VT INCEPIT SIC PERMANET

FIDELIS

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	EB-2024-0063	Generic Proceeding - Cost of Capital and Other Matters
VOLUME:	2	
DATE:	September 26, 2024	
BEFORE:	Michael Janigan	Presiding Commissioner
	Lynne Anderson	Commissioner
	Pankaj Sardana	Commissioner

would it have over the past 15 years.

MR. SMITH: Thank you very much. Perhaps I could have this marked as an exhibit.

MR. RICHLER: This will be K2.4.

EXHIBIT K2.4: DOCUMENT ENTITLED "OEB ROE FORMULA VS FORMULA BACKCAST"

MR. SMITH: Thank you very much, Panel. Those are my questions in examination-in-chief, and I will turn you over for cross-examination.

MR. JANIGAN: Mr. Ruby, you were up next?

MS. STOTHART: Yes, it will be --

MR. JANIGAN: Or Ms. Stothart, okay.

MS. STOTHART: Yes, thank you.

MR. JANIGAN: I got it wrong.

CROSS-EXAMINATION BY MS. STOTHART

MS. STOTHART: Good afternoon. Good afternoon, panelists. My name is Sarah Stothart. I am counsel for the Electricity Distributors Association. I just have a couple of questions for you today.

So, based on all of your methodologies you performed, you proposed a deemed ROE of 10 percent; correct?

And that's accompanied by a proposed 45 percent equity thickness. Correct?

And you agree with me that equity thickness and ROE --

COURT REPORTER: Sorry, this is Lisa, the reporter. I don't think the microphone is on for the witness panel.

--- (Off-record discussion)

MS. STOTHART: So the last question was: Your proposed ROE of 10 percent is accompanied by a proposed deemed equity thickness of 45 percent; correct?

MR. TROGONOSKI: Yes, that's correct.

MS. STOTHART: Okay. And you would agree with me that equity thickness and ROE are related concepts; correct?

MR. TROGONOSKI: Yes, we do. We say that in our report.

MS. STOTHART: Yes, you do. Excellent. And that's because, as debt obligations increase, investors require -- this is a general statement, but investors require higher rates of return to compensate for the additional financial risks; right?

MR. TROGONOSKI: That's right.

MS. STOTHART: And you say that in your report; right?

MR. TROGONOSKI: Yes, we do.

MS. STOTHART: So, in other words, a lower equity thickness in general requires a higher ROE?

MR. TROGONOSKI: Yes, that's right.

MS. STOTHART: And the reverse is true?

MR. TROGONOSKI: It is.

MS. STOTHART: So your proposed ROE, as we said, is based on a 45 percent equity thickness, but, if you were to re-lever that to be on a 40 percent equity thickness, have you done that calculation?

MR. TROGONOSKI: We have done that calculation, yes. It appears at Figure 19 of our report, on page 71.

MS. STOTHART: Okay.

MR. TROGONOSKI: We have a calculation there where we make the adjustment that you are talking about.

MS. STOTHART: Perfect. Why don't I just -- I'll direct us to the compendium I circulated this morning, Mr. Johnson, and it's to Tab 2. I don't have that figure, but I have your summary paragraph from the introduction.

MR. JANIGAN: Mr. Trogonoski, can you move the microphone a little closer to you if you can? Thank you.

MS. STOTHART: So a new compendium, right, Mr. Johnson? It is probably just coming up but the one I sent today, Tab 2 of that compendium for Concentric.

While we are pulling it up, I mean I will just read it to you, and you obviously remember very well, but that calculation you say, if you were to re-lever it to a 40 percent equity thickness, it results in an upward adjustment of 138 to 163 basis points. Is that accurate?

MR. TROGONOSKI: That's correct, yes.

MS. STOTHART: So, in other words, an ROE of 11.38 to 11.63?

MR. TROGONOSKI: That would be right, yes.

MS. STOTHART: Perfect. I don't think we have the compendium yet, but that's fine. You have confirmed it all for me.

