

Exhibit 5:

COST OF CAPITAL AND CAPITAL STRUCTURE

Exhibit 5: Cost Of Capital And Capital Structure

Tab 1 (of 1): Cost of Capital and Capital Structure

1 COST OF CAPITAL AND CAPITAL STRUCTURE

2 OVERVIEW

3 THI is almost exclusively equity financed. However, for ratemaking purposes, THI
 4 followed the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*
 5 dated December 11, 2009, to determine its capital structure and relied on the Board's
 6 March 2, 2012 *Cost of Capital Parameter Updates Letter* for the cost of capital
 7 parameters. THI will update the cost of capital parameters when new parameters are
 8 made available prior to the Board's decision on THI's 2013 distribution rates.

9

10 Overall, THI is requesting a deemed interest expense of \$243,082 and a deemed return
 11 on equity of \$347,368 for a total regulated return on capital of \$590,450 for the 2013TY.

12

13 The derivation of the 2013TY regulated return on capital is illustrated in the table below.

14

15 **Table 5.1: Calculation of the Cost of Capital by Components (E5/T1/S1/Att1)**

	<i>Deemed Portion</i>	<i>Effective Rate</i>	<i>Amount</i>
Rate Base (E5/T1/S1/Att1 & 2)			\$9,522,161
Short-Term Debt	4.00%	2.08%	\$7,922
Long-Term Debt	56.00%	4.41%	<u>\$235,159</u>
Total Interest Expense	60.00%		\$243,082
Total Return on Equity	40.00%	9.12%	\$347,368
Regulated Return on Capital Before MIFRS Adjustment	100.00%	6.20%	\$590,450
MIFRS Adjustment			(\$13,316)
Regulated Return on Capital			\$577,129

16 CAPITAL STRUCTURE

17 THI's capital structure is approximately 11% debt and 89% equity in 2013 and this
 18 represents a change from the 2009 EDR where THI was exclusively equity financed. In
 19 November 2010 THI obtained a loan to finance its smart meter program. That loan is

1 further discussed below. THI is not planning on taking more debt in the 2013 Test Year
2 or thereafter.

3
4 For the purpose of setting distribution rates for the 2013TY, THI adheres to Board policy
5 where it has been determined that a split of 60% debt and, 40% equity is appropriate for
6 all electricity distributors. THI's approach for the 2013 EDR is consistent with the Board's
7 Decision in the 2009 EDR.

8
9 Copies of the Board's Appendices 2-OA and 2-OB provide further details on THI's cost
10 of capital since the last 2009 EDR and are provided in E5/T1/S1/Att2 and E5/T1/S1/Att3,
11 respectively.

12 13 **RETURN ON EQUITY**

14 ***Common Equity***

15 As noted previously, THI adheres to the Board's Cost of Capital policy. For rate making
16 purposes, THI proposes to recover an amount of \$347,368 for the Return on Equity
17 through distribution rates in the 2013TY. This amount is computed based on the Board's
18 default rate of return on equity of 9.12% which will be updated when a new rate is made
19 available by the Board prior to the 2013 EDR decision.

20 ***Preference Shares***

21 THI does not propose to include any preference share component in its capital structure
22 for the 2013TY. THI notes that the Board's approved policy on capital structure does not
23 require that a preference share component be included in the capital structure

EB-2012-0168

Exhibit 5

Tab 1

Schedule 1

Attachment 1

Deemed Capital Structure and Return on
Capital

Tillsonburg Hydro Inc. (ED-2003-0026)

2013 EDR Application (EB-2012-0168) version: 1

August 31, 2012

D3 Deemed Capital Structure and Return On Capital

Enter deemed portions of debt and equity capitalization

	Current Application			2009 Approved		
	Deemed Portion	Effective Rate ¹	Return Amount	Deemed Portion	Effective Rate	Return Amount
Short-Term Debt	4.00%	2.08%	9,522,071	4.00%	1.33%	8,686,283
Long-Term Debt	56.00%	4.41%		52.67%	7.62%	
Total Equity	40.00%	9.12%		43.33%	8.01%	
Regulated Rate of Return	100.00%	6.20%		100.00%	7.54%	
Rate Base ²			9,522,071			8,686,283
Regulated Return on Capital			577,129			654,719
IFRS Adjustment	(214,754)		(13,316)			
Deemed Interest Expense			243,079			353,241
Deemed Return on Equity			347,365			301,478

¹ Long-Term Debt rate from sheet D2; Short-Term Debt and Equity rates from sheet Y1

² Amount for Current Application from sheet D1

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Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the required years of all historical years, the bridge year and the test year.

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
Application					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	52.67%	\$4,399,674	7.62%	\$335,255
2	Short-term Debt	4.00% (1)	\$334,131	1.33%	\$4,444
3	Total Debt	56.7%	\$4,733,805	7.18%	\$339,699
	Equity				
4	Common Equity	43.33%	\$3,619,477	8.01%	\$289,920
5	Preferred Shares		\$ -		\$ -
6	Total Equity	43.3%	\$3,619,477	8.01%	\$289,920
7	Total	100.0%	\$8,353,282	7.54%	\$629,619

Notes

(1)

4.0% unless an applicant has proposed or been approved for a different amount.

2009

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Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the required years of all historical years, the bridge year and the test year.

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$4,814,765	7.62%	\$366,885
2	Short-term Debt	4.00% (1)	\$343,912	1.33%	\$4,574
3	Total Debt	60.0%	\$5,158,677	7.20%	\$371,459
	Equity				
4	Common Equity	40.00%	\$3,439,118	8.01%	\$275,473
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$3,439,118	8.01%	\$275,473
7	Total	100.0%	\$8,597,795	7.52%	\$646,932

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

2010

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Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the required years of all historical years, the bridge year and the test year.

