



October 29, 2026

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2027 Cost-based Applications
All Other Interested Parties

Re: **2027 Cost of Capital Parameters**
Ontario Energy Board File Number: EB-2026-0253

What You Need to Know

- The Ontario Energy Board (OEB) is issuing the 2027 cost of capital parameters to be used in 2027 cost-based rate applications.
- The OEB has concluded that the 2027 cost of capital parameters, updated through the formulae approved in the 2025 Cost of Capital Decision,¹ are reasonable and continue to meet the Fair Return Standard.

The 2027 cost of capital parameters were calculated based on the formulaic methodologies outlined in the OEB's 2025 Cost of Capital Decision issued March 27, 2025.²

The updated cost of capital parameters, for cost-based rate applications (cost of service and custom incentive rate-setting) with a proposed effective date commencing in 2027, are:

Cost of Capital Parameter	Value for 2027 rate change applications
Return On Equity	9.43%
Deemed Long-Term Debt Rate	5.37%
Deemed Short-Term Debt Rate	2.99%

¹ EB-2024-0063, OEB Decision and Order, March 27, 2025.

² *Ibid.*

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Detailed calculations of the cost of capital parameters may be referenced in the attachment titled “Schedule A – 2027 Cost of Capital Parameter Calculations”. These calculations are supported by an expert report provided by OEB staff’s consultant London Economics International LLC. The expert report provided an overall assessment as part of the OEB’s monitoring of market conditions and may be referenced in the attachment titled “Schedule B – Expert Report – 2027 Cost of Capital Parameters”.

The OEB has assessed each value of the 2027 cost of capital parameters and the relationships between them in the context of the market monitoring information. The OEB has determined that the numerical results from the formulaic methodologies continue to meet the Fair Return Standard and that the 2027 cost of capital parameters are reasonable.

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,

Ritchie
Murray

Digitally signed by Ritchie
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Registrar

Attachment: Schedule A – 2027 Cost of Capital Parameter Calculations
Schedule B – Expert Report – 2027 Cost of Capital Parameters

**SCHEDULE A
OEB LETTER
2027 COST OF CAPITAL PARAMETER CALCULATIONS
OCTOBER 29, 2026**

Schedule A - 2027 Cost of Capital Parameter Calculations					
Return on Equity, Deemed Long-term Debt Rate, and Deemed Short-term Debt Rate					
Data as of September 2026					
Date of Update:	September 29, 2026				
Long Canada Bond Forecast					
Long Canada Bond Forecast (LCBF)					
Long Canada (30-year Government of Canada) Bond yield September 2026				¹	4.300 %
30-Year A-Rated Utility Corporate Bond Spread					
A-Rated Utility Corporate Bond Spread September					
30-Year A-rated Utility Corporate Bond Yield BVCAUA30 BVLI Index September 2026				²	5.370 %
Long Canada (30-year Government of Canada) Bond yield September 2026					4.300 %
Spread					1.070 %
2027 Return on Equity (ROE)					
Initial ROE					9.00 %
Change in Long Canada Bond Yield Forecast from September 2024					
LCBF September 2026				4.300 %	
Base LCBF				3.130 %	
Difference				1.170 %	
0.5 X Difference					0.585 %
Change in 30-year A-rated Utility Corporate Bond Yield Spread from September 2024					
30-Year A-rated Utility Corporate Bond Yield Spread September 2026				1.070 %	
Base 30-Year A-rated Utility Corporate Bond Yield Spread				1.380 %	
Difference				-0.310 %	
0.5 X Difference					-0.155 %
Return on Equity Based on Data: September 2026					9.43 %
2027 Deemed Long-term Debt Rate (DLTDR)					
Long Canada Bond Forecast September 2026					4.300 %
30-year A-rated Utility Corporate Bond Yield Spread September 2026					1.070 %
Deemed Long-term Debt Rate Based on Data: September 2026					5.37 %
2027 Deemed Short-term Debt Rate (DSTDR)					
3-month Utility Bond Yield BVCAUA3M BVLI Index September 2026				²	2.991 %
Deemed Short-term Debt Rate Based on Data: September 2026					2.99 %
2027 Weighted Average Cost of Capital (WACC)*					
*Assuming a deemed capital structure of 40% equity, 56% long-term debt and 4% short-term debt					
WACC Based on Data: September 2026					6.90 %
¹ Source: Bank of Canada					
² Source: Bloomberg					

**SCHEDULE B
OEB LETTER
EXPERT REPORT – 2027 COST OF CAPITAL PARAMETERS
OCTOBER 29, 2026**

Cost of capital parameters update and macroeconomic outlook – Q3 2026

prepared for the Ontario Energy Board by London Economics International LLC

October 28th, 2026



London Economics International LLC (“LEI”) was retained by the Ontario Energy Board (“OEB”) staff to monitor macroeconomic conditions to assess whether the OEB-approved cost of capital parameters align with current outlooks; provide comparisons (both quarterly and annual) associated with each element of the formulae for the deemed short-term debt rate (“DSTDR”), deemed long-term debt rate (“DLTDR”), and return on equity (“ROE”); scan both ROEs approved by energy regulators in Canada and credit rating updates for Ontario utilities; and annually, provide an overall assessment of whether the cost of capital parameters updated through the formulae are reasonable and the Fair Return Standard (“FRS”) continues to be met.

The OEB issued its decision on the generic cost of capital on March 27th, 2025 (EB-2024-0063). The decision updated the methodologies for computing ROE, DLTDR, and DSTDR. Using data as of September 29th, 2025, and updated methodologies for ROE, DLTDR, and DSTDR, the OEB approved an ROE of 9.11%, DLTDR of 4.73%, and DSTDR of 2.72% for 2026. Using the updated methodologies and data as of September 29th, 2026, for 2027 rates the ROE is 9.43% (an increase of 0.32% since September 2025), the DLTDR is 5.37% (an increase of 0.64% since September 2025), and the DSTDR is 2.99% (an increase of 0.27% since September 2025).

The Bank of Canada (“BoC”) reduced its policy rate by 0.25% in each of its September 2025 and October 2025 meetings to 2.25% after maintaining the rate at 2.75% since March 2025. After maintaining the policy rate at 2.25% for a year, the BoC increased the rate by 0.25% to 2.50% in its recent October 28th, 2026 meeting citing higher and persistent inflation. Canadian markets anticipate additional policy rate increases of 0.75% to 1% by the end of 2027. Three of the six major Canadian banks expect similar 0.50% to 0.75% additional rate increases by the end of 2027. The US Federal Reserve (“Fed”) reduced the policy rates by 0.25% in its September 2025, October 2025, and December 2025 meetings to a target range of 3.50%-3.75%. The Fed held the policy rate steady until September. On September 16th, 2026, it decided to raise the range by 25 basis points to 3.75%-4.00%. With the US labour market holding and inflation concerns persisting, markets now assign a ~78% probability that the Fed will raise the policy rate again in December 2026, with an increase of 0.25% being the most likely outcome.

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1 Executive summary

This report provides an update for OEB staff regarding recent macroeconomic trends on a global, North American, and provincial scale related to cost of capital parameters.¹ Specifically, this report contains:

- a recap of the key macroeconomic events since the last annual report date, with particular focus on the third quarter of 2026;
- a review of the ongoing economic impact of the major drivers of global economic uncertainty, i.e., the uncertainties stemming from US trade policies and the Iran war;
- findings of the variance analysis conducted on the cost of capital parameters – namely the return on equity (“ROE”), the deemed long-term debt rate (“DLTDR”), and the deemed short-term debt rate (“DSTDTR”), with emphasis on the variance between cost of capital parameters determined using September 2025 data (in the OEB letter dated October 31st, 2025) and using September 2026 data;^{2,3}
- assessment of the reasonableness⁴ of each value of the cost of capital parameters, and whether Fair Return Standard (“FRS”) continues to be met (see Section 3.4);
- an overview of the prevailing ROEs approved by other Canadian energy regulators; and
- a review of credit ratings for a sample of OEB-regulated entities.

Each value of the 2027 cost of capital parameters and the relationships between them have been assessed in the context of the current macroeconomic environment. With regards to 2027 cost of capital parameters:

- LEI noted in its previous annual report that the ROE for 2026 (9.11%) is reasonable and reflective of the current macroeconomic outlook. The increase observed since then (ROE of 9.43% for 2027, based on September 29th, 2026 data) is consistent (both directionally and proportionately) with the increase observed in DLTDR, which in turn is primarily influenced by 30-year GoC bond yields. It is also generally consistent with the ROEs approved by other Canadian energy regulators (as shown in Figure 12). As such, LEI believes the 2027 ROE of 9.43% is reasonable, and the FRS continues to be met, consistent with LEI observations in Section 3.4.
- LEI noted in its previous annual report that the DLTDR for 2026 (4.73%) is reasonable, and consistent with the prevailing 30-year GoC bond yield and the spread observed between the 30-year GoC bond yield and the 30-year A-rated Canadian utility bond yield. As noted in Section 3.2, 2027 DLTDR of 5.37% continues to be reasonable based on the

¹ LEI also performs quarterly monitoring of cost of capital parameters, which are relayed to the OEB staff via quarterly updates. Per the requirements set out in the EB-2024-0063 cost of capital decision, March 27th, 2025 (p. 84), only the annual reports are to be released publicly.

² The details of the new OEB methodology to update the cost of capital parameters are described in Appendix B.

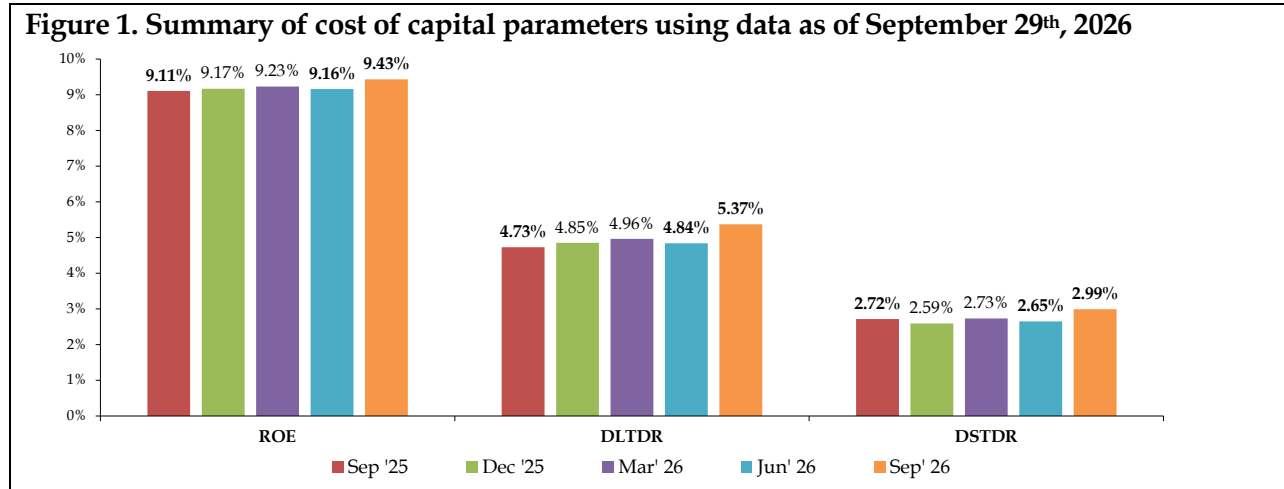
³ OEB. EB-2025-0303. 2026 Cost of Capital Parameters. October 31st, 2025.

