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April 4, 2024

Via eFile

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, British Columbia V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck

RE: **British Columbia Utilities Commission – Generic Cost of Capital Stage 2 Proceeding**
Corix submitting Written Evidence from Morrison Park Advisors

On March 8, 2021, the British Columbia Utilities Commission (BCUC) established a Generic Cost of Capital (GCOC) proceeding. Through Order G-6-24, dated January 11, 2024, the BCUC ordered that utility evidence in Stage 2 of the GCOC proceeding will be reviewed via three groupings: (i) gas utilities, (ii) electric utilities, and (iii) thermal energy system utilities. G-6-24 also established further regulatory timetable with a deadline of April 4, 2024 for utilities to file evidence.

In accordance with the timetable established in G-6-24, Corix (CA) DE Services Limited Partnership (Corix) hereby submits written evidence of MPA Morrison Park Advisors Inc. (MPA) with regards to the thermal energy system utilities grouping. The attached MPA evidence is made on behalf of Corix's Stream B Thermal Energy Systems (TES) listed below.

(1) Corix Burnaby Mountain DE Limited Partnership, known as Burnaby Mountain District Energy Utility (BMDEU)

(2) Corix UBCDE Limited Partnership, known as Neighbourhood District Energy System at the University of British Columbia (UBC NDES)

(3) Corix Dockside Green DE Limited Partnership, known as Dockside Green Energy (DGE)

Independent of Corix, another utility, namely Nelson Hydro collaborated with Corix for the engagement of the services of MPA to provide expert support in this proceeding. While Nelson Hydro and Corix have both engaged MPA as an expert witness, please note that Nelson Hydro and Corix fall into separate utility groupings and should be considered independently and separately in this proceeding.

Please feel free to contact us if you have any questions.

Yours Respectfully,

Corix (CA) DE Services Limited Partnership

Per:



Errol South
Director, Regulatory Affairs

Attachment

Attachment A

Written Evidence
of
MPA Morrison Park Advisors Inc.

Report to be submitted to the British Columbia Utilities Commission Generic Cost of Capital Stage 2 Proceeding

Review of Certain Financial Issues Related to Debt for Small Utilities

Prepared by
MPA Morrison Park Advisors Inc.

April 4, 2024

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Executive Summary

Morrison Park Advisors was asked to review and comment on the issue of choosing a deemed interest rate to be applied to small utilities in British Columbia that are owned by a larger entity. MPA prepared this Report at the behest of Corix (CA) DE Services Limited Partnership and Nelson Hydro, a department of the City of Nelson.

In 2013, the British Columbia Utilities Commission (BCUC) made a decision to reference the bond yields of BBB and BBB(low) rated utility issuers when calculating a deemed interest rate for small utilities. Moreover, in recognition that small utilities would face high transaction costs if forced to raise their own debt, an adder of 25 bps has been applied to the deemed interest rate.

MPA reviewed the history of the above decision, and it appears that a thorough analysis may not have been undertaken to support the reference to BBB and BBB(low) rated issuers. There does not appear to be evidence that small utilities in Canada with ratebases under $50 million would actually qualify for an Investment Grade credit rating, in MPA's view. Instead, it may be more prudent, and more in keeping with the Fair Return Standard and the Standalone principle, to make reference to the yields associated with non-Investment Grade issuers at the level of BB+ or BB.

In addition, MPA's experience with capital raises for small and mid-sized enterprises suggests that the BCUC may be underestimating the relative size of transaction costs for small utilities. We recommend the adoption of 50 bps as an adder for deemed debt.

Finally, a review of publicly available information from small utilities suggests that debt products typically used require the repayment of principal during the term of the borrowing, unlike the interest-only debt products that are available to larger utilities. This creates a significant additional burden on small utilities that the BCUC may not have considered in the past. In considering its policies with respect to deemed debt and deemed interest, MPA recommends that the BCUC consider either modifying the expected debt thickness assumed for small utilities, or include a further adder for the deemed interest cost to recognize this difference in debt product availability as between large and small utilities. In keeping with its existing policy to apply deemed interest rates on a case-by-case basis, MPA suggests that the specific circumstances of a small utility be considered to determine the size of this additional compensation.

Morrison Park Advisors

MPA is an independent, partner owned investment banking advisory firm. We primarily advise clients on mergers and acquisitions, equity and debt capital raises, divestitures and restructurings. In addition, we provide formal valuations, fairness opinions, contract negotiation services, advice to special committees of boards of directors, advice on initial credit ratings, expert testimony before courts and regulatory bodies, policy development, and market analysis. Our ability to deliver top tier financial advisory services is based on decades of combined experience and expertise developed at some of Canada's leading investment banks, while serving many of Canada's largest and most sophisticated corporate clients as well as federal, provincial and municipal governments and quasi-government entities.

Our areas of specialty include utilities, infrastructure and power; mining; real estate and technology. In the utilities sector, MPA has direct and recent experience on a number of transactions and other advisory assignments involving electricity, gas and district heating assets and has detailed knowledge and experience with this market, its participants and how they operate.

Information on the range of assignments we have undertaken and on our team members contributing to this report is attached in Appendices C and D.

For more information on MPA, please visit our website at www.morrisonpark.com.

1. Context

In Appendix B of Order G-6-24 pertaining to the British Columbia Utilities Commission (BCUC) Generic Cost of Capital (Stage 2) proceeding, the scope of issues to be addressed included "2. b) The determination of the deemed interest rate where required."[1]

The Stage 2 proceeding is focused on the appropriate cost of capital treatment of regulated utilities in the province of British Columbia, other than BC Hydro, FortisBC Energy Inc. (FEI), and FortisBC Inc. The relevant group of other regulated utilities include enterprises concerned with natural gas distribution, electricity distribution, and thermal energy generation and distribution, among other services.

MPA Morrison Park Advisors Inc. (MPA) has been retained by Corix (CA) DE Services Limited Partnership (Corix) and by Nelson Hydro (Nelson) to provide evidence relevant to the cost of debt capital for small, regulated utilities.

It has already been determined by the BCUC in its Stage 1 proceeding that the capital structure and approved Return on Equity (ROE) of FEI will serve as the benchmark for small utilities in the province.[2] The bulk of the Stage 2 proceeding, as defined in the amended scope order referred to above, will address the issues of approved equity thickness and approved ROE for the small regulated utilities subject to BCUC regulation. In addition, a determination will be made about the circumstances in which a deemed cost of debt should be applied to the calculation of allowed cost of capital. These issues are outside the scope of this Report, except for where specifically related to the issue of deemed debt costs, and as otherwise noted below.

In general, in regulatory ratemaking, where utilities directly access the capital markets to obtain debt financing, the actual cost of that debt capital is taken into account when setting regulated rates. In the most straightforward case, a fully independent and self-contained regulated enterprise raises debt on its own account in the competitive capital markets. In these instances, the cost of the funds raised (including interest rate, terms & conditions, as well as issuance costs) may be accepted as *prima facie* evidence of reasonable debt costs as long as the capital raising process itself was determined to be prudent by the regulator. However, there are many instances where this "ideal" scenario (from a ratemaking perspective) is not achieved. For example, a regulated utility may be part of a larger group of separately regulated utilities that raises debt on a combined basis, the utility may have multiple lines of business; some of which may be regulated and others not (which affects the perception of its overall credit profile in the capital markets), or the utility may benefit from a parent company or governmental guarantee that artificially alters its credit profile. In any of these cases, it may be necessary to consider the use of a deemed interest rate for purposes of ratemaking in order to avoid reliance on debt costs that would be either more expensive (or less expensive, as the case may be) than would be justified by ratemaking principles. In the case of small utilities, the BCUC in its 2013 Decision on the Generic Cost of Capital Proceeding (Stage 1) also found that "Deemed debt is appropriate for small utilities in cases where raising debt is inefficient."[3] In this instance, the reference appears to concern a small utility that is in fact part of a larger group, and which receives debt capital from its parent, rather than accessing the capital markets on its own behalf (because doing so independently would be inefficient).

[1] Please see BCUC Order G-6-24, available at doc_75653_a-34-g-6-24-further-timetable-reasons.pdf (bcuc.com)
[2] Please see BCUC Order G-236-23 of September 25, 2023, available at doc_73454_g-236-23-gcoc-stage1-decision.pdf (bcuc.com)
[3] Please see Decision, May 10, 2023, p. 105, available at a (bcuc.com)

Regardless of the reason for the consideration of deemed debt, when its use is warranted in the ratemaking process, on what basis should a deemed debt rate be calculated?

In the 2013 Generic Cost of Capital Proceeding (Stage 1), the BCUC concluded that the starting point for calculation of deemed debt for a small utility should be the typical debt interest rates applicable to BBB or BBB(low) rated utilities, as determined by credit rating agencies.[4] However, the BCUC at that time also affirmed that in each case of a small utility, it would be necessary to consider particular circumstances, and adjust the deemed debt accordingly: "*The Commission Panel has already found that the cost of deemed long-term debt (rate and term) for each utility should be addressed separately on a case-by-case basis.*" The willingness to address each small utility separately based on its merits begs the question of how exactly that process could be executed, the ultimate basis for decision-making, and whether indeed the BBB or BBB(low) starting point was of practical relevance to the ultimate determination.

In the Stage 1 Decision of the current Generic Cost of Capital proceeding, the BCUC refers to some regulatory principles that may be helpful in further considering the issue of deemed debt costs:[5]

- The Fair Return Standard, comprising:
  - *The comparable investment requirement – the return on capital should be comparable to the return available from the application of the invested capital to other enterprises of like risk;*
  - *The financial integrity requirement – the return on capital should enable the financial integrity of the regulated enterprise to be maintained; and*
  - *The capital attraction requirement – the return on capital should permit incremental capital to be attracted to the enterprise on reasonable terms and condition*s.
- The Standalone Principle: "…*that the utility should be regulated as if it were a standalone entity, raising capital on the merits of its own business and financial characteristics, regardless of affiliations within the holding company structure*."