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$4,928,885	7.62%	\$375,581
2	Short-term Debt	4.00% (1)	\$352,063	1.33%	\$4,682
3	Total Debt	60.0%	\$5,280,948	7.20%	\$380,263
	Equity				
4	Common Equity	40.00%	\$3,520,632	8.01%	\$282,003
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$3,520,632	8.01%	\$282,003
7	Total	100.0%	\$8,801,580	7.52%	\$662,266

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

2011

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Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the required years of all historical years, the bridge year and the test year.

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$4,984,029	7.62%	\$379,783
2	Short-term Debt	4.00% (1)	\$356,002	1.33%	\$4,735
3	Total Debt	60.0%	\$5,340,031	7.20%	\$384,518
	Equity				
4	Common Equity	40.00%	\$3,560,020	8.01%	\$285,158
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$3,560,020	8.01%	\$285,158
7	Total	100.0%	\$8,900,051	7.52%	\$669,675

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

2012

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Date: 28-Sep-12

Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the required years of all historical years, the bridge year and the test year.

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$5,332,410	4.41%	\$235,159
2	Short-term Debt	4.00% (1)	\$380,886	2.08%	\$7,922
3	Total Debt	60.0%	\$5,713,297	4.25%	\$243,082
	Equity				
4	Common Equity	40.00%	\$3,808,864	9.12%	\$347,368
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$3,808,864	9.12%	\$347,368
7	Total	100.0%	\$9,522,161	6.20%	\$590,450

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

2013

File Number: EB-2012-0168
Exhibit: 5
Tab: 1
Schedule: 1
Attachment: 3

Date: 28-Sep-12

Appendix 2-OB Debt Instruments

This table must be completed for the required years of all historical years, the bridge year and the test year.

Year 2010

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	
1	2010 - Loan for Smart Meter Deployment	TD Canada Trust		Fixed Rate	30-Nov-10	10	\$ 1,270,000	4.53%	\$ 4,728.58	term loan debt compounded monthly
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
Total							\$ 1,270,000	0.00372	\$ 4,728.58	

Notes

- 1 If financing is in place only part of the year, calculate the pro-rated interest and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009
- 3 Add more lines above row 12 if necessary.

Year 2011

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	
1	2011 - Loan for Smart Meter Deployment	TD Canada Trust		Fixed Rate	30-Nov-10	10	\$ 1,261,549	4.53%	\$ 50,750.02	term loan debt compounded monthly
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
Total							\$ 1,261,549	0.04023	\$ 50,750.02	

Notes

- 1 If financing is in place only part of the year, calculate the pro-rated interest and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009
- 3 Add more lines above row 12 if necessary.

File Number: EB-2012-0168
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Tab: 1
Schedule: 1
Attachment: 3

Date: 28-Sep-12

Appendix 2-OB Debt Instruments

This table must be completed for the required years of all historical years, the bridge year and the test year.

Year 2012

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	
1	2012 - loan for smart meter deployment	TD Canada Trust		Fixed Rate	30-Nov-10	10	\$ 1,027,141	4.53%	\$ 44,182.40	term loan debt compounded monthly
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
Total							\$ 1,027,141	0.04301	\$ 44,182.40	

Notes

- 1 If financing is in place only part of the year, calculate the pro-rated interest and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009
- 3 Add more lines above row 12 if necessary.

Year 2013

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	
1	2013 - loan for smart meter deployment	TD Canada Trust		Fixed Rate	30-Nov-10	10	\$ 913,167	4.53%	\$ 38,903.21	term loan debt compounded monthly
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
Total							\$ 913,167	0.0426	\$ 38,903.21	

Notes

- 1 If financing is in place only part of the year, calculate the pro-rated interest and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009
- 3 Add more lines above row 12 if necessary.

COST OF CAPITAL

COST OF DEBT

As noted previously, THI incurred long-term financing for the smart meter program in November 2010 ("TD Loan"). The bank loan is payable over ten years, and bears interest of 4.53%, with the option of a 10% prepayment each year. The loan is secured by a general security agreement. (E5/T1/S2/Att2)

THI does not have any third party debt – provided by either an affiliated entity or an at-arm's length entity – other than the TD Loan noted above.

Long-Term Debt

For the 2013TY, THI proposes to maintain the approach for determining the Deemed Long-Term Debt Amount and the Long-term Debt Rate that has been approved in its 2006 and 2009 EDRs. The approach is to apply the Board's Cost of Capital policy where the Long-Term Debt Amount reflects the Board's capitalization policy and to use the Board's Deemed Long-Term Debt Rate for the stated amount.

For the 2013TY, the Long-Term Debt Amount is 56% of the Average Rate Base to which a default Long-Term Debt Rate of 4.41% is applied. The Long-Term Debt Rate will be updated to reflect the Board's new rate when made available prior to the 2013 EDR decision.

Based on that approach, THI proposes recovering \$235k (E5/T1/S1/Att2), for the Long-Term Debt component for the 2013TY.

THI is of the view that this approach is appropriate and reasonable in the circumstances. As noted previously, THI has been exclusively equity financed in the past and would still be if it was not for the specific debt instrument incurred for the smart meter program. THI does not intend on securing further debt in the future. It therefore appears reasonable not to depart from the approach approved in the 2006 and 2009 EDRs.

1

2 ***Short-Term Debt***

3 For rate making purposes, THI proposes to recover \$8k (E5/T1/S1/Att2) through
4 distribution rates in the 2013TY for the Deemed Short-Term Debt. The Short-Term Debt
5 Amount is derived by applying the Board's cost of capital policy which assumes that
6 short-term debt represents 4% of the capital structure at a rate of 2.08%. The applicable
7 default rate for the Short-Term Debt will be updated when made available by the Board
8 prior to the 2013 EDR decision.

