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March 7, 2008

To: All Licensed Electricity Distributors
All Registered Intervenors in 2008 Cost of Service Applications

Re: Cost of Capital Parameter Updates for 2008 Cost of Service Applications

On December 20, 2006, following the consultative process conducted under Board Files EB-2006-0087/0088, the Board issued the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report documented the methodologies and formulae the Board would use to determine the Cost of Capital parameters: the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates.

The methodologies documented in the Board Report state the updated parameters will be based on data from *Consensus Forecasts* and Bank of Canada/Statistics Canada three (3) months ahead of the implementation date for the proposed rates. This means January 2008 data will be used for new distribution rates effective May 1, 2008.

The Board wishes to advise of one change in the source for Long-term Bond Yields – All Corporates, used in the calculation of the deemed long-term debt rate. This data series used to be derived by Scotia Capital Inc. and was publicly available from the Bank of Canada's website. However, as of July 2007, Scotia Capital ceased this line of business. TSX Inc. continues to collect and publish these statistical data on a subscription basis. The Board subscribes to this service. The terms of the agreement preclude the Board from publishing the TSX Inc. data, but permit the data to be viewed in the Information Resource Centre at the Board's offices.

- 2 -

The Board has determined the values for the updated cost of capital parameters, shown in the following table:

Parameter	Value for 2008 Cost of Service Applications (assuming May 1, 2008 implementation date for rate changes)
Return on Equity	8.57%
Long-Term Debt Rate	6.10%
Short-Term Debt Rate	4.47%

This information will be provided to the Board panels deliberating on the 2008 electricity cost of service applications, for consideration in the decisions for the various proceedings.

A summary of the calculation of the ROE is provided in the Appendix. As noted above, the terms of the subscription with TSX Inc. precludes publication of the data used to determine the deemed long-term debt rate, however, all source data can be viewed in the Information Resource Centre at the Board's offices.

All queries on the cost of capital parameters should be directed to the Board's Market Operations hotline, at 416 440 7604 or market.operations@oeb.gov.on.ca .

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Attachment

**Appendix:
Summary of Return on Equity Calculation
For 2008 Cost of Service Electricity Distribution Rate Applications**

Step		
1	Ten Year Government of Canada Bond Yield – end of April 2008 (<i>Consensus Forecasts</i> , January 2008)	4.0%
	Ten Year Government of Canada Bond Yield – end of April 2008 (<i>Consensus Forecasts</i> , January 2008)	4.4%
	Average of three- and twelve-month forecasts	4.2%
2	Add the average spread between 30-year and 10-year Government of Canada bonds for all business days in January 2008 as posted by the Bank of Canada	0.256%
3	Equals the forecasted yield on Long-term Government of Canada Bonds	4.456%

Per the mathematical formula documented in Appendix B of the Board Report:

4.	Updated ROE calculated as: $9.35\% + (0.75 \times (4.456\% - 5.50\%))^1$	8.567%
5.	Maximum allowed ROE (rounded to two decimal places)	8.57%

¹ Corrected March 12, 2008