The balance of this Report will attempt to provide additional information on the following:

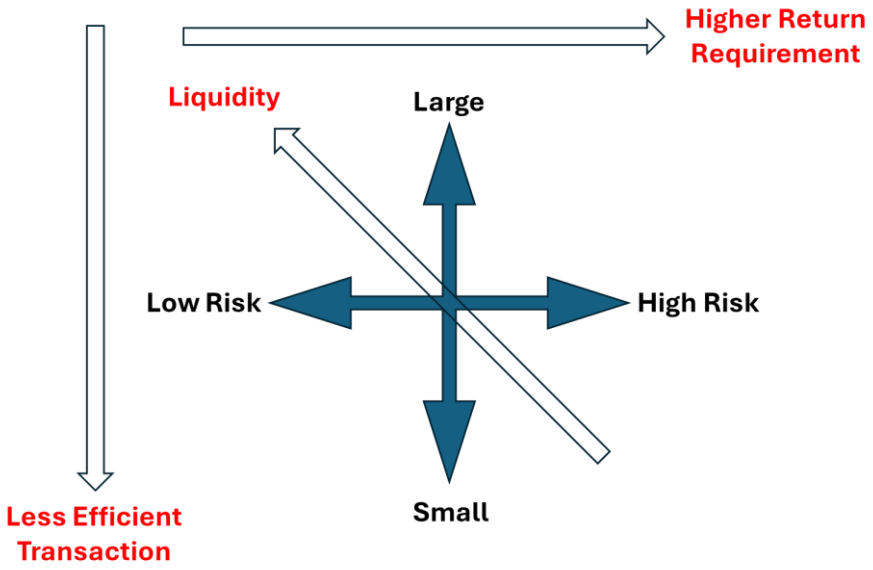
- The sources of debt capital available to small utilities in Canada in contrast to the sources open to larger utilities;
- The applicability of the BBB/BBB(low) credit rating standard to small utilities;
- The transaction costs associated with debt issuance in small increments; and
- How this information may be applied to the determination of deemed debt amounts, where applicable, in the context of the BCUC's determination of ROE and allowed equity thickness that is expected to result from other facets of this Generic Cost Proceeding (Stage 2).

[4] Ibid., pages 109-110.
[5] Please see BCUC Order G-236-23, pages 5 and 6.

2. Sources of Debt Available to Small Utilities

Canada's debt market is perhaps best conceived of as a matrix. The two principal axes are perceived investment risk, and size. It can be argued that the two concepts are related, because the characteristic of size can affect the perception of risk. However, for practical purposes, the two features are more or less independent variables when it comes to traits such as return expectations, liquidity, and transaction costs. The nature of the lenders and the products offered in the market, on the other hand, are generally a combination of both features.

Chart 1: Debt Characteristics



While there is some amount of overlap and flexibility in the grey zones between types of debt available, generalizations are possible. For long-term debt in the utility sector, there are essentially four types of debt available to borrowers, based on size of the debt instrument required:

- Publicly Traded Bonds: typically, the most efficient option when more than $1 Billion of debt financing will be required, particularly if tranches of debt will be issued from time to time. Transaction costs on any given issue will be extremely low, many term lengths are possible, including very long term, and a low-risk bond issuer will benefit from access to a pool of more than 100 major institutional buyers in Canada that actively maintain a portfolio of public bonds (banks, insurance companies, pension funds, other funds, etc.), plus an enormous global pool of potential investors. In short, publicly traded bonds offer borrowers the lowest possible interest rates, and the lowest transaction costs.
- Private Bonds and Debt Syndicates: When more than approximately $100 million of debt must be issued for a standalone project or company, or when an infrequent series of debt issuances are required that may total up to hundreds of millions (but not billions), it becomes less likely that a single institution may wish to carry all of the risk exposure of the issuer. In such cases, a syndicate of institutional investors may elect to share an issuance. Since institutional buyers will not have the benefit of easy liquidity (as in a publicly traded bonds), there is typically a higher price to pay in terms of required returns (interest rate), but transactions can still be extremely efficient. Private bonds and syndicates will typically have a slightly higher interest rate

than public bonds due to the inclusion of a "private placement premium", and transaction costs will also be slightly higher because of the one-time nature of the issuance.

- Commercial Banks, Insurance Companies and Alternative Lenders: Loans between $20 Million and $100 Million are typically the purview of banks, insurance companies, and alternative lenders, depending on the length of term sought for a loan and the risk profile of the borrower. Banks will typically not lend for longer than approximately 10 years, while insurance companies specialize in longer terms to match their long-term obligations. Alternative lenders, who often specialize in higher risk assets, can often be found across the range of terms and interest rates. This category is very similar to Private Bonds above, in that interest rates will include a "private placement premium". Transaction costs will be similar in size, because the legal, due diligence and other costs are often the same, however, because the size of the loan is smaller, the transaction costs will be larger on a relative basis compared to the borrowing.
- Community Banks and Alternative Lenders: Below the $15-20 Million level, it is difficult to attract the interest of sophisticated commercial lenders. Transaction costs relative to the size of these loans are prohibitive for larger lenders, who would much prefer to place their funds in larger increments. Local banks generally serve the small and medium-sized business market, but the products and terms offered are generally not as flexible or numerous as in larger transaction sizes, and transaction fees can be significant relative to the amount of funds raised. Alternative lenders are generally the only choice for debt that is perceived as riskier, and both return requirements and fees can be substantial. However, for businesses that "just need the money", any source of capital is welcome. Community banks generally do not offer terms longer than 10 years, however alternative lenders may do so. In comparison to the upper tiers of lending, in general interest rates will be higher, and transaction fees more expensive relative to funds raised.

More broadly, outside the sphere that is relevant to regulated utilities, there are a variety of other specialty lenders that serve specific business segments, such as equipment lenders, commercial real estate lenders, and leasing companies. The enumeration of the four categories above is by no means intended to be exhaustive with respect to the debt markets, but merely focused on the specific needs of utilities.

Conjoined with the tiering of debt providers is the nature of the debt product that is offered. The principal distinction with respect to longer-term debt products relates to their being "interest-only" versus "amortizing" or "reducing" debt products.

The former, as the name suggests, entails periodic payments of interest on the outstanding debt, until the end of the debt term when the entire principal amount is required to be repaid to investors. Typically, interest-only debt is appropriate for businesses where debt will be a permanent feature of the capital structure, and the value of the assets on a borrower's balance sheet are not expected to diminish over the term of the debt. The principal amount would be expected to be refinanced at term, either in whole or at least in large part. The reason for the term is, in essence, to allow the interest rate on the debt to be reset consistent with prevailing market prices at such time, and to allow the borrower and lender the opportunity to find alternative opportunities.

Amortizing debt, on the other hand, requires that regular and scheduled principal payments be made during the term of the debt – such payments progressively reduce the outstanding balance of the debt instrument. While the debt need not be completely repaid during the term – i.e., the term and amortization period need not be one and the same – the amount of amortization is always a critical issue in the negotiation of debt terms because of the cash flow that is required to reduce a loan. Amortizing debt is most familiar to average Canadians, as mortgages and car loans are an example of debt products structured this way. A new house is often purchased based on a 5-year term but a 25-year

"mortgage-style" amortization. Interest rates will be reset every 5 years, and debt service payments will always consist of a combination of interest payments and principal repayment, until the mortgage is finally cleared.

For businesses that are based on "lumpy" investments that depreciate in value over time, with a resulting decline in size of balance sheet through the life of assets (perhaps until the next large investment), amortizing loans often make the most sense. The progressive repayment of outstanding principal mirrors the reducing capacity of the business to sustain its debt metrics (e.g., Debt to Equity ratio). However, it is important to note that in the smaller tiers of debt offerings listed above, amortizing debt is sometimes the *only* type of long-term debt product available, whether a borrower expects a declining balance sheet or not. Lenders, particularly for smaller scale loans, are often simply unwilling to accept the risk of their initial principal amount remaining fully outstanding for the entire period of a debt term. Quite simply, not all debt products are available to all interested borrowers.

Another critical characteristic of long-term debt is whether the interest rate in the loan is fixed or floating. As the names imply, an interest rate may be fixed for the entire term of the loan, or it may be periodically reset according to the movements of a defined benchmark, such as a bank "prime rate", or a public markets benchmark such as CORRA (Canadian Overnight Repo Rate Average). The vast majority of long-term debt arrangements that would be of interest to utilities include a fixed rate of interest. Borrowers are typically not exposed to the risk of changing interest rates during the term of the agreement; however, they will have refinancing risk for any amount that is repayable at the end of the term.

For short-term debt arrangements the opposite is generally true, with most debt products having floating rates. Exposure to interest rate risk is one of the main reasons why long-term debt is preferred in capital intensive businesses like utilities.

Typical Regulated Utilities and The Debt Market

Canada's regulated utilities are important issuers of publicly traded bonds. As can be seen by perusing the list in Appendix A to this Report, Canadian utilities currently have more than $125 Billion in outstanding bonds. Credit ratings associated with these bonds range from AA- to BB- (based on the ratings of S & P Global Ratings). This listing does not include the many utilities that are financed by their provincial governments and therefore do not issue bonds on their own account (such as BC Hydro, SaskPower, Manitoba Hydro, etc., which account for a significant proportion of the bonds issued by their respective provincial governments).

These financings are incredibly efficient given their enormous scale because issuance costs relative to funds raised are very low, and debt interest costs are as low as they can be for given perceived financial risk associated with the issuer. They are almost uniformly interest-only securities with terms anywhere from 5 to 30 years, and with terms as long as 50 to 100 years in a few select cases.

Buyers of public bonds benefit from significant liquidity in their investments. Bonds are traded daily, and market participants make real-time decisions about the ever-changing risk profile of bond issuers (and the relationship of each issuer to the general market environment for debt) by pricing their bond transactions. New issues from established issuers can be priced efficiently based on the ongoing price discovery associated with trading of extant securities. Regulators and others can benefit from the publicly available information resulting from trading and calculate price spreads (as against Government of Canada "risk free" bonds) for the issuers subject to applicable regulation.

