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CONFIDENTIAL

BY E-MAIL

September 13, 2012



Dear [REDACTED]

Re: Request for Estimate on Short-term Loan for an R1-low Utility

The Ontario Energy Board is preparing for its determination of the values for the cost of capital (return on equity and the deemed long-term and short-term debt rates) for use in the 2013 rate year cost of service applications.

The purpose of this letter is to request an estimate from you of the spread of a typical short-term loan for an R1-low utility over the 3-month Bankers' Acceptance rate. As discussed between you and Board staff in December of 2009, this information will be used to help the Board determine the deemed short-term debt rate for electricity distributors. A summary of the process to derive this deemed rate is attached.

Last year, the information was requested in September of 2011, to obtain estimates three months in advance of a January 1, 2012 effective date for rates. Similar to last year, the estimates that you provide the Board in response to this letter will be used for rate applications with effective dates of January 1, 2013 and later.

Please e-mail your response to the Board Secretary (BoardSec@ontarioenergyboard.ca) by September 30, 2012 in order to facilitate the Board's determination of the cost of capital for 2013 rates applications. Your response must reference Board File No. EB-2009-0084. The Board understands that there is a concern regarding the publication of your contact information and the name of the bank. You should therefore file two copies of your response, similar to what has been done in previous years. The first version of your response should be an un-redacted copy and should be marked "confidential". The second version of your response should be a redacted version for the public

record (i.e., a version with your contact information and the name of the bank and any associated logos etc., redacted from the letter).

The Board will hold your contact information and the name of the bank (as well as any associated logos etc.) in confidence and will not disclose that information of its own accord. However, please be advised that the Board is subject to the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). Should there be a freedom of information request for that information, the Board will endeavour to keep the information confidential using certain exemptions to disclosure set out in FIPPA (e.g., section 17 of FIPPA which deals with third party information). However, if the Board is required by the Office of the Information and Privacy Commissioner of Ontario to disclose the information, the Board will have to comply.

The Board appreciates your assistance in this matter. If you have any questions regarding this request, please contact Keith Ritchie at 416 440-8124 or e-mail Keith.Ritchie@ontarioenergyboard.ca, or Lisa Brickenden at 416 440-8113, or e-mail Lisa.Brickenden@ontarioenergyboard.ca.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Attachment

Attachment: Process to Derive the Deemed Short-term Debt Rate

On December 11, 2009 the Board issued its *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The Report sets out the Board's approach to the cost of capital, and the methods the Board will use to determine both debt and equity costs for the purpose of setting utility rates.

In that report, the Board determined that to derive the deemed short-term debt rate for electricity distributors, an average of the estimated spreads over the 3-month Bankers' Acceptance rate for a typical short-term loan for an R1-low utility provided by major Canadian banks each year (in mid-January), is to be added to the January average for the 3-month Bankers' Acceptance rate.

Since the issuance of that report, the Board received applications requesting effective dates for January 1 as well as for May 1 of each year. The Board therefore decided to advance the annual survey date to September to have estimates based on data three months in advance of January 1. For 2013, the estimates will be used for applications with effective dates of January 1 and any other effective dates the Board may establish on a case-by-case basis.

Annual Request for Quotes from the Banks of Estimated Spreads

In September of each year, the Board contacts major Canadian banks to obtain estimates of the spread of a typical short-term loan for an R1-low utility over the 3-month Bankers' Acceptance rate. As noted in the Board's December 11, 2009 report, the selection of R1-low is to reflect the fact that most electricity distributors currently going to market would fall in that category. The point in time for the spread estimate should be mid-September (i.e., September 15th or the closest business day). The estimates are to be sent to the Board Secretary (BoardSec@ontarioenergyboard.ca) and must reference Board File No. EB-2009-0084. Because there is a concern regarding the publication of your contact information and the name of the bank, you should file two copies of your response. The first version of your response should be an un-redacted copy and should be marked "confidential". The second version of your response should be a redacted version for the public record (i.e., a version with your contact information and the name of the bank and any associated logos etc. redacted from the letter). The Board will hold your contact information and the name of the bank (and any associated logos etc.) in confidence and will not disclose that information of its own accord.

The sources of the estimates will be held in confidence. The estimates, identified as provided by "Bank 1, Bank 2, Bank 3, etc" will be published by the Board (sample, shown) in support of the cost of capital parameter calculations for the deemed short-term debt rate.

Table 1: Summary of Estimates

| | Average Spread over 90-day Bankers Acceptance (%) | Date of input |
|--------|---|------------------|
| Bank 1 | | |
| Bank 2 | | |
| Bank 3 | | |
| Etc... | | |

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Annual Calculations

Up to six quotes will be obtained. Ideally, the high and low estimates will be discarded to reduce the influence of outliers, and the average spread will be calculated. In the event that less than four quotes are obtained, the average spread will be calculated without discarding high and low estimates.

For the month of September, an average 3-month Bankers' Acceptance rate will be calculated based on data for all business days in the month. To this will be added the average spread calculated above, giving the deemed short-term debt rate for rate-setting purposes.

If market conditions materially change, the Board may need to request quotes at some point other than September. However, this would be an exception, not the norm.