

VECC INTERROGATORY #3

INTERROGATORY

E- Cost of Capital

Issue E1: Is the forecast of the cost of debt for the Test Year, including the mix of short and long term debt and preference shares, and the rates and calculation methodologies for each, appropriate?

Reference: Exhibit E1 Tab 1 Schedule 1

- a) Please update Table 2 to reflect actual data for 2011.
- b) Provide a version of Table 4 that assumes no change in Equity Thickness.

RESPONSE

- a) The following table has been updated to reflect the 2011 Actual/Historical cost of capital. The common equity cost rate utilized is the 2011 Board Approved ROE of 7.94%, plus the 100 basis points (1%) allowed before earnings sharing is triggered, as per the terms of the Company's 2008 through 2012 incentive regulation agreement. This information is also reflected in the updated exhibits at Exhibit E5, Tab 1, Schedule 1, and Exhibit F5, Tab 1, Schedule 1.

Cost of Capital Summary

Line No.		2011 Historical				
		Principal (\$millions)	Component %	Cost Rate %	Return %	Return (\$millions)
1.	Long-term debt	2,319.6	58.62%	6.02%	3.53%	139.6
2.	Short-term debt	112.9	2.85%	1.61%	0.05%	1.8
3.	Preferred shares	100.0	2.53%	2.40%	0.06%	2.4
4.	Common equity	1,424.5	36.00%	8.94%	3.22%	127.4
5.	Total	<u>3,957.0</u>	<u>100.00%</u>		<u>6.85%</u>	<u>271.2</u>

Witnesses: K. Culbert
 M. Lister
 D. Yaworsky

b) The following update of Table 4 takes into account the updated results of Impact Statement Number 1 (Exhibit M1, Tab 1, Schedule 5), but assumes common equity thickness remains at 36%, and includes the capital structure impacts for CIS. Please note that the table below assumes the change in the equity ratio (from 42%) is accounted for with short term debt. If the Board did not approve the Company's request for a 42% equity ratio, EGD would investigate financing alternatives, which may include use of long term debt which is different from that presented in the table below.

Cost of Capital Summary (Weighted)

Line No.	2013 Test Year Including CIS				
	Principal (\$millions)	Component %	Cost Rate %	Return %	Return (\$millions)
1. Long-term debt	2,357.9	56.49%	5.89%	3.33%	138.9
2. Short-term debt	213.5	5.11%	3.70%	0.19%	7.9
3. Preferred shares	100.0	2.40%	4.16%	0.10%	4.2
4. Common equity	1,502.7	36.00%	9.02%	3.25%	135.5
5. Total	4,174.1	100.00%		6.87%	286.5

Update

As requested in Technical Conference Undertaking JT2.16, the cost of capital summary in part b) above has been updated to incorporate the long-term debt assumptions, identified in Updated Exhibit I, Issue E2, Schedule 7.3, that would result if the Board determined that the deemed equity ratio be maintained at 36%. In addition, the short-term debt and preference share cost rates have been updated utilizing current forecasts, as identified in Exhibit I, Issue E1, Schedules 7.1 and 7.2.

Witnesses: K. Culbert
 M. Lister
 D. Yaworsky

Cost of Capital Summary (Weighted)

Line No.		2013 Test Year Including CIS				Return (\$millions)
		Principal (\$millions)	Component %	Cost Rate %	Return %	
1.	Long-term debt	2,507.0	60.06%	5.79%	3.48%	145.2
2.	Short-term debt	64.4	1.54%	2.00%	0.03%	1.3
3.	Preferred shares	100.0	2.40%	3.20%	0.08%	3.2
4.	Common equity	1,502.7	36.00%	9.02%	3.25%	135.5
5.	Total	<u>4,174.1</u>	<u>100.00%</u>		<u>6.84%</u>	<u>285.2</u>

Witnesses: K. Culbert
 M. Lister
 D. Yaworsky