All this public debt market activity – so fundamental to the capitalization of Canada's large utilities – is virtually irrelevant to small utilities. Hundreds of utilities across Canada are too small to access the public debt markets. Instead, they must rely on the lower tiers of debt providers and debt products described in the previous section, down to and including the level of community banks. While public bonds represent the bulk of debt that supports the regulated utility sector in Canada (in dollar terms), only a relatively select few utilities actually issue all of this debt. It is critical that understandings and assumptions that are formed by examining the flows of public debt dollars are not simply assumed to be applicable to the significant number of small utilities across the country.

Examples of Small Standalone Regulated Utilities and Their Debt

Public Information about the debt arrangements of small standalone utilities is not readily available. This is partly explained by the fact that many small utilities are subsidiaries of larger groups or are owned by local governments who do not report as corporates; it is also partly because, even when appropriate candidates are found, they do not release sufficiently detailed information on their debt arrangements as to be useful.

The following table provides some information about a group of municipally-owned, regulated electricity distribution utilities in Ontario who report as standalone corporate enterprises, and have included some information about their debt arrangements as part of their public disclosure. These are meant to merely be representative samples of arrangements currently in effect in Canada.

Table 1: Debt Information for Selected Small Standalone Utilities

	($K) Debt Outstanding		($K)	Debt Mixture			Other Info		
S&P Rating Brackets	Short-Term	Long-Term	PP&E	Amortizing	Revolver / LoC	Interest Only	Amort. Length	Bank	Covenant(s) and / or General Notes
Orangeville Hydro	591	15,541	24,593	100.00%	–	–	25Y	TD	- Debt to capital ratio of 0.60:1 - Minimum debt service coverage ratio of 1.20x
Festival Hydro	20,069	9,812	58,854	35.27%	12.52%	52.21%	-	RBC	- Funded indebtness debt to equity of no more than 65% - Debt to equity of no greater than 75:25 - Debt servicing ratio of no less than 1.30x - 15.6M of the total debt outstanding is a note payable to shareholder, with no principal, and is due on
Elexicon Hydro	223,815	89,211	589,565	10.99%	60.54%	28.47%	30Y*	Chartered Bank	- Debt to Capitalization ratio no greater than 0.60:1 - Debt service coverage ratio not less than 1.10:1 The company has the following facilities - 30Y Amortization based on $41M debt facility; 34M Outstanding - 40M revolver; 22.5M Outstanding
Oshawa Power & Utilities	1,006	89,253	199,327	100.00%	–	–	-	TD	- Debt services reserve account in an amount equal to 3 months' future debt service costs related to the term loan - There is a 20M line of credit with no withdrawn amounts
NT Hydro Corp	54,472	225,096	465,340	48.32%	19.48%	32.19%	-	Chartered Bank	- The Short-Term Debt is based on the withdrawn amount on a 75M line of credit

(1) Orangeville Hydro data sourced from 2022 Financials Statements Note 9, Note 15, and Amortization Length based on MPA Calculations
(2) Festival Hydro data sourced from 2022 Financial Statements Note 14, Note 19

(3) Elexicon Hydro sourced from 2022 Consolidated Financial Statements Note 9, Note 13
(4) Oshawa Power & Utilities sourced from 2022 Consolidated Financial Statements Note 9
(5) NT Hydro Corp data sourced from 2022-23 Annual Report Note 6, Note 17
(6) Revolver and line of credit are treated as the same, and assumed as short-term debt
(7) Current portion of long-term debt included in short-term debt calculation

None of the utilities presented in the table above have credit ratings, and none have issued public bonds.

A variety of debt arrangements are disclosed, including:

- Shareholder Loans (from municipal owners)
- Amortizing Bank Term Loans
- Revolvers with minimum payments (both principal and interest)
- Interest-only Term Loans
- Short-term debt of various kinds

Perhaps the most important observations are the following: (i) there is widespread use of amortizing loans, particularly among the smaller utilities in the list; (ii) covenants with respect to Debt to Equity ratios and Debt Service Coverage Ratios (generally in the 1.2x to 1.3x to EBITDA range) are prevalent; and (iii) all debt other than shareholder loans comes from banks and has terms of 10 years or less.

Some important context is that the ratebases of each utility in the list has been growing steadily (both because of the population growth in southern Ontario, and because of the need for electricity distribution utilities to prepare for the Energy Transition), they have strong financial profiles, serve thousands of customers, and are not complicated by diverse business lines. Yet none have fully transitioned to interest-only debt. Most have at least some (if not all) debt in the form of amortizing term loans. We expect that this would be true of most small utilities across Canada, but given the lack of public disclosure by many utilities, it has not been possible to develop a more comprehensive overview.

We also note the following: owing to the ratemaking policies of the Ontario Energy Board, the expected cost of debt servicing is taken into account when setting rates, so the use of amortizing debt for these utilities is not a penalty.

As was noted above, in the smallest tier of long-term debt offerings, debt product options may be limited, and the relative absence of interest-only long-term debt among smaller standalone utility examples is an indicator of this fact.

3. BBB or BBB(low) Credit Rating and Small Utilities

As noted above, one of the determinations of the BCUC 2013 Generic Cost of Capital Proceeding was that the BBB or BBB(low) credit rating standard was a useful tool for considering the deemed cost of debt that could be applied to small regulated utilities.

In the record of the 2013 proceeding, this was apparently an issue that was not hotly debated, nor was the entire question of deemed interest rates for small utility debt: "The evidence and Final Submissions suggest that setting the deemed interest rate is not a very controversial issue."[6] With respect to the appropriateness of the BBB or BBB(low) credit rating, the principle evidence on the record appears to have been captured in an IR from the BCUC to an expert witness, Ms. McShane, who was retained by the FortisBC utilities.[7]

> 147.1: In practice, how would Ms. McShane proceed to estimate the likely standalone credit rating for a small utility without third party debt based on the utility's business and financial risk? Please explain the steps in detail.
>
> In Ms. McShane"s opinion, pinpointing a credit rating for the small utilities does not lend itself to a step-by-step process, in part because there are no rated proxies for these small utilities, as Ms. McShane noted in response to BCUC IR 1.139.5, that could be used as benchmarks. Consequently, estimating their stand-alone credit rating is inherently a less objective process than it would be for a large utility with rated peers. Ms. McShane considers that there are four key factors that should be considered with respect to the small utilities: (1) they all operate in the same economic environment and energy policy environment as the benchmark utility, FEI; (2) they are all regulated; (3) they are very small; and (4) their equity ratios are likely to be within the range of equity ratios adopted for other Canadian utilities. As they are regulated, it would be reasonable to proceed on the premise that, in theory, they could all be considered to be investment grade. The fact that they are very small, with the inherent risks of small size set out in response to BCUC IR 1.139.5, would preclude them from achieving ratings equal to those of the benchmark. A reasonable deemed stand-alone rating for a small, but regulated, utility is in the range of BBB to BBB(low), with the deemed debt cost set on this basis. In this regard, this is effectively the approach that the Régie uses to set the cost of debt that Gazifère (a gas distribution utility with an approximately $70 million rate base) issues to its parent Enbridge Inc. Gazifère obtains a letter from one of the major investment banks when it issues new affiliate debt. The letter sets out the estimated cost of debt for a new issue for Gazifère as a BBB/BBB(low) utility. That estimated cost forms the basis of the cost approved by the Régie.

Notable points in this exchange are that estimating a credit rating for a small utility is "inherently a less objective process" than for large utilities, and that the Régie had in at least one instance applied a BBB or BBB(low) assumption to the deemed debt of a small utility subsidiary of a larger utility with a higher credit rating.

In the Decision, the BCUC also noted that "similar approaches have been adopted in a number of recent TES Decisions. For example, BBB-rated proxies were used for the Delta School District Number 37 and Tsawwassen Springs projects."[8] It is notable that the two referenced cases were completed shortly before the Generic Proceeding.

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[6] Please see Decision, May 10, 2013, p. 109.
[7] Please see Exhibit B1-20 of the 2013 Generic Cost of Capital Proceeding (Stage 1), page 365, available at GCOC FBCU BCUC IR1 Response
[8] Please see Decision, May 10, 2013, p. 109.

In examining the record of the Delta School District case, the support for the use of the BBB-rated proxies appears to have been an IR with the same expert witness quoted above from the Generic Hearing, Ms. McShane.[9]

> 98.2.1. Please identify other alternatives to account for the actual cost of debt for the TES class of service.
>
> A second alternative is to make an assessment of the likely indicative standalone debt rating for the TES (i.e., a rating in the BBB category), estimate the cost of debt that would be applicable at that rating and deem the resulting debt cost to the TES.

In the BCUC decision respecting the Tsawwassen Springs projects, the then recent Delta decision was quoted favourably, and the use of a BBB proxy for deemed debt was applied again.[10]

It is difficult to locate in the record of proceedings whether a thorough analysis was ever undertaken to support the application of the BBB/BBB(low) standard to the deemed debt of small utilities. However, the pattern appeared to have been established in the years 2012-13 and has been applied on other occasions since.

What is a Credit Rating?

Expressed in the simplest terms, a credit rating is a blended "score" resulting from a series of objective, comparative and subjective analyses of the risks associated with a debtor or a particular debt instrument (or a potential debtor preparing to issue a new debt instrument). Each credit rating agency applies the credit analyses it believes to be most relevant, which implies that each agency has its own way to sum up its views into a score. Moreover, each agency uses slightly different nomenclature for their scores. The BCUC's past focus on the BBB/BBB(low) nomenclature appears to be most closely aligned with the scoring system of S & P Global Ratings, but other agencies such as Morningstar DBRS, Fitch Ratings and Moody's have analogous labels in their scoring systems.

It is important to note that credit rating agencies are not themselves buyers of debt securities. They have no participation in nor control over markets. At the highest level of debt market participation – the publicly-traded bond market into which the largest regulated utilities sell their debt securities – credit rating agencies are not nearly the most sophisticated actors. Large funds and financial companies that prosper based on their trading performance have entire departments devoted to analyzing issuers and economic events in real time so they can make the most informed judgements possible about the pricing of securities. Pronouncements by rating agencies – which often occur weeks after key events have taken place – are usually trailing indicators of market sentiment, not leading indicators. Bond buyers have often fully priced the impact of new developments into their trading strategy by the time a rating agency announces a revision to a credit rating, so the announcement of the rating change may have no impact on bond pricing.

