jurisdictions in S&P Global's "Most Credit Supportive" category?

b) Is it LEI's view that the authorized ROEs and deemed capital structures for Ontario's utilities should be comparable to the other nine jurisdictions in this category? Please explain why or why not.

Response: Note that this interrogatory response has been prepared by LEI.

a) The table below shows the authorized ROEs and capital structures for utilities in the other nine jurisdictions in S&P Global's "Most Credit Supportive" category. Since the U.S. states in the table decide utilities' ROEs and equity ratios on a case-by-case basis, the table shows the average authorized ROE and equity ratio based on approved rate cases as of the fourth quarter of 2023 for each state. For Québec, LEI averaged the allowed ROE and capital structure of Énergir and Gazifère Inc.

Jurisdiction	ROE	Equity ratio
Ontario	**9.21% (effective January 1st, 2024)**	• **40% for electric distributors and transmitters and EPCOR Natural Gas**

Jurisdiction	ROE	Equity ratio
		• **45% for OPG** • **38% for Enbridge Gas**
Alabama	9.70%	55.5%
British Columbia	9.65%	45% for FEI 41% for FBC
Federal Energy Regulatory Commission (electric)	10.02%	50%
Florida	10.37% for electric utilities 10.15% for gas utilities	45.07% for electric utilities 52.38 for gas utilities
Iowa	10.02% for electric utilities 9.60% for gas utilities	51.00% for electric utilities 51.50% for gas utilities
Kentucky	9.75% for electric utilities 9.55% for gas utilities	41.25% for electric utilities 54.50% for gas utilities
Michigan	9.9% for electric utilities 9.85% for electric utilities	41.13% for electric utilities 39.23% for gas utilities
Québec	9.00%	39.25%
Wisconsin	9.77%	54.09%

Source: SNL, FERC, Énergir, and Gazifère Inc

b) Comparable peer group analysis is one of key inputs for assessing the comparable return standard; and not the only input. Relative business and financial risk changes (compared to previous equity thickness assessments) are also considered.

The fact that S&P Global has classified 10 North American jurisdictions as “Most Credit Supportive” despite variations observed in ROE and equity ratio within these jurisdictions further supports the view that ‘comparable return standard’ is not the only consideration.

To the best of LEI’s knowledge, Ontario utilities have been able to raise capital at reasonable terms since at least 2006, which is one of the best indicators that the FRS is being met. Relative business and financial risk assessment should ensure that FRS continues to be met in the future. The perception of major credit rating agencies is also another key input in these assessments.

Further, meeting the FRS means fairness for both utilities and their customers. In *Northwestern Utilities v. City of Edmonton*, the Supreme Court of Canada defined “fair return”, stating (emphasis added by LEI): *“The duty of the Board was to fix fair and reasonable rates; rates which, under the circumstances, **would be fair to the consumer on the one hand, and which, on the other hand, would secure to the company a fair return for the capital invested**.”* As such, it is worth noting that an unreasonably high ROE and/or equity thickness also fails to meet the FRS.