



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

BY EMAIL and WEB POSTING

October 31, 2024

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2025 Cost-based Applications
All Parties to EB-2024-0063 Cost of Capital Generic Proceeding
All Other Interested Parties

Re: 2025 Cost of Capital Parameters

The Ontario Energy Board (OEB) has determined the values for the Return on Equity (ROE) and the deemed Long-Term (LT) and Short-Term (ST) debt rates for use in 2025 cost-based applications as described below. The ROE and the deemed LT and ST debt rates are collectively referred to as the cost of capital parameters. The updated cost of capital parameters are calculated based on the formulaic methodologies documented in the [Report of the Board on the Cost of Capital for Ontario's Regulated Utilities](#), issued December 11, 2009 (OEB Report). These parameters are being set on an interim basis pending the OEB's determinations in the ongoing generic proceeding on the cost of capital (EB-2024-0063).

Cost of Capital Parameters for 2025 Cost-Based Rates

The OEB has determined that the updated cost of capital parameters for cost-based rates (cost of service and custom incentive rate-setting) that have an effective date commencing in 2025 are:

Cost of Capital Parameter	Value for Applications for rate changes in 2025
ROE	9.25%
Deemed LT debt rate	4.66%
Deemed ST debt rate	5.04%

Detailed calculations of the cost of capital parameters may be referenced in the attached schedule titled "Schedule A – 2025 Cost of Capital Parameter Calculations".

Consistent with the OEB's July 26, 2024 [letter](#) (EB-2024-0063), the OEB is setting the Deemed ST debt rate on an interim basis for those utilities rebasing for 2025 rates,

using the average of the three-month Canada T-bill rate for each business day in September 2024. In previous years, the Deemed ST debt rate was based on three-month bankers' acceptances plus a spread determined through a bank survey, however, as the letter explained, the three-month bankers' acceptances have been phased out. The bank survey from September 2023 (the prior year) is being used as the average annual spread.¹ No bank survey was conducted in September 2024.

The OEB normally updates the cost of capital parameters for setting rates once per year. The cost of capital parameters above will be applicable for cost-based rates that have an effective date commencing in 2025.

The OEB Report stated that each time a formulaic approach is used to calculate an allowed ROE, it must generate a number that meets the Fair Return Standard, as determined by the OEB using its experience and informed judgment.

The OEB considers the cost of capital parameter values shown in the above table, and the relationships between them, to be reasonable and representative of market conditions at this time. For this reason, the OEB concludes that the numerical results from the formulaic methodologies meet the Fair Return Standard.

The OEB monitors macroeconomic conditions and may issue updated parameters if economic conditions materially change. An applicant or intervenors can also file evidence in individual rate hearings in support of different cost of capital parameters due to their specific circumstances, but must provide a strong rationale and supporting evidence for departing from the OEB's policy.

No Impact on Generic Proceeding

On March 6, 2024, pursuant to sections 36, 78 and 78.1 of the *Ontario Energy Board Act, 1998*, the OEB issued a [Notice of Hearing](#) on its own motion to initiate a generic proceeding (EB-2024-0063) to consider the methodology for determining the values of the cost of capital parameters and capital structure to be used to set rates for electricity transmitters, electricity distributors, natural gas utilities, and rate-regulated electricity generators. The OEB also noted that it will determine whether its current approach to setting the cost of capital parameters and capital structures continues to remain appropriate and if not, what approach should be used. Other matters are also being addressed in this proceeding. A decision is expected in the first quarter of 2025.

¹ The September 2023 survey from Canadian banks is for the spread over the bankers' acceptance rate of short-term loans for R1-low or A (A-stable) commercial utility customers. Therefore, the September 2023 bank survey will need to be reflected in the interim rate for the DSTDR (as opposed to a September 2024 bank survey), given that the bankers' acceptance rates are being discontinued.

Nothing in this letter is intended to restrict the range of outcomes available to the panel of Commissioners hearing the generic proceeding. The 2025 cost of capital parameters are therefore being set on an interim basis pending that panel's findings.

As noted, the OEB already indicated in the July 26, 2024 letter that the Deemed ST debt rate would be set on an interim basis for utilities rebasing for 2025 rates. At the same time, the OEB approved the establishment of a variance account to track the revenue requirement impact of the difference between the interim 2025 Deemed ST debt rate and the Deemed ST debt rate to be approved in the generic proceeding. The context for that letter was the phasing out of the three-month bankers' acceptances that had previously underpinned the calculation of the Deemed ST debt rate.