However, while it may be easy to play down the importance or relevance of credit ratings in the public bond market, there are at least two reasons to focus on them. First, and most important, is the fact that credit rating analysis is substantially similar to the types of analyses that sophisticated bond buyers will themselves undertake to assess the pricing of bonds. This is important because bond buyers are all private entities under no obligation to disclose their opinions, whereas the credit rating agencies' business model effectively requires them to make their views publicly

[9] Please see Delta School District Number 37 ~ Project No. 3698648, Exhibit B-3, pp. 272-273, available at FEI Delta SD TES BCUC IR1 Response
[10] Please see G-100-12_FEI Tsawwassen Springs Decision, p. 70, available at a (bcuc.com)

known. Credit ratings agency reports can be a valuable window into, or a reflection of, the thinking of bond buyers. In essence, if credit ratings agencies conclude that a particular company is financially "weak" or "strong", "risky" or "safe", then the actual buyers of debt likely agree and will act accordingly through their investment decisions.

The second way that credit rating agencies have material impacts is through the distinction between "investment grade" and all other credit ratings. In the nomenclature of S & P Global Ratings, all ratings of BBB- and higher are considered "investment grade", while below that level securities are not considered to achieve that status (other agencies have their own nomenclature but are substantially similar). This is important because certain funds have self-imposed rules prohibiting them from investing in a debt security that does not have an "investment grade" rating. The managers of a financial institution sometimes have no choice but to divest the securities of an issuer whose credit rating falls below investment grade level (and of course cannot buy any securities from such issuers). Since there are many issuers that are rated below "investment grade", and there are buyers for bonds from such issuers, a market does exist for such debt securities (obviously there are at least some buyers that are free to invest below the investment grade level!). However, the non-investment grade market is both smaller in size and more expensive in terms of interest rates than the market for bonds from issuers with investment grade ratings.

Ultimately, there are strong relationships between market perceptions of the "financial strength" or "risk" associated with an issuer, credit ratings, and actual bond prices. While these relationships are not perfect in the sense of timing (or even direction at any given instant), they can and should be considered strong.

Obtaining a credit rating is a costly exercise. Bond issuers typically pay for one or two credit rating agencies to conduct an initial analysis prior to their first bond issue; they also pay the credit rating agencies to "maintain coverage" of the issuer, so that ratings will be updated from time to time. Credit ratings form part of the transaction costs of issuing debt. Given the regularity with which very large companies access the debt markets, and the efficiency of doing so (in terms of relatively low costs associated with bond issuance compared to the size of the funds raised), it makes sense for large companies to retain these service providers under contract.[11] However, below a certain threshold of debt issuance, credit rating agency coverage is just too expensive to justify. In order to expand their business, credit rating agencies also offer smaller debt issuers more limited services, such as one-time credit ratings (with no ongoing coverage), or various kinds of "short-form" versions of ratings analysis. While the latter do not result in formal credit ratings, they are intended to help potential debt issuers better understand the likely thinking of lenders and can potentially support the due diligence activities of potential lenders into a prospective borrower. Nevertheless, even these non-ratings services are costly for borrowers, who are often under pressure to minimize their overall transaction costs when raising capital. Perversely, it is likely that the borrowers who might benefit the most from the services of a credit rating agency are precisely those who may be least likely to afford to pay for such services.

In summary, small utilities are highly unlikely to ever go through the process of obtaining a credit rating, hence making the assumption that small utilities would qualify for a certain level of rating (like BBB) are that much more tenuous.

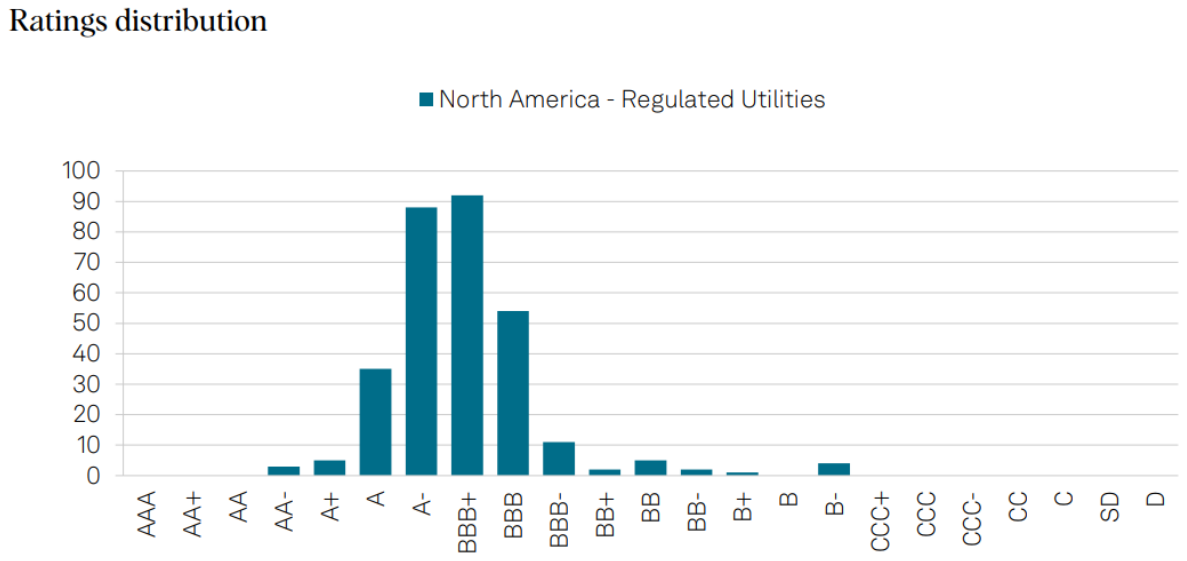
[11] While it is undoubtedly true that credit rating agencies are paid by debt issuers, and hence the "clients" of the agencies are the debt issuers, this should not be taken to imply that credit rating agencies are somehow beholden to their clients in terms of analysis and conclusions of creditworthiness. The entire business model and value proposition of credit ratings agencies is founded upon the certainty in the minds of market participants that agencies are independent of their clients and consistent in their work. Credit ratings are only as valuable as the trust that market participants place in them.

Is it Reasonable for Small Utilities to be Investment Grade?

As noted above, the BCUC has made use of BBB or BBB(low) credit spreads in order to calculate a deemed debt interest rate for small utilities, which suggests that it may believe that small utilities would achieve this rating if they were to undergo a credit rating assessment. Or in other words, that small utilities would qualify as Investment Grade borrowers.

Most large utilities in North America that have credit ratings are considered to be Investment Grade. The following table, released publicly by S & P Global Ratings in January 2024, highlights that the vast majority of rated North American utilities fall in the A- to BBB categories, using S & P's nomenclature.[12] While a small number of regulated utilities achieved superior ratings, very few are not considered investment grade. But, clearly, there are *some* utilities that are not considered Investment Grade. There is no automatic relationship between being a regulated utility and being Investment Grade.

Chart 2: Credit Ratings of North American Utilities



However, the population of utilities that are included in this chart are almost universally very large. As shown in Appendix A, in Canada only four utilities with credit ratings have less than $1 Billion in bonds outstanding (not counting subsidiaries of larger companies that released bonds separately from their parent). Those few "smaller" utilities issued one-time bonds that are not actively traded. Issuers in the United States are typically larger.

The two smallest Canadian utilities that have an S & P rating are both municipally-owned electricity distributors in Ontario, that each have issued approximately $100 Million in long-term bonds. These would fall into the category of one-time or syndicated debt issues because they are not publicly traded. Each of these utilities has Property, Plant & Equipment of more than $250 Million, and consistently growing regulated ratebases. Both achieved an A rating from

[12] Please see S & P Global Ratings, Industry Credit Outlook 2024: North America Regulated Utilities, January 9, 2024, p. 2. Available at Industry Credit Outlook 2024: North America Regulated Utilities | S&P Global Ratings (spglobal.com)

S & P. However, in at least one of the cases the parent municipality guaranteed a substantial portion of the debentures issued, which may have affected the determination of the credit rating.[13]

FortisBC Energy Inc. has an issuer rating of A-, according to S & P Global Ratings. In keeping with the evidence provided by Ms. McShane during the 2013 Generic Cost of Capital proceeding quoted above, an appropriate starting point for analysis of small utilities in British Columbia could be that same credit rating, because the small regulated utilities in British Columbia all share the same regulatory jurisdiction with FEI, and all will have relatively conservative financial metrics in order to ensure that they can satisfy the BCUC.

However, a regulated utility with assets of less than $50 million will typically have many characteristics that are significantly different compared to a multi billion-dollar utility like FEI. The question is whether these differences in characteristics will amount to only two or three "notches" of credit rating differential (i.e., from A-, to BBB+, to BBB or BBB-). If the differences in the companies warrant more than three notches of differential, then the small utilities would cease to be "investment grade", which would mean dropping to the level BB+ or less.

S & P Global Ratings provides a substantial amount of public information and guidance about how they perform their credit rating analysis.[14] A host of financial metrics and analysis are calculated, scrutinized, and ranked, including (among several others):

- Funds from Operations to Debt
- Debt to Equity
- Debt to EBITDA
- Free Operating Cash Flow to Debt
- EBITDA to Interest

Beyond that, however, a variety of analyses are undertaken into the following: the competitive position of the individual issuer; its scale, scope, and diversity; operating efficiency; profitability; volatility; portfolio diversification; the liquidity resources it may call upon; its capital structure; interest rate risk; financial policies; management and governance; and more. As should be clear from this listing, many of these areas of concern are not quantitative in nature, and therefore lend themselves to a degree of subjectivity. In addition, various tests are inter-related, with specific results in one review affecting the direction and importance of subsequent examinations.

