Ex. Tab Schedule Contents of Schedule

**5 – Cost of Capital and Rate of Return**

 1 1 Overview

2 Capital Structure

 3 Cost of Capital

**OVERVIEW**

The purpose of this evidence is to summarize the method and cost of financing the Applicant’s capital requirements for the 2010 Bridge Year and 2011 Test Year. The Application uses the Board’s deemed capital structure. In addition background information related to the prior years is provided. BCP’s actual capital structure has changed marginally over the previous years.

**2010 Bridge Year and 2011 Test Year**

Brant County Power has used the Board approved deemed capital structure of 40% equity and 60% debt. The return on equity (“**ROE**”), 9.85%, has been calculated using the Board formula provided in EB-2009-0084 ***Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities*** (the “**CoC Report**”). On February 24, 2010 the Board updated the ROE to 9.85%, deemed short term debt to 2.07% and deemed long-term debt to 5.87%. The ROE and deemed short-term debt rates will be updated as directed by the Board.

The cost of debt included in the application, 5.44%, has been determined by using a weighted average of the existing long-term debt instruments for 56% of the capital structure and the Board’s deemed short-term rate of 2.07% for 4% of the capital structure. BCP’s long-term debt is with TD Canada Trust, a third party financial institution, and consists of a fixed loan of $5million (locked in until 2013) at 6.35% and a second long-term instrument for $2million with a rate of 4%. The weighted average of the long-term debt is 5.68% which is approximately 0.2% less than the Board’s deemed long-term debt rate.

The overall Cost of Capital has increased from the 2010 Bridge Year by $167,630 as a result of the increased rate base as the annual rates used have not changed. The 2011 Test Year requirement, $1,623,759, is less than the actual cost of capital presented for the years 2006, 2007, 2008 and 2009. The decrease is driven by the change in debt to equity ratio in the current deemed structure and a lower cost of debt 6.25% (2009) to an effective debt rate of 5.44% (2011). It should be noted, prior to 2010, the tables are calculated based upon the audited financial statements. The 2011 Test Year rate base is $2,420,701 greater than the 2010 Bridge Year as a result of the change in rate base.

In 2010, BCP obtained the second long-term debt instrument which was used, primarily, to fund the payment to Brantford Power Inc. resulting from the Board’s Decision in EB- 2009-0063. The instrument is a variable rate loan with TD Canada Trust. The payment required pursuant to EB-2009-0063 to Brantford Power Inc. was approximately $2.658million and such payment was made in September 2010 as ordered by the Board.

As detailed below, BCP’s interest rate for the first long-term debt instrument is, inclusive of stamping fee, 6.35%. Combined these two debt instruments produce a weighted average cost of debt = 5.68%. This 5.68% is utilized to calculate the long-term debt return portion (56% of rate base) for the 2010 bridge and 2011 test year.

Both long-term debt instruments are to be reviewed prior to BCP’s next cost of service rate application. Given the actual debt rates and the proximity to the Board approved deemed long-term debt rate, BCP feels the applied for rates are appropriate. BCP is not anticipating the need for any additional long-term debt during the 2010 Bridge or 2011

Test Year.

**2006, 2007, 2008 and 2009 Historical Years**

For 2009, BCP’s capital structure was 57% equity and 43% debt. BCP has provided historical cost of capital summaries based upon the audited financial statements. Unfortunately, this makes a comparison to the 2010 Bridge and 2011 Test Year less meaningful. The capital increased from $25,533,772 (2006) to $26,740,544 (2008) and further to $28,879,171 (2009). Board Approved capital in 2006, based on 2004 figures, was $15,275,131. The debt and equity rates remained constant during these years.

Brant County Power’s $5million dollar debt is financed through a Revolving Term Loan with an interest rate swap. Borrowing is via a floating rate loan [Banker’s Acceptances (“BA”s)] with the interest rate fixed by entering into a swap with TD Securities.  These BAs are auto renewed approximately every 30 days. BCP is charged an interest rate for the BA as well as a stamping fee at 0.75%.  The interest rate is then credited against the interest (at 5.6% as described above) which is charged monthly, thereby leaving the total all-in interest charged at 5.6% plus the stamping fee of 0.75% or 6.35%.  This mechanism was utilized to obtain an attractive interest rate which is fixed with 10 year term when the loan was booked in 2003.

Other long-term debt indicated in appendix 2-N relates to other liabilities including (regulatory liabilities and employee future benefit costs). Actual short-term liabilities are from audited financial statements.

For the 2006, 2007 and 2008 BCP used the Board deemed capital structure of 50% debt and 50% equity. For 2006 the Board set the long-term debt rate at 6.25% in EB-2005-0341. The Board’s rationale for such a rate was:

“The Handbook allows third-party debt to attract the actual cost of the debt, provided that the rate does not exceed the maximum allowed at the time of issuance. Since BCP’s previous loan expired prior to the date that the 2006 distribution rates will become effective, the previous actual 6.43% rate is not applicable. In the absence of any other information regarding the rate applicable to the replacement loan, the Board finds that the 6.25% deemed debt rate applicable to a utility of BCP’s size should apply. The Board considers that the rate will not adversely affect BCP’s ability to negotiate debt as needed and to cover current debt. Accordingly, the Board has revised the debt rate to reflect this finding.” (page 5, Decision and Order)

**Capital Structure**

Brant County Power is applying for a deemed current capital structure of 60% debt (56% long-term, 4% short-term) and 40% equity.

**Return on Equity**

Brant County Power is requesting an equity return of 9.85% for its 2011 Rates based upon the Board approved formula.

**Cost of Debt**

Brant County Power is requesting a long-term debt return of 5.68% (actual weighted average cost of debt for 2010) and a short-term debt return rate of 2.07% to provide an effective debt rate of 5.44%.







**Cost of Capital**

**Calculation of cost for each capital component**

Please see above in appendix 2-N.

**Profit or Loss on Redemption of debt and/or preference shares**

Not applicable

**Forecasts of new debt anticipated in 2010 (bridge) or 2011 (test) year**

As discussed above, in 2010 BCP has increased the long-term debt by $2 million. BCP does not anticipate any other new debt for either the bridge or test years.

**Copies of Debt Arrangements**

As all debt is held with 3rd party lenders (TD Canada Trust), BCP is not providing copies of debt arrangements (only required for affiliated debt).