

1 **Reference: Section 3: Finance**
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3 **Q. Volume 1, page 3-46, Footnote 122. What has been the effect on the return on equity**
4 **for the Ontario utilities as a result of the Ontario Energy Board leaving the**
5 **automatic adjustment formula in place?**
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7 A. The financial crisis that occurred during the 2008-2009 period resulted in most Canadian
8 regulators abandoning a formulaic basis to determine a fair rate of return on equity for
9 utilities. The Ontario Energy Board (“OEB”) reviewed its cost of capital methodology in
10 2009 and determined that the formulaic approach for determining cost of capital was still
11 necessary to enable regulatory oversight of over 70 utilities in Ontario.¹
12

13 A new formula (the “OEB Formula”) to determine the rate of return on equity for Ontario
14 utilities was introduced by the OEB in 2010. The OEB Formula reflects variability
15 between long Government of Canada and A-rated corporate bond yields.
16

17 Table 1 shows the effect of the OEB Formula on the return on equity of Ontario utilities.

Table 1:
OEB Return on Equity Formula Adjustments
(2010 to 2021)

Date	Return on Equity (%)
May 2010	9.85
January 2011	9.66
March 2011	9.43
May 2011	9.58
January 2012	9.42
May 2012	9.12
January 2013	8.93
May 2013	8.98
October 2013	9.16
January 2014	9.36
May 2014	9.33
January 2015	9.30
January 2016	9.19
January 2017	8.78
January 2018	9.00
January 2019	8.98
January 2020	8.52
January 2021	8.34

¹ The OEB’s current policy on the cost of capital is detailed in the *Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities*, December 11, 2009 (EB-2009-0084).

1 Annual OEB Formula adjustments for 2021 were determined based on: (i) 3-month and
2 12-month forecasts of 10-year Government of Canada bond yields from *Consensus*
3 *Economics Inc.* (“*Consensus*”); (ii) actual 10-year and 30-year Government of Canada
4 bonds yields for September 2020; and (iii) actual A-Rated utility bond yields for
5 September 2020.²
6
7 Since the OEB issued its 2021 cost of capital parameters on November 9, 2020, forecast
8 and actual bond yields have increased.³ Based on the April 2021 *Consensus* forecast and
9 actual bond yields in July 2021, the OEB Formula would result in a return on equity of
10 8.64%.

² *Consensus* September 2020 forecast of 3-month and 12-month 10-year Government of Canada bond yields was 0.70% and 1.00%, respectively. Actual 10-year and 30-year government bond yields in September 2020 averaged 0.56% and 1.08%, respectively. A-Rated utility bond yields in September 2020 averaged 2.56%.

³ *Consensus* April 2021 forecast of 3-month and 12-month 10-year Government of Canada bond yields was 1.50% and 1.70%, respectively. Actual 10-year and 30-year government bond yields in July 2021 averaged 1.26% and 1.78%, respectively. A-Rated utility bond yields in July 2021 averaged 3.10%.