9 ***Credit Facilities (E5/T1/S2/Att2)***

10 THI has three credit facilities: a Letter of Credit in the amount of \$956,406 with a
11 Schedule A bank that secures its prudential obligations to the Independent Electricity
12 System Operator; a Line of Credit in the amount of \$500,000 also with a Schedule A
13 bank; and a term loan in which the original amount was \$1,270,000 of which the balance
14 is being paid down monthly. The Line of Credit has not been drawn upon to date
15

16 All credit facilities are secured by a general security agreement over THI's distribution
17 assets and subject to restrictive covenants. THI pays a \$50/month administration fee
18 and an annual stamping charge of 0.75% with respect to the Letter of Credit and the
19 Line of Credit. The Term loan bears an interest rate of 4.53%. THI estimates that it will
20 cost approximately \$47k in fees related to these credit facilities. THI has not included
21 this amount in the 2013TY as it has reflected deemed interest costs of \$235k for long-
22 term debt and \$8k for short term debt as noted above.

EB-2012-0168

Exhibit 5

Tab 1

Schedule 2

Attachment 1

Weighted Average Cost of Debt

EB-2012-0168

Exhibit 5

Tab 1

Schedule 2

Attachment 2

TD Debt Instrument

To CAS 07/23/10



Commercial Banking

London Commercial Banking Group
275 Dundas Street, 9th Floor
London, Ontario. N6B 3L1

Telephone No.: (519) 852-2942
Fax No.: (519) 663-5704

July 20, 2010

Tillsonburg Hydro Inc.
200 Broadway Street, Suite 204
Tillsonburg Ontario N4G 5A7

We are pleased to offer the Borrower the following credit facilities (the "Facilities"), subject to the following terms and conditions.

BORROWER

Tillsonburg Hydro Inc. (the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its 275 Dundas Street, 9th Floor branch, in London, Ontario.

CREDIT LIMIT

- 1) CDN\$956,406
- 2) CDN \$500,000
- 3) CDN \$1,500,000 as reduced pursuant to the section headed "Repayment and Reduction of Amount of Credit Facility".

TYPE OF CREDIT AND BORROWING OPTIONS

- 1) **Letters of Credit** available at the Borrower's option by way of:
 - Letters of Credit in CDN\$ ("L/Cs")
 - Stand-by Letters of Guarantee in CDN\$ ("L/Gs")
- 2) **Operating Loan:** available at the Borrower's option by way of:
 - Prime Rate Based Loans in CDN\$ ("Prime Based Loans")
 - Letter of Credit in CDN\$
- 3) **Committed Reducing Term Facility (Multiple Draw)** available at the Borrower's option by way of:
 - Fixed Rate Term Loan(s) in CDN\$
 - Floating Rate Term Loan(s) available by way of:
 - Prime Rate Based Loans in CDN\$ ("Prime Based Loans")

PURPOSE

- 1) To satisfy Independent Electricity System Operator (IESO) Prudential requirements.
- 2) Working Capital
- 3) Smart Meter Program Financing

TENOR

- 1,2) Uncommitted
- 3) Committed

**CONTRACTUAL
TERM**

- 3) Maximum of 10 years from date of drawdown.

**RATE TERM
(FIXED RATE
TERM LOAN)**

- 3) Fixed rate: 10 years from date of drawdown.

AMORTIZATION

- 3) Maximum of 10 years from date of drawdown.

**INTEREST RATES
AND FEES**

Advances shall bear interest and fees as follows:

- 1) **Letter of Credit:**
 - L/Cs: 0.75% per annum
 - L/Gs: 0.75% per annum
- 2) **Operating Loan:**
 - Floating Rate Term Loans available by way of:
 - Prime Based Loans: Prime Rate -1.00% per annum
 - L/Gs: 0.75% per annum
- 3) **Committed Reducing Term Facility (Multiple Draw):**
 - Fixed Rate Term Loans: 4.53% per annum.

For all Facilities, interest payments will be made in accordance with Schedule "A" attached hereto unless otherwise stated in this Letter or in the Rate and Payment Terms Notice applicable for a particular drawdown. Information on interest rate and fee definitions, interest rate calculations and payment is set out in the Schedule "A" attached hereto.

**ADMINISTRATION
FEE**

\$50 per month.

DRAWDOWN

- 2) Via overdraft.
- 3) Multiple draws permitted up to the Credit Limit, as reduced pursuant to the Repayment and Reduction of Amount of Credit Facility Section. Upon satisfaction of disbursement conditions.

OVERDRAFTS

The Borrower will have access to Prime Based Loans under the Operating Loan via overdraft from Account Number **5215577** at Branch **0001** (the "Account") up to the Credit Limit.

REPAYMENT AND REDUCTION OF AMOUNT OF CREDIT FACILITY

- 1) On demand. If the Bank demands repayment, the Borrower will pay to the Bank all amounts outstanding under the L/Cs. All costs to the Bank and all loss suffered by the Bank in re-employing the amounts so repaid will be paid by the Borrower.
- 2) On demand. If the Bank demands repayment, the Borrower will pay to the Bank all amounts outstanding under the Operating Loan, including without limitation and the amount of all drawn and undrawn L/Gs and L/Cs. All costs to the Bank and all loss suffered by the Bank in re-employing the amounts so repaid will be paid by the Borrower.
- 3) Monthly blended payments of principal and interest to be determined on drawdown date.

PREPAYMENT

- 3) Fixed Rate Term Loan:
Permitted in whole or in part at any time, provided that an Event of Default has not occurred, subject to payment of a prepayment penalty; and The Borrower has the option of selecting the 10% Prepayments Option subject to a rate premium.

SECURITY

The following security shall be provided, shall, unless otherwise indicated, support all present and future indebtedness and liability of the Borrower and the grantor of the security to the Bank including without limitation indebtedness and liability under guarantees, foreign exchange contracts, cash management products, and derivative contracts, shall be registered in first position, and shall be on the Bank's standard form, supported by resolutions and solicitor's opinion, all acceptable to the Bank:

- a) General Security Agreement ("GSA") representing a first charge on all the Borrower's assets and undertakings with Director's Resolution and Solicitor's Letter of Opinion.
- b) Evidence of General Liability Insurance in the amount of \$20,000,000.
- c) Indemnity Agreement re: L/G, L/C.

