Coalition of Concerned Manufacturers & Businesses CANADA
Bravely Safeguarding Canadian Jobs

November 28, 2024

Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON
M4P 1E4

Dear Ms. Marconi,

RE: EB-2024-0063 Generic Cost of Capital - CCMBC Reply Submissions

Attached are the reply submissions of the Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC) in the EB-2024-0063 Generic Cost of Capital proceeding.

Respectfully submitted on behalf of CCMBC.

Tom Ladanyi
Digitally signed by Tom Ladanyi
Date: 2024.11.28 13:40:25 -05'00'

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Parties to the Proceeding

EB-2024-0063 Generic Cost of Capital

Coalition of Concerned Manufacturers and Businesses of Canada

Reply Submissions

November 28, 2024

Executive Summary

The increases in the deemed cost of capital of Ontario utilities proposed by the Electricity Distributors Association (EDA) and the Ontario Energy Association (OEA) will increase energy costs of Ontario manufacturers and businesses and hurt their competitiveness. CCMBC submits that the OEB should not be increasing energy costs of Ontario based manufacturers and making them less competitive with US based manufacturers, particularly at the time they are facing the prospect of increased US import tariffs.

The EDA is proposing that the OEB increase the deemed return on equity (ROE) that utilities charge in their rates from the current 9.21% to 11.08%.[1] The OEA is proposing that that the deemed ROE be increased to 10.0% and that the deemed equity ratio be increased to 45% for all Ontario utilities from the current 40% for electric utilities and 38% for Enbridge Gas.[2]

There is no evidence that the current deemed cost of capital does not meet the Fair Return Standard as the EDA and the OEA claim because there is no evidence that the current deemed cost of capital is making it more difficult for Ontario utilities to raise capital because investors can get better returns investing in US based utilities.

Unlike what the EDA and the OEA claim, energy transition, climate change and cybersecurity have not increased the business risk of Ontario utilities nor have financing concerns to justify large increase in the deemed cost of capital.

The risk that utilities may mismanage future capital investments to deal with energy transition, climate change, and cybersecurity should not be used to justify the proposed increase in the deemed cost of capital.

The OEB should not be increasing energy costs of Ontario based manufacturers and making them less competitive with US based manufacturers. Consultants for the EDA and the OEA argue for the need for parity in returns between utility investments in the US and Ontario because investors are seeking the highest return. CCMBC submits that parity in energy costs should also be considered.

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[1] EDA Closing Submissions, page 1

[2] OEA Argument, page 5

CCMBC Reply Submissions

The Proposed increases in the cost of capital will hurt Manufacturers and Businesses.

The proposal by the OEA representing transmitters, large distributors OPG and Enbridge, to increase equity ratio and the return on equity (ROE) of Ontario utilities would increase rates paid by Ontario ratepayers by approximately $570 million annually.[3] The proposal by the EDA representing municipally owned distributors, would increase rates of electricity distributors by about $250 million annually.[4] These are very large increases. The OEA and the EDA argue that they are needed to allow utilities to finance large capital expenditures to deal with the increase in business risk because of energy transition, climate change and cybersecurity. The utilities are asking the OEB to take hundreds of millions of dollars from Ontario ratepayers and give it to them because they deserve it more.

If utilities are facing these risks, then Ontario manufacturers and businesses are facing the same risks and may need to make large capital expenditures to deal with them but are being asked to also pay for the expenditures of utilities. Manufacturers and businesses operate in the competitive market and can not pass increased costs to their customers like utilities can. Unlike utilities, manufacturers and businesses would have to absorb these increased energy costs.

Energy Transition, climate change and cybersecurity have not increased the business risk of utilities.

Utilities are asking that ratepayers pre-pay them for cost of capital of investments that they will need to make at some unspecified time in the future. Utilities want ratepayers to make these pre-payments amounting to hundreds of millions of dollars per year for years before utilities make capital expenditures. In any year that the utilities do not make these expenditures, the higher cost of capital recovered in rates from ratepayers will just increase utility earnings.

There is no evidence that there is any significant increase in business risk of Ontario utilities from energy transition, climate change, or cybersecurity that they will be facing in the near future, that they have not been able to deal with so far. Consultants for utilities claim that utilities need higher return on equity[5] or a higher equity ratio combined with a higher return on equity[6] to be able to raise capital in the North American financial markets to deal with these risks.