Appendix B contains a sampling of the charts made publicly available by S & P Global Ratings that form part of their credit rating methodology. Many of the analyses listed above can result in a shift of credit rating conclusions by one, two, or even three notches in some cases. For a small standalone utility, there are many obvious pitfalls in the credit rating methodology, particularly relating to a lack of liquidity, lack of diversity of revenue sources (and risk of customer loss), lack of depth of resources to withstand economic shocks, and lack of portfolio diversification, among others. Limiting the impact of all these considerations to just two or three notches reduction as compared to the rating of FEI would perhaps require good fortune in conjunction with a very strong business model.

Absent actually retaining the services of a ratings agency to systematically review a basket of small utilities in British Columbia (which are themselves spread across the gas, electricity, and thermal energy services sectors, and so have many individual characteristics that are not universally shared), it is difficult to support the conclusion that two or

[13] Please see the Windsor Canada Utilities Limited 2022 Annual Report, p. 54, available at Meeting Documents_City Council_CC - 13_2023 (citywindsor.ca)
[14] See for example, S & P Global Ratings, Corporate Methodology, available at S&P Global Ratings (spglobal.com)

three notches of discount against FEI's credit rating is the correct assumption to make for the purposes of deemed interest. This is not to say that it cannot be correct, but no thorough analysis appears to be available to support it, and there appears to be reason for skepticism.

The following table summarizes some characteristics about Canadian utilities with credit ratings, organized by rating class.

Table 2: Canadian Utility Bond Issuers By Class

	Total Amount Oustanding (C$M)		Enterprise Value (C$B)	
S&P Rating Brackets	Low	High	Low	High
AA	52,075.1	52,075.1	-	-
A	103.0	2,945.0	-	-
A-	425.0	15,820.0	39.0	59.0
BBB+	270.0	10,395.0	94.7	189.2
BBB	200.0	3,090.4	12.3	34.2
BBB-	1,050.0	5,050.0	9.2	9.2
BB+	205.9	1,201.4	6.9	6.9
BB-	1,000.0	1,629.1	-	-

Note: Total Amount Outstanding refers to total face value of bonds outstanding by an individual issuer in the class Enterprise Value refers to the EV of an individual issuer in the class. EV is based on outstanding debt plus market value of equity if available on Bloomberg. EV is not available for all issuers.

As can be noted, each of the rating classes includes members of greatly varying debt issuance sizes (i.e., the Total Amount of Debt Outstanding) and Enterprise Values. However, given the number of parent/subsidiary relationships represented on the list of Canadian utilities, some of the lower values may be considered artificial. Nevertheless, it should be apparent that the credit ratings process regularly results in the full gamut of outcomes, with even very large companies sometimes falling to the bottom of the Investment Grade ratings list, or out of it entirely. Conversely, some of the smallest issuers have received relatively high ratings.

To put the importance of these classes into context, MPA analyzed the average yield spreads between the bonds of some of these utilities and benchmark Government of Canada bonds. There are only four Canadian utilities that currently have a BBB- issuer rating from S & P Global Ratings. Between them, they have several bonds with maturity dates that are approximately 5 years or 10 years in the future. The trading prices of these bonds were compared to Government of Canada 5-year and 10-year benchmark bonds to determine a spread between this group of bond issuers and Canada rates. In addition, there are only two Canadian utilities (each of which also has a similarly rated subsidiary) that currently have ratings of either BB+ or BB-. These utilities have several bonds that mature in approximately 5 years, and so were compared to Canada 5-year benchmark bonds. However, they do not have any bonds currently trading that are approximately ten years away from maturity, so no 10-year analysis was possible. The results of this research are presented below.

Table 3: Selected Canadian Utility Bond Yield Spreads

	Spread to GoC		
	5 year	10 year	Difference
BBB-	163	197	34
BB+ or BB-	255	N/A	
Difference	92		

Please note that given the relatively small number of bonds that were examined, the statistical error range for the calculated averages would be large. Normally, spread analysis is conducted for much larger populations of bonds. However, we have deliberately focused exclusively on Canadian utility bonds, rather than examining a larger population of BBB-, BB+ and BB- bonds from companies in other industry sectors.

Based on the available data, it is clear that there is a significant difference between the interest rates associated with Investment Grade and non-Investment Grade Canadian utilities. This highlights the potential importance of the question of whether small regulated utilities should be considered to be Investment Grade or not.

In summary, while it is clearly true that small standalone utilities (for example with ratebases of $50 Million or less) in British Columbia should not be assumed to exhibit the characteristics required to achieve an A- credit rating equal the benchmark FEI, it is not clear upon what basis it can be determined how many notches below that level are warranted. The record of past decisions appears to show that this was merely considered a “reasonable assumption”. However, that assumption has potentially significant consequences., and it may be necessary to re-evaluate it.

4. Transaction Costs to Raise Debt

Issuing debt can be a relatively quick and painless exercise, a months-long ordeal, or anything in between.

One of the attractions of the public bond market is that very large issuers can meaningfully manage their transaction costs by relying on scale efficiencies: by repeatedly issuing tranches of bonds, such issuers can rely on a single contractual arrangement and set of documents (for example a "shelf prospectus" and "trust indenture") that do not have to be reinvented for every occasion. No new legal fees need be incurred to issue the latest issuance, and because the utility is in constant contact with the institutional buyer community, no special due diligence is required. There are still fees to be paid to the distributors of the bonds, but it is common for total costs to be substantially less than 1% of the debt issuance (evidence can be found in the financial statements of issuers in the years during which they have placed issuances). When such costs are amortized over the life of the instrument – such as 10 or 20 years – it is not unreasonable to believe that the equivalent annual interest burden will be 10 bps, 5 bps or even less.

This can be contrasted with smaller utilities seeking long-term debt, for whom it is an exceptional occurrence. Due diligence costs will be incurred, because the prospective lender will want to be brought up to date on all information pertinent to the future prospects of the business. Legal fees are a certainty. Lenders will always charge an "arrangement fee" at the signing of the loan agreement, and may have administrative fees built into the debt agreement in order to facilitate annual due diligence check-ups over the term of the debt. If the borrower believes it necessary to contact anyone other than a local bank, then the assistance of an investment banker may be required, which would entail further fees.

A critical issue is that many debt arrangement costs are relatively fixed at a lower bound. This is to say that legal fees, for example, do not scale down linearly with the size of a loan requirement, but may scale up at least to some degree in larger cases. A certain amount of time and expertise is required to pursue any debt agreement, regardless of whether it is for $5, $10, or $15 Million dollars. However, $250,000 would represent variously 5%, 2.5% or 1.7% of these sums.

MPA is an investment bank and has been active in the debt market on behalf of clients for many years. As a firm that offers services to mid-size Canadian businesses (meaning in the range of $10 to $100 Million in enterprise value), we have experience that is akin to the circumstances that might face a standalone small utility in British Columbia that may be seeking debt. Without straying into specifics (which may lead to breaches of confidentiality with respect to past clients), we can offer some observations from market activities. If, for example, a utility had a ratebase of $50 million, then it would be expected that it may have a debt requirement of $25 or $30 million. Total costs – including lender's fees, legal fees, due diligence, etc. – would not be surprising if they reached 3% or more, which is to say $900 thousand in costs for a single $30 million debt raise. However, it is unlikely that a small utility would raise all of its debt in a single instrument, and so for small utilities it is more likely that debt will be raised in smaller increments. For smaller debt raises in the range of $15 million or less, total costs of 5% would not be unexpected and in fact would be a virtual certainly for anything other than a simple bank loan. Even in the case of simpler arrangements with local banks, it should be assumed that because of the small size of the raise, the effective transaction cost would be high.

In order to translate these one-time costs into annual interest rate impacts, two calculations could be made. The first is to simply divide the one-time costs by the number of years in the term – so a 5% cost would be 50 bps for a 10-year term. Sometimes this methodology is used by accountants to amortize funding costs in financial statements. The other, technically more correct methodology from an interest rate perspective is to amortize the one-time amount

over the term at the interest rate of the loan – so 5% costs on a 5% interest rate 10-year loan would be 64 bps per year. Similarly, 4% costs on a 6% interest rate 10-year loan would be 54 bps per year.

Given the prevalence of 10-year loans for small utilities, and the high costs associated with loan sizes that are common at this level (i.e., anywhere between $5 million and $20 million), we believe that a properly amortized transaction cost expectation should be 50 bps per year.

5. Debt Impacts on Small Utility Returns

FEI is a large utility, which benefits from the economies of scale available when managing a portfolio of outstanding public bond debt amounting to more than $3 Billion. All of this is interest-only debt, with extremely low transaction costs. This is, in fact, the "normal" paradigm for large utilities in Canada. However, if these assumptions are simply applied without modification to small utilities with ratebases of $50 Million or less, then practical outcomes may be far from ideal.

The most important issue for a small standalone utility is whether it can obtain interest-only debt. As described in section 2, above, there are many examples of utilities that have ratebases that are sometimes significantly larger than $50 million which nonetheless have amortizing debt instruments on their balance sheets. For smaller utilities, amortizing loans appear to be the norm. Interest-only debt may simply not be available to these types of borrowers unless they grow significantly larger over time.

Assuming that is true, a counter argument might be that utility assets also depreciate over time, and therefore the use of amortizing debt instruments might be appropriate. After all, depreciation is included in rate-setting formulas, which gives rise to cash flow that utilities may use to pay principal on debt. However, this ignores the need to constantly re-invest in a utility, particularly if it is experiencing customer growth, asset turnover, or other strategic imperatives. Cashflow that results from the inclusion of accounting depreciation in the rate-setting formula is needed for capital expenditures and will not be available for debt service purposes.

In reality, if rates are set based on an assumption of interest-only debt in the capital structure, but only amortizing debt is available, and the operation of the utility demands a constant level of reinvestment, then the only cash flow available to pay the principal portion of debt service would be cash that would otherwise be paid to equity holders. The utility may nominally achieve its "profit" target on the income statement, but actual cashflow to shareholders will be depressed by the amount of scheduled principal repayment required under the applicable credit agreement.

