



October 31, 2025

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenor in 2026 Cost-based Applications
All Other Interested Parties

Re: **2026 Cost of Capital Parameters**
Ontario Energy Board File Number: EB-2025-0303

What You Need to Know

- The Ontario Energy Board (OEB) is issuing the 2026 cost of capital parameters.
- The OEB has concluded that the 2026 cost of capital parameters updated through the formulae, as approved in the 2025 Cost of Capital Decision,¹ are reasonable and continue to meet the Fair Return Standard (FRS).
- The 2026 cost of capital parameters are to be used in 2026 cost-based rate applications.

The OEB has determined the values for return on equity (ROE), deemed long-term debt rate (DLTDR), and deemed short-term debt rate (DSTDR) for use in 2026 cost-based applications. Collectively, the ROE, DLTDR and DSTDR are referred to as the cost of capital parameters.

The 2026 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

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

² *Ibid.*

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Cost of Capital Parameters for 2026 Cost-Based Rates

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 2026, are:

Cost of Capital Parameter	Value for 2026 rate change applications
ROE	9.11%
DLTDR	4.73%
DSTDR	2.72%

Detailed calculations of the cost of capital parameters may be referenced in the attachment titled “Schedule A – 2026 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 – 2026 Cost of Capital Parameters”.

The OEB has assessed each value of the 2026 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 2026 cost of capital parameters are reasonable.

The OEB monitors macroeconomic conditions and may issue updated cost of capital parameters if economic conditions materially change. Further, an applicant or intervenors can file evidence in individual rate hearings to support different cost of capital parameters due to their specific circumstances.

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
Acting Registrar

Attachment: Schedule A – 2026 Cost of Capital Parameter Calculations
Schedule B – Expert Report – 2026 Cost of Capital Parameters

**SCHEDULE A
OEB LETTER
2026 COST OF CAPITAL PARAMETER CALCULATIONS
OCTOBER 31, 2025**

Schedule A - 2026 Cost of Capital Parameter Calculations					
Return on Equity, Deemed Long-term Debt Rate, and Deemed Short-term Debt Rate					
Data as of September 2025					
Date of Update:	September 29, 2025				
Long Canada Bond Forecast					
Long Canada Bond Forecast (LCBF)					
Long Canada (30-year Government of Canada) Bond yield September 2025				¹	3.610 %
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 2025				²	4.726
Long Canada (30-year Government of Canada) Bond yield September 2025					3.610
Spread					1.116
2026 Return on Equity (ROE)					
Initial ROE					9.00 %
Change in Long Canada Bond Yield Forecast from September 2024					
LCBF September 2025				3.610 %	
Base LCBF				3.130 %	
Difference				0.480 %	
0.5 X Difference					0.240 %
Change in 30-year A-rated Utility Corporate Bond Yield Spread from September 2024					
30-Year A-rated Utility Corporate Bond Yield Spread September 2025				1.116 %	
Base 30-Year A-rated Utility Corporate Bond Yield Spread				1.380 %	
Difference				-0.264 %	
0.5 X Difference					-0.132 %
Return on Equity Based on Data: September 2025					9.11 %
2026 Deemed Long-term Debt Rate (DLTDR)					
Long Canada Bond Forecast September 2025					3.610 %
30-year A-rated Utility Corporate Bond Yield Spread September 2025					1.116 %
Deemed Long-term Debt Rate Based on Data: September 2025					4.73 %
2026 Deemed Short-term Debt Rate (DSTDR)					
3-month Utility Bond Yield BVCAUA3M BVLI Index September 2025				²	2.715 %
Deemed Short-term Debt Rate Based on Data: September 2025					2.72 %
2026 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 2025					6.40 %
¹ Source: Bank of Canada					
² Source: Bloomberg					

**SCHEDULE B
OEB LETTER
EXPERT REPORT – 2026 COST OF CAPITAL PARAMETERS
OCTOBER 31, 2025**

Cost of capital parameters update and macroeconomic outlook – Q3 2025

prepared for the Ontario Energy Board by London Economics International LLC

October 30th, 2025



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 the DSTDR. Using data as of September 30th, 2024, and updated methodologies for ROE, DLTDR, and DSTDR, the OEB approved an ROE of 9% (base ROE of 8.75% plus 25 basis points for flotation costs), DLTDR of 4.51%, and DSTDR of 3.91% for 2025. Using the updated methodologies and data as of September 30th, 2025, the ROE is 9.11% (an increase of 0.11% since September 2024), the DLTDR is 4.73% (an increase of 0.22% since September 2024), and the DSTDR is 2.72% (a decrease of 1.19% since September 2024).

The Bank of Canada lowered its policy rate - by 0.25% in its September 2025 meeting and again in its October 2025 meeting) - to 2.25% (as of October 29, 2025), following a six-month hold at 2.75% since March 2025. Canadian markets currently expect the Bank of Canada to hold its policy rate at 2.25% likely through 2026. The US Federal Reserve also reduced its policy rate by 0.25% in its September 2025 and October 2025 meetings, to a target range of 3.75%-4.00%. US markets expect another 0.25% reduction in December 2025 (63% chance as of October 29th after the press conference with Chair Jerome Powell). It is worth noting that there remain considerable uncertainties regarding the range of policy rate reductions in 2026.

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1 Executive summary

This annual 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 in the last year, with particular focus on the third quarter of 2025;
- a review of the ongoing economic impact of the major driver of global economic uncertainty, i.e., the uncertainties stemming from US trade policies;
- 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 (“DSTD”), with emphasis on the variance between cost of capital parameters determined using September 2024 data (in the OEB decision dated March 27th, 2025) and using September 2025 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 2026 cost of capital parameters and the relationships between them have been assessed in the context of the current macroeconomic environment. With regards to 2026 cost of capital parameters:

- The ROE for 2026 (9.11%) is reasonable, reflecting the current macroeconomic outlook, and aligns with the changes observed in 30-year bond yields and tightening credit spreads. It is also generally consistent with the ROEs approved by other Canadian energy regulators (as shown in Figure 10). As discussed later in Section 3.4, LEI believes the FRS continues to be met.
- The DLTDR for 2026 (4.73%) is reasonable, and is consistent with the prevailing 30-year GoC bond yield (average of ~3.7% in September 2025) and the spread observed between

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 27, 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.