All persons and entities required to provide a guarantee shall be referred to in this Agreement individually as a "Surety" and/or "Guarantor" and collectively as the "Guarantors";

All of the above security and guarantees shall be referred to collectively in this Agreement as "Bank Security".

DISBURSEMENT CONDITIONS

The obligation of the Bank to permit any drawdown hereunder is subject to the Standard Disbursement Conditions contained in Schedule "A" and the following additional drawdown conditions:

Facility #3:

- 1) Execution of the Forward Start Rate Agreement.
- 2) Receipt of fully executed Loan Agreement.

REPRESENTATIONS AND WARRANTIES

All representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect. The Borrower makes the Standard Representations and Warranties set out in Schedule "A".

POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries and each of the Guarantors will observe the Standard Positive Covenants set out in Schedule "A" and in addition will:

- a) Comply with all applicable environmental regulations at all times.
- b) Comply with all contractual obligations and laws, including payment of taxes.
- c) Remain in the regulated business of electricity distribution and maintain all requisite licenses to do so.
- d) Comply with all terms of all licenses and immediately advise the Bank if Ontario Energy Board shall notify the Borrower of a default under a license or if the license is amended, cancelled, suspended or revoked (any of such circumstances will be an event of default).
- e) Maintain adequate insurance.
- f) File all Ontario Energy Board rate submissions (when applicable).
- g) Ensure all existing indebtedness (beyond that permitted under financial covenants below) is held directly or indirectly on an unsecured basis with no acceleration rights by the municipal shareholder and is bound by the distribution restrictions outlined under Negative Covenants below.
- h) Comply with Affiliate Relationship Code.

Reporting Requirements:

The Borrower will provide:

- a) Audited Annual financial statements within 150 days of each fiscal year.
- b) An annual business plan/budget within 150 days of each fiscal year end, including capital expenditure schedule.
- c) Annual Ontario Energy Board rate submission and QSI (if applicable).

NEGATIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries and each of the Guarantors will observe the Standard Negative Covenants set out in Schedule "A" and in addition:

- a) Will not permit a change in the indirect or direct municipal ownership of the Borrower.
- b) Will not permit a change in the status of the Borrower as a Limited Distribution Company.
- c) Will not permit repayment of shareholder debt, beyond the permitted distributions outlined below, without the Bank's prior written consent.
- d) Will not permit investments, mergers, amalgamations or consolidations without the Lender's prior consent.
- e) Negative pledge.
- f) Will not permit additional debt, including guarantees without the Bank's prior consent.

PERMITTED LIENS

Permitted Liens as referred to in Schedule "A" are:

Purchase Money Security Interests in equipment which Purchase Money Security Interests exist on the date of this Agreement ("Existing PMSIs") which are known to the Bank and all future Purchase Money Security Interests on equipment acquired to replace the equipment under Existing PMSIs, provided that the cost of such replacement equipment may not exceed the cost of the equipment subject to the Existing PMSI by more than 10%.

FINANCIAL COVENANTS

The Borrower agrees at all times to:

- a) Maintain an Interest Bearing Debt: Capitalization Ratio of 0.60:1. Tested annually.

Capitalization is to be defined as all Interest Bearing Debt + Shareholder's Equity + Contributed Capital + Preference Share Capital- Goodwill- Intangibles

- b) Maintain a minimum Debt Service Coverage Ratio ("DSC") of 1.20 :1. Tested annually.

The *Debt Service Coverage* ratio to be calculated as follows:

$$\frac{\text{EBITDA} - \text{Cash Taxes} - 40\% \text{ of Capital Expenditures (net of contributed capital)}}{\text{Mandatory Principal payments} + \text{Interest}}$$

EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation, and Amortization.

EVENTS OF DEFAULT

The Bank may cancel the credit facility at any time after the occurrence of any one of the following Events of Default:

- a) Material adverse changes in legislation or regulation of the electrical distribution business in Ontario.
- b) Loss of Ontario Energy Board license.

ANCILLARY FACILITIES

As at the date of this Agreement, the following uncommitted ancillary products are made available. These products may be subject to other agreements.

- 1) Spot Foreign Exchange Facility which allows the Borrower to enter into US\$200,000 for settlement on a spot basis.
- 3) Certain treasury products, such as forward foreign exchange transactions, and/or interest rate and currency and/or commodity swaps.

The Borrower agrees that treasury products will be used to hedge its risk and will not be used for speculative purposes.

For the Borrower's information only, the Bank advises the Borrower that, as at the day of this Agreement only, the Bank would, if requested by the Borrower, make available to the Borrower forward foreign exchange contracts in an aggregate amount of up to \$960,000 for periods of up to 12 months and in an aggregate amount of up to \$210,000 for periods from 12 to 24 months. These limits and terms are subject to change at any time at the discretion of the Bank and without prior notice to the Borrower. The Borrower must contact the Bank from time to time, to obtain information about the Borrower's then current forward foreign exchange limit.

FX CLOSE OUT

The Borrower hereby acknowledges and agrees that in the event any of the following occur: (i) Default by the Borrower under any forward foreign exchange contract("FX Contract"); (ii) Default by the Borrower in payment of monies owing by it to anyone, including the Bank; (iii) Default in the performance of any other obligation of the Borrower under any agreement to which it is subject; or (iv) the Borrower is adjudged to be or voluntarily becomes bankrupt or insolvent or admits in writing to its inability to pay its debts as they come due or has a receiver appointed over its assets, the Bank shall be entitled without advance notice to the Borrower to close out and terminate all of the outstanding FX Contracts entered into hereunder, using normal commercial practices employed by the Bank, to determine the gain or loss for each terminated FX contract. The Bank shall then be entitled to calculate a net termination value for all of the terminated FX Contracts which shall be the net sum of all the losses and gains arising from the termination of the FX Contracts which net sum shall be the "Close Out Value" of the terminated FX Contracts. The Borrower acknowledges that it shall be required to forthwith pay any positive Close Out Value owing to the Bank and the Bank shall be required to pay any negative Close Out Value owing to the Borrower, subject to any rights of set-off to which the Bank is entitled or subject.