An illustrative example may help clarify this point:

- Assume a ratebase of $100
- 60:40 Debt to Equity Capital Structure
- 5% Debt Interest, 10% ROE
- Average life of assets is 20 years, so annual depreciation is $5
- Customer rates are set so that net profit after tax is equal to ROE
- Annual investments in ratebase are sufficient to ensure that ratebase remains $100; in other words, while the ratebase is not declining, it is not growing, even if only by inflation (this is an important simplifying assumption, and is meant for illustration purposes only)

In a scenario where debt is interest-only:

- Interest payments annually would be 60 * 5% = $3
- Depreciation is $100 / 20 = $5
- Net profit after tax would be 40 * 10% = $4
- Cash Flow from Operations would be $4 Net Profit + $5 Depreciation = $9
- However, capital investments would be $5 (simplifying assumption so ratebase remains $100)
- Net Cash Flow to Investors would be $9 - $5 = $4 = 10% ROE

However, if the debt arrangement is alternatively required to be amortizing, on a simple mortgage-style 20-year amortizing schedule, but customer rates are still set based on the assumption of interest-only debt:

- Interest payments in year 1 would be $3, but principal repayment would be $1.81, for a total Debt Service requirement of $4.81
- Cash Flow from Operations would still be $9, because Profit and Depreciation are the same as above
- Cash Flow from Financing would now be -1.81, because of the principal repayment
- Cash Flow used for capital investments is still $5
- Net Cash Flow to Investors would be $9 - $5 - 1.81 = $2.19 = 5.475%, as opposed to the targeted 10% ROE

In the second year, interest payments would drop to $2.91, while principal repayments would increase to $1.91. This would affect the net taxes payable, since interest is tax-deductible, and net profit would decline, other things being equal (assuming the revenue earned from ratepayers was fixed based on the interest-only debt assumption). Net cash flow to investors would decline further as a result of the increase in tax expense.

It is important to note that the actual Debt to Equity ratio would be changing in this scenario, as debt principal would be repaid according to the loan terms. Over time, the actual capital structure of the utility would be diverging from the allowable 60 : 40. The only way to remedy that deficiency would be to issue more debt to rebalance the capital structure back to 60 : 40. The capital structure would therefore appear to be a sawtooth if graphed over time, with new debt issuances coinciding with a “perfect” capital structure, and intervening years effectively being under-leveraged. Over a period of time, the average capital structure would effectively include less leverage than what is implied by the allowable (or target) capital structure, depending on how frequently the capital structure was “rebalanced” through new debt issues, and the permitted depth in the intervals in the sawtooth.

To avoid this capital structure “penalty” created by the absence in the market of the ideal debt product, a small standalone utility might seek to independently create a “synthetic” interest-only debt product such that its capital structure may continue to approximate the ideal/target level.

If the utility had access to short-term debt, such as a credit line, then it could fund the annual principal payment on a long-term amortizing debt that way, rather than through equity cash flow. Periodically, the credit line could be reduced by issuance of a new long-term debt instrument, which would begin the cycle again. Assuming the credit line were priced at the identical 5% interest cost as the long-term debt, then the year one picture described above would change again:

- Cash Flow from Financing would now be -1.81 for the principal repayment, plus $1.81 of new credit line funds
- Cash Flow used for capital investments is still $5
- Net Cash Flow to Investors would return to being $4

In year two, however,

- Interest on the long-term debt would be $2.91, but interest on the accumulated credit line would be $1.81 * 5% = $0.09, for a total interest of $3.00
- Another draw on the credit line of $1.91 would be used to offset the year two principal repayment, accumulating further credit line balances

- Net Cash Flow to Investors would remain $4

The above idealized scenario assumes that long-term debt interest rates and short-term credit line interest rates are the same (which they almost always are not) and are always equally available at whatever level is desired (again, a questionable assumption). Also, transaction costs are ignored, which is a gross simplification. In order to mimic the availability of interest-only debt, the small utility would have to periodically issue quite small tranches of long-term amortizing debt (with high transaction costs), and make use of a short-term credit line (with high standby fees, and probably floating rate rather than fixed-rate debt) for balancing purposes between the issuance of those tranches of long-term debt, all of which is costly in transaction fees, credit line standby fees, and probably interest rates. It also places a burden in the form of time, effort, and attention of the utility's finance department (such as it is, since the assumption was a small standalone utility at the outset of the example).

In a regulated utility environment, a small standalone utility would have the opportunity to present its real financing costs to the regulator, and request relief in the form of appropriate customer rates to compensate for all such costs. Given the debt products available in the market, and their associated costs, the utility would seek to recover all fees, charges and overheads, as long as it could demonstrate that it had acted prudently in making its arrangements.

The Deemed Interest Rate Environment

In the case of several small utilities in British Columbia, all of these complications are avoided, because debt funding is not arranged on a standalone, independent basis. Rather than testing the limits of the products available in the debt markets and reporting those costs directly to the BCUC, these utilities receive funding from parent corporations or other related parties.

The "standalone" and "fair return" principles suggest that in setting deemed interest rates, the BCUC should consider the circumstances that a small utility would face if it were in fact fully independent. This consideration could be accomplished by either or both of the following: adjustment of the deemed interest rate applied, or adjustment of the amount of deemed debt in the capital structure.

In the past, as discussed above, the deemed interest rate was determined by reference to a BBB or BBB(low) cost of funds, plus an adder for transaction costs that are expected to be higher for small utilities than for larger utilities such as the benchmark utility.

While this methodology appears sound in theory, in practice it is not apparent why a BBB or BBB(low) assumption should be defensible. Would a utility with $50 million in ratebase, or $20 million, or even less, be determined to be "Investment Grade" under any conditions? The smallest actually-rated standalone utilities in Canada that are investment grade appear to have ratebases of at least $300 Million, and in one of those two cases explicitly received at least a partial shareholder guarantee on the issuance that was subject to the rating. All other Investment Grade utilities are multiple times if not orders of magnitude larger. Even a cursory review of ratings methodology shows that there are multiple ways that small utilities might be penalized by more than three "notches" of credit rating compared to the FEI standard, and therefore below Investment Grade. Given the lack of any example of a utility with a $50 million ratebase achieving an Investment Grade credit rating, it would be prudent to instead expect that small utilities would not as a matter of course be Investment Grade, and hence not achieve a rating higher than BB+.

With respect to transaction costs, a similar argument can be made that the decisions of the past (which assumed 25 basis points of interest-equivalent transaction costs) were too optimistic. For debt arrangement at the levels expected for small utilities, as discussed above, transaction costs would be expected to be higher, and when apportioned annually, should be 50 bps.

To summarize, the past decisions of the BCUC imply, in today's terms, a deemed interest cost equal to Government of Canada 10-year benchmark bonds (today approximately 3.5%), plus a BBB(low) spread (over the last 90 days approximately 1.97%), plus a transaction costs adder of 0.25%.[15]

3.5% + 1.97% + 0.25% = 5.73%

A more skeptical view of deemed debt costs would be based on a BB-based credit rating, i.e. not investment grade, and including a recognition of higher transaction costs.[16]

3.5% + 2.89% + 0.5% = 6.89%

However, this analysis is focused solely on the differences between large and small utilities and the size-related challenges for small utilities to issue debt because of the lack of scale efficiencies in transaction costs. It does NOT consider the absence from the debt markets serving small utilities of the interest-only debt product upon which all assumptions about large utility access to capital is based. This appears to be an issue that the BCUC has not addressed in the past.

Small standalone utilities would be forced into either of the following scenarios:

a) accept that they would not be able to maintain their full allowed capital structure because of deficiencies in the debt markets, and therefore not be able to achieve their allowed equity returns, or

b) they would be forced to synthetically recreate the effect of an interest-only loan using multiple term loans and credit lines (with all of the higher interest costs and transaction costs that would be entailed by doing so) and seek to recover all of those costs in the form of higher customer rates.

To repeat, small utilities in BC that are supported by corporate parents or other sponsors are not currently forced to synthetically recreate interest-only debt or support an inefficient capital structure on their balance sheets, because they receive capital directly from their corporate parents.[17] However, by not recognizing that the debt markets have more limited service offerings for small utilities, the BCUC is in effect passing on to customers the full benefit of the fact that larger entities own small BC utilities. This appears to be a contravention of the Fair Return Standard and Standalone principle.

[15] Note that given our opinion on the likelihood of Investment Grade status for small utilities, we did not calculate the spread for BBB rated utilities, which would have a lower spread against GoC bonds that do BBB- utilities. If this were done, and averaged with the BBB- result, the calculated deemed debt rate would be even lower.
[16] Note that currently there are no bonds with 10-year maturities among BB rated issuers. To estimate the spread with GoC bonds, we used the BBB- spread, and added the 92 bps difference between BBB- and BB 5-year bonds. I.e., 1.97% + 0.92% = 2.89%.
[17] Note that even a corporate parent may have difficulty obtaining appropriately priced and structured debt, depending on their own circumstances. For example, Nelson Hydro is owned by the City of Nelson, and their debt-raising capability is restricted by laws and regulations pertaining to municipalities.

To remedy this problem, either the target capital structure for deemed debt could be amended, or the deemed interest rate could be increased further, or both to varying degrees.

Estimating a reasonable target for these factors should depend on the characteristics of the utility in question, including:

- its actual size, growth rate and capital investing requirements, to better gauge a reasonable frequency for issuing long-term amortizing debt and the relative transaction costs of doing so; and
- a reasonable estimate of the average life of its assets and its capital replacement plan, to better understand what amortization period might be applied to long-term amortizing debt of a comparably sized small standalone utility.

