



By RESS and Email

December 16, 2020

Ms. Christine E. Long  
Registrar and Board Secretary  
Ontario Energy Board  
PO Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON, M4P 1E4

Dear Ms. Long:

**Subject: Hydro Ottawa Limited (“Hydro Ottawa”)  
Custom Incentive Rate-Setting (“Custom IR”) Application for 2021-2025 Electricity  
Distribution Rates and Charges – Draft Rate Order Reply**

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Pursuant to the OEB’s Decision and Order issued on November 19th, Hydro Ottawa filed its Draft Rate Order for file EB-2019-0261 on December 3 2020. OEB staff and School Energy Coalition (“SEC”) filed submissions in response to Hydro Ottawa’s Draft Rate Order on December 14, 2020. SEC submitted that the Draft Rate Order appeared to be consistent with the approved Settlement Proposal and Board decision and had no further comments.

OEB staff’s submission on the Draft Rate Order noted the following (emphasis added):

- OEB staff took no issue with the updated short-term debt rate and return on equity.
- The application of the updated cost of capital parameters leads to lower return on rate base, lower payments in lieu of taxes, and lower reductions associated with the capital stretch factor over the Custom IR term. OEB staff submitted that these updates are reasonable and consistent with OEB staff’s expectations subject to the verification of the accuracy of the long-term debt calculations.
- OEB staff took no issue with the rate design approach relating to the unsettled issue for the three specified commercial customer classes.
- OEB staff confirmed that Hydro Ottawa properly implemented the OEB’s decision on the pole attachment charge in its 2021 Tariff of Rates and Charges.
- The expiry date for rate riders associated with Group 1 and Group 2 accounts is shown as “effective until December 31, 2021” in the draft Tariff of Rates and Charges. OEB staff submits



that the expiry date should be revised to December 31, 2022 to be consistent with the approved disposition period of two years.

In response to the OEB staff submission, Hydro Ottawa submits:

- Long-term Debt Calculations - The attached PDF and live Excel files (Annexes A and B - Hydro Ottawa Historical Credit Spreads and September 2020 GoC 30s over 10s) detail the calculations of the updated rates for the 2021 Promissory Notes.
- Rate Rider Expiry Date - Hydro Ottawa's approved proposal for the clearance of the Regulatory Accounts uses the Load Forecast for the year in which the amount is being disposed. Therefore the rate design for 2021 and 2022 uses different values for the billing determinants. As a result, the rates in 2021 are different from the rates in 2022 in some cases. Hydro Ottawa has assigned the expiry date based on when the rate rider changes value rather than on the clearance expiry date.

In addition, as requested by OEB staff via email exchange, Hydro Ottawa also submits updated Dry Core calculations in live Excel format to reflect the updated Regulated Price Plan rates effective January 1, 2021. Accordingly, these are the only changes made to the Draft Rate Order.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

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**Gregory Van Dusen**

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cc: All registered parties to EB-2019-0261



## RESPONSE TO OEB STAFF COMMENT ON DRAFT RATE ORDER

SUBJECT AREA: Cost of Capital

Question(s):

"OEB staff notes that Hydro Ottawa has updated the rates to 2.03% for the forecasted Promissory Note with an issuance date of July 1, 2021 and maturity of 10 years, and to 2.96% for the forecasted Promissory Note with an issuance date of July 1, 2021 and maturity of 30-years. The latter rate is slightly higher than the deemed long-term debt rate of 2.85% as issued by the OEB in its letter for the 2021 Cost of Capital parameters. OEB staff considers that the difference could be due to the methodology employed by Hydro Ottawa as agreed to in the settlement proposal. However, Hydro Ottawa has not provided the calculations of the updated rates for the 2021 Promissory Notes. OEB staff submits that Hydro Ottawa should be required to file these calculations to allow the OEB, OEB staff, and other parties to verify the accuracy of these forecasted rates."

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### RESPONSE:

Hydro Ottawa calculated the forecast 10-year and 30-year bond yields for its planned issuance in 2021 as follows:

September 2020 Consensus Forecast (Annex A) for the 10-Year Government of Canada bond yield	
3-month ahead	0.70%
12-month ahead	1.00%
<b>Average</b>	<b>0.85%</b>
<b>The Holding Company's historic 10-year bond credit spread (Annex A)</b>	<b>1.18%</b>
<b>Forecast Hydro Ottawa 10-year bond yield for 2021</b>	<b>2.03%</b>



September 2020 Consensus Forecast for the 10-Year Government of Canada bond yield	
3-month ahead	0.70%
12-month ahead	1.00%
<b>Average</b>	<b>0.85%</b>
<b>The Holding Company's historic 30-year bond credit spread (Annex A)</b>	<b>1.57%</b>
<b>Average spread between 30-Year and 10-Year Government of Canada bond yields for the month of September 2020 (Annex B)</b>	<b>0.54%</b>
<b>Forecast Hydro Ottawa 10-year bond yield for 2021</b>	<b>2.96%</b>