**AVAILABILITY OF
OPERATING LOAN**

The Operating Loan is uncommitted, made available at the Bank's discretion, and is not automatically available upon satisfaction of the terms and conditions, conditions precedent, or financial tests set out herein.

The occurrence of an Event of Default is not a precondition to the Bank's right to accelerate repayment and cancel the availability of the Operating Loan.

**SCHEDULE "A" -
STANDARD
TERMS AND
CONDITIONS**

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which apply to these credit facilities. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

We trust you will find these facilities helpful in meeting your ongoing financing requirements. We ask that if you wish to accept this offer of financing (which includes the Standard Terms and Conditions), please do so by signing and returning the attached duplicate copy of this letter to the undersigned. This offer will expire if not accepted in writing and received by the Bank on or before **July 30, 2010**.

Yours truly,

THE TORONTO-DOMINION BANK



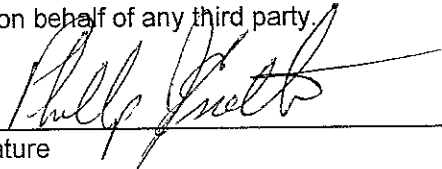
Dave Cross
Account Manager



Kathy Fox
Manager, Commercial Credit

TO THE TORONTO-DOMINION BANK:

Tillsonburg Hydro Inc. hereby accepts the foregoing offer this 21 day of July, 2010. The Borrower confirms that, except as may be set out above, the credit facility(ies) detailed herein shall not be used by or on behalf of any third party.



Signature



Signature

PHILLIP ESSELTIVE - CHAIR

Print Name & Position

Darrell Edgington, Treasurer

Print Name & Position

SCHEDULE A
STANDARD TERMS AND CONDITIONS

1. INTEREST RATE DEFINITIONS

Prime Rate means the rate of interest per annum (based on a 365 day year) established and reported by the Bank to the Bank of Canada from time to time as the reference rate of interest for determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness in Canada for Canadian dollar loans made by it in Canada.

The Stamping Fee rate per annum for CDN\$ B/As is based on a 365 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance. The Stamping Fee rate per annum for US\$ B/As is based on a 360 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance.

LIBOR means the rate of interest per annum (based on a 360 day year) as determined by the Bank (rounded upwards, if necessary to the nearest whole multiple of 1/16th of 1%) at which the Bank may make available United States dollars which are obtained by the Bank in the Interbank Euro Currency Market, London, England at approximately 11:00 a.m. (Toronto time) on the second Business Day before the first day of, and in an amount similar to, and for the period similar to the interest period of, such advance.

USBR means the rate of interest per annum (based on a 365 day year) established by the Bank from time to time as the reference rate of interest for the determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness for US dollar loans made by it in Canada.

Any interest rate based on a period less than a year expressed as an annual rate for the purposes of the Interest Act (Canada) is equivalent to such determined rate multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by the number of days in the period upon which it was based.

2. INTEREST CALCULATION AND PAYMENT

Interest on Prime Based Loans and USBR Loans is calculated daily (including February 29 in a leap year) and payable monthly in arrears based on the number of days the subject loan is outstanding unless otherwise provided in the Rate and Payment Terms Notice. Interest is charged on February 29 in a leap year.

The Stamping Fee is calculated based on the amount and the term of the B/A and payable upon acceptance by the Bank of the B/A. The net proceeds received by the Borrower on a B/A advance will be equal to the Face Amount of the B/A discounted at the Bank's then prevailing B/A discount rate for CDN\$ B/As or US\$ B/As as the case may be, for the specified term of the B/A less the B/A Stamping Fee.

Interest on LIBOR Loans is calculated and payable on the earlier of contract maturity or quarterly in arrears, for the number of days in the LIBOR interest period.

L/C and L/G fees are payable at the time set out in the Letter of Credit Indemnity Agreement applicable to the issued L/C or L/G.

Interest on Fixed Rate Term Loans is compounded monthly and payable monthly in arrears unless otherwise provided in the Rate and Payment Terms Notice.

Interest is payable both before and after maturity or demand, default and judgment.

Each payment under this Agreement shall be applied first in payment of costs and expenses, then interest and fees and the balance, if any, shall be applied in reduction of principal.

For loans not secured by real property, all overdue amounts of principal and interest and all amounts outstanding in excess of the Credit Limit shall bear interest from the date on which the same became due or from when the excess was incurred, as the case may be, until the date of payment or until the date the excess is repaid at 21% per annum, or such lower interest rate if the Bank agrees to a lower interest rate in writing. Nothing in this clause shall be deemed to authorize the Borrower to incur loans in excess of the Credit Limit.

3. DRAWDOWN PROVISIONS

Prime Based and USBR Loans

There is no minimum amount of drawdown by way of Prime Based Loans and USBR Loans, except as stated in the section of the Agreement titled "Business Credit Services Agreement", if that section of the Agreement has not been deleted. The Borrower shall provide the Bank with 3 Business Days' notice of a requested Prime Based Loan or USBR Loan over \$1,000,000.

B/As

The Borrower shall advise the Bank of the requested term or maturity date for B/As issued hereunder. The Bank shall have the discretion to restrict the term or maturity dates of B/As. In no event shall the term of the B/A exceed the Contractual Term Maturity Date. The minimum amount of a drawdown by way of B/As is \$1,000,000 and in multiples of \$100,000 thereafter. The Borrower shall provide the Bank with 3 Business Days' notice of a requested B/A drawdown.

The Borrower shall pay to the Bank the full amount of the B/A at the maturity date of the B/A.