⁴ Reasonableness in general has been assessed based on directional consistency and proportionate change in the underlying variables driving the cost of capital parameters.

increases observed in the 30-year GoC bond yield and the offsetting declines in credit spreads observed since September 2025.

- LEI noted in its previous annual report that the DSTDR for 2026 (2.72%) is reasonable based on the 3-month GoC treasury yields observed in September 2025. As DSTDR represents a 3-month rate, the current value for 2027 (2.99% as at September 29th, 2026) is consistent with the strong market expectations of a 0.25% increase in overnight policy rates by the end of 2026.⁵ As such, the DSTDR for 2027 (as of September 29th, 2026) continues to be reasonable.

The comparative summary for cost of capital parameters from recent updates is outlined below.



On October 31st, 2025 (using data as at September 29th, 2025), the OEB issued the following approved cost of capital parameters using updated methodologies (prescribed in OEB Decision dated March 27th, 2025) for rates effective in 2026: ROE of 9.11%, DLTDR of 4.73%, and DSTDR of 2.72%.⁶ Compared with these values, LEI's current update using data as of September 29th, 2026 for rates effective in 2027, results in an increase in ROE (of 0.32%), increase in DLTDR (of 0.64%), and increase in DSTDR (of 0.27%).

Compared to OEB-approved parameters for 2026, the increase in ROE and DLTDR is primarily driven by the increase in long-term Government of Canada ("GoC") bond yields (increase of 0.69%; 3.61% as at September 29th, 2025 vs. 4.30% as at September 29th, 2026) as long-term policy interest rate expectations have increased significantly despite significant BoC-led reductions in short-term policy interest rates.⁷

⁵ Consistent with market expectations as of September 29th, 2026, the BoC increased the policy rates by 0.25% in its October 28th, 2026 meeting.

⁶ OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

⁷ The discrepancy between increase in long-term GoC bond yields (0.69%) and DLTDR (0.64%) is due to tightening of A-rated bond yield spreads (-0.05%) between September 29th, 2025, and September 29th, 2026.

The BoC attributes higher long-term yields mainly to a rising term premium.⁸ It observes that investors are demanding more compensation to absorb a growing global supply of government bonds, and the increase in Canadian term premiums has been closely correlated with similar moves in other advanced economies. One potential reason provided is that, during the pandemic, central banks absorbed a significant share of new issuance through asset purchase programs, which put downward pressure on yields. As these programs have been wound down, central banks have stepped back from purchasing government bonds and, in some cases, are actively reducing the size of their balance sheets by selling their purchased bonds on secondary markets. This has left private investors to absorb a much larger share of government debt while the borrowing needs of governments have grown.⁹ This is also partially due to normalization of the yield curve observed since September-October 2024 (see Figure 8).

It is worth noting that long-term bond yields (10-year and 30-year bond yields) have risen across the G7 countries due to near-record levels of government debt, higher long-term inflation expectations, and significant new demand for capital to fund AI data centres (just four companies – Amazon, Alphabet, Meta, and Oracle – have issued bonds totalling more than US\$300 billion in 2025 and 2026).^{10,11} Among the G7 countries, Canada has experienced one of the lowest yield increases due to a relatively superior fiscal position.^{12,13} The gap between the 30-year US treasury bond yield and the 30-year GoC bond yield is “*wider... than usual.*”¹⁴ On September 2nd, 2026, the yield on the US treasury bond was traded at 5.27%, and the Canadian long-term bond was traded at 4.15%, resulting in a 112-basis-point differential whereas over the past decade, the difference had been about 70 basis points.¹⁵

Compared to OEB-approved parameters for 2026, the spread for A-rated utilities decreased by 0.05% for 2027. Compared to the base spread approved in EB-2024-0063, the current spread for 2027 has declined by 0.31%. The increase in long-term bond yields is partially offset by the tightening of spreads. The tightening of credit spreads observed for Canadian utilities is consistent with the data observed for the US.¹⁶ The spreads on US corporate bonds are at the lowest observed levels since the late 1990s.¹⁷ This continues to be the case as of September 2026, albeit there has been minor recovery from the previous quarter.

⁸ Bank of Canada. [The rise in the Canadian term premium in a global context](#). March 2026.

⁹ Ibid.

¹⁰ The Economist. [The countries most threatened by turbulent bond markets](#). October 8th, 2026.

¹¹ For comparison, the US Government issued US\$4.8 trillion of long-term bonds in 2025. Source: [Securities Industry and Financial Markets Association \(“SIFMA”\)](#).

¹² Ibid.

¹³ The Globe and Mail. [Amid a sell-off, Canadian bonds are ‘well-behaved’](#). September 4th, 2026.

¹⁴ Bloomberg. [Canada can ride out global bond rout, finance minister says](#). September 2nd, 2026.

¹⁵ Ibid.

¹⁶ US Federal Reserve. [In Our Time – speech by Chairman Kevin Warsh](#). August 28th, 2026.

¹⁷ Federal Reserve Bank of St. Louis. [ICE BofA US Corporate Index Option-Adjusted Spread \(BAMLC0A0CM\)](#). Accessed on October 4th, 2026.

Compared to OEB-approved parameters for 2026, the DSTDR is higher for 2027 (an increase of 0.27%). This is consistent with an estimated 25-basis-point increment in Canadian Overnight Repo Rate Average (“CORRA”), implied by One Month CORRA Futures (“COA”) prices, by December 2026.¹⁸ A summary of changes to the cost of capital parameters is shown in Figure 2.

Figure 2. Comparison of the cost of capital parameters to previous updates

Parameter	Return on equity	Deemed long-term debt rate	Deemed short-term debt rate
Value based on September 2025 data	9.11%	4.73%	2.72%
Value based on December 2025 data	9.17%	4.85%	2.59%
Value based on March 2026 data	9.23%	4.96%	2.73%
Value based on June 2026 data	9.16%	4.84%	2.65%
Value based on September 2026 data	9.43%	5.37%	2.99%
Difference (since September 2025)	0.32%	0.64%	0.27%
Difference (since December 2025)	0.26%	0.52%	0.40%
Difference (since March 2026)	0.20%	0.41%	0.26%
Difference (since June 2026)	0.27%	0.53%	0.34%

Applying the updated parameters (using September 2026 data) to the deemed capital structure (i.e., 40% equity, 56% long-term debt, and 4% short-term debt) yields a WACC of 6.90% for 2027, which is higher than the 6.40% WACC approved by the OEB, due to increases in ROE, DLTD, and DSTDR.

Canadian policy rates and key macroeconomic indicators

The BoC’s policy interest rate has been maintained at 2.25% since October 2025, after the BoC reduced its policy rate by 0.25% in each of its September 2025 and October 2025 meetings from 2.75% to 2.25% (the policy rate had been reduced from the peak of 5% in June 2024 to 2.75% in March 2025).¹⁹ After maintaining the policy rate at 2.25% for a year, the BoC increased the rate by 0.25% to 2.50% in its recent October 28th, 2026 meeting citing higher and persistent inflation.²⁰ By the end of 2027, the markets expect additional increases of 0.75%-1.00% from the current policy rate of 2.50%.²¹ Three of the six major Canadian banks (Scotiabank, National Bank, and RBC) have a similar outlook, i.e., they expect the rates to increase by 0.50%-0.75% by the end of 2027.²² The average of real GDP growth forecasts from six major Canadian banks is 1.0% for 2026, compared

¹⁸ TMX. [CORRA Futures](#). Accessed on October 5th, 2026.

¹⁹ Bank of Canada. [Policy interest rate](#). Accessed on October 5th, 2025.

²⁰ Bank of Canada. [Bank of Canada raises the policy rate by 25 basis points to 2½%](#). October 28th, 2026.

²¹ TMX. [Canadian Interest Rate Expectations Tool](#). Accessed on October 28th, 2026.

²² Sources: [RBC Monthly Forecast Update \(October 13th, 2026\)](#); [RBC Quarterly Canadian Outlook \(September 14th, 2026\)](#); [TD Canadian Quarterly Economic Forecast \(September 17th, 2026\)](#); [TD Provincial Economic Forecast \(September 21st, 2026\)](#); [BMO Rates Scenario \(September 18th, 2026\)](#); [BMO Provincial Economic Outlook \(October 23rd, 2026\)](#); [CIBC Forecast \(September 14th, 2026\)](#); [Scotiabank Forecast Tables \(October 13th, 2026\)](#); [National Bank Monthly Economic Monitor – Canada \(October 19th, 2026\)](#).

to actual 2025 growth of 1.90% (calculated as the difference between Q4-2025 vs Q4-2024 GDP).²³ The average forecast for 2027 is higher at 1.8%.²⁴

US policy rates and key macroeconomic indicators

After keeping the policy rates steady at a target range of 4.25%-4.50% for most of 2025, following 100 basis points of rate cuts between September and December 2024, the US Federal Reserve (“Fed”) reduced the policy rates by 0.25% in its September 2025, October 2025, and December 2025 meetings.²⁵ The Fed held the policy rate steady at 3.50%-3.75% from January to August 2026. In September, the Fed decided to raise the target range by 25 basis points to 3.75%-4.00%, “*in support of the Federal Reserve’s dual mandate*” that aims to achieve maximum employment and deliver price stability.²⁶ The Fed maintained the target range of 3.75%-4.00% in its October 28th, 2026 meeting.²⁷ The Fed’s September Summary of Economic Projections raised the median policy rate for 2026, with over 80% of participants now projecting at least one rate increase before year-end.²⁸ Similarly, the markets also anticipate a 0.25% rate increase by the end of 2026 (~71% probability for 0.25% increase and ~7% probability for 0.50% increase) and an additional 0.50% increase or higher in 2027.²⁹

LEI had noted previously that significant further reductions in 2026 may be less likely if US economic momentum continues, and if inflation continues to be stubbornly above target (which has remained the case as of September 2026).^{30,31} Inflation had risen sharply earlier in 2026 as the war in Iran drove an energy-price shock, lifting headline Consumer Price Index (“CPI”) to a peak of 4.2% in May.³² Headline CPI rose to 3.7% year over year in September 2026, driven by a 9.1% monthly jump in gasoline prices.^{33,34}

The Fed’s preferred inflation indicator in the US, personal consumption expenditures excluding food and energy (or “core PCE”), has consistently remained above the 2% target since March 2021 (annual change of 3.0% in August 2026).³⁵ The annualized monthly 6-month moving average has increased from 2.6% in December 2025 to 2.8% in August 2026, which explains why the Fed and

²³ Ibid.

²⁴ Ibid.

²⁵ US Federal Reserve. [Federal Reserve issues FOMC statement](#). December 10th, 2025.

²⁶ US Federal Reserve. [Federal Reserve issues FOMC statement](#). September 16th, 2026.

²⁷ US Federal Reserve. [Federal Reserve issues FOMC statement](#). October 28th, 2026.

²⁸ US Federal Reserve. [Summary of Economic Projections](#). September 16th, 2026.

²⁹ CME. [FedWatch](#). Accessed on October 23rd, 2026.

³⁰ The Wall Street Journal. [Fed Rate Cuts Look Less Likely in 2026, Boosting Dollar](#). Updated on October 13th, 2025.

³¹ Federal Reserve Bank of New York. [Center for Macroeconomic Data](#). Accessed on October 5th, 2026.

³² US Bureau of Labor Statistics. [Consumer Price Index – September 2026](#). October 14th, 2026.

³³ Ibid.

³⁴ Reuters. [Fed’s Barr says more rate hikes likely to be needed to curb inflation](#). September 29th, 2026.

