Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL AND WEB POSTING

December 16, 2025

To: All Rate Regulated Electricity Distributors
All Intervenors in Electricity Distributor Cost of Service Proceedings for 2026 Rates

Re: Review of Working Capital Allowance for Electricity Distributors and Default Value for 2027 Rates

---

What You Need to Know

- **The Ontario Energy Board is maintaining the current 7.5% default value for the calculation of Working Capital Allowance in electricity distributor rebasing applications.**
- **Evidence filed in applications over the past 10 years reveals that no material change to the default value is warranted at this time.**
- **Distributors filing cost of service applications for 2027 rates may use the default value or propose a utility-specific value.**

Earlier this year, the Ontario Energy Board (OEB) undertook a review of the treatment of Working Capital Allowance that electricity distributors use in their cost of service applications. Based on this review the OEB is maintaining the current default value of 7.5% for distributors that do not seek approval for a utility-specific Working Capital Allowance in their applications. The Working Capital Allowance will continue to be recovered through the existing rate base treatment.

Background

The OEB allows electricity distributors to recover costs related to working capital based on the policy on working capital allowance that was initially established in the 2006 Electricity Distribution Rate Handbook. Distributors filing cost of service applications can choose to use the default value set by the OEB from time to time or they can request a utility-specific Working Capital Allowance based on their own data and evidence (usually using a lead/lag study). The default value is set as a percentage of the sum of cost of power and operating, maintenance and administration (OM&A) costs. This amount is added to rate base and the costs recovered through the approved return on rate base.

The default value was initially set at 15% in the 2006 Electricity Distribution Rate Handbook. Subsequent changes have reduced the default value: first to 13% (see April 2012 letter) and then to 7.5% (see June 2015 letter). The 7.5% value was informed in large part by an analysis of eight lead/lag studies. A jurisdictional review commissioned at the time confirmed that all jurisdictions included an allowance for working capital to be treated as an asset, attracting a return. As such, no fundamental change in approach to funding working capital requirements through rate base was considered warranted.

Current Review and Conclusions

The OEB's Adjudicative Policy Prioritization[1] initiative identified the Working Capital Allowance policy as an item for review in fiscal year 2025/26. Stakeholders were consulted on the scope of the proposed review[2] and agreed that a review based on the results of lead/lag studies filed in the last 10 years and an updated jurisdictional scan regarding recovery methods would be appropriate.

A review of twelve lead/lag studies filed between 2015 and 2025 revealed values between a low of 6.2% and a high of 10.63%, with four of the twelve studies being below 7.5%. The updated jurisdictional scan revealed no change in the recovery method in the selected jurisdictions since 2015.

Based on the results of the review, the OEB determined that the default value for Working Capital Allowance will remain at 7.5%. Recovery of costs will continue to be through the existing rate base treatment. The most recent filings and jurisdictional scan do not show a clear need to change either the default value or the recovery method. Additionally, the OEB's utility remuneration initiative, as well as the ongoing energy transition, support delaying any fundamental changes to rate-setting methodology at this time.

[1] See Adjudicative Policy Process Review section from OEB's 2023 Policy Day materials. https://engagewithus.oeb.ca/39072/widgets/165320/documents/115886
[2] Adjudicative Modernization Committee meetings: May 26, 2025 and October 29, 2025.

The OEB encourages distributors to file lead/lag studies with their cost of service applications, so that their Working Capital Allowance can better reflect their own specific data and circumstances. The default value remains available for distributors that do not seek approval of a utility-specific value.

Yours truly,

Damien A. Côté
Digitally signed by Damien A. Côté
Date: 2025.12.16 15:31:45 -05'00'

Damien A. Côté
Chief Commissioner, Ontario Energy Board