

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656

Commission de l'Énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656



February 24, 2009

To: All Licensed Electricity Distributors
All Registered Intervenors in 2009 Cost of Service Applications

Re: Cost of Capital Parameter Updates for 2009 Cost of Service Applications

The Ontario Energy Board (the "Board") has determined the values for the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates for use in the 2009 rate year 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 documents the methodologies and formulae used to determine the Cost of Capital parameters: the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates (collectively, the "Cost of Capital parameters").

The methodologies documented in the Board Report stated that the updated parameters will be derived from *Consensus Forecasts* and Bank of Canada/Statistics Canada three (3) months ahead of the implementation date for the proposed rates. Therefore, the January 2009 data will be used for estimating the Cost of Capital parameters used for setting new distribution rates to be effective May 1, 2009.

The Board has applied the methodologies as documented in the Board Report to update the Cost of Capital parameters. The source for the Long-term Bond Yields – All Corporates, used in the calculation of the deemed long-term debt rate is TSX Inc. available to the Board on a subscription basis. The terms of the agreement preclude the Board from publishing the TSX Inc. data but permit it to be viewed in the Information Resource Centre (the "IRC") at the Board's offices during normal business hours.

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

Parameter	Value for 2009 Cost of Service Applications (assuming May 1, 2009 implementation date for rate changes)
Return on Equity	8.01%
Long-Term Debt Rate	7.62%
Short-Term Debt Rate	1.33%

These values will be used in the Board decisions regarding approval of the rates for the 2009 electricity Cost of Service applications. A summary of the calculation of the ROE is provided in Appendix A.

In addition, the Board wishes to advise parties that it will be initiating a review of its current policy regarding the cost of capital. The Board considers that such a review is appropriate at this time. The Board will consider the appropriateness of the parameters in different economic and financial conditions and their impact on infrastructure investment. Details of this initiative will be announced in due course.

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 A
Summary of Return on Equity Calculation
For 2009 Cost of Service Electricity Distribution Rate Applications

Step		
1	Ten Year Government of Canada Bond Yield – end of April 2009 (<i>Consensus Forecasts</i> , January 2009)	2.7%
	Ten Year Government of Canada Bond Yield – end of January 2010 (<i>Consensus Forecasts</i> , January 2009)	3.1%
	Average of three- and twelve-month forecasts	2.9%
2	Add the average spread between 30-year and 10-year Government of Canada bonds for all business days in January 2009 as posted by the Bank of Canada	0.814%
3	Equals the forecasted yield on Long-term Government of Canada Bonds	3.714%

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

4.	Updated ROE calculated as: $9.35\% + (0.75 \times (3.714\% - 5.50\%))$	8.011%
5.	Maximum allowed ROE (rounded to two decimal places)	8.01%