³⁵ St. Louis Fed. [Personal Consumption Expenditures Excluding Food and Energy \(Chain-Type Price Index\) \(PCEPILFE\)](#). Accessed on October 5th, 2026.

market stance in the US have moved towards rate increases. The CPI, for which data is available through September 2026, shows an annual increase of 3.7% in September 2026.³⁶

The US labour market deteriorated slightly in 2025, with the unemployment rate increasing from 4% in January 2025 to 4.4% in December 2025.³⁷ Since then, the unemployment rate has improved to 4.2% in September 2026. Compared with real GDP growth observed in 2023 and 2024 (growth of 3.4% and 2.4%, respectively), growth in 2025 declined slightly to 2%, and improved to 2.7% in Q2 2026.³⁸ The war in Iran has introduced new economic uncertainties; however, the growth in Q2 2026 reached a respectable annualized rate of 3.8%. The Atlanta Fed's GDPNow estimate expects annualized quarterly growth of 3.7% in Q3 2026.³⁹ Blue Chip consensus forecast (an average of economic projections compiled from a panel of over 50 prominent business economists) is lower at ~2.5% in Q3 2026.⁴⁰

³⁶ St. Louis Fed. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (CPIAUCSL). Accessed on October 15th, 2026.

³⁷ Federal Reserve Bank of St. Louis. Unemployment Rate (UNRATE). Accessed on October 5th, 2026.

³⁸ Federal Reserve Bank of St. Louis. Real Gross Domestic Product (GDPC1). Accessed on October 5th, 2026.

³⁹ Federal Reserve Bank of Atlanta. GDPNow. Accessed on October 5th, 2026.

⁴⁰ Ibid.

2 Macroeconomic outlook

This section identifies the most important factors impacting the global and regional economies in the third quarter of 2026. We also consider the consensus research and expectations for 2026 following recent developments. A summary of this research is presented in Figure 3 below.

Figure 3. Summary of macroeconomic outlooks – Q3 2026

Region	Growth trend relative to the previous quarter	Interest rate trend relative to the previous quarter	Inflation trends relative to the previous quarter	Key factors
Global	Slightly higher	Market pricing shifted toward possible rate increases	Rising globally; Canadian core inflation near 2%	<ul style="list-style-type: none"> IMF raised 2026 global growth to 3.1%; 2027 growth holds at 3.4%. US economy remains resilient: US Q2 GDP grew 3.8% annualized; September unemployment was 4.2%. US core PCE reached 3.0% in September; markets now price a Fed increase by end-2026.
Canada	Improving from Q2			<ul style="list-style-type: none"> Q2 growth rebounded to 3.8% annualized, the highest since Q3 2022. 2026 growth forecasts remain subdued at ~1.0%; September unemployment was 6.5%. The BoC increased policy rates +25 bp to 2.50%; markets price +75 bp to +100 by 2027 year-end.
Ontario	Subdued	n/a	Follows national inflation	<ul style="list-style-type: none"> Q2 GDP rose 1.0%; major banks forecast only 0.7% growth in 2026. US auto and steel tariffs continue to weigh on manufacturing; GM committed C\$1.1 billion of planned investment. September unemployment was 7.0% versus 6.5% nationally; homebuilding remains weak.

2.1 Global and US outlook

This section briefly describes the global and US macroeconomic outlook.

2.1.1 Global outlook

The International Monetary Fund (“IMF”)’s recent October World Economic Outlook (“WEO”) update highlights that the global economy has held up despite an exceptional sequence of shocks, but that this resilience is under strain, with the drag from the war in the Middle East being partly offset by an AI-driven investment boom.⁴¹ The IMF now expects global growth to slow to 3.1% in 2026 (revised up from 3.0% in the July 2026 outlook) before recovering to 3.4% in 2027 (unchanged from July), leaving cumulative growth broadly unchanged from April in what it describes as a V-shaped recovery.

⁴¹ IMF. World Economic Outlook Update, October 2026: Resilience Under Strain, Urgent Choices. October 12th, 2026.

Global headline inflation is projected to rise to 4.7% in 2026 before easing to 4.1% in 2027, as energy prices bounced back following the short-lived US-Iran ceasefire. While pass-through to core inflation is expected to be limited, core inflation is expected to return to 2% only gradually in several major economies.⁴² Key downside risks include a prolonged stalemate or further escalation in the Middle East, a reassessment of AI-related profitability and productivity prospects, and fiscal vulnerabilities and renewed trade tensions.⁴³

2.1.2 US outlook

Similar to LEI observations in the previous updates, the US labour market and growth indicators remain resilient (despite consistently higher than target inflation):

- Compared with real GDP growth observed in 2023 and 2024 (annual Q4 growth of 3.4% and 2.4%, respectively), growth in 2025 declined slightly to 2%.⁴⁴ The growth in Q2 2026 increased to an annualized rate of 3.8% from 2.1% in Q1 2026. The Atlanta Fed's GDPNow estimate expects annualized quarterly growth of 3.7% in Q3 2026.⁴⁵ Blue Chip consensus forecast is lower at ~2.5% in Q3 2026.⁴⁶
- The unemployment rate deteriorated slightly in 2025 (average of 4.3% in 2025 vs. average of 4% in 2024).⁴⁷ This has improved to 4.2% in September 2026. Compared to the previous quarter, the labour force participation rate increased by 0.3% to 61.8% in September, and the employment-population ratio rose by 0.2% to 59.2%. Both measures changed little over the year after accounting for annual population control adjustments.⁴⁸ The prime-age employment-population ratio (which focuses on employment in ages 25-54) remains at the highest levels observed since the early 2000s.⁴⁹

However, the US fiscal position continues to deteriorate. The Congressional Budget Office ("CBO") estimates that the federal budget deficit totalled US\$2.0 trillion in fiscal year 2026, US\$218 billion more than in fiscal year 2025, as outlays grew by ~6% while revenues grew by ~3%.⁵⁰ The One Big Beautiful Bill Act, signed into law in July 2025, has been a key contributor to the widening deficits. The CBO estimates that the legislation will increase deficits by US\$3.4 trillion over the 2025-2034 period (excluding higher debt-service costs), primarily due to the

⁴² Reuters. Fed. September 29th, 2026.

⁴³ IMF. World Economic Outlook Update, October 2026: Resilience Under Strain, Urgent Choices. October 12th, 2026.

⁴⁴ Federal Reserve Bank of St. Louis. Real Gross Domestic Product (GDPC1). Accessed on October 5th, 2026.

⁴⁵ Federal Reserve Bank of Atlanta. GDPNow. Accessed on October 5th, 2026.

⁴⁶ Ibid.

⁴⁷ Federal Reserve Bank of St. Louis. Unemployment Rate (UNRATE). Accessed on October 5th, 2026.

⁴⁸ US Bureau of Labor Statistics. The Employment Situation - September 2026. October 2nd, 2026.

⁴⁹ Federal Reserve Bank of St. Louis. Employment-Population Ratio - 25-54 Yrs. (LNS12300060). Accessed on October 5th, 2026.

⁵⁰ CBO. Monthly Budget Review: September 2026. October 8th, 2026.

extension of the 2017 tax cuts and new tax reductions.⁵¹ The persistently large deficits increase Treasury borrowing requirements and may add upward pressure on long-term US bond yields.

Impact of tariffs

The US economy continues to face several headwinds, particularly from the tariffs introduced since April 2025, and from the war in the Middle East. In February 2026, the Supreme Court of the US (“SCOTUS”) ruled against the Trump administration’s use of the IEEPA to implement most of its tariff increases to date. This decision represented a significant setback for the administration’s tariff policy and immediately reduced the overall US statutory tariff rate from 12.7% to 8.3%.⁵² However, within days, the administration replaced the vacated duties with a temporary 10% across-the-board tariff under Section 122 of the Trade Act of 1974, while moving to refund the approximately US\$166 billion in IEEPA duties collected in 2025.⁵³ The Section 122 surcharge expired on July 24th, 2026, and the administration has continued to pursue alternative options to impose tariffs.⁵⁴ It expanded Section 232 tariffs on metals, automobiles, pharmaceuticals, and potentially on polysilicon and derivative products.^{55,56} In July 2026, the administration applied a 25% Section 301 tariff on Brazil as part of investigations spanning 86 countries intended to reconstruct the invalidated country-specific tariffs, though these replacement measures remain subject to legal challenge.⁵⁷ Later in September 2026, the US Court of International Trade heard arguments challenging the tariff and the court’s decision is expected in the coming weeks.⁵⁸

The level of economic uncertainty, which spiked in April 2025 has since dropped, however it is still above the pre-2025 level (see Figure 4).

⁵¹ CBO. Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO’s January 2025 Baseline. July 21st, 2025.

⁵² Oxford Economics. The Supreme Court ruling sends US tariff policy back to the drawing board. February 21st, 2026.

⁵³ BBC News. Trump brings in new 10% tariff as Supreme Court rejects his global import taxes. February 21st, 2026.

⁵⁴ Council on Foreign Relations. Trump's New Tariffs: What to Know. July 17th, 2026.

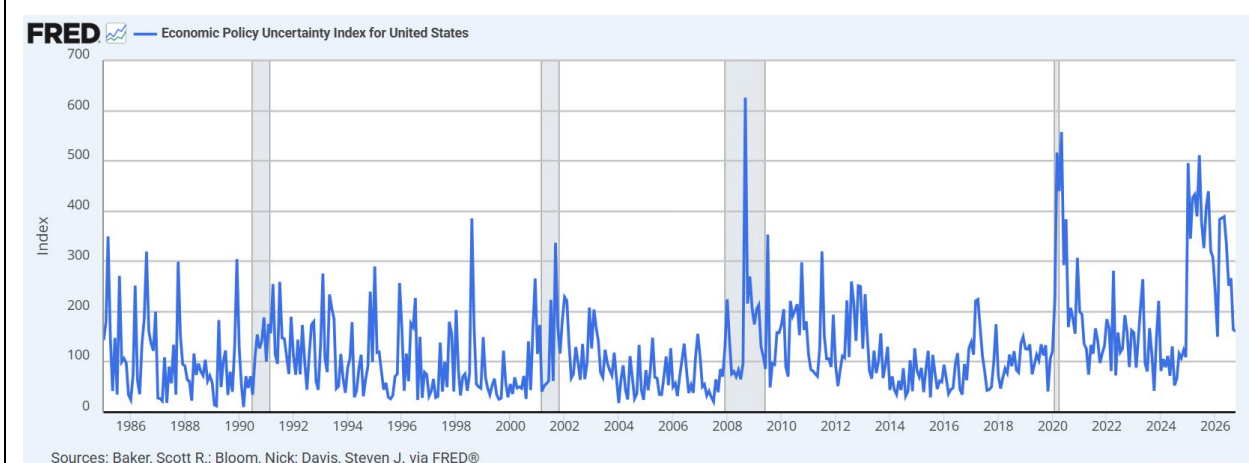
⁵⁵ Reuters. Trump signs executive order to protect US polysilicon industry. August 6th, 2026.

⁵⁶ Grant Thornton. The Trump administration’s new tariff road map. May 12th, 2026.

⁵⁷ Council on Foreign Relations. Trump’s New Tariffs: What to Know. July 17th, 2026.

⁵⁸ Reuters. US trade court probes Trump’s ‘forced labor’ tariffs. September 30th, 2026.

Figure 4. Economic policy uncertainty index for the US



Source: St. Louis Fed. Economic Policy Uncertainty Index for United States (USEPUINDXD). Accessed on October 5th, 2026.