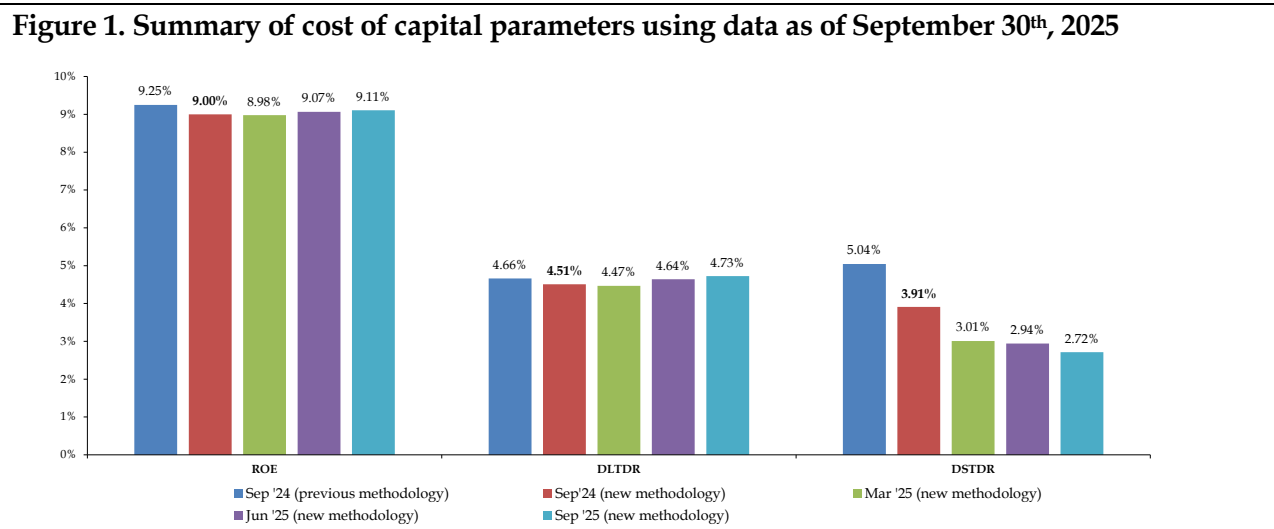
³ OEB. EB-2024-0063: A generic proceeding commenced by the Ontario Energy Board on its own motion to consider the cost of capital parameters and deemed capital structure to be used to set rates. March 27th, 2025.

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

the 30-year GoC bond yield and the A-rated Canadian utility bond spread (average of ~1.1% in September 2025).

- The DSTDR for 2026 (2.72%) is reasonable, and consistent with the prevailing 3-month GoC treasury yields (~2.24%),⁵ given a risk premium is expected to be added to the risk-free GoC treasury yield when assessing reasonableness of the DSTDR.

The comparative summary for the cost of capital parameters from recent updates is outlined in Figure 1 below.



On March 27th, 2025, the OEB issued the following approved cost of capital parameters using updated methodologies for rates effective in 2025 (using data as of September 30th, 2024): ROE of 9%, DLTDR of 4.51%, and DSTDR of 3.91%.⁶ Compared with these values, LEI's current update using data as of September 30th, 2025, results in an increase in ROE (of 0.11%), an increase in DLTDR (of 0.22%), and a decrease in DSTDR (of 1.19%).

Compared to OEB-approved parameters, the increase in ROE and DLTDR is primarily driven by the increase in long-term Government of Canada ("GoC") bond yields (increase in 0.48%) as long-term policy interest rate expectations have increased despite significant BOC-led reductions in short-term policy interest rates. The increase is potentially driven by expectations of a higher budget deficit and stable inflation of 2.50% over the long term.^{7,8} For instance, inflation expectations 5 years ahead have increased from ~2.5% as expected in much of 2024, compared to

⁵ As of October 28th, 2025, the 3-month GoC treasury yield was 2.24%. The 3-month GoC treasury yield was 2.42% as of September 29th, 2025 (September 30th is a federal holiday in Canada). Source: [Bank of Canada](#).

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 National Bank of Canada. [Monthly Fixed Income Monitor](#). July/August 2025.

⁸ Bank of Canada. [Business Outlook Survey – Third Quarter of 2025](#). October 20th, 2025.

2.62% expected in June 2025.^{9,10} The spread for A-rated utilities has decreased by 0.26%; however, the increase in long-term bond yields has outweighed the tightening of spreads. The tightening of credit spreads observed for Canadian utilities is consistent with the data observed for the US, with some investors warning that the credit markets are *'weirdly confident'*.¹¹

The reduction in DSTDR is primarily driven by the BoC's cumulative policy rate cuts of 1.75% between October 2024 and September 2025. A summary of changes to the cost of capital parameters is shown in Figure 2 below.

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 2024 data (previous methodology)	9.25%	4.66%	5.04%
Value based on September 2024 data (new methodology)	9.00%	4.51%	3.91%
Value based on June 2025 data (new methodology)	9.07%	4.64%	2.94%
Value based on September 2025 data (new methodology)	9.11%	4.73%	2.72%
Difference (since September 2024 - previous methodology)	-0.14%	0.07%	-2.32%
Difference (since September 2024 - new methodology)	0.11%	0.22%	-1.19%
Difference (since June 2025 - new methodology)	0.04%	0.09%	-0.22%

Source: LEI analysis.

Applying the updated parameters (using September 2025 data) to the deemed capital structure (i.e., 40% equity, 56% long-term debt, and 4% short-term debt) yields a WACC of 6.40%, which is slightly higher than the 6.28% WACC approved by the OEB, due to increases in ROE and DLTDR.

The yield curve for the Government of Canada's ("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). 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 2025; however, the difference appears to have peaked at ~0.7% (see Figure 3).

⁹ Ibid.

¹⁰ 3-month moving average considered for inflation expectations, as monthly data can be volatile.

¹¹ Financial Times. US credit spreads hit lowest level this century after sharp rally. August 15th, 2025.

Figure 3. Yield curve – GoC 10-year bond yield minus GoC 2-year bond yield (%)



Source: Statistics Canada.

