Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL AND WEB POSTING

April 22, 2024

To: All Parties to EB-2024-0063
All Other Interested Parties

Re: Generic Proceeding – Cost of Capital and Other Matters
Cancellation of April 23, 2024 Issues Day and Approved Issues List
OEB File Number: EB-2024-0063

The Ontario Energy Board (OEB) has determined that an Issues Day, scheduled for April 23, 2024, is not required for this generic proceeding.

Procedural Order No. 1, issued on March 28, 2024, allowed for both an Issues Conference (which was held on April 18, 2024) and an Issues Day (scheduled for April 23, 2024), but stated that the OEB would provide direction following the Issues Conference as to whether an Issues Day would be held.

On April 22, 2024, OEB staff filed a letter with the OEB, advising that all parties had come to an agreement regarding a proposed issues list.

The OEB finds that no Issues Day is required. The OEB also approves the proposed issues list filed by OEB staff on April 22, 2024, with three modifications:

1. Issue #1 – "First Nations" has been replaced with "Indigenous"
2. Issue #10 – This issue has been replaced with "What methodology should the OEB use to produce a return on equity that satisfies the Fair Return Standard (FRS)?"
3. Issue #11 – This issue has been deleted, as it is subsumed under Issue #10.

The approved Issues List is attached as Schedule A to this letter.

The OEB also notes that subsequent to the issuance of Procedural Order No. 1, Orangeville Hydro Limited and Upper Canada Transmission 2, Inc. expressed an interest in becoming a utility participant in this proceeding. The OEB has determined that these utilities shall be added to the list of registered parties for this proceeding.

Any questions relating to this letter should be directed to Fiona O'Connell at fiona.oconnell@oeb.ca.

Yours truly,

Nancy Marconi

Digitally signed by Nancy Marconi
Date: 2024.04.22 15:48:12 -04'00'

Nancy Marconi
Registrar

Schedule A – Approved Issues List
April 22, 2024
EB-2024-0063

A. General Issues

1. Should the approach to setting cost of capital parameters and capital structure differ depending on:
   a) The source of the capital (i.e., whether a utility finances its business through the capital markets or through government lending such as Infrastructure Ontario, municipal debt, etc.)?
   b) The different types of ownership (e.g., municipal, private, public, co-operative, not for profit, Indigenous / utility partnership, etc.)

2. What risk factors (including, but not limited to, the energy transition) should be considered, and how should these risk factors under the current and forecasted macroeconomic conditions be considered in determining the cost of capital parameters and capital structure?

3. What regulatory and rate-setting mechanisms impact utility risk, and how should these impacts be considered in determining the cost of capital parameters and capital structure?

B. Short-Term Debt Rate

4. Should the short-term debt rate for electricity transmitters, electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report?[1]

5. If no to Issue #4, how should the short-term debt rate be set ?

[1] EB-2009-0084, *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (OEB Report), December 11, 2009, pp. iii, 55-59

C. Long-Term Debt Rate

6. Should the long-term debt rate for electricity distributors, natural gas utilities, and OPG continue to be set using the same approach as set out in the OEB Report and as set out in the Staff Report for electricity transmitters?[2]

7. If no to Issue #6, how should the long-term debt rate be set?

8. How should transaction costs incurred by utilities be considered when setting the long-term debt rate?

9. What are the implications of variances from the deemed capital structure (i.e., notional debt and equity) and how should they be considered in setting the cost of long-term debt?

D. Return on Equity

10. What methodology should the OEB use to produce a return on equity that satisfies the Fair Return Standard (FRS)?

11. Are the perspectives of debt and equity investors in the utility sector relevant to the setting of cost of capital parameters and capital structure? If yes, what are the perspectives relevant to that consideration, and how should those perspectives be taken into account for setting cost of capital parameters and capital structure?

E. Capital Structure

12. How should the capital structure be set for electricity transmitters, electricity distributors, natural gas utilities, and OPG to reflect the FRS?

13. Should the OEB take a different approach for setting the capital structure for electricity transmitters depending on whether they are a single versus multiple asset transmitter?

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[2] OEB Report, pp. 50-55, 59; EB-2009-0084, OEB Staff Report, *Review of the Cost of Capital for Ontario's Regulated Utilities* (Staff Report), January 14, 2016, p. 3 Table 1

F. Mechanics of Implementation

14. What on-going monitoring indicators to test the reasonableness of the results generated by its cost of capital methodology should the OEB consider, including the monitoring of market conditions?

15. How should the OEB regularly confirm that the FRS continues to be met and that rate-regulated entities are financially viable and have the opportunity to earn a fair, but not excessive, return?

16. What should be the timing of the OEB's annual cost of capital parameters updates, including the timing, as required, of the underlying calculations?

17. What should be the defined interval (for example, every three to five years) to review the cost of capital policy (including, but not limited to, a review of the ROE formula and the capital structure)? Should the OEB adopt trigger mechanism(s) for a review and if so, what would be the mechanisms?

18. How should any changes in the cost of capital parameters and/or capital structure of a utility be implemented (e.g., on a one-time basis upon rebasing or gradually over a rate term)?

19. Should changes in the cost of capital parameters and/or capital structure arising out of this proceeding (if any) be implemented for utilities that are in the middle of an approved rate term, and if so, how?

G. Other Issues

a) Prescribed Interest Rates

20. Should the prescribed interest rates applicable to DVAs and the construction work in progress (CWIP) account for electricity transmitters, electricity distributors, natural gas utilities, and OPG continue to be calculated using the current approach?[3]

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[3] OEB website; EB-2006-0117, OEB Letter, Approval of Accounting Interest Rates Methodology for Regulatory Accounts November 28, 2006; Accounting Procedures Handbook For Electricity Distributors, Issued: December 2011, Effective: January 1, 2012, Article 220, p. 200; Article 410, pp. 27 & 28

21. If no to Issue #20, how should the prescribed interest rates applicable to DVAs and the CWIP account be calculated?

b) Cloud Computing Deferral Account

22. Should carrying charges and/or another type of rate apply to the Cloud Computing deferral account? If so, what rate should be applied?[4]

[4] Please refer to the OEB's Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, issued November 2, 2023.