The other cost of capital parameters, namely the ROE and the Deemed LT debt rate, are also being set now on an interim basis, without prejudice to any determinations the OEB may make in the generic proceeding, including in respect of the manner and timing of implementing any new parameters that may be approved in that proceeding. Accounting Orders are also attached to this letter as Schedule B, establishing variance accounts related to the ROE and Deemed LT debt rate.

These variance accounts may not be necessary for utilities with a rebasing rate year starting on May 1, 2025, depending on the timing of the OEB's final decision in the current proceeding.

Any questions relating to this letter should be directed to the OEB's Industry Relations hotline, at 1-877-632-2727 or industryrelations@oeb.ca.

Yours truly,

Nancy Marconi
Registrar

Attachment: Schedule A – 2025 Cost of Capital Parameter Calculations
Schedule B – Accounting Orders – ROE and Deemed LT debt rate

**SCHEDULE A
OEB LETTER
2025 COST OF CAPITAL PARAMETER CALCULATIONS
EB-2024-0063
OCTOBER 31, 2024**

Schedule A – 2025 Cost of Capital Parameter Calculations
Return on Equity and Deemed Long-term Debt Rate
(For cost-based rates that have an effective date commencing in 2025)
October 31, 2024

Step 1: Analysis of Business Day Information in the Month

Month:		September 2024				
		Bond Yields (%)		Bond Yield Spreads (%)		
		Government of Canada		A-rated Utility	30-yr Govt over 10-yr Govt	30-yr Util over 30-yr Govt
Day		10-yr	30-yr	30-yr		
1	1-Sep-24					
2	2-Sep-24					
3	3-Sep-24	3.06	3.18	4.63	0.12	1.45
4	4-Sep-24	2.99	3.13	4.59	0.14	1.46
5	5-Sep-24	2.97	3.11	4.57	0.14	1.46
6	6-Sep-24	2.96	3.11	4.58	0.15	1.47
7	7-Sep-24					
8	8-Sep-24					
9	9-Sep-24	2.93	3.08	4.54	0.15	1.46
10	10-Sep-24	2.90	3.06	4.53	0.16	1.47
11	11-Sep-24	2.91	3.08	4.55	0.17	1.47
12	12-Sep-24	2.91	3.08	4.55	0.17	1.47
13	13-Sep-24	2.90	3.09	4.56	0.19	1.47
14	14-Sep-24					
15	15-Sep-24					
16	16-Sep-24	2.86	3.06	4.51	0.20	1.45
17	17-Sep-24	2.90	3.08	4.53	0.18	1.45
18	18-Sep-24	2.93	3.13	4.57	0.20	1.44
19	19-Sep-24	2.93	3.14	4.55	0.21	1.41
20	20-Sep-24	2.94	3.13	4.54	0.19	1.41
21	21-Sep-24					
22	22-Sep-24					
23	23-Sep-24	2.94	3.14	4.53	0.20	1.39
24	24-Sep-24	2.95	3.15	4.54	0.20	1.39
25	25-Sep-24	3.01	3.20	4.59	0.19	1.39
26	26-Sep-24	3.01	3.20	4.58	0.19	1.38
27	27-Sep-24	2.95	3.13	4.51	0.18	1.38
28	28-Sep-24					
29	29-Sep-24					
30	30-Sep-24					
31						
		2.945	3.120	4.556	0.175	1.436

Sources: Bank of Canada, Bloomberg L.P.

