November 9, 2020

To: All Rate-regulated Electricity Distributors and Transmitters
   All Rate-regulated Natural Gas Utilities
   Ontario Power Generation Inc.
   All Registered Intervenors in 2021 Cost-based Applications
   All Other Interested Parties

Re: 2021 Cost of Capital Parameters

The Ontario Energy Board (OEB) 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 2021 cost-based applications (i.e. cost of service and custom incentive rate-setting (custom IR) applications, including any applicable custom IR updates). 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, issued December 11, 2009.

Cost of Capital Parameters for 2021 Rates

For cost of service and custom IR applications with effective dates in 2021, the OEB has updated the cost of capital parameters based on: (i) the July 2020 survey from Canadian banks for the spread over the Bankers’ Acceptance rate of short-term loans for R1-low or A (A-stable) commercial utility customers, for the ST debt rate; and (ii) data three months prior to January 1, 2021 from the Bank of Canada, Investment Industry Regulatory Organization of Canada, Consensus Forecasts, and Bloomberg LP, for all cost of capital parameters.

The OEB has determined that the updated cost of capital parameters for rate applications for rates effective in 2021 are:

<table>
<thead>
<tr>
<th>Cost of Capital Parameter</th>
<th>Value for Applications for rate changes in 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>8.34%</td>
</tr>
<tr>
<td>Deemed LT Debt rate</td>
<td>2.85%</td>
</tr>
<tr>
<td>Deemed ST Debt rate</td>
<td>1.75%</td>
</tr>
</tbody>
</table>
Detailed calculations of the cost of capital parameters are attached.

The OEB notes that, since the beginning of the current COVID-19 pandemic, it has been closely monitoring socioeconomic conditions and the financial and operational implications for the sector now and as the recovery proceeds into 2021. Based on currently available data and forecasts to at least the end of 2021, the OEB believes that the COVID-19 pandemic and its implications on the economy, generally, and on the energy sector, do not result in any distortion of the formulaic calculation of the cost of capital parameters set out above and current market conditions and data. The OEB 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.

The OEB updates cost of capital parameters for setting rates once per year. For this reason, the cost of capital parameters above will be applicable for all cost of service and custom incentive rate-setting applications (as applicable) with rates effective in the 2021 calendar year.

The OEB monitors macroeconomic conditions and may issue updated parameters if economic conditions materially change. An applicant or intervenors can also file evidence in individual rate hearings in support of different cost of capital parameters due to the specific circumstances, but must provide strong rationale and supporting evidence for deviating from the OEB’s policy.

All queries on the cost of capital parameters should be directed to the OEB’s Industry Relations hotline, at 416-440-7604 or industryrelations@oeb.ca.

Yours truly,

Original Signed By

Christine E. Long
Registrar

Attachment
Ontario Energy Board
Commission de l'Énergie de l'Ontario

Attachment: Cost of Capital Parameter Calculations
(For rate changes effective in 2021)

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

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

### Bond Yields (%) and Bond Yield Spreads (%)

| Day   | 1-Sep-20 | 2-Sep-20 | 3-Sep-20 | 4-Sep-20 | 5-Sep-20 | 6-Sep-20 | 7-Sep-20 | 8-Sep-20 | 9-Sep-20 | 10-Sep-20 | 11-Sep-20 | 12-Sep-20 | 13-Sep-20 | 14-Sep-20 | 15-Sep-20 | 16-Sep-20 | 17-Sep-20 | 18-Sep-20 | 19-Sep-20 | 20-Sep-20 | 21-Sep-20 | 22-Sep-20 | 23-Sep-20 | 24-Sep-20 | 25-Sep-20 | 26-Sep-20 | 27-Sep-20 | 28-Sep-20 | 29-Sep-20 | 30-Sep-20 | 31-Sep-20 |
|-------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|       | 0.58     | 0.55     | 0.54     | 0.59     | 0.59     | 0.57     | 0.57     | 0.59     | 0.59     | 0.56      | 0.55      | 0.56      | 0.55      | 0.55      | 0.55      | 0.57      | 0.58      | 0.56      | 0.55      | 0.55      | 0.55      | 0.55      | 0.55      | 0.55      | 0.55      |
|       | 1.10     | 1.06     | 1.04     | 1.10     | 1.10     | 1.08     | 1.09     | 1.10     | 1.10     | 1.08      | 1.06      | 1.07      | 1.08      | 1.08      | 1.08      | 1.07      | 1.10      | 1.08      | 1.06      | 1.08      | 1.08      | 1.08      | 1.08      | 1.08      | 1.08      |
|       | 2.55     | 2.50     | 2.49     | 2.55     | 2.56     | 2.55     | 2.55     | 2.56     | 2.56     | 2.54      | 2.54      | 2.55      | 2.55      | 2.55      | 2.55      | 2.59      | 2.62      | 2.61      | 2.61      | 2.61      | 2.61      | 2.61      | 2.61      | 2.61      |
|       | 0.52     | 0.51     | 0.50     | 0.51     | 0.51     | 0.52     | 0.52     | 0.51     | 0.51     | 0.52      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      | 0.51      |
|       | 1.45     | 1.44     | 1.45     | 1.45     | 1.46     | 1.46     | 1.46     | 1.47     | 1.46     | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      | 1.46      |

**Step 3:** Long Canada Bond Forecast

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

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

- Initial ROE: 9.75%
- Change in Long Canada Bond Yield Forecast from September 2009
  - LCBF (September 2020) (from Step 3): 1.373%
  - Base LCBF: 4.250%
  - Difference: -2.877%
  - 0.5 X Difference: -1.438%
- Change in A-rated Utility Bond Yield Spread from September 2009
  - A-rated Utility Bond Yield Spread (September 2020) (from Step 1): 1.477%
  - Base A-rated Utility Bond Yield Spread: 1.415%
  - Difference: 0.062%
  - 0.5 X Difference: 0.031%

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

- Deemed Long-term Debt Rate based on September 2020 data: 2.85%

Sources: Bank of Canada, Bloomberg L.P.
Attachment: Cost of Capital Parameter Calculations
(For rate changes effective in 2021)

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

Once a year, typically in September, OEB 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.

| Bank 1 | 150.0 bps | Aug. 2020 |
| Bank 2 | 178.75 bps | Aug. 2020 |
| Bank 3 | 150.0 bps | Aug. 2020 |
| Bank 4 | 130.0 bps | Aug. 2020 |

**B.** Discard high and low estimates
If less than 4 estimates, take average without discarding high and low.

| Number of estimates | 4 |
| High estimate | 178.75 bps |
| Low estimate | 130.0 bps |

**C.** Average annual Spread

| Average annual Spread | 150.000 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 | 1.500 % |
| Average Bankers’ Acceptance Rate | 0.251 % |
| Deemed Short Term Debt Rate | 1.75 % |

**Source:** Investment Industry Regulatory Organization of Canada (IIROC)