The Borrower appoints the Bank as its attorney to and authorizes the Bank to (i) complete, sign, endorse, negotiate and deliver B/As on behalf of the Borrower in handwritten form, or by facsimile or mechanical signature or otherwise, (ii) accept such B/As, and (iii) purchase, discount, and/or negotiate B/As.

LIBOR

The Borrower shall advise the Bank of the requested LIBOR contract maturity period. The Bank shall have the discretion to restrict the LIBOR contract maturity. In no event shall the term of the LIBOR contract exceed the Contractual Term Maturity Date. The minimum amount of a drawdown by way of a LIBOR Loan is \$1,000,000, and shall be in multiples of \$100,000 thereafter. The Borrower will provide the Bank with 3 Business Days' notice of a requested LIBOR Loan.

L/C and/or L/G

The Bank shall have the discretion to restrict the maturity date of L/Gs or L/Cs.

B/A - Prime Conversion

The Borrower will provide the Bank with at least 3 Business Days' notice of its intention either to convert a B/A to a Prime Based Loan or vice versa, failing which, the Bank may decline to accept such additional B/As or may charge interest on the amount of Prime Based Loans resulting from maturity of B/As at the rate of 115% of the rate applicable to Prime Based Loans for the 3 Business Day period immediately following such maturity. Thereafter, the rate shall revert to the rate applicable to Prime Based Loans.

Cash Management

The Bank may, and the Borrower hereby authorizes the Bank to, drawdown under the Operating Loan to satisfy any obligations of the Borrower to the Bank in connection with any cash management service provided by the Bank to the Borrower. The Bank may drawdown under the Operating Loan even if the drawdown results in amounts outstanding in excess of the Credit Limit.

Notice

Prior to each drawdown and at least 10 days prior to each Rate Term Maturity, the Borrower will advise the Bank of its selection of drawdown options from those made available by the Bank. The Bank will, after each

drawdown, other than drawdowns by way of BA, LIBOR Loan or under the operating loan, send a Rate and Payment Terms Notice to the Borrower.

4. PREPAYMENT

Fixed Rate Term Loans

10% Prepayment Option Chosen.

- (a) Once, each calendar year, ("Year"), the Borrower may, provided that an Event of Default has not occurred, prepay in one lump sum, an amount of principal outstanding under a Fixed Rate Term Loan not exceeding 10% of the original amount of the Fixed Rate Term Loan, upon payment of all interest accrued to the date of prepayment without paying any prepayment charge. If the prepayment privilege is not used in one Year, it cannot be carried forward and used in a later Year.
- (b) Provided that an Event of Default has not occurred, the Borrower may prepay more than 10% of the original amount of a Fixed Rate Term Loan in any Year, upon payment of all interest accrued to the date of prepayment and an amount equal to the greater of:
 - i) three months' interest on the amount of the prepayment (the amount of prepayment is the amount of prepayment exceeding the 10% limit described in Section 4(a)) using the interest rate applicable to the Fixed Rate Term Loan being prepaid; and
 - ii) the Interest Rate Differential, being the amount by which:
 - a. the total amount of interest on the amount of the prepayment (the amount of prepayment is the amount of prepayment exceeding the 10% limit described in Section 4(a)) using the interest rate applicable to the Fixed Rate Term Loan being prepaid calculated for the period of time from the prepayment date until the Rate Term Maturity Date for the Fixed Rate Term Loan being prepaid (the "Remaining Term"), exceeds
 - b. the total amount of interest on the amount of the prepayment (the amount of prepayment is the amount of prepayment exceeding the 10% limit described in Section 4(a)) using the interest rate applicable to a fixed rate term loan that the Bank would make to a borrower for a comparable facility on the prepayment date, calculated for the Remaining Term.

10% Prepayment Option Not Chosen.

- (c) The Borrower may, provided that an Event of Default has not occurred, prepay all or any part of the principal then outstanding under a Fixed Rate Term Loan upon payment of all interest accrued to the date of prepayment and an amount equal to the greater of:
 - i) three months' interest on the amount of the prepayment using the interest rate applicable to the Fixed Rate Term Loan being prepaid; and
 - ii) the Interest Rate Differential, being the amount by which:

- a. the total amount of interest on the amount of the prepayment using the interest rate applicable to the Fixed Rate Term Loan being prepaid calculated for the period of time from the prepayment date until the Rate Term Maturity Date for the Fixed Rate Term Loan being prepaid (the "Remaining Term"), exceeds
- b. the total amount of interest on the amount of the prepayment using the interest rate applicable to a fixed rate term loan that the Bank would make to a borrower for a comparable facility on the prepayment date, calculated for the Remaining Term.

Floating Rate Term Loans

The Borrower may prepay the whole or any part of the principal outstanding under a Floating Rate Term Loan, at any time without the payment of prepayment charges.

5. STANDARD DISBURSEMENT CONDITIONS

The obligation of the Bank to permit any drawdowns hereunder at any time is subject to the following conditions precedent:

- a) The Bank shall have received the following documents which shall be in form and substance satisfactory to the Bank:
 - i) A copy of a duly executed resolution of the Board of Directors of the Borrower empowering the Borrower to enter into this Agreement;
 - ii) A copy of any necessary government approvals authorizing the Borrower to enter into this Agreement;
 - iii) All of the Bank Security and supporting resolutions and solicitors' letter of opinion required hereunder;
 - iv) The Borrower's compliance certificate certifying compliance with all terms and conditions hereunder;
 - v) all operation of account documentation; and
 - vi) For drawdowns under the Facility by way of L/C or L/G, the Bank's standard form Letter of Credit Indemnity Agreement
- b) The representations and warranties contained in this Agreement are correct.
- c) No event has occurred and is continuing which constitutes an Event of Default or would constitute an Event of Default, but for the requirement that notice be given or time elapse or both.
- d) The Bank has received the arrangement fee payable hereunder (if any) and the Borrower has paid all legal and other expenses incurred by the Bank in connection with the Agreement or the Bank Security.

6. STANDARD REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants, which representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, that:

- a) The Borrower is a duly incorporated corporation, a limited partnership, partnership, or sole proprietorship, duly organized, validly existing and in good standing under the laws of the jurisdiction where the Branch/Centre is located and each other jurisdiction where the Borrower has property or assets or carries on business and the Borrower has adequate corporate power and authority to carry on its business, own property, borrow monies and enter into agreements therefore, execute and deliver the Agreement, the Bank Security, and documents required hereunder, and observe and perform the terms and provisions of this Agreement.

- b) There are no laws, statutes or regulations applicable to or binding upon the Borrower and no provisions in its charter documents or in any by-laws, resolutions, contracts, agreements, or arrangements which would be contravened, breached, violated as a result of the execution, delivery, performance, observance, of any terms of this Agreement.
- c) No Event of Default has occurred nor has any event occurred which, with the passage of time or the giving of notice, would constitute an Event of Default under this Agreement or which would constitute a default under any other agreement.
- d) There are no actions, suits or proceedings, including appeals or applications for review, or any knowledge of pending actions, suits, or proceedings against the Borrower and its subsidiaries, before any court or administrative agency which would result in any material adverse change in the property, assets, financial condition, business or operations of the Borrower.
- e) All material authorizations, approvals, consents, licenses, exemptions, filings, registrations and other requirements of governmental, judicial and public bodies and authorities required to carry on its business have been or will be obtained or effected and are or will be in full force and effect.
- f) The financial statements and forecasts delivered to the Bank fairly present the present financial position of the Borrower, and have been prepared by the Borrower and its auditors in accordance with Canadian Generally Accepted Accounting Principles consistently applied.
- g) All of the remittances required to be made by the Borrower to the federal government and all provincial and municipal governments have been made, are currently up to date and there are no outstanding arrears. Without limiting the foregoing, all employee source deductions (including income taxes, Employment Insurance and Canada Pension Plan), sales taxes (both provincial and federal), corporate income taxes, corporate capital taxes, payroll taxes and Workers' Compensation dues are currently paid and up to date.

7. STANDARD POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will, and will ensure that its subsidiaries and each of the Guarantors will:

- a) Pay all amounts of principal, interest and fees on the dates, times and place specified herein, under the Rate and Payment Terms Notice, and under any other agreement between the Bank and the Borrower.
- b) Advise the Bank of any change in the amount and the terms of any credit arrangement made with other lenders or any action taken by another lender to recover amounts outstanding with such other lender.
- c) Advise promptly after the happening of any event which will result in a material adverse change in the financial condition, business, operations, or prospects of the Borrower or the occurrence of any Event of Default or default under this Agreement or under any other agreement for borrowed money.
- d) Do all things necessary to maintain in good standing its corporate existence and preserve and keep all material agreements, rights, franchises, licenses, operations, contracts or other arrangements in full force and effect.
- e) Take all necessary actions to ensure that the Bank Security and its obligations hereunder will rank ahead of all other indebtedness of and all other security granted by the Borrower.
- f) Pay all taxes, assessments and government charges unless such taxes, assessments, or charges are being contested in good faith and appropriate reserves shall be made with funds set aside in a separate trust fund.
- g) Provide the Bank with information and financial data as it may request from time to time.
- h) Maintain property, plant and equipment in good repair and working condition.
- i) Inform the Bank of any actual or probable litigation and furnish the Bank with copies of details of any litigation or other proceedings, which might affect the financial condition, business, operations, or prospects of the Borrower.
- j) Provide such additional security and documentation as may be required from time to time by the Bank or its solicitors.

- k) Continue to carry on the business currently being carried on by the Borrower its subsidiaries and each of the Guarantors at the date hereof.
- l) Maintain adequate insurance on all of its assets, undertakings, and business risks.
- m) Permit the Bank or its authorized representatives full and reasonable access to its premises, business, financial and computer records and allow the duplication or extraction of pertinent information therefrom and
- n) Comply with all applicable laws.

8. STANDARD NEGATIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will not and will ensure that its subsidiaries and each of the Guarantors will not:

- a) Create, incur, assume, or suffer to exist, any mortgage, deed of trust, pledge, lien, security interest, assignment, charge, or encumbrance (including without limitation, any conditional sale, or other title retention agreement, or finance lease) of any nature, upon or with respect to any of its assets or undertakings, now owned or hereafter acquired, except for those Permitted Liens, if any, set out in the Letter.
- b) Create, incur, assume or suffer to exist any other indebtedness for borrowed money (except for indebtedness resulting from Permitted Liens, if any) or guarantee or act as surety or agree to indemnify the debts of any other Person.
- c) Merge or consolidate with any other Person, or acquire all or substantially all of the shares, assets or business of any other Person.
- d) Sell, lease, assign, transfer, convey or otherwise dispose of any of its now owned or hereafter, acquired assets (including, without limitation, shares of stock and indebtedness of subsidiaries, receivables and leasehold interests), except for inventory disposed of in the ordinary course of business.
- e) Terminate or enter into a surrender of any lease of any property mortgaged under the Bank Security.
- f) Cease to carry on the business currently being carried on by each of the Borrower, its subsidiaries, and the Guarantors at the date hereof.
- g) Permit any change of ownership or change in the capital structure of the Borrower.

9. ENVIRONMENTAL

The Borrower represents and warrants (which representation and warranty shall continue throughout the term of this Agreement) that the business of the Borrower, its subsidiaries and each of the Guarantors is being operated in compliance with applicable laws and regulations respecting the discharge, omission, spill or disposal of any hazardous materials and that any and all enforcement actions in respect thereto have been clearly conveyed to the Bank.

The Borrower shall, at the request of the Bank from time to time, and at the Borrower's expense, obtain and provide to the Bank an environmental audit or inspection report of the property from auditors or inspectors acceptable to the Bank.