Just a question about re-levering on the risk premium results specifically: Among the methodologies you performed, of course, you did a risk-premium assessment. Right?

MR. TROGONOSKI: We did.

MS. STOTHART: And that one was based on authorized

ROEs for Canadian utilities, authorized ROEs for US gas and electric utilities; right?

MR. TROGONOSKI: That's right.

MS. STOTHART: And then you take an average of those results to get your risk premium proposed number?

MR. TROGONOSKI: Depends on what you mean by an average. It might be helpful to go to the figures where we summarize our results.

MS. STOTHART: Yes, sure. I think -- well, I'm looking -- if we look at Tab 4 of my compendium, so this is your results from the US electric -- yes, if we can scroll down a little bit, Mr. Johnson?

Is your recollection that you do an averaging of the sort of US electric's proxy group and the Canadian US electric's proxy group?

MR. TROGONOSKI: In our recommendation, we rely on the number that's on the right-hand side of this table, so it would be the 5-year forecast of the treasury bond yield, so that's the number you'll see in our summary table at the beginning of the report. It will be the 10.36 percent number in Figure 23 that you have on the screen here. And the same is true then for the gas companies in the US and also for the Canadian companies.

MS. STOTHART: All right, but, when you're doing the risk-premium analysis for the US electric companies, you would agree with me that, the average of those utilities, their deemed equity thickness is typically around 50 percent; right?

MR. TROGONOSKI: It's typically around that range. I think we say in our report it's around 50 to 51 percent for the gas companies and about the same range for the electric utilities, so somewhere in that 50, 51, 52 percent.

MS. STOTHART: Right, and then, for Ontario utilities, of course it's 40 percent; right?

MR. TROGONOSKI: It's 40 percent for --?

MS. STOTHART: For the deemed equity thickness.

MR. TROGONOSKI: For the electric D&T companies?

MS. STOTHART: Yes.

MR. TROGONOSKI: Yes.

MS. STOTHART: So, if in your consideration of the US electric utilities proxy group, did you re-lever the number to adjust for the fact that the US utilities are at a 50 percent equity thickness on average but that the Canadian companies are on 40 percent -- or the Ontario companies I should say?

MR. TROGONOSKI: No, we did not.

MS. STOTHART: Okay. And, if you did that adjustment, is it fair to say that would increase your risk premium proposal, as well?

MR. TROGONOSKI: It would.

MS. STOTHART: Perfect. Those are all my questions. Thank you.

MR. RICHLER: Mr. Chair, sorry. Did we want to mark that EDA compendium as an exhibit?

MS. STOTHART: Sure, thank you.

MR. RICHLER: So I am looking at the compendium on the screen with eight tabs, and that will be K2.5.

EXHIBIT K2.5: EDA COMPENDIUM FOR PANEL 2

MR. JANIGAN: I believe the Three Fires Group is next up.

CROSS-EXAMINATION BY MS. DAUBE

MR. DAUBE: Yes. Good afternoon. My name is Nick Daube. I represent Minogi Corp and Three Fires Group. I am over here. I moved.

Just for the Board's benefit and for the panel's benefit, five items I am going to walk you through this afternoon. The first is the extent of your consideration of Indigenous matters in your report; the second is the rationale for your approach in that regard; third, your recommendations on single-asset versus multi-asset capital structure; fourth, your related thoughts on concurrent cost recovery; and then, fifth, your recommendations on construction work in progress. Those last three obviously have the emphasis on your recommendations as they relate to Indigenous Peoples. So, first, extent of consideration of Indigenous matters, just taking a step back, this is an obvious question, but you have reviewed the reports from the three other experts; correct?

MR. DANE: That's correct.

MR. DAUBE: And, whether it's a problem or not, you will agree that they reports do not include any discussion of the specific impact of the cost of capital questions at issue in this proceeding on Indigenous Peoples; is that right? To your recollection.