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:

<table>
<thead>
<tr>
<th>Cost of Capital Parameter</th>
<th>Value for 2013 Cost of Service Applications for January 1, 2013 rate changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>8.93%</td>
</tr>
<tr>
<td>Deemed LT Debt rate</td>
<td>4.03%</td>
</tr>
<tr>
<td>Deemed ST Debt rate</td>
<td>2.08%</td>
</tr>
</tbody>
</table>
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.

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

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

<table>
<thead>
<tr>
<th>Month: September 2012</th>
<th>3-month</th>
<th>12-month</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2012</td>
<td>1.800</td>
<td>2.200</td>
<td>2.000</td>
</tr>
</tbody>
</table>

**Step 3**: Long Canada Bond Forecast

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

**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)
- Base LCBF
- Difference
- 0.5 X Difference

- Change in A-rated Utility Bond Yield Spread from September 2009
- A-rated Utility Bond Yield Spread (September 2012) (from Step 1)
- Base A-rated Utility Bond Yield Spread
- Difference
- 0.5 X Difference

Return on Equity based on September 2012 data: 8.93%

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

- Long Canada Bond Forecast for September 2012 (from Step 3)
- A-rated Utility Bond Yield Spread September 2012 (from Step 1)
- Deemed Long-term Debt Rate based on September 2012 data: 4.03%

References on Calculation Methods:
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.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Spread over 90-day Bankers Acceptance (basis points)</th>
<th>Date of input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>105.0 bps</td>
<td>Sept., 2012</td>
</tr>
<tr>
<td>Bank 2</td>
<td>82.5 bps</td>
<td>Sept., 2012</td>
</tr>
<tr>
<td>Bank 3</td>
<td>100.0 bps</td>
<td>Sept., 2012</td>
</tr>
<tr>
<td>Bank 4</td>
<td>80.0 bps</td>
<td>Sept., 2012</td>
</tr>
<tr>
<td>Bank 5</td>
<td>80.0 bps</td>
<td>Sept., 2012</td>
</tr>
<tr>
<td>Bank 6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

### 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

**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 %
- Average Bankers’ Acceptance Rate: 1.204 %
- Deemed Short Term Debt Rate: 2.08 %

**Reference on Calculation Method:**