After keeping the policy rates steady at a target range of 4.25%-4.50% in 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 and October 2025 meetings.¹² Markets expect a 0.25% additional reduction in December 2025 (probability of 63% as of October 29th).¹³ Further, there are considerable uncertainties regarding the range of reductions in 2026.¹⁴ Significant further reductions in 2026 may be less likely if US economic momentum continues, and if inflation continues to be stubbornly above target.^{15,16}

The Fed’s preferred inflation indicator in the US, personal consumption expenditures excluding food and energy (or “core PCE”), remains above the Fed’s target of 2% (annualized 6-month moving average of 2.76% in August 2025), with its future trajectory clouded by uncertainty related to tariffs. The unemployment rate has inched up slightly to 4.3%, the highest since October 2021, but it remains low relative to the long-term average (20-year average of 5.8%), and labor market conditions remain stable despite a slight cooldown. However, the US labor market showed sufficient concerns to warrant a 0.25% reduction in the policy rate in September 2025.¹⁷ It is notable that the Fed Chair has been under increasing pressure from the US President to lower the policy interest rate, raising concerns about the Fed’s independence.¹⁸

The US economy faces continued headwinds, particularly from tariffs announced since April 2025. Based on US government announcements as of September 26th, 2025, US consumers face an

¹² US Federal Reserve. [Federal Reserve issues FOMC statement](#). October 29th, 2025.

¹³ CME. [FedWatch](#). Accessed on October 29th, 2025.

¹⁴ Ibid.

¹⁵ The Wall Street Journal. [Fed Rate Cuts Look Less Likely in 2026, Boosting Dollar](#). Updated October 13th, 2025.

¹⁶ The Overshoot. [Inflation is Persistent and Consumers are Flush. Falling Rates Could be Dangerous](#). September 14th, 2025.

¹⁷ The Wall Street Journal. [U.S. Lost 32,000 Jobs in September, Says Payroll Processor](#). October 1st, 2025.

¹⁸ The New York Times. [Behind Trump’s War With Powell: A Battering Ram With 3 Million Followers](#). July 25th, 2025.

overall average effective tariff rate of 17.9% (based on 2024 import mix), the highest since 1934. After consumption shifts due to price changes caused by tariffs, the average tariff rate is expected to be 16.7%, the highest since 1936.¹⁹

The annualized GDP for the US declined by 0.5% in Q1 2025; US GDP growth bounced back to positive 4.5% in Q2 2025.²⁰ The growth is expected to remain strong at ~3.8% in Q3 2025.²¹ However, if the ongoing government shutdown continues through October or beyond, it may negatively impact the growth outlook for Q4 2025. The current US administration's policies compound the tariff concerns by threatening the Fed's independence and by significantly increasing budget deficits through its recently passed "One Big Beautiful Bill Act". This legislation is expected to add approximately \$3 trillion to the deficit over the next decade, after accounting for the modest boosts to economic growth that may be generated from a reduction in tax rates.²²

The Bank of Canada ("BoC") reduced its policy rate by 0.25% in its September 2025 and again in its October 2025 meeting to 2.25% (as of October 29, 2025) after maintaining the rate at 2.75% since March 2025 (the policy rate had reduced from the peak of 5% in April 2024 to 2.75% in March 2025).²³ The markets expect that the BoC will hold the policy rate at 2.25% likely through 2026.²⁴ The low growth outlook and high unemployment rate drove the rate cuts in September and October. The average of real GDP growth forecasts from three Canadian banks (TD, RBC, and BMO) is 1.3% for 2025 and 2026. The BoC's forecasts are similar at 1.2% for 2025 and 1.1% for 2026.²⁵

¹⁹ The Budget Lab. State of U.S. Tariffs. September 26th, 2025.

²⁰ St. Louis Fed. Real Gross Domestic Product (GDPC1). Accessed on October 14th, 2025.

²¹ Federal Reserve Bank of Atlanta. GDPNow. Accessed on October 14th, 2025.

²² The New York Times. How Bad Is This Bill? The Answer in 10 Charts. July 3rd, 2025.

²³ Bank of Canada. Policy interest rate. Accessed on October 14th, 2025.

²⁴ TMX. CRA - Three-Month CORRA Futures. Accessed on October 29th, 2025.

²⁵ BoC. Monetary Policy Report. October 29th, 2025.

2 Macroeconomic outlook

This section identifies the most important factors impacting the global and regional economies in the third quarter of 2025. We also consider the consensus research and expectations for 2025 and 2026 following recent developments. A summary of this research is presented in Figure 4 below.

Figure 4. Summary of macroeconomic outlooks for 2025

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	Same	Expectations for short-term policy rate reductions have largely stabilized	Progress towards target rates has slowed, with some fears of a potential increase due to tariffs	- Global growth projections are lower compared to pre-Trump administration projections, but virtually unchanged compared to July 2025 projections - The US macroeconomic outlook is mixed with annualized Q2 2025 GDP growth bouncing back to 4.5%, with Q3 2025 GDP forecasts remaining robust - The US labour market is showing minor signs of weakness as the unemployment rate ticks up to 4.3%
Canada	Lower, but worst-case scenarios are less likely			- Canada's GDP declined by an annualized quarterly rate of -0.63% in Q2 2025 after growth of 1.66% in Q1 2025 - The growth forecasts from major Canadian banks indicate a potential rebound in growth (1.3% in 2025); however, the IMF has a more pessimistic outlook (0.5% in 2025) - The unemployment rate reached 7.1% in August 2025, the highest since July 2021 - As of October 29, 2025, markets expect the Bank of Canada to hold its policy rate at 2.25% likely through 2026 after cuts of 0.25% each in September and October meetings
Ontario	No change		Follows national inflation	- Because of Ontario's large manufacturing sector, the province is one of the most vulnerable to a US-Canada trade war - Growth in 2025 is expected to lag the growth in Canada (growth of 1.1% compared to 1.3% for Canada) - Unemployment rate continues to be significantly higher than the country-wide rate (7.9% compared to Canada's 7.1%)

2.1 Global and North American outlook

The IMF's recent October World Economic Outlook ("WEO") forecasts global growth of 2.6% and 3.3% in 2025 and 2026, respectively (compared to 2.7% and 3.2% in its July update).²⁶ The IMF notes that despite a steady first half, the outlook remains unclear, with risks tilted to the

²⁶ IMF. Global Economy in Flux, Prospects Remain Dim. October 14th, 2025.

downside. The latest forecasts represent a meaningful downgrade from the IMF's January outlook for 2025 (3.3% growth forecast for 2025), however there is no change in the forecasts for 2026, as the IMF expects growth to bounce back in 2026 to pre-April 2025 levels.²⁷

The macroeconomic indicators for the US economy show some signs of weakening, but the labor market and growth indicators remain resilient:

- The annualized GDP growth in Q1 2025 was -0.5%, however it bounced back to 4.5% in Q2 2025.²⁸ The growth is expected to remain robust at ~3.8% in Q3 2025.²⁹ The median forecast from the Fed's Federal Open Market Committee ("FOMC") for 2026 is 1.8%.³⁰
- The unemployment rate has inched up slightly to 4.3% in August 2025, the highest since October 2021.³¹ However, the labor force participation rate changed little in August at 62.3%, and the employment-population ratio remained unchanged at 59.6%.³²