For example, many of the amortizing loans currently in place in small utilities in Ontario appear to have amortization periods in the range of 25 years. In this case, it would be expected that approximately 20% of the principal of the loan would be repaid during the 10-year typical term, leaving 80% to be refinanced in the 10th year. On a $30 Million loan (in a utility with a 60:40 Debt Equity Ratio and a $50 Million Ratebase), that would mean principal payments of $6 M over 10 years, and a change in Debt:Equity to 48:52. The average over 10 years would be 54% debt. If instead a new tranche of $3 Million of debt were to be issued in year 5 of the life of the term loan, then the effective Debt to Equity Ratio would fluctuate between 60% and 54% over time, with a 10-year average of approximately 57%. At the same time, the utility would bear the transaction costs of issuing term debt every 5 years rather than every 10. In order to compensate for this, the Debt-to-Equity Ratio could be adjusted, but the level of adjustment would depend on the relative difference between the Deemed Debt Rate, and the Deemed Equity Rate.

Alternatively, the utility could theoretically calculate the cost of a credit line of $3 Million simply for the purpose of avoiding the reduction in the Debt Ratio (in addition to whatever other credit line is required for normal working capital purposes), and pay the costs of that credit line in order to maintain the Debt ratio at 60% throughout the 10-year period, while still bearing the costs of issuing the additional term debt in year 5. In this case, the actual interest cost of the total debt capital would be the weighted average blended cost of the three instruments (at market prices), plus any transaction fees and standby fees assumed.

Regardless of the mechanism chosen to address the issue of debt product availability for small standalone utilities, it should be stressed that this calculation is in addition to, and not in replacement of, the question of the deemed interest rate that has been addressed by the BCUC in the past.

Appendix A – Canadian Utilities with Bonds & Credit Ratings

Issuer Name	Ownership Classification	Total Outstanding Bonds (C$M)	EV (C$B)	S&P Issuer Rating
Hydro-Quebec	Province of Quebec	52,075.1	-	AA-

Issuer Name	Ownership Classification	Total Outstanding Bonds (C$M)	EV (C$B)	S&P Issuer Rating
Energir Inc	Subsidiary of Noverco (partnership between CDPQ & FTQ)	1,682.3	-	A
Energir LP	Subsidiary of Noverco (partnership between CDPQ & FTQ)	925.0	-	A
Energy+ Inc	Cities of Cambridge, Brantford and Township of North Dumfies	105.0	-	A
Toronto Hydro Corp	City of Toronto	2,945.0	-	A
Windsor Canada Utilities Ltd	The City of Windsor	103.0	-	A
Alectra Inc	OMERS & GTA Municipalities (Note 6)	2,080.0	-	A-
AltaLink LP	Berkshire Hathaway Subsidiary	4,750.0	-	A-
EPCOR Utilities Inc	City of Edmonton	3,950.0	-	A-
Fortis Inc/Canada	Public Company	3,465.6	59.0	A-
FortisAlberta Inc	Subsdiary of Fortis Inc.	2,685.0	-	A-
FortisBC Energy Inc	Subsdiary of Fortis Inc.	3,295.0	-	A-
FortisBC Inc	Subsdiary of Fortis Inc.	860.0	-	A-
Hydro One Inc	Subsidiary of Hydro One Ltd	15,820.0	-	A-
Hydro One Ltd	Public Company	425.0	39.0	A-

Issuer Name	Ownership Classification	Total Outstanding Bonds (C$M)	EV (C$B)	S&P Issuer Rating
Hydro Ottawa Holding Inc	City of Ottawa	575.0	-	BBB+
Brookfield Renewable Partners ULC	Public Company - Subsidiary of Brookfield	3,925.0	94.7	BBB+
Enbridge Gas Inc	Public Company	10,395.0	189.2	BBB+
Maritime Electric Co Ltd	Subsdiary of Fortis Inc.	270.0	-	BBB+
Ontario Power Generation Inc	Province of Ontario	4,650.0	-	BBB+
Algonquin Power & Utilities Corp	Public Company	3,090.4	19.9	BBB
Algonquin Power Co	Subsdiary of Algonquin Power & Utilities Corp	1,300.0	-	BBB
Emera Inc	Public Company	2,200.8	34.2	BBB
Keyera Partnership	Public Company Subsdiary of KeySpan Corporation	1,463.8	12.3	BBB
Liberty Utilities Canada LP	Subsdiary of Algonquin Power & Utilities	200.0	-	BBB
Northland Power Inc	Public Company	500.0	12.7	BBB
AltaGas Ltd	Public Company	5,050.0	-	BBB-
Capital Power Corp	Public Company	2,925.0	9.2	BBB-
ENMAX Corp	City of Calgary	1,050.0	-	BBB-
Nova Scotia Power Inc	Subsidiary of Emera	3,165.0	-	BBB-

Issuer Name	Ownership Classification	Total Outstanding Bonds (C$M)	EV (C$B)	S&P Issuer Rating
TransAlta Corp	Public Company	1,201.4	6.9	BB+
TransAlta OCP LP	Subsidiary of Transalta	205.9	-	BB+
Superior Plus LP	Subsidiary of Superior Plus Corporation	1,000.0	-	BB-
Superior Plus LP / Superior General Partner Inc	Subsidiary of Superior Plus Corporation	1,629.1	-	BB-

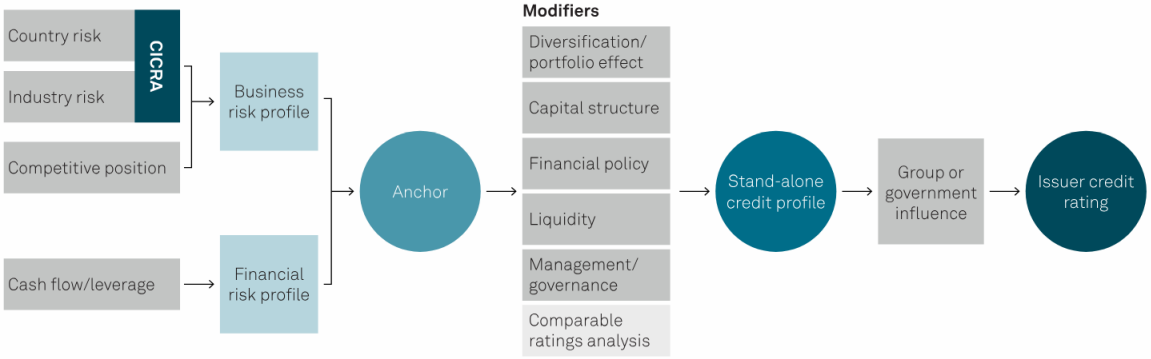
(1) Hydro-Quebec data pulled separately from this search
(2) Ratings data based on S&P Long-term Local Currency rating
(3) USD to CAD FX conversion rate: 1.3576
(4) S&P no longer issues rating for Hydro Ottawa, which was last rated in 2020 by S&P at BBB+
(5) Bonds that were not rated by S&P were excluded in the exercise
(6) Alectra ownership classification: OMERS & Cities of Mississauga; Vaughan; Hamilton; Markham; Barrie; Guelph; St. Catharines
(7) Supplementary information sourced from company websites and S&P global

Note that there are instances in Canada where utilities have received a credit rating but have not issued bonds. For example, London Hydro (a utility with more than $400 million in assets) has received a rating of A from S & P Global Ratings, but to date has not issued bonds (instead relying on bank term loans for its debt purposes).

Appendix B – Information on S & P Ratings Methodology

The following charts are sourced from the publicly available website of S & P Global Ratings. This material is included here to provide some indication of the depth and variety of analysis that is included in a credit rating.

Corporate criteria framework



CICRA--Corporate industry and country risk assessment. Source: S&P Global Ratings.
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	--FINANCIAL RISK PROFILE--					
BUSINESS RISK PROFILE	1 (MINIMAL)	2 (MODEST)	3 (INTERMEDIATE)	4 (SIGNIFICANT)	5 (AGGRESSIVE)	6 (HIGHLY LEVERAGED)
1 (excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

Modifier Step 1: Impact Of Diversification/Portfolio Effect On The Anchor

	--BUSINESS RISK PROFILE ASSESSMENT--					
DIVERSIFICATION/PORTFOLIO EFFECT	1 (EXCELLENT)	2 (STRONG)	3 (SATISFACTORY)	4 (FAIR)	5 (WEAK)	6 (VULNERABLE)
1 (significant diversification)	+2 notches	+2 notches	+2 notches	+1 notch	+1 notch	0 notches
2 (moderate diversification)	+1 notch	+1 notch	+1 notch	+1 notch	0 notches	0 notches
3 (neutral)	0 notches	0 notches	0 notches	0 notches	0 notches	0 notches

Modifier Step 2: Impact Of Remaining Modifier Factors On The Anchor

	--ANCHOR RANGE--			
	'A-' AND HIGHER	'BBB+' TO 'BBB-'	'BB+' TO 'BB-'	'B+' AND LOWER
FACTOR/ASSESSMENT				
CAPITAL STRUCTURE (SEE SECTION G)				
1 (Very positive)	2 notches	2 notches	2 notches	2 notches
2 (Positive)	1 notch	1 notch	1 notch	1 notch
3 (Neutral)	0 notches	0 notches	0 notches	0 notches
4 (Negative)	-1 notch	-1 notch	-1 notch	-1 notch
5 (Very negative)	-2 or more notches	-2 or more notches	-2 or more notches	-2 notches

FINANCIAL POLICY (FP; SEE SECTION H)				
1 (Positive)	+1 notch if M&G is at least neutral	+1 notch if M&G is at least neutral	+1 notch if liquidity is at least adequate and M&G is at least neutral	+1 notch if liquidity is at least adequate and M&G is at least neutral
2 (Neutral)	0 notches	0 notches	0 notches	0 notches
3 (Negative)	-1 to -3 notches(1)	-1 to -3 notches(1)	-1 to -2 notches(1)	-1 notch
4 (FS-4, FS-5, FS-6, FS-6 [minus])	N/A(2)	N/A(2)	N/A(2)	N/A(2)
LIQUIDITY (SEE SECTION I)				
1 (Exceptional)	0 notches	0 notches	0 notches	+1 notch if FP is positive, neutral, FS-4, or FS-5 (3)
2 (Strong)	0 notches	0 notches	0 notches	+1 notch if FP is positive, neutral, FS-4, or FS-5 (3)
3 (Adequate)	0 notches	0 notches	0 notches	0 notches
4 (Less than adequate [4])	N/A	N/A	-1 notch(5)	0 notches
5 (Weak)	N/A	N/A	N/A	'b-' cap on SACP
MANAGEMENT AND GOVERNANCE (M&G; SEE SECTION J)				
1 (Positive)	0 notches	0 notches	0, +1 notches(6)	0, +1 notches(6)
2 (Neutral)	0 notches	0 notches	0 notches	0 notches
3 (Moderately Negative)	-1 notch	0, or -1 notches(7)	0, or -1 notches(7)	0, or -1 notches(7)
4 (Negative)	-2 or more notches(7)	-2 or more notches(7)	-1 or more notches(7)	-1 or more notches(7)

(1) Number of notches depends on potential incremental leverage. (2) See "Financial Policy," section H.2. (3) Additional notch applies only if we expect liquidity to remain exceptional or strong. (4) See "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers." SACP is capped at 'bb+.' (5) If issuer SACP is 'bb+' due to cap, there is no further notching. (6) This adjustment is one notch if we have not already captured benefits of positive management and governance in the analysis of the issuer's competitive position. (7) Number of notches depends upon the degree of negative effect to the enterprise's risk profile.