[3] SEC Final Argument, page 9
[4] Ibid.
[5] EDA Closing Submissions, page 5, para 11
[6] OEA Argument, pages 6 and 29

If and when the utilities do make capital expenditures to deal with energy transition, climate change and cybersecurity their earnings will increase because these capital expenditures will increase rate base. Their actual equity earnings which are rate base times ROE will increase. The fact that their deemed ROE as EDA claims[7] will not increase is irrelevant. Unlike utilities whose earnings will increase, when manufacturers and businesses make capital expenditures to deal with energy transition, climate change and cybersecurity, their earnings will decrease.

There have been reports of manufacturing plants closing in Germany and the UK because increased energy costs have made them uncompetitive. If, as a result, of this proceeding, energy costs are increased by hundreds of millions of dollars a year in Ontario, manufacturers may be forced to close plants or move production elsewhere resulting in job losses. It is likely that as a result of the recent US election, the push for energy transition will slow down or stop entirely, reducing or eliminating the increases in energy costs that were expected due to energy transition in that country.

<u>There is no evidence that the current cost of capital does not meet the Fair Return Standard</u>

OEA claims that the current ROE and equity thicknesses of Ontario electricity and gas utilities do not meet the Fair Return Standard because they are lower than those of comparable utilities in the US. According to the OEA a generic investor can earn more money by investing in US utilities. According to the OEA to attract those generic investors Ontario ratepayers would have to pay $570 million a year and if they don't then there will be no money to pay for unspecified capital investments required to deal with energy transition, climate change and cybersecurity at some unspecified time in the future. CCMBC does not agree with that claim by the OEA.

Most Ontario utilities are owned by municipalities and do not raise capital in North American markets contrary to what the OEA and the EDA claim[8]. Municipally owned utilities in Ontario are prevented by legislation from raising money in capital markets as pointed out in the argument submission of the Association of Major Power Consumers of Ontario (AMPCO) and the Industrial Gas Users Association (IGUA).[9] Hydro One and Enbridge that are not municipally owned, have had no difficulty in raising capital so far and there is no indication that they would in the future.

<u>Utilities should not be compensated for the risk of management incompetence.</u>

The EDA in its submissions brings up similarities between nuclear energy transition in the 1970's to the energy transition now.[10] CCMBC submits that many, if not most of the

[7] EDA Closing Submissions, page 40, paragraph 98
[8] EDA Closing Submissions, pages 28-29, paras 74 and 75
[9] AMPCO and IGUA Written Submissions, pages 5-6, paras 25-34
[10] Ibid., pages 13-14, paragraphs 34 and 35

nuclear plants constructed in the US during that period were over built budget and behind schedule. US regulatory commissions found that the construction of some of those nuclear plants was mismanaged and disallowed certain costs. By bringing up that example the EDA is indicating that utilities may mismanage projects dealing with energy transition and that the OEB may disallow their costs in the future. The EDA claims that it needs a higher ROE to protect its members from increased OEB regulatory risks in the future. The OEA claims that OPG needs to be compensated for the risk that it will mismanage new nuclear projects. CCMBC submits that the OEB should not agree with this pre-payment to cover the risks of utility management incompetence.

Another risk that the EDA wants to be compensated for is the risk that utilities will overexpand their systems in anticipation of increased loads due to energy transition from gas to electricity that does not materialize.[11] CCMBC submits that if that were to occur it would be due to poor planning by utility management. CCMBC submits that the EDA wants the OEB to compensate it for the risk of management incompetence in planning. The OEB should not agree with that request.

Conclusion

In conclusion CCMBC submits that in making its decision the OEB consider the impact that increasing the deemed cost of capital that utilities charge in rates will have on manufacturers and businesses in Ontario. The OEB decision should not only be fair to the utilities but should also be fair to their ratepayers. The OEB should not force ratepayers to compensate utilities now for risks of energy transition or climate change that may not materialize for many years. When and if these risks materialize, ratepayers should not be forced to compensate utilities for the risk that utility managements will mismanage capital expenditures to deal with them.

The OEB should not be increasing energy costs of Ontario based manufacturers and making them less competitive with US based manufacturers, particularly at the time they are facing increased US import tariffs. Consultants for the EDA and the OEA argue for the need for parity in returns between utility investments in the US and Ontario because investors are seeking the highest return. CCMBC submits that parity in energy costs should also be considered. Manufacturers are seeking to locate their plants in the jurisdiction with the lowest energy costs. Many US states currently have lower energy costs than Ontario. If, because of this proceeding, there is significant increase in Ontario energy costs, manufacturers may be forced to move to the US to remain competitive.

[11] Ibid., page 40, paragraph 98