The tariffs imposed by the current US administration continue to weigh on the US economy. US consumers face an overall average effective tariff rate of 17.9%, the highest since 1934. Following anticipated shifts in consumption, the average tariff rate is expected to be 16.7%, the highest since 1936. US real GDP growth is expected to be 0.5% lower in 2025 and 0.4% lower in 2026, resulting from the implementation of all new 2025 tariffs. In the long run, the US economy is estimated to be persistently 0.4% smaller, equivalent to \$125 billion annually in 2024 dollars.³³

The levels of economic uncertainty, particularly stemming from the back-and-forth in tariff policy, have declined from the April highs. These were the highest recorded between 1985-2024, with the notable exception of uncertainty during the onset of the COVID-19 pandemic. However, the current levels of uncertainty remain high relative to historical figures (see Figure 5).

²⁷ IMF. WEO: Global Growth: Divergent and Uncertain. January 2025.

²⁸ St. Louis Fed. Real Gross Domestic Product (GDPC1). Accessed on October 14th, 2025.

²⁹ Federal Reserve Bank of Atlanta. GDPNow. Accessed on October 14th, 2025.

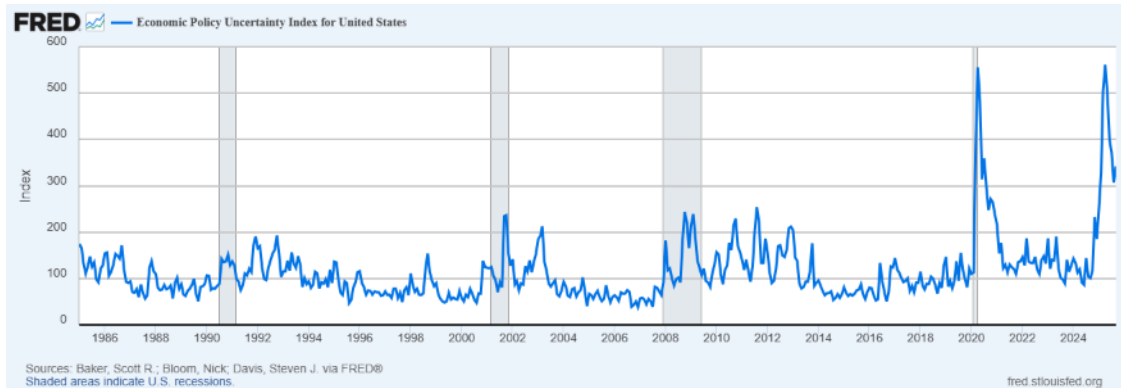
³⁰ US Federal Reserve. Summary of Economic Projections. September 17th, 2025.

³¹ Federal Reserve Bank of St. Louis. Unemployment Rate (UNRATE). Accessed on October 14th, 2025.

³² US Bureau of Labor Statistics. The Employment Situation - August 2025. September 5th, 2025.

³³ The Budget Lab. State of U.S. Tariffs. September 26th, 2025.

Figure 5. Economic policy uncertainty index for the US



Source: St. Louis Fed Economic Data. Economic Policy Uncertainty Index for United States (USEPUINDXD). Accessed on October 14th, 2025.

The passage of the ‘One Big Beautiful Act’ (“OBBA Act”) has the potential to increase US budget deficits to concerning levels. The OBBA Act will add approximately \$3 trillion to the deficit over the next decade (with some estimates suggesting \$4.5 trillion of additional debt), even after accounting for the modest economic growth boosts that may be generated from a reduction in tax rates.³⁴ The Congressional Budget Office (“CBO”) expects an average annual fiscal deficit of 5.8% of GDP over the coming decade; the OBBA Act would increase this deficit by a further 1.25 percentage points. According to the CBO projections, the US is expected to end up with public debt of more than 120% of GDP.³⁵

The US federal government shut down on October 1st, 2025, due to the congressional failure to pass appropriations legislation for the 2026 fiscal year (which started on October 1st, 2025).³⁶ As of October 14th, 2025, there is no indication that the two parties are close to a deal to reopen the government. For now, the Republican-controlled US Senate has also ruled out unilaterally using the “nuclear option” to eliminate the filibuster, which would enable Republican senators to pass the appropriations bill on a party-line vote.³⁷ If the shutdown extends through October or beyond, it is likely to have significant impacts on the US economy in Q4 2025.

The Fed’s preferred gauge of US inflation, core PCE, remains above the 2% target, registering a 6-month annualized rate of 2.76% in August 2025, and continues to be persistently above target. The core PCE has remained stable at ~3% since January 2024 (see Figure 6). If this continues in 2026, it will significantly impact the Fed’s ability to cut rates further.

³⁴ The New York Times. How Bad Is This Bill? The Answer in 10 Charts. July 3rd, 2025.

³⁵ The Economist. The big beautiful bill reveals the hollowness of Trumponomics. July 2nd, 2025.

³⁶ The New York Times. Some Americans Are Starting to Feel the Impact of the Government Shutdown. October 11th, 2025.

³⁷ Politico. Senate won’t touch filibuster to end shutdown, Thune says. October 9th, 2025.

Figure 6. Changes in the Fed's preferred inflation measure, core PCE



Source: St. Louis Fed Economic Data.

The US administration has been applying growing pressure on the Federal Reserve Chair to cut the policy interest rates further. If the Fed's independence is undermined, it may result in higher policy rates over the long term.³⁸ Separately, the current administration has launched a review into the Bureau of Labor Statistics' ("BLS") economic data collection practices, sparking criticism from many prominent economists, as there is insufficient evidence of data inaccuracy or fraud. Further, such interventions by the federal government can damage the credibility of the BLS, and its underlying data/analysis.³⁹

2.2 Canadian outlook

Canada's real GDP declined by an annualized quarterly rate of -0.63% in Q2 2025 after growth of 1.66% in Q1 2025.⁴⁰ The average of real GDP growth forecasts from three Canadian banks (TD, RBC, and BMO) is 1.3% for 2025 and 2026. The BoC expects growth of 1.2% in 2025 (0.5% annualized in Q3 2025 and 1% annualized in Q4 2025) and 1.1% in 2026.⁴¹

About 80%-90% of Canadian goods exports to the US remain compliant with the Canada-United States-Mexico Agreement ("CUSMA"), and remain tariff-free, helping to avoid the pessimistic growth forecasts from the Bank of Canada. However, tariffs remain in place for key sectors such

³⁸ The New York Times. Behind Trump's War With Powell: A Battering Ram With 3 Million Followers. July 25th, 2025.