Appendix C – MPA Utilities Practice Overview

Morrison Park Advisors has deep experience in the utility sector, including electricity generation, transmission and distribution, as well as natural gas pipelines and distribution utilities. Both as a firm, and as individuals with prior experience, we have worked with many of the leading utilities in Canada helping them to understand and maximize the value of assets and opportunities, whether for the purpose of mergers and acquisitions, new development and construction, or balance sheet management. Given our expertise, we are often called upon to provide clients with advice in challenging situations that do not fit typical investment banking categories.

Morrison Park Advisors

- Independent, partner-owned investment banking firm established in 2005
- Co-founded by David Santangeli and Brent Walker, now twenty professionals, with hundreds of successful assignments with public and private companies, governments and quasi-public entities
- Value proposition is a unique combination of Tier 1 investment banking capabilities, comprehensive scope of expertise, and excellent client value
- Integrated advisory practice, covering all facets of investment banking, capital markets and Mergers & Acquisition services

Utilities Services

- Mergers & Acquisitions
- Raising Capital
- Strategic advice on market consolidation; potential investors & partners
- Financial advice on balance sheet management, growth capital, dividend policies
- Valuation
- Regulatory reviews and expert witness testimony in legal disputes

Utilities Reference Assignments

- Expert Witness before the BC Ferries Commission with respect to cost of capital for BC Ferries
- Expert Witness before the Muskrat Falls Inquiry with respect to the financial reasonableness of the decision to proceed with the ill-fated Muskrat Falls project
- Expert Witness before the Manitoba Public Utilities Board on the Manitoba Hydro General Rate Application for 2017/18 and 2018/19, and for the General Rate Application for 2023/24 and 2024/25
- Expert Witness and consultant to the Nova Scotia Public Utilities Board on the Interim Cost Assessment for the Maritime Link
- Advisor to the Alberta Electric System Operator: Cost of capital parameters appropriate for the Cost of New Entry into the proposed Alberta Capacity Market
- Advisor to the Alberta Electric System Operator: Capital Markets and Contract Term Length in the Context of a Capacity Market
- Advisor to the Alberta Electric System Operator: Capital market consequences of transition to Coal Exit and Capacity Market
- Expert Witness for and consultant to the Public Utilities Board of Manitoba: NFAT Review
- Expert Witness for and consultant to the Nova Scotia Public Utilities Board: Commercial valuation of the proposed Maritime Link interprovincial electricity transmission line
- Report to the Market Surveillance Administrator of Alberta on the commercial viability of new electricity generation facilities in the Alberta competitive electricity market
- Advisor to British Columbia Transmission Co (now part of BC Hydro) with respect to proposed new transmission lines to the United States and Alberta
- City of London, Ontario: review of the value of and strategic opportunities for ownership of London Hydro
- PowerStream: financial advisor to PowerStream in its merger with Enersource Hydro and Horizon Utilities, with concurrent acquisition of Hydro One Brampton Networks, Inc., to create the new company Alectra Utilities
- City of Toronto: M&A advisor to the City of Toronto in the sale of its minority shareholding in Enwave, a district heating and cooling company in Toronto
- Altagas Utilities: independent valuation of distribution utilities for the special committee of the Board of Directors
- Oshawa PUC: advice to the Board with respect to potential merger, acquisition and sale opportunities
- Milton Hydro: advice to the Board and the special advisory committee to City Council with respect to the recapitalization of Milton Hydro, its dividend policy, and potential merger, acquisition and sale opportunities
- Enwin Utilities: strategic and financial advice on balance sheet management of electricity and water utility businesses, and advice on options available to the Board with respect to potential mergers, acquisitions and sales
- Haldimand Hydro: advice to the Board with respect to potential merger, acquisition and sale opportunities
- Woodstock Hydro: advice to the Board with respect to potential merger, acquisition and sale opportunities
- Hydro One: financial advisor for distribution industry consolidation from 2007 to 2009; completed valuations for more than 30 utilities; conducted negotiations; strategic advisory services in managing acquisition proposals

Sample Previous Experience of MPA Staff

- Province of Ontario: Development of provincial policies with respect to electricity distribution consolidation
- Province of Nova Scotia: Financial advisor to the Province on the sale of its interest in Nova Scotia Resources Limited
- Ontario Teachers, OMERS and SNC Lavalin: Advisor to consortium on the potential acquisition of 49% of Hydro One
- Fortis Inc.: M&A advisor on the $1.4 B acquisition of Alberta and BC electricity distribution assets formerly owned by Aquila Networks
- Newfoundland & Labrador Hydro: advisor on proposed privatization
- Advisor to a bidding consortium on the proposed acquisition of ENMAX, the electricity distributor of the City of Calgary
- Government of Canada: financial advisor with respect to the Loan Guarantee for the Muskrat Falls Project

Appendix D – MPA Utilities Team

Pelino Colaiacovo

Pelino is a Managing Director at MPA. In this role he is responsible for origination and transaction execution, financial advisory and capital raising services. Since joining MPA Pelino has focused on advising clients in the energy, utilities, infrastructure and public sectors, and in addition assists clients in cleantech industry.

Utility clients have included Hydro One, BC Hydro, Enwin Utilities, Oakville Hydro, Woodstock Hydro, the Nova Scotia Utilities Review Board, the Alberta Market Surveillance Administrator, and numerous others, and more broadly in the energy sector Pelino has worked on a number of M&A and capital raising assignments for renewable energy and cleantech companies.

Prior to joining MPA in 2005, Pelino was Chief of Staff to the Ontario Minister of Energy from 2003 to 2005. During that time, he assisted in significant restructuring of the Ontario electricity sector, including the drafting and implementation of new legislation, the creation of the Ontario Power Authority, and significant procurements of new electricity generation capacity for the province.

Previously, Pelino spent more than 10 years in management, policy and communications consulting in Canada and the United States, advising clients across a wide range of sectors, including energy, transportation, telecommunications, and healthcare.

Pelino holds a B.A. and an L.Lb., both from the University of Toronto.

Currently, Pelino serves as the Vice Chair of the Board of the Association of Power Producers of Ontario, and is on the Board of a privately held renewable energy company.

Brent Walker

Brent Walker is a Managing Director and co-founder of MPA. In this role he is responsible for transaction origination and execution, financial advisory and capital raising activities across a wide spectrum of industry segments, including energy, technology, government and quasi-government entities and a variety of other commercial sectors.

Utility clients have included BC Hydro, Altagas Utilities, Crown Investments Corporation, Hydro One, Market Surveillance Administrator of Alberta, the Nova Scotia Utilities Review Board, the Ontario Ministry of Energy and many others.

Prior to founding MPA in 2004, Brent spent over 10 years in the investment banking and financial industry. From 1996 to 2004, he was a managing director in Scotia Capital's mergers and acquisitions department, where he was the most senior M&A banker in a number of sectors including power and infrastructure, pipelines, energy midstream and real estate. During this period, he worked on the sale of the Province of Nova Scotia's interest in Nova Scotia Resources Limited, the acquisition of Aquila by Fortis, the proposed privatization of NALCOR and Enmax, and many other utility assignments.

Brent started his investment banking career at Lancaster Financial, Canada's foremost independent M&A boutique which was acquired by TD Bank in 1994.

Brent holds a B.Sc. from Dalhousie University and an MBA from McMaster University.

Sandy Mackay

Sandy Mackay is a Managing Director in investment banking at MPA Morrison Park Advisors, based in Toronto. Sandy has over 15 years of M&A experience in his past roles in investment banking and corporate development. In his role at MPA, Sandy is responsible for origination and transaction execution across all platforms, including M&A, fairness opinions/valuations, financial advisory, and capital raising assignments.

The foundation of Sandy's investment banking career was established in his six years as an Associate/Analyst at Blair Franklin Capital Partners in Toronto (January 2007-January 2013). In this role supporting the partners of the firm, Sandy gained significant transaction execution experience in buy and sell-side M&A, fairness opinions and valuations (including significant 61-101 experience), and project finance advisory mandates. Sandy had a particular focus on assignments in power and utilities at Blair Franklin.

After his time at Blair Franklin (and prior to joining MPA), Sandy held senior corporate development roles. At Peerage Capital (a Toronto-based family office) Sandy led the execution of a roll-up strategy in the real estate brokerage industry, completing six acquisitions in his time at Peerage (2018-2021). From 2017-2018, Sandy was Vice President of Corporate Development at GFL Environmental (a dual-listed waste management company) where he was responsible for M&A execution. From 2013-2016, Sandy was Director, Corporate Finance at Progressive Waste Solutions where he was responsible for M&A and corporate finance matters; Progressive Waste was sold to Waste Connections in 2016 for over $2 billion.

Sandy holds a Master of Financial Economics degree from the University of Toronto, and a Bachelor of Arts (Honours) in Applied Economics from Queen's University. Sandy is the Founder and Board Chair of the Master of Financial Economics Alumni Association..