Step 2: 10-Year Government of Canada Bond Yield Forecast

Source:	Consensus Forecasts	Survey Date:	September 9, 2024
		3-month	12-month
September 2024		3.100	3.000
			Average
			3.050 %

Step 3: Long Canada Bond Forecast

10 Year Government of Canada Consensus Forecast (from Step 2)	3.050 %
Actual Spread of 30-year over 10-year Government of Canada Bond Yield (from Step 1)	0.175 %
Long Canada Bond Forecast (LCBF)	3.225 %

Step 4: Return on Equity (ROE) forecast

Initial ROE	9.75 %
Change in Long Canada Bond Yield Forecast from September 2009	
LCBF (September 2024) (from Step 3)	3.225 %
Base LCBF	4.250 %
Difference	-1.025 %
0.5 X Difference	-0.512 %
Change in A-rated Utility Bond Yield Spread from September 2009	
A-rated Utility Bond Yield Spread (September 2024) (from Step 1)	1.436 %
Base A-rated Utility Bond Yield Spread	1.415 %
Difference	0.021 %
0.5 X Difference	0.011 %
Return on Equity based on September 2024 data	9.25 %

Step 5: Deemed Long-term Debt Rate Forecast

Long Canada Bond Forecast for September 2024 (from Step 3)	3.225 %
A-rated Utility Bond Yield Spread September 2024 (from Step 1)	1.436 %
Deemed Long-term Debt Rate based on September 2024 data	4.66 %

Schedule A – 2025 Cost of Capital Parameter Calculations
Deemed Short-term Debt Rate
(For cost-based rates that have an effective date commencing in 2025)
October 31, 2024

Step 1: Average Annual Spread over Bankers' Acceptance
Once a year, typically in September, OEB staff contacts prime Canadian banks to get estimates for the spread of short-term debt issuances over Bankers' Acceptance rates. Up to six estimates are provided.

A.	Average Spread over 90-day Bankers' Acceptance Rate (basis points)		Date of input
Bank 1	80.0	bps	Sept. 2023
Bank 2	100.0	bps	Oct. 2023
Bank 3	100.0	bps	Sept. 2023
Bank 4	112.5	bps	Sept. 2023
Bank 5			
Bank 6			

B.	Discard high and low estimates If less than 4 estimates, take average without discarding high and low.		
Number of estimates	4		
High estimate	112.50	bps	
Low estimate	80.0	bps	

C.	Average annual Spread	100.000	bps	●
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Step 3: Deemed Short-Term Debt Rate Calculation
Calculate Deemed Short-term debt rate as sum of average annual spread (Step 1) and average 3-month Canada T-bill Rate (Step 2)

Average Annual Spread	1.000	%	①
Average Canada T-Bill Rate	4.043	%	②
Deemed Short Term Debt Rate	5.04	%	

Step 2: Average 3-month Canada T-Bill
Calculation of Average 3-month Canada T-bill Rate during month of September 2024

Month:	September 2024	
	Day	Canada T-Bill Rate (%) 3-month
1	1-Sep-2024	
2	2-Sep-2024	
3	3-Sep-2024	4.11 %
4	4-Sep-2024	4.06 %
5	5-Sep-2024	4.07 %
6	6-Sep-2024	4.07 %
7	7-Sep-2024	
8	8-Sep-2024	
9	9-Sep-2024	4.07 %
10	10-Sep-2024	4.06 %
11	11-Sep-2024	4.06 %
12	12-Sep-2024	4.05 %
13	13-Sep-2024	4.05 %
14	14-Sep-2024	
15	15-Sep-2024	
16	16-Sep-2024	4.03 %
17	17-Sep-2024	4.05 %
18	18-Sep-2024	4.03 %
19	19-Sep-2024	4.03 %
20	20-Sep-2024	4.03 %
21	21-Sep-2024	
22	22-Sep-2024	
23	23-Sep-2024	4.04 %
24	24-Sep-2024	4.03 %
25	25-Sep-2024	4.02 %
26	26-Sep-2024	4.00 %
27	27-Sep-2024	3.96 %
28	28-Sep-2024	
29	29-Sep-2024	
30	30-Sep-2024	
31		
		4.043 %
		●

Source: Bank of Canada

**SCHEDULE B
OEB LETTER
ACCOUNTING ORDERS FOR ELECTRICITY DISTRIBUTORS AND
TRANSMITTERS (002-2024 AND 003-2024)
ROE AND DEEMED LT DEBT RATE
EB-2024-0063
OCTOBER 31, 2024**

**ACCOUNTING ORDER (002-2024)
FOR ELECTRICITY DISTRIBUTORS AND TRANSMITTERS
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT
DEEMED LONG-TERM DEBT RATE VARIANCE ACCOUNT**

This accounting order applies to rate-regulated electricity distributors and rate-regulated electricity transmitters rebasing for 2025 rates, as applicable (i.e., a decision is expected or has been issued in advance of the OEB’s decision in the cost of capital generic proceeding).¹ These electricity distributors and transmitters shall establish the following two new generic variance accounts in respect of the deemed long-term debt rate (DLTDR). These accounts will be effective at the start of the rebasing rate year (January 1, 2025 or May 1, 2025 or other OEB-approved effective date), as necessary.