³⁹ BBC. US watchdog launches review into economic data collection. September 10th, 2025.

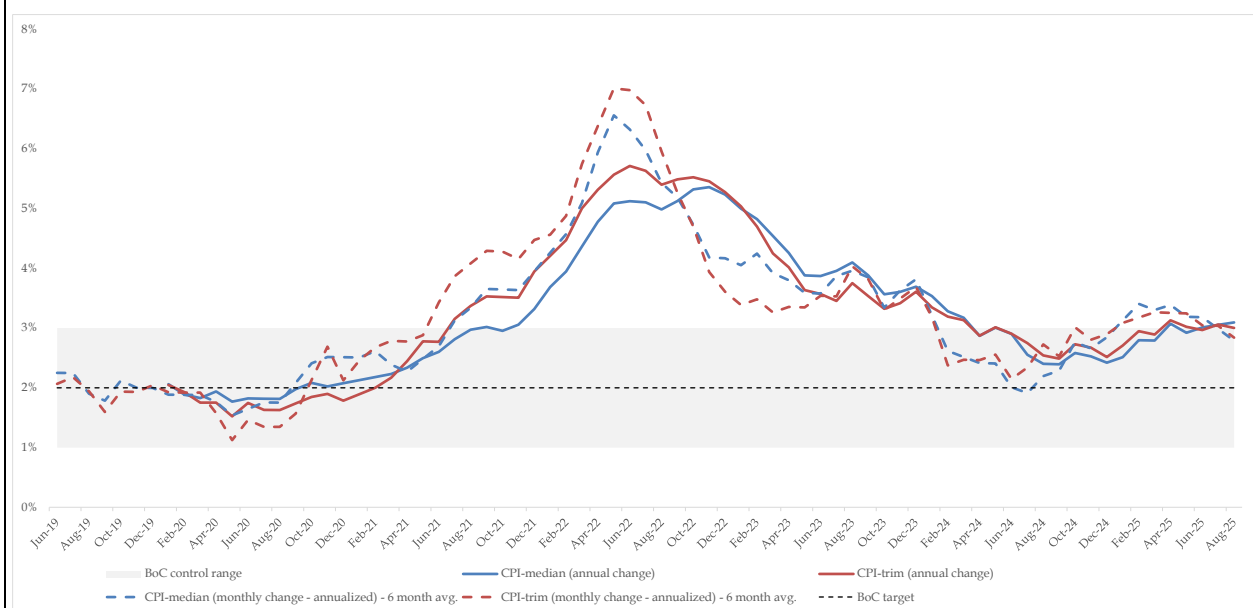
⁴⁰ Statistics Canada. Gross domestic product (GDP) at basic prices, by industry, quarterly average. Accessed on April 27th, 2025.

⁴¹ BoC. Monetary Policy Report. October 29th, 2025.

as steel, aluminum, auto, and lumber. It is notable that CUSMA is up for renewal in 2026, adding to the uncertainties related to effective tariff rates in the coming years.⁴²

The BoC lowered its policy rate (by 0.25% in its September 2025 and again in its October 2025 meeting) to 2.25%, following a six-month hold at 2.75% since March 2025 (down from the April 2024 peak of 5%). The settlement prices for three-month CORRA futures indicate that investors expect the BoC to likely keep policy rates at 2.25% through 2026.⁴³ On a related note, the C.D. Howe Institute's Monetary Policy Council ("MPC") has recommended the BoC to leave the target rate at 2.25% over the next year.⁴⁴ The trajectory of BoC's preferred inflation indicators is expected to drive BoC's future decisions, as the inflation indicators remain above the 2% target (see Figure 7). The unemployment rate reached 7.1% in August 2025, the highest since July 2021, and significantly higher compared to the post-COVID low of 4.8% in July 2022.⁴⁵

Figure 7. Trajectory of inflation indicators preferred by the BoC



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

⁴² The C.D. Howe Institute. Before the Window Closes: Canada Needs a Framework for CUSMA Renewal Soon. August 12th, 2025.

⁴³ TMX. CRA – Three-Month CORRA Futures. Accessed on October 29th, 2025.

⁴⁴ C.D. Howe Institute. Bank of Canada Should Cut Overnight Rate to 2.25 Percent, then Hold, Says C.D. Howe Institute Monetary Policy Council. October 23rd, 2025.

⁴⁵ Statistics Canada. Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months. Accessed on October 14th, 2025.

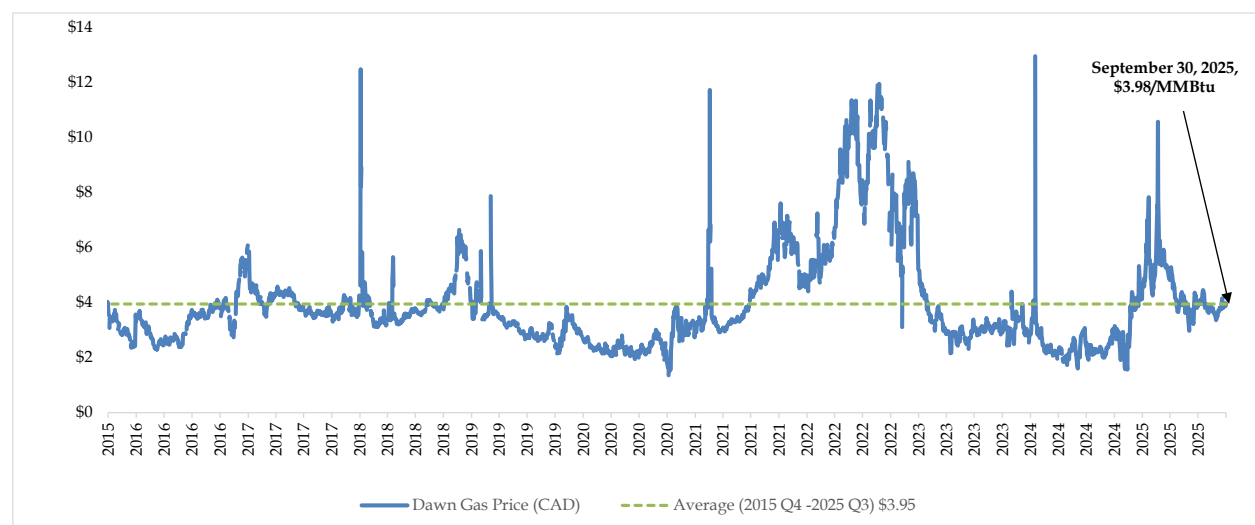
specific to certain components, specifically 20% of the weighted monthly price variations at both the bottom and top of the distribution of price changes.