There has been some proposed tariff relief with other parts of the world. The US and China agreed to pursue reciprocal tariff reductions covering approximately US\$30 billion of goods on each side and extend their tariff truce through January 10th, 2027.⁵⁹ The US also announced that it would remove the 10% tariff on Irish whiskey.⁶⁰ Nevertheless, the IMF estimated tariffs imposed by the US to modestly reduce the level of global GDP in 2026-27, including a 0.6% reduction in the level of US GDP.⁶¹

Impact of Iran war

Although oil flows through the Strait of Hormuz have partially recovered since the previous quarter, the initial oil-price pressure has not fully dissipated, and shipping, refining, and security disruptions have kept energy prices elevated. According to Governor Michael Barr, the Middle Eastern conflict had pushed energy prices higher, and the uncertainty over when the conflict would end remained “considerable”. The combined effects of tariffs, the conflict, and AI-related demand “knocked [the Fed] off course” on its progress toward the 2% inflation target.⁶²

The price of crude oil, which spiked to a peak of roughly US\$115 per barrel (Brent) in March after the war started in the Middle East, retreated through the second quarter as the Strait of Hormuz partially reopened, falling back to near pre-war levels by early July, then rebounded to US\$107 in mid-September as hostilities between the US and Iran flared again, and it remains elevated relative to pre-war levels (see Figure 5).

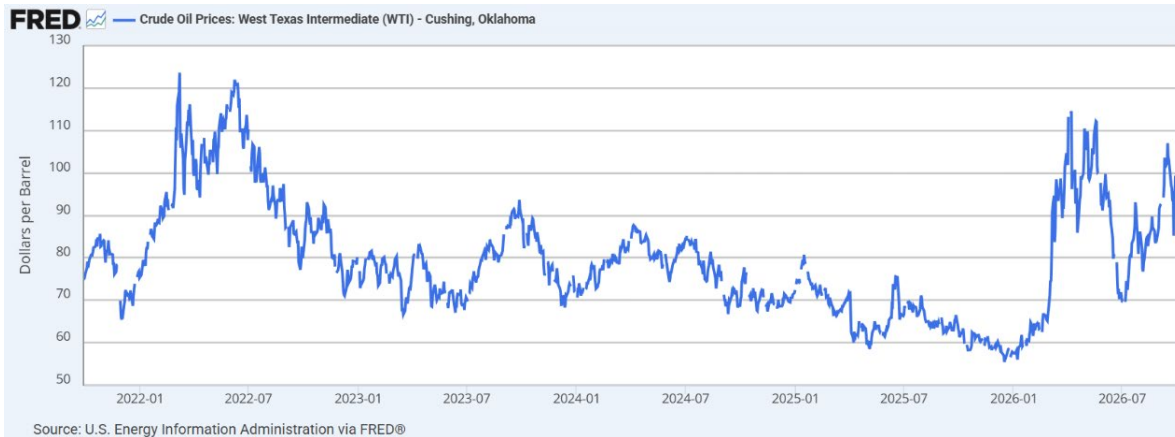
⁵⁹ Reuters. China, US pledge tariff cuts on \$60 billion of goods including agriculture, toys, toasters. September 27th, 2026.

⁶⁰ Reuters. Trump says he is removing US tariffs on Irish whiskey. September 13th, 2026.

⁶¹ IMF. United States: 2026 Article IV consultation press release; Staff report; and statement by the Executive Director for the United States. April 2nd, 2026.

⁶² US Federal Reserve. Economic Conditions and Monetary Policy. September 29th, 2026.

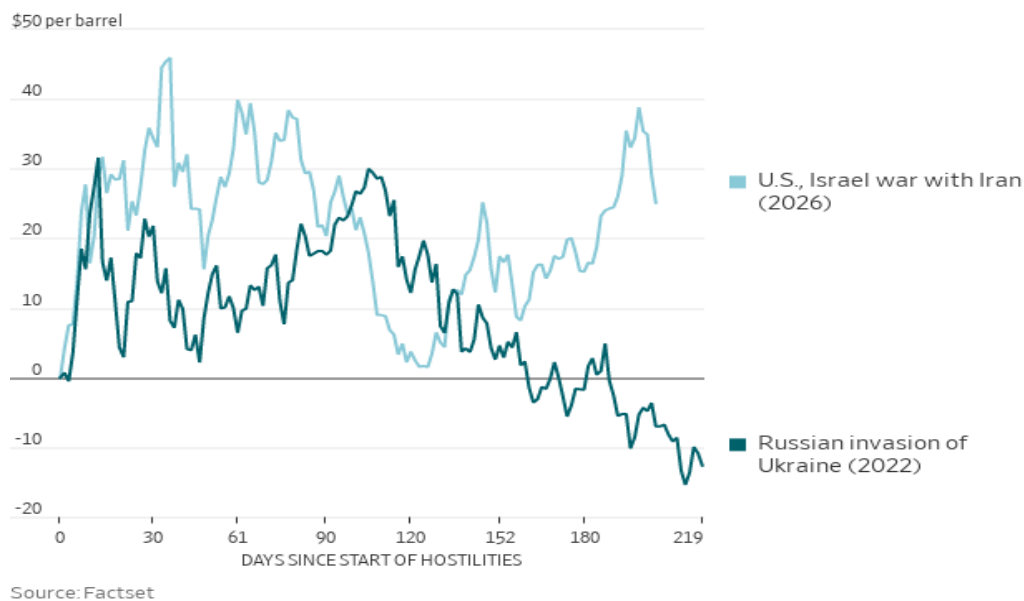
Figure 5. Trajectory of crude oil prices (West Texas Intermediate or WTI) in the last 5 years



Source: St. Louis Fed Economic Data.

The crude oil price spike has been higher for a longer duration compared to the 2022 spike resulting from the Russian invasion of Ukraine (see Figure 6), and could lead to a more persistent inflationary effect, even for goods and services that are not energy products given that oil usage is embedded within them.⁶³

Figure 6. Change in price of oil



Source: The Wall Street Journal.

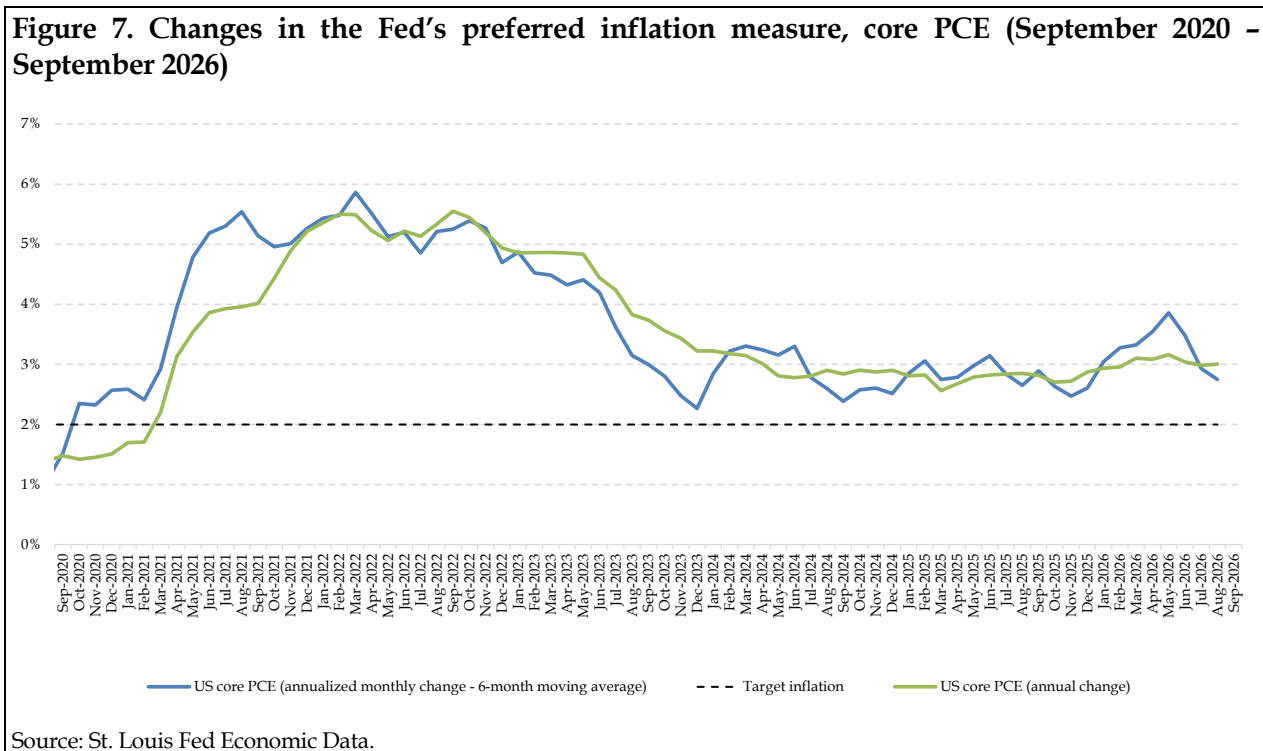
US inflation and policy rate

The Fed's preferred gauge of US inflation, i.e., core PCE, has remained stable at around 3%

⁶³ The Wall Street Journal. Beware oil's second strike on inflation. September 22nd, 2026.

(compared to the Fed target of 2%) since January 2024 (see Figure 7). The annualized monthly 6-month moving average has increased from 2.61% in December 2025 to 2.75% in August 2026, suggesting the annual change may rise further in the coming months.

Although the Fed maintained the target range of 3.75%-4.00% in its October 28th, 2026 meeting, both market expectations and Fed forward guidance have moved towards a rate increase as the Fed's next move, with the market expectations indicating increases of 0.25%-0.50% as the most likely outcome by March 2027.^{64,65,66} This is consistent with the performance of 10-year US treasury bond yield passing 5% in September, and of 30-year US treasury bond yield crossing 5.3% in the same month, reaching the highest levels since July 2007 and July 2004, respectively.^{67,68}



2.2 Canadian outlook

Compared to Canada's real GDP growth of 2.61% in 2024 (Q4 2024 vs Q4 2023), growth declined

⁶⁴ CME Group. [FedWatch](#). Accessed on October 5th, 2026.

⁶⁵ US Federal Reserve. [September 16, 2026: FOMC Projections materials, accessible version](#). September 16th, 2026.

⁶⁶ US Federal Reserve. [Federal Reserve issues FOMC statement](#). October 28th, 2026.

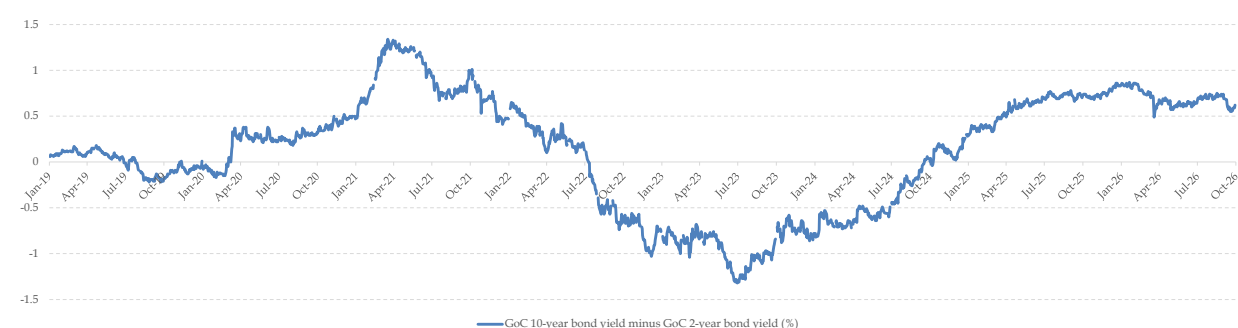
⁶⁷ FRED. [Market yield on US treasury securities at 10-year constant maturity, quoted on an investment basis](#). Updated on October 1st, 2026.