1. Account 1508 - Other Regulatory Assets, Sub-account DLDTR Variance Account
2. Account 1508 - Other Regulatory Assets, Sub-account DLTDR Variance Account, Carrying Charges

The DLTDR Variance Account will capture the revenue requirement impact of the difference between the following:

- The interim DLTDR rate for 2025 rates established by the OEB on October 31, 2024
- The DLTDR rate to be approved by the OEB in due course in the EB-2024-0063 cost of capital generic proceeding

Carrying charges will apply at the OEB’s prescribed rates for deferral and variance accounts that are published on the OEB’s website on a quarterly basis.²

Electricity distributors and electricity transmitters shall bring forward the total amounts recorded in the DLTDR Variance sub-accounts for review and disposition as part of their next cost-based rate applications if they exceed the materiality threshold.

The amounts recorded in the DLTDR Variance Account shall be tracked at a sufficiently detailed level to assist in a review of the amounts recorded.

¹ EB-2024-0063

² Per the OEB’s [Prescribed Interest Rates](#) webpage

Sample Journal Entries:

To record amounts recorded in the DLTDR Variance Account:

Dr./Cr. 1508 Other Regulatory Assets, Sub-account DLTDR Variance Account
Cr./Dr. 4080 Distribution Services Revenue

To record certain revenue requirement impacts relating to the DLTDR.

Dr./Cr. 1508 Other Regulatory Assets, Sub-account DLTDR Variance Account, Carrying
Charges
Cr./Dr. 6035 Other Interest Expense

*To record the carrying charges on the monthly opening balance in Account 1508, Other
Regulatory Assets, Sub-account DLTDR Variance Account*

**ACCOUNTING ORDER (003-2024)
FOR ELECTRICITY DISTRIBUTORS AND TRANSMITTERS
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT
RETURN ON EQUITY VARIANCE ACCOUNT**

This accounting order applies to rate-regulated electricity distributors and rate-regulated electricity transmitters rebasing for 2025 rates, as applicable (i.e., a decision is expected or has been issued in advance of the OEB’s decision in the cost of capital generic proceeding).³ These electricity distributors and transmitters shall establish the following two new generic variance accounts in respect of the return on equity (ROE). These accounts will be effective at the start of the rebasing rate year (January 1, 2025 or May 1, 2025 or other OEB-approved effective date), as necessary.

1. Account 1508 - Other Regulatory Assets, Sub-account ROE Variance Account
2. Account 1508 - Other Regulatory Assets, Sub-account ROE Variance Account, Carrying Charges

The ROE Variance Account will capture the revenue requirement impact of the difference between the following:

- The interim ROE rate for 2025 rates established by the OEB on October 31, 2024
- The ROE rate to be approved by the OEB in due course in the EB-2024-0063 cost of capital generic proceeding

Carrying charges will apply at the OEB’s prescribed rates for deferral and variance accounts that are published on the OEB’s website on a quarterly basis.⁴

Electricity distributors and electricity transmitters shall bring forward the total amounts recorded in the ROE Variance sub-accounts for review and disposition as part of their next cost-based rate applications if they exceed the materiality threshold.

The amounts recorded in the ROE Variance Account shall be tracked at a sufficiently detailed level to assist in a review of the amounts recorded.

³ EB-2024-0063

⁴ Per the OEB’s [Prescribed Interest Rates](#) webpage

Sample Journal Entries:

To record amounts recorded in the ROE Variance Account:

Dr./Cr. 1508 Other Regulatory Assets, Sub-account ROE Variance Account
Cr./Dr. 4080 Distribution Services Revenue

To record certain revenue requirement impacts relating to the ROE.

Dr./Cr. 1508 Other Regulatory Assets, Sub-account ROE Variance Account, Carrying
Charges
Cr./Dr. 6035 Other Interest Expense

*To record the carrying charges on the monthly opening balance in Account 1508, Other
Regulatory Assets, Sub-account ROE Variance Account*