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.

LEI has regularly tracked the natural gas prices in its quarterly monitoring. Although natural gas prices reached an average of \$5.9/MMBtu in February 2025, the monthly average has declined to \$3.8/MMBtu in September 2025. This is similar to the 10-year average of \$3.95/MMBtu (see Figure 8).⁴⁶

Figure 8. Natural gas price index at Dawn Hub (Q4-2015 – Q3-2025)

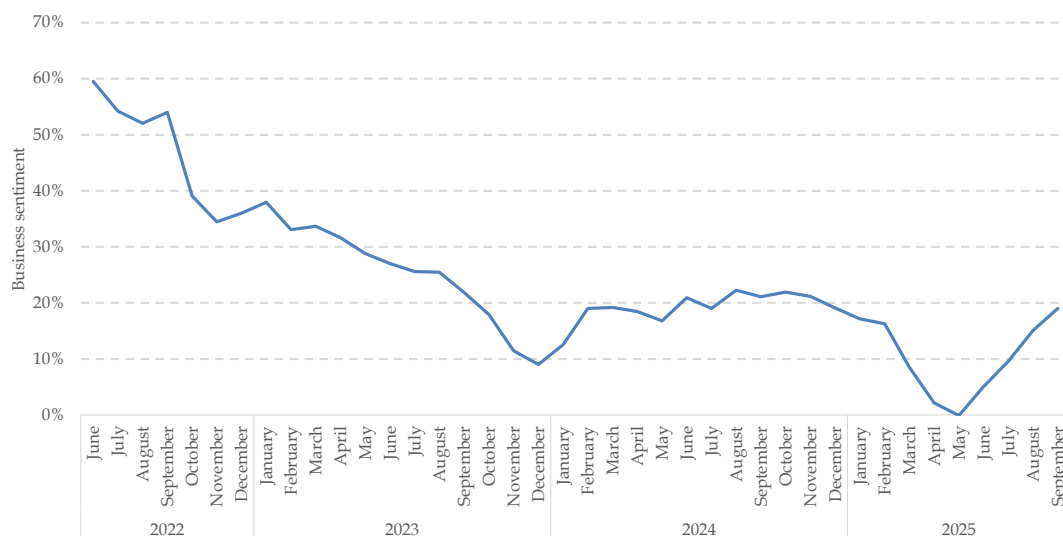


Source: S&P Global Capital IQ. Accessed on October 9th, 2025.

The BoC's most recent Q3 2025 Business Outlook Survey indicates that business sentiment has improved since May 2025. However, it is still below 2024 levels, which were already considerably lower than the business sentiment levels observed in 2022 and 2023 (see Figure 9).

⁴⁶ S&P Global Capital IQ.

Figure 9. Canada business sentiment, June 2022 – June 2025



Note: Percentage of firms reporting positive sentiment minus the percentage reporting negative sentiment. Responses of *very good* business conditions and *very poor* business conditions are given twice the weight of responses of *good* business conditions and *poor* business conditions. The range of potential outcomes of this double-weighted balance of opinion is - 200% to 200%.

Source: Bank of Canada. Business Outlook Survey – Third Quarter of 2025. October 20th, 2025.

Tariffs and related uncertainty, along with spillover effects on the Canadian and global economies, continue to weigh in on the expectations of businesses. Overall sales outlooks remain neutral with a slight improvement in demand. Consumer spending has picked up, with sales outperforming firms' earlier expectations. Uncertainty continues to drive cautiousness in outlooks for hiring and investment. Most firms expect to maintain current staffing levels and limit investment to regular maintenance over the next 12 months.⁴⁷

In September 2025, a separate notable development is the Canadian government referring the first series of projects to the new 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. Darlington New Nuclear Project is one of the five projects in the initial announcement.⁴⁸

2.3 Ontario outlook

The province's real GDP increased by 0.6% in Q1 2025 (consistent with 0.5% for Canada as a whole), maintaining the same quarterly growth rate since Q2 2024. The growth is supported by

⁴⁷ Bank of Canada. Business Outlook Survey – Third Quarter of 2025. October 20th, 2025.

⁴⁸ Prime Minister of Canada. Prime Minister Carney announces first projects to be reviewed by the new Major Projects Office. September 11th, 2025.

higher exports and household consumption.⁴⁹ However, compared to Ontario's annual real GDP growth of 1.4% in 2024, major Canadian banks (averaging forecasts from TD Bank, RBC, and BMO) expect slower growth of 1.1% for 2025, slightly lagging Canada's expected growth rate of 1.3%.

While the province is struggling with trade uncertainty, exports to the US have stabilized (although at low levels), and overall, output in Ontario's export-oriented manufacturing sector is expected to contract sharply, largely due to tariffs, most prominently on vehicles and steel. On the other hand, Ontario's push to remove interprovincial trade barriers contributes to reducing the tariff impact on the manufacturing sector.⁵⁰

Household spending remains strong, potentially encouraged by the removal of the carbon tax; nevertheless, the trend may not be durable. Population growth is dropping, and job markets have been soft. Ontario has disproportionately absorbed the unemployment shock from Canada's job market, shedding over 100,000 jobs. Consequently, Ontario's unemployment rate has been in the top tier since the beginning of 2025.⁵¹ The unemployment rate has remained between 7.7% and 7.9% since April 2025,⁵² with the Ontario government providing significant financial support to sectors such as steel, aluminium and auto (that have been directly impacted by tariffs) as well as forestry.^{53,54}

Ontario's housing market is in recovery, fueled by pent-up demand. Sales of existing homes have increased by 25% since March 2025, with ample choices and falling prices for buyers.⁵⁵ The greater Toronto area condo market has also witnessed a 30% rise in resale activity since March.⁵⁶

Over the next 25 years, the Independent Electricity System Operator ("IESO") anticipates that electricity demand will increase more rapidly than previously forecast, driven by economic growth, electrification, and the evolution of technologies.⁵⁷ The IESO's 2025 Annual Planning Outlook forecasts system-level net annual energy demand to grow 75% – to 262 TWh by 2050 – which is a significantly higher increase relative to 60% growth forecast in their 2024 Annual Planning Outlook for the same timeframe.⁵⁸

⁴⁹ Province of Ontario. Ontario Economic Accounts. Updated July 10th, 2025.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Statistics Canada. Labour force characteristics, monthly, seasonally adjusted and trend cycle. Table 14-10-0287-01. Updated September 5th, 2025.