⁶⁸ FRED. [Market yield on US treasury securities at 30-year constant maturity, quoted on an investment basis](#). Updated on October 1st, 2026.

to 0.97% in 2025 (Q4 2025 vs Q4 2024).⁶⁹ Nonetheless, the annualized real GDP growth increased significantly in Q2 2026, to 3.83%, the highest since Q3 2022. Major Canadian banks expect growth to recover to 1.0% in 2026 and 1.8% in 2027. The BoC's outlook is consistent with the major banks, anticipating 1.0% for 2026, and 2.0% for 2027.⁷⁰ The unemployment rate is 6.5% in September 2026, up slightly from 6.4% in August 2026, but lower than the peak of 7.1% in August 2025. However, the unemployment rate remains high compared to the 2019 average of 5.7%.⁷¹

The yield curve for the GoC's long-term (10-year) and short-term (2-year) bonds (which had been inverted since July 2022, i.e., yields were higher for short-term bonds) reversed (starting in September-October 2024). As noted in the previous annual report, inverted yield curves are uncommon as investors typically expect higher yields for longer-term bonds, consistent with higher risks associated with longer maturity terms. The reversal of the yield curve to a more normal relationship, which started in Q4 2024, has continued through Q3 2026, with average spreads at ~0.62% in September 2026 (see Figure 8).

Figure 8. Yield curve – GoC 10-year bond yield minus GoC 2-year bond yield (%)



Source: Statistics Canada.

Notably, the gap between the 30-year US treasury bond yield and the 30-year GoC bond yield is “wider... than usual”, attributable to Canada's lower short-term interest rates, more moderate inflation, and more favourable fiscal outlook.^{72,73} On September 2nd, the US treasury bond was traded at a 5.27% yield, and the Canadian long-term bond was traded at 4.15%, resulting in a 112-basis-point differential; however, over the past decade, especially pre-COVID, the difference had been, on average, about 70 basis points (as shown in Figure 9).⁷⁴

⁶⁹ Statistics Canada. Gross domestic product (GDP) at basic prices, by industry, quarterly average. Accessed on October 5th, 2026.

⁷⁰ BoC. Monetary Policy Report. October 28th, 2026.

⁷¹ Statistics Canada. Labour force characteristics, monthly, seasonally adjusted and trend-cycle. Accessed on October 15th, 2026.

⁷² Bloomberg. Canada can ride out global bond rout, finance minister says. September 2nd, 2026.

⁷³ Yahoo Finance. Long-term debt yields climbing moves rates back to historical norms, BMO says. July 31st, 2026.

⁷⁴ Bloomberg. Canada can ride out global bond rout, finance minister says. September 2nd, 2026.

Figure 9. Yield curve – US 30-year treasury bond yield minus GoC 30-year bond yield (%)



Source: Bank of Canada, FRED.

In its October 2026 Monetary Policy Report, the BoC observed that the Canadian economy entered the second half of 2026 on firmer footing than expected, although uncertainty remains elevated.⁷⁵ Growth picked up and broadened in Q2 2026, on the back of solid consumption and strong gains in investment and exports. However, trade tensions with the US have escalated again since July, and renewed uncertainty may lead businesses to delay expansion and hiring plans. The BoC estimates that growth remained robust at 2% in Q3 2026, but anticipates that it will slow to below 1% in Q4 2026, as new US tariffs restrain exports and trade uncertainty dampens business investment and household spending.⁷⁶

About 80%-90% of Canadian exports of goods to the US remain compliant with Canada-United States-Mexico Agreement (“CUSMA”). However, tariffs remain in place for key sectors such as steel, aluminum, auto, and lumber. At the July 1st review, the US declined to confirm a 16-year extension of the agreement, while Canada and Mexico both supported renewal.⁷⁷ On July 20th, 2026, the US further escalated the dispute: President Trump signed three proclamations under Section 338 of the Tariff Act of 1930 imposing additional 50% tariffs on a range of Canadian goods, spanning products from wine and dairy to cement and hockey sticks, citing Canada’s alleged discriminatory treatment of US products.⁷⁸ These tariffs took effect on August 22nd, 2026.⁷⁹ Subsequently, Canada implemented retaliatory tariffs covering approximately US\$20 billion worth of US goods, effective September 8th, 2026.⁸⁰ On August 24th, 2026, the US further announced 50% tariffs on Canadian automobiles and crucial raw materials, effective January 1st, 2027.⁸¹ Two weeks later, the White House went further, invoking Section 338 to impose import bans on certain Canadian products, including certain alcoholic beverages and dairy products,

⁷⁵ BoC. Monetary Policy Report. October 28th, 2026.

⁷⁶ Ibid.

⁷⁷ Government of Canada. Statement by Minister LeBlanc following the trilateral CUSMA joint review meeting. July 1st, 2026.

⁷⁸ The White House. Fact Sheet: President Donald J. Trump Imposes Additional Tariffs on Canada. July 20th, 2026.

⁷⁹ Government of Canada. Complete list of US products subject to counter tariffs. Updated on October 1st, 2026.

⁸⁰ Ibid.

⁸¹ The Guardian. Trump announces new 50% tariff on Canadian cars, trucks, and steel. August 24th, 2026.

and modifying the scope of existing tariffs.⁸² The move marked a further escalation of the Canada-US trade dispute and weighed on Canada's trade-exposed sectors, added to near-term inflation pressures, and heightened the uncertainty already shaping the interest-rate outlook.

On October 19th, 2026, Albertans voted in a non-binding provincial referendum to remain part of Canada, with unofficial results showing ~75% support for remaining in Canada (with 97% of voting locations reporting as of October 22nd, 2026).⁸³ The outcome removes a source of domestic political uncertainty amid the ongoing Canada-US trade dispute.

Canadian policy rates and inflation

The BoC reduced its policy rate by 0.25% in each of its September 2025 and October 2025 meetings to 2.25% after maintaining the rate at 2.75% since March 2025.⁸⁴ The BoC held the policy rate at 2.25% for a year until the 0.25% increase on October 28th, 2026.

By the end of 2027, the markets anticipate further increases of 0.75%-1.00% from the current policy rate of 2.50%.⁸⁵ Three of the six major Canadian banks (Scotiabank, National Bank, and RBC) share a similar outlook, expecting rate increases of 0.50%-0.75% by the end of 2027.⁸⁶ The CD Howe Institute's Monetary Policy Council ("MPC") recommended, in its October 22nd, 2026 vote, that the BoC hold the target rate at 2.25% in its October 28th meeting but increase the target rate to 2.75% by September 2027.^{87,88} However, contrary to MPC's recommendation, the BoC increased the target policy rate by 0.25% in its October 28th, 2026 meeting.

⁸² The White House. Fact Sheet: President Donald J. Trump responds to Canada's retaliation. September 8th, 2026.

⁸³ CTV News. More constitutional referendum questions flip to no as Elections Alberta keeps counting past deadline. October 22nd, 2026.

⁸⁴ Bank of Canada. Policy interest rate. Accessed on October 5th, 2026.

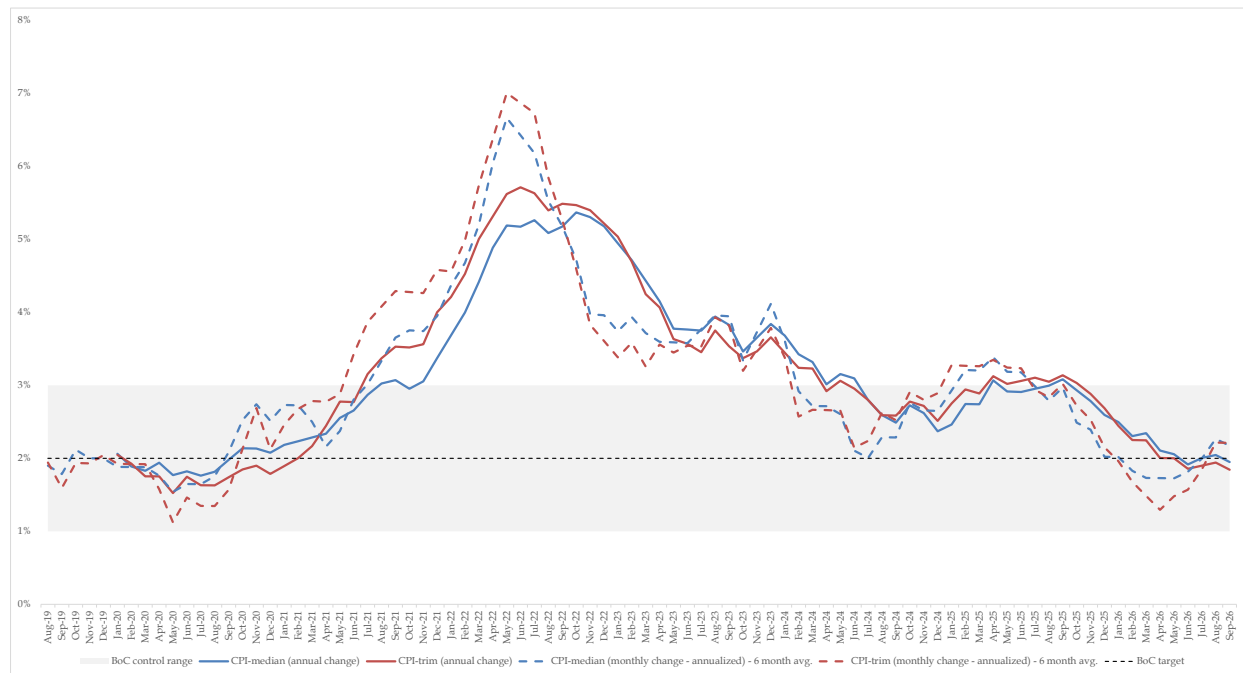
⁸⁵ TMX. Canadian Interest Rate Expectations Tool. Accessed on October 28th, 2026.

⁸⁶ Sources: RBC Monthly Forecast Update (October 13th, 2026); RBC Quarterly Canadian Outlook (September 14th, 2026); TD Canadian Quarterly Economic Forecast (September 17th, 2026); TD Provincial Economic Forecast (September 21st, 2026); BMO Rates Scenario (September 18th, 2026); BMO Provincial Economic Outlook (October 23rd, 2026); CIBC Forecast (September 14th, 2026); Scotiabank Forecast Tables (October 13th, 2026); National Bank Monthly Economic Monitor – Canada (October 19th, 2026).

⁸⁷ Ahead of each of the BoC's three most recent rate reductions, the MPC recommended a cut to the same level the BoC subsequently adopted: to 2.75% (MPC vote of March 6th, 2025; BoC decision of March 12th, 2025), to 2.50% (MPC vote of September 11th, 2025; BoC decision of September 17th, 2025), and to 2.25% (MPC vote of October 23rd, 2025; BoC decision of October 29th, 2025). These reductions were also widely anticipated by financial markets at the time. As such, the alignment reflects a shared reading of economic conditions.

⁸⁸ C.D. Howe Institute. Bank of Canada Should Maintain Overnight Rate at 2.25 Percent in 2026, Increase to 2.75 Percent by Next October, Says C.D. Howe Institute Monetary Policy Council. October 22nd, 2026.

