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VIA E-MAIL AND WEB POSTING

January 14, 2016

To: All Licensed Electricity Distributors and Transmitters
All Gas Distributors
Ontario Power Generation
All Other Interested Parties

**Re: OEB Staff Report: Review of the Cost of Capital for Ontario's Regulated Utilities
Board File Number EB-2009-0084**

Today, the Ontario Energy Board (OEB) has issued an OEB Staff Report on a review of the current cost of capital policy.

The OEB has concluded that it will make no changes to its cost of capital policy at this time. The OEB's 2015 - 2018 Business Plan has a number of initiatives underway and planned for 2016 and beyond. The cost of capital will be considered in the broader context of these initiatives.

Background

The OEB's current policy on the cost of capital was last updated in the [Report of the Board on the Cost of Capital for Ontario's Regulated Utilities \(EB-2009-0084\)](#) (the 2009 Cost of Capital Report) issued on December 11, 2009. This updated policy was developed to fully review the cost of capital approach, in light of anomalous results that the previous formulae gave following the global economic crisis in the late 2008 to early 2009 period.

In the 2009 Cost of Capital Report, the OEB committed to review its cost of capital methodology within five years. At that time the OEB noted that the periodic review would not necessarily result in resetting the base return on equity (ROE) or refining the formula.

OEB Staff Report

To prepare their Report, OEB staff conducted a review of the following:

- the results of the current policy flowing from the formulae for the return on equity and the short-term and long-term debt rates of the period since the inception of the new methodology at the end of 2009

- the actual financial results of rate-regulated utilities (natural gas distributors, electricity transmitters and distributors, and Ontario Power Generation's prescribed generation assets) based on recent available data (this is summarized in Appendix A of OEB staff's Report)
- the performance of the existing policy in the context of the expected outcomes.

OEB staff also undertook a high level jurisdictional review to compare approaches and results.

Based on the results of this review, OEB staff has concluded that the methodology adopted in late 2009 has worked as intended. Movement in the parameters have followed macroeconomic trends and activity, and have not resulted in excessive or anomalous volatility. OEB staff also discussed certain other operationalization elements of the policy that could be reviewed in the future.

Next Steps

The OEB recognizes the significance of stable, predictable, and well understood rate-setting policies. The OEB continues to work on a number of initiatives, and will be launching new ones in 2016 described in the 2015 – 2018 Business Plan. In particular, the OEB will be reviewing rate setting policies in support of infrastructure planning and investment decisions. While no changes will be made to the OEB's cost of capital policy at this time, the cost of capital will be a consideration in this policy review and within the broader context of all of the OEB's initiatives.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary