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## BY E-MAIL AND WEB POSTING

November 15, 2012

To: All Licensed Electricity Distributors and Transmitters  
All Gas Distributors  
Ontario Power Generation Inc.  
All Registered Intervenors in 2013 Cost of Service Applications

**Re: Cost of Capital Parameter Updates for 2013 Cost of Service Applications for Rates Effective January 1, 2013**

The Ontario Energy Board (the "Board") 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 the 2013 cost of service applications for rates effective January 1, 2013. The ROE and the 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* (the "Report"), issued December 11, 2009.

### Cost of Capital parameters for rates effective January 1, 2013

For rates with effective dates of January 1, 2013, the Board has updated the Cost of Capital parameters based on: (i) the September 2012 survey from Canadian banks for the spread over the Bankers' Acceptance rate of 3-month short-term loans for R1-low or A:- (A-stable) commercial customers for the short-term debt rate; and (ii) data for three months prior to the effective date of January 1, 2013 from the Bank of Canada, *Consensus Forecasts*, and Bloomberg LLP, per the methodologies documented in the Report.

The Board has determined that the updated Cost of Capital parameters for 2013 cost of service rate applications for rates effective January 1, 2013 are:

<b>Cost of Capital Parameter</b>	<b>Value for 2013 Cost of Service Applications for January 1, 2013 rate changes</b>
ROE	8.93%
Deemed LT Debt rate	4.03%
Deemed ST Debt rate	2.08%

Detailed calculations of the Cost of Capital parameters are attached.

The Board 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.

Updated Cost of Capital parameters for rates effective May 1, 2013 will be published once data for January 2013 become available.

All queries on the Cost of Capital parameters should be directed to the Board's Market Operations hotline, at 416-440-7604 or [market.operations@ontarioenergyboard.ca](mailto:market.operations@ontarioenergyboard.ca).

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary

Attachment

**Cost of Capital Parameter Calculations**  
**Return on Equity and Deemed Long-term Debt Rate**

**Step 1: Analysis of Business Day Information in the Month**

Month:		September 2012			Bond Yields (%)		Bond Yield Spreads (%)	
Day		Government of Canada		A-rated Utility	30-yr Govt over 10-yr Govt	30-yr Util over 30-yr Govt		
		10-yr	30-yr	30-yr				
1	1-Sep-12							
2	2-Sep-12							
3	3-Sep-12							
4	4-Sep-12	1.74	2.31	3.78	0.57	1.47		
5	5-Sep-12	1.75	2.33	3.80	0.58	1.47		
6	6-Sep-12	1.84	2.40	3.87	0.56	1.47		
7	7-Sep-12	1.85	2.43	3.90	0.58	1.47		
8	8-Sep-12							
9	9-Sep-12							
10	10-Sep-12	1.83	2.42	3.88	0.59	1.46		
11	11-Sep-12	1.85	2.44	3.91	0.59	1.47		
12	12-Sep-12	1.90	2.49	3.95	0.59	1.46		
13	13-Sep-12	1.88	2.47	3.93	0.59	1.46		
14	14-Sep-12	1.97	2.54	4.01	0.57	1.47		
15	15-Sep-12							
16	16-Sep-12							
17	17-Sep-12	1.94	2.52	3.98	0.58	1.46		
18	18-Sep-12	1.91	2.49	3.94	0.58	1.45		
19	19-Sep-12	1.89	2.46	3.91	0.57	1.45		
20	20-Sep-12	1.86	2.42	3.88	0.56	1.46		
21	21-Sep-12	1.85	2.42	3.86	0.57	1.44		
22	22-Sep-12							
23	23-Sep-12							
24	24-Sep-12	1.82	2.39	3.83	0.57	1.44		
25	25-Sep-12	1.81	2.38	3.82	0.57	1.44		
26	26-Sep-12	1.75	2.33	3.76	0.58	1.43		
27	27-Sep-12	1.75	2.35	3.78	0.60	1.43		
28	28-Sep-12	1.73	2.32	3.77	0.59	1.45		
29	29-Sep-12							
30	30-Sep-12							
31								
		1.84	2.42	3.87	<b>0.578</b>	<b>1.455</b>		

Sources: Bank of Canada      Bloomberg L.P.      ①      ②

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

Source: Consensus Forecasts	Publication Date: September 10, 2012
September 2012	3-month 1.800      12-month 2.200      Average 2.000 %

