



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

BY EMAIL AND WEBPOSTING

July 26, 2024

**To: All Parties to EB-2024-0063  
All Rate-regulated Electricity Distributors and Transmitters  
All Rate-regulated Natural Gas Utilities  
Ontario Power Generation Inc.  
All Registered Intervenors in 2025 Cost-based Applications  
All Other Interested Parties**

**Re: Generic Proceeding – Cost of Capital and Other Matters  
Updated Inputs to the OEB's Prescribed Interest Rates and Cost of Capital  
Parameters  
OEB File Number: EB-2024-0063**

The Ontario Energy Board (OEB) publishes prescribed interest rates for deferral and variance accounts (DVAs) and for the construction work in progress (CWIP) account on a quarterly basis. The OEB publishes its deemed short-term debt rate (DSTDR) on an annual basis.

The purpose of this letter is to provide an update regarding the calculations of the above-noted prescribed interest rates for DVAs and the DSTDR, given that the three-month bankers' acceptances that underpin these calculations have been phased out, as published by the Canadian Investment Regulatory Organization.<sup>1</sup> The approaches discussed below are made without prejudice to the final methodologies that will be determined in the cost of capital proceeding (EB-2024-0063).

The current methodology to calculate prescribed interest rates for the CWIP account will be retained, given that bankers' acceptances do not underpin its calculations.

### **Prescribed Interest Rates**

The OEB will set the prescribed DVA interest rates for 2024 Q4 and 2025 Q1 on a final basis, using the Canada three-month T-bill rates at the time plus a 25 basis point spread. The DVA interest rates are expected to be issued by the OEB in mid-September 2024 and mid-December 2024, respectively. The final rate will be the three-

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<sup>1</sup> <https://www.bankofcanada.ca/2023/10/cif-recommends-path-for-winding-down-ba-market/>

month Canada T-bill rate as at August 30, 2024 (for the 2024 Q4 DVA rate) and November 29, 2024 (for the 2025 Q1 DVA rate), plus a fixed spread of 25 basis points.

The OEB concludes that the three-month Canada T-bill rate is a reasonable replacement for the three-month bankers' acceptance rate for the short period of time until the OEB makes a decision in the generic cost of capital proceeding on the appropriate methodology for calculating prescribed DVA interest rates going forward. The OEB also notes that the three-month Canada T-bill rate is a simple rate and is a well-known financial instrument available to utilities.

### **Deemed Short-term Debt Rate (DSTDR)**

In October 2024, the DSTDR will be set by the OEB, on an interim basis for those utilities rebasing for 2025 rates, using the average of the three-month Canada T-bill rate for each business day in September 2024. The bank survey from September 2023 (the prior year) will be used as the average annual spread.<sup>2</sup> No bank survey will be conducted in September 2024.

The DSTDR will apply to those utilities rebasing for 2025 rates, but with a decision expected in advance of the OEB's decision in the cost of capital generic proceeding. As noted above, the OEB finds that the three-month Canada T-bill rate is a reasonable replacement for the three-month bankers' acceptance rate for this interim period.

The OEB approves the establishment of a generic variance account to capture the revenue requirement impact of the difference between the following:

- The interim DSTDR rate for 2025 rates to be established by the OEB in October 2024
- The DSTDR rate to be approved by the OEB in due course in the cost of capital generic proceeding

The variance account will be effective at the start of the rebasing rate year (January 1, 2025 or May 1, 2025 or other OEB-approved effective date), as necessary. This variance account may not be necessary for utilities with a rebasing rate year starting on May 1, 2025, depending on the timing of the OEB's final decision in the current proceeding.

An Accounting Order for this variance account is approved by the OEB for electricity distributors and electricity transmitters. The Accounting Order is attached to this letter as Schedule A. No variance account is needed for either natural gas utilities or Ontario Power Generation Inc., given that these utilities will not be rebasing for 2025 rates.

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<sup>2</sup> The September 2023 survey from Canadian banks is for the spread over the bankers' acceptance rate of short-term loans for R1-low or A (A-stable) commercial utility customers. Therefore, the September 2023 bank survey will need to be reflected in the interim rate for the DSTDR (as opposed to a September 2024 bank survey), given that the bankers' acceptance rates are being discontinued.

Any questions relating to this letter should be directed to Fiona O'Connell at [fiona.oconnell@oeb.ca](mailto:fiona.oconnell@oeb.ca).

Yours truly,

Nancy Marconi  
Registrar

SCHEDULE A

**ACCOUNTING ORDER FOR ELECTRICITY DISTRIBUTORS AND  
TRANSMITTERS (001-2024)**

**ONTARIO ENERGY BOARD**

**EB-2024-0063**

**JULY 26, 2024**

**ACCOUNTING ORDER (001-2024)  
FOR ELECTRICITY DISTRIBUTORS AND TRANSMITTERS  
ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT  
DEEMED SHORT-TERM DEBT RATE VARIANCE ACCOUNT**

This accounting order applies to rate-regulated electricity distributors and rate-regulated electricity transmitters rebasing for 2025 rates (but with a decision expected in advance of the OEB's decision in the cost of capital generic proceeding). These electricity distributors and transmitters may establish the following two new generic accounts in respect of the deemed short-term debt rate (DSTDR). These accounts will be effective at the start of the rebasing rate year (January 1, 2025 or May 1, 2025 or other OEB-approved effective date), as necessary.

1. Account 1508 - Other Regulatory Assets, Sub-account DSDTR Variance Account
2. Account 1508 - Other Regulatory Assets, Sub-account DSTDR Variance Account, Carrying Charges

The DSTDR Variance Account will capture the revenue requirement impact of the difference between the following:

- The interim DSTDR rate for 2025 rates to be established by the OEB in October 2024
- The DSTDR rate to be approved by the OEB in due course in the EB-2024-0063 cost of capital generic proceeding

Carrying charges will apply at the OEB's prescribed rates for deferral and variance accounts that are published on the OEB's website on a quarterly basis.<sup>1</sup>

Electricity distributors and electricity transmitters may bring forward the total amounts recorded in the DSTDR Variance sub-accounts for review and disposition as part of their next cost-based rate applications if they exceed the materiality threshold.

The amounts recorded in the DSTDR Variance Account shall be tracked at a sufficiently detailed level to assist in a prudence review of the amounts incurred.

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<sup>1</sup> Per the OEB's [Prescribed Interest Rates](#) webpage

**Sample Journal Entries:**

**To record amounts recorded in the DSTDR Variance Account:**

Dr./Cr. 1508 Other Regulatory Assets, Sub-account DSTDR Variance Account  
Cr./Dr. 4080 Distribution Services Revenue

*To record certain revenue requirement impacts relating to the DSTDR.*

Dr./Cr. 1508 Other Regulatory Assets, Sub-account DSTDR Variance Account, Carrying  
Charges  
Cr./Dr. 6035 Other Interest Expense

*To record the carrying charges on the monthly opening balance in Account 1508, Other  
Regulatory Assets, Sub-account DSTDR Variance Account*