Figure 10. Trajectory of inflation indicators preferred by the BoC (August 2019 – August 2026)



Notes:

CPI-trim is a measure of core inflation that excludes CPI components whose rates of change in a given month are located in the tails of the distribution of price changes. This measure helps filter out extreme price movements that might be caused by factors specific to certain components, specifically 20% of the weighted monthly price variations at both the bottom and top of the distribution of price changes.

CPI-median is a measure of core inflation corresponding to the price change located at the 50th percentile (in terms of the CPI basket weights) of the distribution of price changes in a given month. This measure helps filter out extreme price movements specific to certain components. This approach is similar to CPI-trim as it eliminates all the weighted monthly price variations at both the bottom and top of the distribution of price changes in any given month, except the price change for the component that is the midpoint of that distribution.

Source: Statistics Canada.

With respect to inflation, the BoC noted that CPI had been close to the 2% target for more than a year and a half until the war in the Middle East pushed up gasoline prices, lifting headline inflation to 3.2% in May 2026. However, inflation excluding gasoline and measures of core inflation have stayed close to 2%, suggesting that spillovers to other goods and services have so far remained contained.⁸⁹ The trajectory of the BoC's preferred inflation indicators is mixed. The annual changes have been consistently at or below target since June 2026 (solid lines in Figure 10); however, annualized monthly changes (6-month rolling average, indicated by dotted lines in Figure 10) have ticked up slightly to 2.2% as of September 2026. Additional upward movement in the core inflation indicators may prompt the BoC to increase the policy rate in its December meeting. As of September 2026, the annual change in CPI-median and CPI-trim is 1.9% and 1.8%, respectively.⁹⁰

⁸⁹ BoC. Monetary Policy Report. July 15th, 2026.

⁹⁰ Statistics Canada. Consumer Price Index. Accessed on October 19th, 2026.

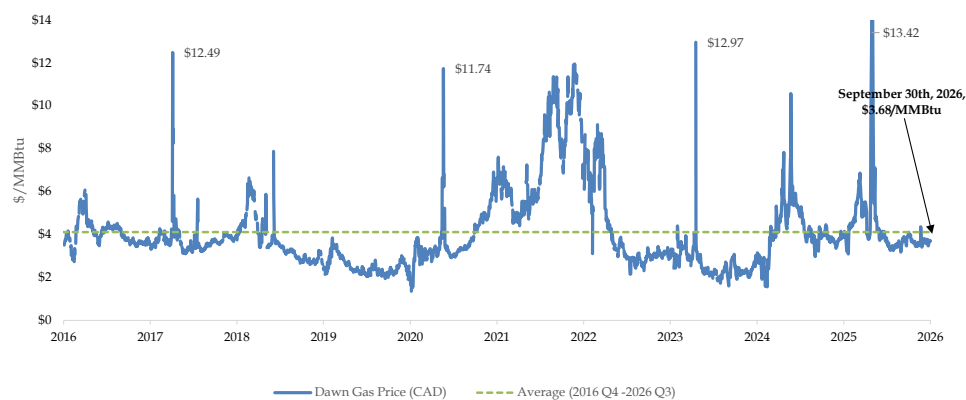
Canadian home prices

By September 2026, the tentative stabilization in Canadian home prices had stalled. The national composite MLS Home Price Index edged down 0.4% from August to September, ending four months of stable prices, and remained down 3.4% from a year ago.⁹¹ RBC reported that the Canadian housing market hit a pause in August after five consecutive months of gains with resales declining 0.7% month-over-month seasonally adjusted, retreating to levels in May. The pullback coincided with the escalation in trade tensions, “making economic uncertainty tangible again after months of adaptation.”⁹²

Canadian natural gas prices

Due to their impact on heating costs and electricity generation, LEI has regularly tracked the natural gas prices in its quarterly and annual monitoring (see Figure 11).

Figure 11. Natural gas price index at Dawn Hub (Q4-2016 – Q3-2026)



Source: S&P Global Capital IQ. Accessed on October 5th, 2026.

Although natural gas prices reached an average of \$5.9/MMBtu in February 2025, the monthly average has declined to \$3.69/MMBtu in September 2026 (slightly below the 10-year average of \$4.11/MMBtu). Notably, natural gas prices in North America were not significantly impacted by the war in the Middle East.⁹³

Canada has been actively seeking to expand its LNG export capability by advancing major west-coast projects, including LNG Canada, which shipped its first cargo on June 30th, 2025.⁹⁴ Recently, LNG Canada undertook a Final Investment Decision (“FID”) on its Phase 2 expansion project that would double the facility’s export capacity to 28 million tonnes per annum, “putting LNG Canada

⁹¹ CREA. Canadian Home Sales Pull Back in September. October 16th, 2026.

⁹² RBC. Road to recovery for Canada’s housing market hits a bump in August. September 15th, 2026.

⁹³ S&P Global Capital IQ.

⁹⁴ Shell. First cargo leaves LNG Canada. June 30th, 2025.

on a trajectory to become one of the largest LNG facilities in the world and helping move Canada toward becoming one of the world's top five LNG exporting nations.”⁹⁵

Federal government initiatives

In September 2025, the Canadian government referred the first series of projects to the Major Projects Office (“MPO”) for consideration. The MPO is tasked with fast-tracking nation-building projects by streamlining regulatory assessments and approvals, and assisting to structure financing, in close partnership with provinces, territories, Indigenous Peoples, and private investors. The Darlington New Nuclear Project (which is being led by Ontario Power Generation) is one of the five projects in the initial announcement.⁹⁶ The second tranche of projects, which are estimated to be \$56 billion in new investment, was announced in November 2025.⁹⁷ In March 2026, a third tranche was announced, referring four Arctic and Northern projects to the MPO as part of a broader \$35 billion Northern defense and infrastructure plan, bringing the combined potential investment across all three tranches to over \$126 billion.⁹⁸ The government has continued to expand the MPO’s portfolio since then, including the Port of Vancouver Gateway Strategy in July 2026.⁹⁹ More recently, on October 1st, 2026, the Ministry listed Pacific Link, a proposed West Coast oil pipeline from Alberta to BC, as a project of national interest.¹⁰⁰ So far, the federal government has referred 28 nation-building initiatives.¹⁰¹

On September 15th, 2026, at the Canada Investment Summit, the federal government announced the Productivity Mega Deduction, a proposed permanent measure that would allow businesses to immediately expense the full cost of most depreciable property acquired on or after that date, expanding the share of capital assets eligible for immediate expensing from ~15% to ~67%.¹⁰² The measure is intended to reduce the after-tax cost of capital investment and accelerate productivity-enhancing spending. However, it remains in draft legislative form, and has not yet been enacted.

2.3 Ontario outlook

The province’s real GDP increased by 1.0% in Q1 2026, following no growth in the previous quarter. The growth primarily resulted from higher exports and a slight increase in household

⁹⁵ LNG Canada. LNG Canada announces Phase 2 Final Investment Decision. September 28th, 2026.

⁹⁶ Prime Minister of Canada. Prime Minister Carney announces first projects to be reviewed by the new Major Projects Office. September 11th, 2025.

⁹⁷ Prime Minister of Canada. Prime Minister Carney announces second tranche of nation-building projects referred to the Major Projects Office. November 13th, 2025.

⁹⁸ Prime Minister of Canada. Prime Minister Carney announces ambitious new plan to defend, build, and transform the North. March 12th, 2026.

⁹⁹ CBC News. Federal government refers Port of Vancouver strategy to Major Projects Office. July 16th, 2026.

¹⁰⁰ Prime Minister of Canada. Prime Minister Carney lists the West Coast Oil Pipeline, now known as Pacific Link, as a project of national interest to unlock Canada’s full potential as a global energy superpower. October 1st, 2026.

¹⁰¹ Ibid.

¹⁰² EY. Tax Alert 2026 No. 47: Finance Canada announces new productivity mega deduction for capital investments. September 16th, 2026.

spending and business investment.¹⁰³ However, compared to Ontario's annual real GDP growth of 1.3% in 2025, six major Canadian banks expect a slower average growth of 0.8% for 2026, slightly lagging Canada's expected growth rate of 1.0%.¹⁰⁴

Echoing 2025, Ontario is still experiencing trade uncertainty, muddled by new US tariffs on a wide range of goods and export bans. Although the government has expanded access to supports, the impacts of the 50% US tariff on automobiles and parts effective January 2027 are anticipated to deliver a significant hit on the industry if enacted.¹⁰⁵ Notwithstanding, General Motors committed approximately CA\$1.1 billion of planned investment in its Canadian operations.¹⁰⁶

Ontario's steel sector has also come under pressure. In late September 2026, Stelco Inc., owned by US-based Cleveland-Cliffs Inc. since November 2024, announced that it would indefinitely idle its cold-rolled and coated steel operations in Hamilton, and concentrate production at Lake Erie Works in Nanticoke, affecting up to 500 workers.¹⁰⁷ Stelco attributed the decision to US tariffs, citing a decline of ~25% in demand for these products in its traditional markets in Q2 2026 relative to the 2024 quarterly average.¹⁰⁸ The federal government has stated that the layoffs are inconsistent with the employment undertakings agreed-upon by Stelco under the Investment Canada Act and has warned of potential legal action.¹⁰⁹ Stelco maintains that it remains compliant and is proceeding with the layoffs.¹¹⁰

Resale housing activity had been recovering from March to July, with pent-up demand and affordability improvements; however, a surge in bond yields resulted in a pullback in sales in August, and is likely to limit growth in home sales and prices into next year.¹¹¹ Increasing homebuilding may appear in 2027, bolstered by the federal and provincial decision to remove the Harmonized Sales Tax ("HST") on new homes for all buyers.¹¹²

Consumption strengthened in the second quarter, with household spending up 1.1% from the previous quarter, led by services (+1.1%) and durables (+2.1%), while semi-durables (+1.8%) and

¹⁰³ Province of Ontario. Ontario Economic Accounts. Updated October 5th, 2026.

¹⁰⁴ LEI considered the average of RBC, TD, BMO, Scotiabank, CIBC and National Bank forecasts. Sources: RBC Monthly Forecast Update (October 13th, 2026); RBC Quarterly Canadian Outlook (September 14th, 2026); TD Canadian Quarterly Economic Forecast (September 17th, 2026); TD Provincial Economic Forecast (September 21st, 2026); BMO Rates Scenario (September 18th, 2026); BMO Provincial Economic Outlook (October 23rd, 2026); CIBC Forecast (September 14th, 2026); Scotiabank Forecast Tables (October 13th, 2026); National Bank Monthly Economic Monitor – Canada (October 19th, 2026).

¹⁰⁵ TD Bank. Provincial economic forecast. September 21st, 2026.

¹⁰⁶ Yahoo Finance. Unifor ratifies contract with GM, with C\$1.1bn investment planned. September 1st, 2026.

¹⁰⁷ SteelOrbis. Cleveland-Cliffs' Stelco to idle Hamilton finishing operations due to US tariffs. September 29th, 2026.

¹⁰⁸ Ibid.

¹⁰⁹ CTV News. Feds give U.S. owner of Stelco 5 days to explain planned layoffs at Hamilton plant. October 6th, 2026.

¹¹⁰ The Globe and Mail. Stelco says it is proceeding with Ontario layoffs after Ottawa issues ultimatum. October 10th, 2026.

¹¹¹ TD Bank. Provincial economic forecast. September 21st, 2026.