⁵³ Government of Ontario. Protect Ontario Financing Program. August 13th, 2025.

⁵⁴ Government of Ontario. Statement on the Idling of Operations at the Kapuskasing Paper Mill. September 29th, 2025.

⁵⁵ TD Bank. Provincial Economic Forecast. September 22nd, 2025.

⁵⁶ Ibid.

⁵⁷ IESO. 2025 Annual Planning Outlook. April 2025.

⁵⁸ Ibid.

3 Cost of capital parameters – annual update

The OEB typically conducts its annual cost of capital parameter update using data as of September 30th in a given year, with rates becoming effective on January 1st of the following year. On March 27th, 2025, the OEB issued its Decision on the generic cost of capital proceeding, approving updated methodologies and cost of capital parameters for rates effective in 2025 (using data as of September 30th, 2024).⁵⁹ As part of this quarterly review, LEI has conducted an update of the cost of capital parameters using data as of September 30th, 2025.

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 30th, 2025, LEI calculated the updated ROE as 9.11% (compared to the OEB-approved ROE of 9%). The increase in ROE is primarily driven by the increase in DLTDR. 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 30th, 2025, the deemed long-term debt rate is determined to be 4.73% (compared to the OEB-approved DLTDR of 4.51%), an increase of 0.22%.

The increase is primarily driven by the increase in long-term Government of Canada ("GoC") bond yields (increase in 0.48%) as long-term policy interest rate expectations have increased despite significant BoC-led reductions in short-term policy interest rates. The increase is potentially driven by expectations of a higher budget deficit and higher inflation over the long term.^{60,61} For instance, inflation expectations 5 years ahead have increased from ~2.5% (as expected in much of 2024) to 2.62% in June 2025.^{62,63}

The spread for A-rated utilities has decreased by 0.26%; however, the rise in long-term bond yields has more than offset this tightening. The compression in Canadian utility credit spreads mirrors trends in the US, though some investors caution that credit markets appear *'weirdly confident'*.⁶⁴

⁵⁹ 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.

⁶⁰ National Bank of Canada. Monthly Fixed Income Monitor. July/August 2025.

⁶¹ Bank of Canada. Business Outlook Survey – Second Quarter of 2025. July 21st, 2025.

⁶² Ibid.

⁶³ 3-month moving average considered for inflation expectations, as monthly data can be volatile.

⁶⁴ Financial Times. US credit spreads hit lowest level this century after sharp rally. August 15th, 2025.

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 30th, 2025, is 2.72% (a significant decline of 1.19% from the OEB-approved DSTDR of 3.91%). The decrease in DSTDR is primarily driven by the BoC's cumulative policy rate cuts of 1.75% since October 2024.

3.4 Reasonableness of the cost of capital parameters

Each value of the 2026 cost of capital parameters and the relationships between them have been assessed in the context of the current macroeconomic environment.⁶⁵

- The ROE for 2026 (9.11%) is reasonable and reflective of the current macroeconomic outlook. It is also generally consistent with the ROEs approved by other Canadian energy regulators (as shown earlier in Figure 10). It is reasonable for ROEs to differ among jurisdictions given each jurisdiction has a unique set of risks.
- The DLTD for 2026 (4.73%) is reasonable, and consistent with the prevailing 30-year GoC bond yield (average of ~3.7% in September 2025) and the spread observed between the 30-year GoC bond yield and the A-rated Canadian utility bond spread (average of ~1.1% in September 2025).
- The DSTDR for 2026 (2.72%) is reasonable, and consistent with the prevailing 3-month GoC treasury yields (~2.24%),⁶⁶ given a risk premium is expected over the risk-free GoC treasury yield when assessing reasonableness of the DSTDR.

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.

⁶⁵ 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).

⁶⁶ As of October 28th, 2025, the 3-month GoC treasury yield was 2.24%. The 3-month GoC treasury yield was 2.42% as of September 29th, 2025 (September 30th is a federal holiday in Canada). Source: [Bank of Canada](https://www.bankofcanada.ca/rates/).

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.”*⁶⁷

LEI believes that a reasonable range of ROEs (and not necessarily a single number) meets the FRS requirement. The updated ROE (of 9.11%) following the formulaic adjustments for 2026 remains within the reasonable range,⁶⁸ and is reflective of current macroeconomic conditions, including the observed changes over the last year in the LCBF and the credit spreads for A-rated utilities (i.e., the two drivers in the OEB-approved ROE adjustment formula).⁶⁹ As such, LEI believes that the FRS continues to be met.

⁶⁷ 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.

⁶⁸ 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 DLTDR using current data (EB-2024-0063). October 8th, 2024.

⁶⁹ While the spread for A-rated utilities has decreased by 0.26%, the LCBF has increased by 0.48% (which has more than offset the tightening in observed spreads). The resulting change in ROE is both directionally consistent and proportionate with these changes.

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.

Figure 10. ROEs and capital structure approved by other Canadian energy regulators

ROE Jurisdictional Scan				
Jurisdiction	Customers (distribution)	2025 ROE	2025 Equity Ratio	Notes
Alberta	1,790,000	8.97%	All Dx & Tx: 37%; Apex Utilities: 39%	
British Columbia (FortisBC)	195,300	9.65%	45%	45% for FortisBC Approved 2023, G-236-23
Manitoba	920,000	Centra Gas Manitoba Inc. ("Centra"): 8.30%	Centra: 17.7%	
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%	
Nova Scotia	525,000	9.00%	40%	
Ontario	5,461,297	9.00%	All Dx & Tx: 40% Generation (OPG): 45% Enbridge Gas: 38%	
Prince Edward Island	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 Electric Company ("YEC"): 2,300; ATCO Electric Yukon: 20,300	Yukon Energy Corporation ("YEC"): 9.15%; ATCO Electric Yukon: 9.50%	YEC: 40%; AEY: 40%	ATCO Electric Yukon has an allowed ROE of 9.50% for 2024; the 2025 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.

The approved ROEs range between 8.3% and 10% (see Figure 10 above). The OEB-approved ROE for 2025 (i.e., 9.00%) is close to the midpoint of approved ROEs observed above.

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 10 and Figure 11 compare prevailing 2025 credit ratings (by S&P and DBRS) against those observed in 2024.

