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CAPITAL STRUCTURE

2 **Overview of Cost of Capital and Return**

3 The purpose of this evidence is to summarize the method and cost of financing CHE's
4 capital requirements for the 2010 test year.

5 Capital Structure

6 CHE has a deemed capital structure of 56.7% debt and 43.3% equity, as approved by
7 the OEB in the 2009 IRM Application (EB-2008-0168), and a return on equity of 9.0% as
8 approved by the OEB in the 2006 EDR file (EB-2005-0354).

9 CHE is requesting OEB approval of a capital structure of 60% debt and 40% equity,
10 including a return on equity of 8.01% which is the last Board approved rate based on the
11 latest Consensus Forecasts and published Bank of Canada data. The weighted average
12 cost of capital is 7.52% as summarized the following schedule (Exhibit 5, Tab 1,
13 Schedule 1, Attachment 1). CHE understands that the Board is currently reviewing the
14 cost of capital and that the effective rate for debt and equity may change and be applied
15 to the 2010 rebasing application.