¹¹² Ibid.

non-durables (+0.5%) also rose, supported by a 1.5% gain in compensation of employees. Retail activity remained a relative bright spot, with output up 1.2% in the quarter, but this momentum is unlikely to persist: Ontario households carry among the highest debt-to-income ratios in the country, leaving consumption particularly sensitive to elevated debt-servicing costs as mortgages renew.¹¹³

The unemployment rate in Ontario edged up to 7.0% in September, up 0.1% from August. While down 0.9% compared to September 2025, the rate is meaningfully higher than the national unemployment rate of 6.5%. The softness is concentrated in service-producing industries. Employment in construction and manufacturing increased through mid-2026, while the services-producing sector posted minor losses. Ontario continues to record one of the highest unemployment rates among the provinces outside Atlantic Canada, amid ongoing trade uncertainty affecting the province's economy.¹¹⁴

In the 2026 Annual Planning Outlook ("APO"), the IESO's demand forecast reflects 65% growth by 2050, lower than the 75% growth estimate in the 2025 APO, and higher than the 60% growth estimate in the 2024 APO. The primary drivers are economic impacts, a lower electric vehicle forecast, and the success of enhanced energy efficiency measures.¹¹⁵

¹¹³ Province of Ontario. Ontario Economic Accounts. Updated October 5th, 2026.

¹¹⁴ Statistics Canada. Labour Force Survey, September 2026. October 9th, 2026.

¹¹⁵ IESO. 2026 Annual Planning Outlook. March 2026.

3 Cost of capital parameters – annual update

The OEB typically conducts its annual cost of capital parameter update using data as of September 29th in a given year, with rates becoming effective on January 1st of the following year. On October 31st, 2025 (using data as at September 29th, 2025), the OEB issued cost of capital parameters using updated methodologies (prescribed in OEB Decision dated March 27th, 2025) for rates effective in 2026.¹¹⁶ As part of this annual review, LEI has conducted an update of the cost of capital parameters for rates effective in 2027 using data as at September 29th, 2026.

3.1 Return on equity

The ROE is the allowed return on shareholders' invested capital that is comparable to the return that investors would expect to earn from other investments with similar levels of business risk. Using data as of September 29th, 2026, LEI calculated the updated ROE as 9.43% for 2027 (compared to the OEB-approved ROE of 9.11% for 2026). The increase in ROE is primarily driven by the increase in long-term GoC bond yields, partially offset by the tightening of utility bond spreads. See Appendix A for the detailed calculation.

3.2 Deemed long-term debt rate

The DLTDR reflects the interest rate that would be charged to an A-rated commercial business customer for a long-term (30-year) commercial loan. Utilizing data as of September 29th, 2026, the deemed long-term debt rate is determined to be 5.37% for 2027 (compared to the OEB-approved DLTDR of 4.73% for 2026), an increase of 0.64%.

Compared with the OEB-approved parameters for 2026, the increase in ROE and DLTDR for 2027 is driven primarily by the rise in long-term Government of Canada bond yields, which have increased by 0.69%. This reflects higher long-term policy interest rate expectations, notwithstanding the reductions in short-term policy rates implemented by the BoC.

According to the BoC, the rise in long-term yields is driven largely by a higher term premium.¹¹⁷ The Bank notes that investors now require greater compensation to take on an expanding global supply of government debt, and that the pickup in Canadian term premiums has moved closely in step with comparable shifts across other advanced economies. One suggested explanation is that, over the pandemic, central banks took up a sizeable portion of new issuance through asset purchase programs, holding yields down. As those programs have unwound, central banks have pulled back from buying government bonds and, in some instances, are actively shrinking their balance sheets by selling holdings into secondary markets. As a result, private investors have had to take on a far larger share of government debt at a time when governments' borrowing needs have risen.¹¹⁸ Canadian long-term bond yields have remained under upward pressure due to concerns on sovereign debt levels and expectations that central bank policy rates would need to increase to restrain inflation. The BoC noted that long-term bond yields had risen across major

¹¹⁶ OEB. EB-2025-0303. 2026 Cost of Capital Parameters. October 31st, 2025.

¹¹⁷ Bank of Canada. The rise in the Canadian term premium in a global context. March 2026.

¹¹⁸ Ibid.

economies, although the increase in Canadian yields was smaller than in several other advanced economies.¹¹⁹

Compared to OEB-approved parameters for 2026, the spread for A-rated utilities decreased by 0.05%. Compared to the base spread approved in EB-2024-0063, the current spread has declined by 0.31%. The increase in long-term bond yields is partially offset by the tightening of spreads. The tightening of credit spreads observed for Canadian utilities is consistent with the data observed for the US.¹²⁰ The spreads on US corporate bonds are at the lowest observed levels since the late 1990s.¹²¹ This continues to be the case as of September 2026.

3.3 Deemed short-term debt rate

The DSTDR is intended to reflect the interest rate a commercial bank would charge to an A-rated commercial business customer for a short-term loan (e.g., 3 months). The DSTDR estimated using data as of September 29th, 2026, is 2.99% for 2027 (an increase of 0.27% from the OEB-approved DSTDR of 2.72% for 2026). The observed increase is reasonable because short-term rates as of September 29th, 2026, embed some likelihood of a 0.25% increase in Q4 2026.^{122,123}

3.4 Reasonableness of the cost of capital parameters

Each value of the 2027 cost of capital parameters and the relationships between them have been assessed in the context of the current macroeconomic environment.¹²⁴

- LEI noted in its previous annual report that the ROE for 2026 (9.11%) is reasonable and reflective of the current macroeconomic outlook. The increase observed since then (ROE of 9.43% for 2027, based on September 29th, 2026 data) is directionally and proportionately consistent with the increase observed in DLTD, which in turn is primarily influenced by 30-year GoC bond yields. As such, the ROE for 2027 (as of September 29th, 2026) continues to be reasonable. It is also generally consistent with the ROEs approved by other Canadian energy regulators (see Section 4.1).
- LEI noted in its previous annual report that the DLTD for 2026 (4.73%) is reasonable, and consistent with the prevailing 30-year GoC bond yield and the spread observed between the 30-year GoC bond yield and the 30-year A-rated Canadian utility bond yield. As noted above in Section 3.2, it continues to be reasonable for 2027 based on the increases observed in the 30-year GoC bond yield and the offsetting declines in credit spreads observed since

¹¹⁹ Bank of Canada. Summary of governing council deliberations: Fixed announcement date of September 2, 2026. September 16th, 2026.

¹²⁰ Financial Times. US investment-grade credit spreads reach lowest level this century. January 23rd, 2026.

¹²¹ Federal Reserve Bank of St. Louis. ICE BofA US Corporate Index Option-Adjusted Spread (BAMLC0A0CM). Accessed on October 5th, 2026.

¹²² TMX. CRA – Three-Month CORRA Futures. Accessed on July 19th, 2026.

¹²³ Consistent with market expectations as of September 29th, 2026, the BoC increased the policy rates by 0.25% in its October 28th, 2026 meeting.

¹²⁴ LEI's scope for this report is to assess the reasonability of cost of capital parameter values (and not the underlying methodology, which was decided upon by the OEB following a contested proceeding in EB-2024-0063).

September 2025.

- LEI noted in its previous annual report that the DSTDR for 2026 (2.72%) is reasonable based on the 3-month GoC treasury yields observed in September 2025. As DSTDR represents a 3-month rate, the current value for 2027 (2.99%) is consistent with the strong market expectations of a 0.25% increase in overnight policy rates by the end of 2026.¹²⁵ The current DSTDR is also consistent with the prevailing 3-month GoC treasury yields (2.39% as of September 29th, 2026),¹²⁶ given a risk premium is expected over the risk-free GoC treasury yield when assessing reasonableness of the DSTDR. As such, the DSTDR for 2027 (as of September 29th, 2026) continues to be reasonable.

The ROEs approved by the OEB are legally obligated to meet the FRS. The FRS establishes a legal framework for setting a fair and reasonable return on capital for regulated electricity and gas utilities, as described in the text box below.

The Fair Return Standard ("FRS")

The FRS was articulated by the National Energy Board ("NEB") in its *RH-2004 Phase II Decision* (related to TransCanada PipeLines Cost of Capital), when it stated that three requirements must be satisfied to determine a fair and reasonable return on capital:

- a) **Comparable investment standard:** a fair or reasonable return on capital should be comparable to the return available from the application of invested capital to other enterprises of like risk;
- b) **Financial integrity standard:** should enable the financial integrity of the regulated enterprise to be maintained; and
- c) **Capital attraction standard:** should permit incremental capital to be attracted to the enterprise on reasonable terms and conditions.

Source: NEB. RH-2-2004. Phase II Reasons for Decision, TransCanada PipeLines Limited cost of capital. April 2005.

The OEB concluded in their Decision that the ROE of 9% met the FRS. Specifically, the Board stated: *"The OEB is setting the deemed ROE at 9.00% for 2025, which consists of a base ROE of 8.75% plus 25 basis points for flotation costs. The OEB has reviewed the results of the 2009 Cost of Capital Framework established in the 2009 Report over the past 15 years and concludes that it continues to satisfy the FRS."*¹²⁷ LEI believes that a reasonable range of ROEs (and not necessarily a single number) meets the FRS requirement. The updated ROE (of 9.43%) following the formulaic adjustments for 2027 rates remains within the reasonable range,¹²⁸ and is reflective of current macroeconomic conditions, including the observed changes over the last year in the LCBF. As such, LEI believes that the FRS continues to be met.

¹²⁵ Consistent with market expectations as of September 29th, 2026, the BoC increased the policy rates by 0.25% in its October 28th, 2026 meeting.

¹²⁶ The 3-month GoC treasury yield was 2.42% as of September 29th, 2025, and 2.39% as of September 29th, 2026 (September 30th is a federal holiday in Canada). Source: [Bank of Canada](https://www.bankofcanada.ca/rates/).

¹²⁷ OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

¹²⁸ LEI's submission in the Generic Proceeding (EB-2024-0063) recommended a reasonable range of ROEs spanning between 8.16% and 10.15%. Source: OEB. EB-2024-0063. Undertaking response J2.2: To provide an updated ROE, DSTDR, and DLTD using current data (EB-2024-0063). October 8th, 2024.

4 Scan of approved ROEs and credit ratings

4.1 ROEs approved by regulators across Canada

LEI scanned the prevailing return on equity ("ROE") and equity ratios allowed by energy regulators across Canadian provinces and territories. Similar to the last update, the approved ROEs range between 8.3% and 10% (see Figure 12 below). The OEB-approved ROE for 2027 rates (i.e., 9.43%) is close to the higher end of the range of approved ROEs observed below. This is likely because most other jurisdictions have not yet revised their approved ROEs to reflect the recent increase in 30-year GoC bond yields. As most Canadian jurisdictions set ROEs through periodic regulatory proceedings rather than an automatic formula-based adjustment, their approved ROEs may increase with a lag, if upward pressure on the GoC long-term bond yields persist.