**Step 3: Long Canada Bond Forecast**

10 Year Government of Canada Concensus Forecast (from Step 2)	③ 2.000 %
Actual Spread of 30-year over 10-year Government of Canada Bond Yield (from Step 1)	① 0.578 %
<b>Long Canada Bond Forecast (LCBF)</b>	<b>④ 2.578 %</b>

**Step 4: Return on Equity (ROE) forecast**

Initial ROE	9.75 %
Change in Long Canada Bond Yield Forecast from September 2009	
LCBF (September 2012) (from Step 3)	④ 2.578 %
Base LCBF	4.250 %
Difference	-1.672 %
0.5 X Difference	-0.836 %
Change in A-rated Utility Bond Yield Spread from September 2009	
A-rated Utility Bond Yield Spread (September 2012) (from Step 1)	② 1.455 %
Base A-rated Utility Bond Yield Spread	1.415 %
Difference	0.040 %
0.5 X Difference	0.020 %
<b>Return on Equity based on September 2012 data</b>	<b>8.93 %</b>

**Step 5: Deemed Long-term Debt Rate Forecast**

Long Canada Bond Forecast for September 2012 (from Step 3)	④ 2.578 %
A-rated Utility Bond Yield Spread September 2012 (from Step 1)	② 1.455 %
<b>Deemed Long-term Debt Rate based on September 2012 data</b>	<b>4.03 %</b>

**References on Calculation Methods:**

- **Return on Equity:** Appendix B of the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009.
- **Deemed Long-term Debt Rate:** Appendix C of the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009.

## Cost of Capital Parameter Calculations Deemed Short-term Debt Rate

**Step 1:** Average Annual Spread over Bankers' Acceptance

Once a year, in January, Board staff contacts prime Canadian banks to get estimates for the spread of short-term (typically 90-day) debt issuances over Bankers' Acceptance rates. Up to six estimates are provided.

A.	over 90-day Bankers Acceptance (basis points)		Date of input
Bank 1	105.0	bps	Sept., 2012
Bank 2	82.5	bps	Sept., 2012
Bank 3	100.0	bps	Sept., 2012
Bank 4	80.0	bps	Sept., 2012
Bank 5	80.0	bps	Sept., 2012
Bank 6			

B.	Discard high and low estimates If less than 4 estimates, take average without discarding high and low.	
Number of estimates	5	
High estimate	105.0	bps
Low estimate	80.0	bps

C.	Average annual Spread	87.500	bps	①
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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 Bankers' Acceptance Rate (Step 2)

Average Annual Spread	0.875	%	①
Average Bankers' Acceptance Rate	1.204	%	②
<b>Deemed Short Term Debt Rate</b>	<b>2.08</b>	<b>%</b>	

**Step 2:** Average 3-month Bankers' Acceptance Rate

Calculation of Average 3-month Bankers' Acceptance Rate during month of September 2012

Month:	September 2012	
Day	Bankers' Acceptance Rate (%) 3-month	
1	1-Sep-12	
2	2-Sep-12	
3	3-Sep-12	Bank holiday %
4	4-Sep-12	1.21 %
5	5-Sep-12	1.21 %
6	6-Sep-12	1.21 %
7	7-Sep-12	1.21 %
8	8-Sep-12	
9	9-Sep-12	
10	10-Sep-12	1.21 %
11	11-Sep-12	1.21 %
12	12-Sep-12	1.21 %
13	13-Sep-12	1.21 %
14	14-Sep-12	1.20 %
15	15-Sep-12	
16	16-Sep-12	
17	17-Sep-12	1.20 %
18	18-Sep-12	1.20 %
19	19-Sep-12	1.20 %
20	20-Sep-12	1.20 %
21	21-Sep-12	1.20 %
22	22-Sep-12	
23	23-Sep-12	
24	24-Sep-12	1.20 %
25	25-Sep-12	1.20 %
26	26-Sep-12	1.20 %
27	27-Sep-12	1.20 %
28	28-Sep-12	1.19 %
29	29-Sep-12	
30	30-Sep-12	
31		1.204 %

②

Source: Bank of Canada / Statistics Canada  
Series V39071

**Reference on Calculation Method:**

- Appendix D of the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009.