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 Toronto Hydro (for whom S&P increased its rating from A to A+), no other changes were observed.

Figure 11. 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-	5/27/2025	3/20/2024	Yes
Algoma Power Inc.	Fortis Inc	A-	BBB+	3/27/2025	9/25/2024	Yes
Canadian Niagara Power	Fortis Inc	A-	BBB+	3/27/2025	9/25/2024	Yes
Chapleau Hydro	Hydro One Limited	A	A-	9/25/2025	6/10/2024	Yes
Cornwall Street Railway Light and Power	Fortis Inc	A-	BBB+	3/27/2025	9/25/2024	Yes
ENWIN Utilities Ltd.	Windsor Canada Utilities Ltd.	A	A	10/15/2024	10/16/2024	Yes
Grandbridge Energy Inc.	Grandbridge Corp.	A	A	10/9/2025	5/11/2023	Yes
Hydro One Networks Inc / Chapleau Public Utilities Corporation	Hydro One Limited	A	A-	9/25/2025	6/10/2024	Yes
Hydro One Networks Inc / Cat Lake Power Community	Hydro One Limited	A	A-	9/25/2025	6/10/2024	Yes
Hydro One Networks Inc.	Hydro One Limited	A	A-	9/25/2025	6/10/2024	Yes
Hydro One Remote Communities Inc.	Hydro One Limited	A	A-	9/25/2025	6/10/2024	Yes
Toronto Hydro-Electric System Limited	Toronto Hydro Corporation	A+	A+	4/28/2025	10/30/2024	No (one notch up)
Gas distribution						
Enbridge Gas Distribution Inc.	Enbridge Gas Inc.	A-	A-	6/11/2025	6/28/2024	Yes
Generation						
Ontario Power Generation Inc.	Ontario Power Generation Inc.	BBB+	BBB+	6/27/2025	6/24/2024	Yes
Ontario						
Province of Ontario	Ontario Power Generation Inc.	AA-	AA-	6/19/2025	12/3/2024	Yes

Source: S&P.

Figure 12. 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)		7/3/2025	9/17/2024	Yes
Algoma Power Inc.	Fortis Inc	A	A		Pfd-2 (low)	5/6/2025	5/14/2024	Yes
Canadian Niagara Power	Fortis Inc	A	A		Pfd-2 (low)	5/6/2025	5/14/2024	Yes
Chapleau Hydro	Hydro One Limited	A	A			11/11/2024	11/20/2023	Yes
Cornwall Street Railway Light and Power	Fortis Inc	A	A		Pfd-2 (low)	5/6/2025	5/14/2024	Yes
Hydro One Networks Inc / Chapleau Public Utilities Corporation	Hydro One Limited	A	A			11/11/2024	11/20/2023	Yes
Hydro One Networks Inc / Cat Lake Power Community	Hydro One Limited	A	A			11/11/2024	11/20/2023	Yes
Hydro One Networks Inc.	Hydro One Limited	A	A			11/11/2024	11/20/2023	Yes
Hydro One Remote Communities Inc.	Hydro One Limited	A	A			11/11/2024	11/20/2023	Yes
Hydro Ottawa Limited	Hydro Ottawa Holding Inc.	A	A	R-1 (low)		10/17/2024	10/18/2023	Yes
Toronto Hydro-Electric System Limited	Toronto Hydro Corporation	A	A	R-1 (low)		4/25/2025	4/25/2024	Yes
Milton Hydro	Milton Hydro Holding Inc.	A	A			8/14/2025	8/14/2024	Yes
Gas distribution								
Enbridge Gas Distribution Inc.	Enbridge Gas Inc.	A	A	R-1 (low)		9/25/2025	10/17/2024	Yes
EPCOR Electricity Distribution Ontario Inc.	EPCOR Utilities Inc.	A	A	R-1 (low)		1/13/2025	4/19/2024	Yes
EPCOR Utilities Inc.	EPCOR Utilities Inc.	A	A	R-1 (low)		1/13/2025	4/19/2024	Yes
Generation								
Ontario Power Generation Inc.	Ontario Power Generation Inc.	A	A	R-1 (low)		4/21/2025	4/30/2024	Yes
IESO								
IESO		A				4/21/2021	5/1/2020	Yes
Ontario								
Province of Ontario		AA	AA	R-1 (high)		6/18/2025	12/16/2024	Yes

Source: DBRS.

5 Appendix A: Cost of capital parameter calculations

Figure 13. ROE, DLTD, and DSTDR calculation

Cost of Capital Parameter Calculations (For rate changes effective in 2026)			
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			3.610 %
Long Canada Bond Forecast (LCBF) based on September 2025 data			3.610 %
A-rated Utility Bond Yield Spread			
Long Canada Bond Forecast (LCBF)			3.610 %
Bloomberg BVCAUA30 BVLI Index as at the last business day of the quarter			4.726 %
A-rated Utility Bond Yield Spread based on September 2025 data			1.116 %
Return on Equity (ROE) Forecast			
Initial ROE			9.00 %
Change in Long Canada Bond Yield Forecast from EB-2024-0063 Decision			
LCBF (September 2025)			3.610 %
Base LCBF			3.130 %
Difference			0.480 %
0.5 x Difference			0.240 %
Change in A-rated Utility Bond Yield Spread from EB-2024-0063 Decision			
A-rated Utility Bond Yield Spread (September 2025)			1.116 %
Base A-rated Utility Bond Spread			1.380 %
Difference			-0.264 %
0.5 x Difference			-0.132 %
Return on Equity based on September 2025 data			9.11 %
Deemed Long Term Debt Rate Forecast			
Long Canada Bond Forecast for September 2025			3.610 %
A-rated Utility Bond Yield Spread September 2025			1.116 %
Deemed Long-term Debt Rate based on September 2025 data			4.73 %
Deemed Short Term Debt Rate Forecast			
Bloomberg BVCAUA3M BLVI Index as at the last business day of the quarter			2.715 %
Deemed Short-term Debt Rate based on September 2025 data			2.72 %

Sources: Bloomberg, Bank of Canada.

6 Appendix B: OEB cost of capital methodology

The OEB updated the cost of capital methodology on March 27th, 2025.⁷⁰ This was the first major review since the 2009 review.⁷¹ 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 14). Like the previous methodology, the OEB will update the ROE annually.

Figure 14. 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 15 below)

Figure 15. 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.

⁷⁰ 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.

⁷¹ 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 16 below).

Figure 16. 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.

7 Appendix C: Works cited

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