Figure 12. ROEs and capital structure approved by other Canadian energy regulators

ROE Jurisdictional Scan (as of October 23, 2026)				
Jurisdiction	Customers (distribution)	ROE	Equity Ratio	Notes
Alberta	1,790,000	9.02%	All Dx & Tx: 37%; Apex Utilities: 39%	
British Columbia (FortisBC)	195,300	9.65%	FortisBC Inc. (Electric): 41% FortisBC Energy Inc. (Gas): 45%	
Manitoba	920,000	Manitoba Hydro ("MH"): 4.5%	MH: 25%	Projected 2026 ROE based on a 3.5% rate path
New Brunswick	400,000	10.00%	20%	
Newfoundland and Labrador	271,000	8.60%	45%	
Northwest Territories	43,000	Northwest Territories Power Corporation ("NTPC"): 9.00% Naka Power Utilities (Yellowknife) ("Naka-YK"): 9.83%	NTPC: 37% Naka-YK: 42%	Naka-YK and Naka-NWT amalgamated as Naka Power Utilities (NWT) Ltd. effective January 1, 2026. Its 2026-2028 GRA (filed April 30, 2026) is still under review by the NWT Public Utilities Board, and pre-amalgamation rates remain in place on an interim refundable basis. The Naka-YK figures listed here are the last approved (2025).
Nova Scotia	525,000	9.00%	40%	
Ontario	5,461,297	9.11%	All Dx & Tx: 40% Generation (OPG): 45% Enbridge Gas: 38%	
PEI	87,000	9.35%	40%	
Quebec	4,400,000	Energir: 8.9%	Energir: 46%	
Saskatchewan	560,000	SaskEnergy: 8.30% SaskPower: 8.50%	SaskEnergy: 37% - 42% SaskPower: 25%-40%	The ROEs are long-term targets reviewed by the Saskatchewan Rate Review Panel and approved by the Crown Investments Corporation ("CIC"). CIC also sets the range for the target capital structure.
Yukon	Yukon Energy Corporation ("YEC"): 2,300; ATCO Electric Yukon: 20,300	YEC: 9.15%; ATCO Electric Yukon: 9.50%	YEC: 40%; AEY: 40%	The Yukon Utilities Board approved YEC's ROE of 9.15% (after application of OIC 1995/90) and a 60/40 debt/equity capital structure for the 2025-2027 test years. ATCO Electric Yukon has an allowed ROE of 9.50% for 2024; the 2025-2026 allowed ROE has not yet been determined by the Yukon Utilities Board.

Sources: Alberta Utilities Commission, British Columbia Utilities Commission, New Brunswick Power Corp., Newfoundland & Labrador Board of Commissioners of Public Utilities, NTPC, Naka-YK, Nova Scotia Power, OEB, Government of Prince Edward Island, DBRS, Saskatchewan Rate Review Panel, SaskPower, YEC, and ATCO Electric Yukon.

4.2 Credit rating updates for a sample of Ontario entities

LEI conducted a comparative review of credit ratings for a representative sample of OEB-regulated entities, the IESO, and the Province of Ontario.

With the exception of the IESO, which was most recently assessed in 2021, Figure 13 and Figure 14 compare prevailing 2025/2026 credit ratings (by S&P and DBRS) against those observed in

2024/2025. The purpose of this review is to identify any notable shifts (over the previous year) that could signal changes in credit risk for Ontario entities. With the exception of Elexicon Energy Inc., which DBRS downgraded one notch from A to A (low) in October 2025, LEI did not observe any changes since the last update.¹²⁹

Figure 13. S&P credit rating updates for a sample of OEB-regulated entities

Distributor	Legal Entity/Parent Company	S&P Issuer Rating	S&P senior unsecured rating	S&P Last Review Date	S&P Previous Review Date	Same as the previous rating (Yes/No)
Electricity distribution						
Alectra Utilities Corporation	Alectra Inc	A-	A-	5/21/2026	5/27/2025	Yes
Algoma Power Inc.	Fortis Inc	A-	BBB+	3/25/2026	11/6/2025	Yes
Canadian Niagara Power	Fortis Inc	A-	BBB+	3/25/2026	11/6/2025	Yes
Cornwall Street Railway Light and Power	Fortis Inc	A-	BBB+	3/25/2026	11/6/2025	Yes
ENWIN Utilities Ltd.	Windsor Canada Utilities Ltd.	A	A	10/24/2025	10/15/2024	Yes
Hydro One Networks Inc	Hydro One Limited	A	A-	9/16/2026	9/25/2025	Yes
Hydro One Remote Communities Inc.	Hydro One Limited	A	A-	9/16/2026	9/25/2025	Yes
London Hydro Inc.	London Hydro Inc.	A	N/A	3/25/2026	4/12/2024	Yes
Toronto Hydro-Electric System Limited	Toronto Hydro Corporation	A+	A+	4/21/2026	4/28/2025	Yes
Gas distribution						
Enbridge Gas Distribution Inc.	Enbridge Gas Inc.	A-	A-	1/16/2026	6/11/2025	Yes
Generation						
Ontario Power Generation Inc.	Ontario Power Generation Inc.	BBB+	BBB+	6/18/2026	4/2/2026	Yes
Ontario						
Province of Ontario		AA-	AA-	6/4/2026	6/19/2025	Yes

Source: S&P.

Figure 14. DBRS credit rating updates for a sample of OEB-regulated entities

Distributor	Legal Entity/Parent Company	DBRS Issuer Rating	DBRS senior rating	DBRS Short Term	DBRS Preferred Share	DBRS Last Review Date	DBRS Previous Review Date	Same as the previous rating (Yes/No)
Electricity distribution								
Alectra Utilities Corporation	Alectra Inc	A	A	R-1 (low)		7/2/2026	7/3/2025	Yes
Algoma Power Inc.	Fortis Inc	A	A		Pfd-2 (low)	5/1/2026	5/6/2025	Yes
Canadian Niagara Power	Fortis Inc	A	A		Pfd-2 (low)	5/1/2026	5/6/2025	Yes
Cornwall Street Railway Light and Power	Fortis Inc	A	A		Pfd-2 (low)	5/1/2026	5/6/2025	Yes
Elexicon Energy Inc.	Elexicon Corporation	A (low)				10/20/2025	6/21/2024	No (downgraded from "A")
Enova Power Corp.	Enova Power Corp.	A	A			1/22/2026	9/23/2025	Yes
Hydro One Networks Inc.	Hydro One Limited	A	A			11/13/2025	11/11/2024	Yes
Hydro One Remote Communities Inc.	Hydro One Limited	A	A			11/13/2025	11/11/2024	Yes
Toronto Hydro-Electric System Limited	Toronto Hydro Corporation	A	A	R-1 (low)		4/24/2026	4/25/2025	Yes
Milton Hydro	Milton Hydro Holding Inc.	A	A			8/15/2025	8/14/2024	Yes
Gas distribution								
Enbridge Gas Distribution Inc.	Enbridge Gas Inc.	A	A	R-1 (low)		9/18/2026	9/25/2025	Yes
EPCOR Electricity Distribution	EPCOR Utilities Inc.	A	A	R-1 (low)		12/10/2025	1/13/2025	Yes
Ontario Inc.	EPCOR Utilities Inc.	A	A	R-1 (low)		12/10/2025	1/13/2025	Yes
Generation								
Ontario Power Generation Inc.	Ontario Power Generation Inc.	A	A	R-1 (low)		4/27/2026	4/21/2025	Yes
Ontario								
Province of Ontario		AA	AA	R-1 (high)		6/5/2026	12/5/2025	Yes

Source: DBRS.

¹²⁹ DBRS noted in October 2025 that the rating downgrade was driven by sustained weakening of the Elexicon Energy's financial risk profile relative to the prior credit rating level, driven by higher operating costs, inflationary pressures, and increased borrowing to fund an elevated multiyear investment program. DBRS maintained this outlook in October 2026.

5 Appendix A: Cost of capital parameter calculations

Figure 15. ROE, DLTD, and DSTDR calculation

Cost of Capital Parameter Calculations (For rate changes effective in 2027)		
Long Canada Bond Forecast		
Long Canada (30-year Government of Canada) Bond yield actual data point as at the last business day of the quarter		4.300 %
Long Canada Bond Forecast (LCBF) based on September 2026 data		4.300 %
A-rated Utility Bond Yield Spread		
Long Canada Bond Forecast (LCBF)		4.300 %
Bloomberg BVCAUA30 BVLI Index as at the last business day of the quarter		5.370 %
A-rated Utility Bond Yield Spread based on September 2026 data		1.070 %
Return on Equity (ROE) Forecast		
Initial ROE		9.00 %
Change in Long Canada Bond Yield Forecast from EB-2024-0063 Decision		
LCBF (September 2026)	4.300 %	
Base LCBF	3.130 %	
Difference	1.170 %	
0.5 x Difference		0.585 %
Change in A-rated Utility Bond Yield Spread from EB-2024-0063 Decision		
A-rated Utility Bond Yield Spread (September 2026)	1.070 %	
Base A-rated Utility Bond Spread	1.380 %	
Difference	-0.310 %	
0.5 x Difference		-0.155 %
Return on Equity based on September 2026 data		9.43 %
Deemed Long Term Debt Rate Forecast		
Long Canada Bond Forecast for September 2026		4.300 %
A-rated Utility Bond Yield Spread September 2026		1.070 %
Deemed Long-term Debt Rate based on September 2026 data		5.37 %
Deemed Short Term Debt Rate Forecast		
Bloomberg BVCAUA3M BLVI Index as at the last business day of the quarter		2.991 %
Deemed Short-term Debt Rate based on September 2026 data		2.99 %

Sources: Bloomberg, Bank of Canada.

6 Appendix B: OEB cost of capital methodology

The OEB updated the cost of capital methodology on March 27th, 2025.¹³⁰ This was the first major review since the 2009 review.¹³¹ The overall methodology for updating the ROE annually largely remains the same, with updates to the base values based on September 2024 data (see Figure 16). Like the previous methodology, the OEB will update the ROE annually.

Figure 16. ROE formula

$$ROE_t = \text{Base ROE (9\%)} + 0.5 \times (\text{LCBF}_t - \text{Base LCBF}) + 0.5 \times (\text{UtilBondSpread}_t - \text{BaseUtilBondSpread})$$

where:

- ROE_t = Return on Equity for the year t
- $LCBF_t$ = Long Canada Bond Forecast, i.e., Long Canada (30-year Government of Canada) Bond yield actual data point as at September 30 for the year before year t
- Base LCBF = 3.13%
- $UtilBondSpread_t$ = the spread between 30-year A-rated Utility Corporate Bond yield and Long Canada (30-year Government of Canada) Bond Yield, using actual data points as at September 30 for the year before year t
- BaseUtilBondSpread = 1.38%

Source: OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

The DLTDR computation is updated to consider the actual values as at September 30th of the year before (compared to an average of all September days in the previous methodology). It also considers the actual 30-year Government of Canada bond yield instead of the forward-looking methodology that was previously used (see Figure 17 below).

Figure 17. DLTDR formula

$$DLTDR_t = LCBF_t + UtilBondSpread_t$$

where:

- $LCBF_t$ = Long Canada Bond Forecast, i.e., Long Canada (30-year Government of Canada) Bond yield actual data point as at September 30 for the year before year t
- $UtilBondSpread_t$ = the spread between 30-year A-rated Utility Corporate Bond yield (taken from ticker Bloomberg BVCAUA30 BVLI Index) and Long Canada (30-year Government of Canada) Bond Yield, using actual data points as at September 30 for the year before year t

Source: OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

¹³⁰ OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

¹³¹ OEB. EB-2009-0084: *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. December 11, 2009.

The DSTDR computation is updated to consider the actual values as at September 30th of the year before (compared to an average of all September days in the previous methodology). The OEB has also removed the annual bank survey from the previous methodology (see Figure 18 below).

Figure 18. DSTDR formula

$$\text{DSTDR}_t = \text{BVCAUA3M BVLI}_t$$

where:

- BVCAUA3M BVLI_t = the Bloomberg ticker BVCAUA3M BVLI Index (3-month), with the data point as at September 30, taken from Bloomberg LP, for the year before year t.

Source: OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

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