The Borrower hereby indemnifies the Bank, its officers, directors, employees, agents and shareholders, and agrees to hold each of them harmless from all loss, claims, damages and expenses (including legal and audit expenses) which may be suffered or incurred in connection with the indebtedness under this Agreement or in connection with the Bank Security.

10. STANDARD EVENTS OF DEFAULT

The Bank may accelerate the payment of principal and interest under any committed credit facility hereunder and cancel any undrawn portion of any committed credit facility hereunder, at any time after the occurrence of any one of the following Events of Default:

- a) Non-payment of principal outstanding under this Agreement when due or non-payment of interest or fees outstanding under this Agreement within 3 Business Days of when due.

- b) If any representation, warranty or statement made hereunder or made in connection with the execution and delivery of this Agreement or the Bank Security is false or misleading at any time.
- c) If any representation or warranty made or information provided by the Guarantor to the Bank from time to time, including without limitation, under or in connection with the Personal Financial Statement and Privacy Agreement provided by the Guarantor, is false or misleading at any time.
- d) If there is a breach or non-performance or non-observance of any term or condition of this Agreement or the Bank Security and, if such default is capable to being remedied, the default continues unremedied for 5 Business Days after the occurrence.
- e) If the Borrower, any one of its subsidiaries, or, if any of the Guarantors makes a general assignment for the benefit of creditors, files or presents a petition, makes a proposal or commits any act of bankruptcy, or if any action is taken for the winding up, liquidation or the appointment of a liquidator, trustee in bankruptcy, custodian, curator, sequestrator, receiver or any other officer with similar powers or if a judgment or order shall be entered by any court approving a petition for reorganization, arrangement or composition of or in respect of the Borrower, any of its subsidiaries, or any of the Guarantors or if the Borrower, any of its subsidiaries, or any of the Guarantors is insolvent or declared bankrupt.
- f) If there exists a voluntary or involuntary suspension of business of the Borrower, any of its subsidiaries, or any of the Guarantors.
- g) If action is taken by an encumbrancer against the Borrower, any of its subsidiaries, or any of the Guarantors to take possession of property or enforce proceedings against any assets.
- h) If any final judgment for the payment of monies is made against the Borrower, any of its subsidiaries, or any of the Guarantors and it is not discharged within 30 days from the imposition of such judgment.
- i) If there exists an event, the effect of which with lapse of time or the giving of notice, will constitute an event of default or a default under any other agreement for borrowed money in excess of the Cross Default Threshold entered into by the Borrower, any of its subsidiaries, or any of the Guarantors.
- j) If the Borrower, any one of its subsidiaries, or any of the Guarantors default under any other present or future agreement with the Bank or any of the Bank's subsidiaries, including without limitation, any other loan agreement, forward foreign exchange transactions, interest rate and currency and/or commodity swaps.
- k) If the Bank Security is not enforceable or if any party to the Bank Security shall dispute or deny any liability or any of its obligations under the Bank Security, or if any Guarantor terminates a guarantee in respect of future advances.
- l) If, in the Bank's determination, a material adverse change occurs in the financial condition, business operations or prospects of the Borrower, any of the Borrower's subsidiaries, or any of the Guarantors.

11. ACCELERATION

If the Bank accelerates the payment of principal and interest hereunder, the Borrower shall immediately pay to the Bank all amounts outstanding hereunder, including without limitation, the amount of unmatured B/As and LIBOR Loans and the amount of all drawn and undrawn L/Gs and L/Cs. All cost to the Bank of unwinding LIBOR Loans and all loss suffered by the Bank in re-employing amounts repaid will be paid by the Borrower.

The Bank may demand the payment of principal and interest under the Operating Loan (and any other uncommitted facility) hereunder and cancel any undrawn portion of the Operating Loan (and any other uncommitted facility) hereunder, at any time whether or not an Event of Default has occurred.

12. CURRENCY INDEMNITY

US\$ loans must be repaid with US\$ and CDN\$ loans must be repaid with CDN\$ and the Borrower shall indemnify the Bank for any loss suffered by the Bank if US\$ loans are repaid with CDN\$ or vice versa, whether such payment is made pursuant to an order of a court or otherwise.

13. TAXATION ON PAYMENTS

All payments made by the Borrower to the Bank will be made free and clear of all present and future taxes (excluding the Bank's income taxes), withholdings or deductions of whatever nature. If these taxes, withholdings or deductions are required by applicable law and are made, the Borrower, shall, as a separate and independent obligation, pay to the Bank all additional amounts as shall fully indemnify the Bank from any such taxes, withholdings or deductions.

14. REPRESENTATION

No representation or warranty or other statement made by the Bank concerning any of the credit facilities shall be binding on the Bank unless made by it in writing as a specific amendment to this Agreement.

15. CHANGING THE AGREEMENT

- a) The Bank may, from time to time, unilaterally change the provisions of this Agreement where (i) the provisions of the Agreement relate to the Operating Loan (and any other uncommitted facility) or (ii) such change is for the benefit of the Borrower, or made at the Borrower's request, including without limitation, decreases to fees or interest payable hereunder or (iii) where such change makes compliance with this Agreement less onerous to the Borrower, including without limitation, release of security. These changes can be made by the Bank providing written notice to the Borrower of such changes in the form of a specific waiver or a document constituting an amending agreement. The Borrower is not required to execute such waiver or amending agreement, unless the Bank requests the Borrower to sign such waiver or amending agreement. A change in the Prime Rate and USBR is not an amendment to the terms of this Agreement that requires notification to be provided to the Borrower.
- b) Changes to the Agreement, other than as described in a) above, including changes to covenants and fees payable by the Borrower, are required to be agreed to by the Bank and the Borrower in writing, by the Bank and the Borrower each signing an amending agreement.
- c) The Bank is not required to notify a Guarantor of any change in the Agreement, including any increase in the Credit Limit.

16. ADDED COST

If the introduction of or any change in any present or future law, regulation, treaty, official or unofficial directive, or regulatory requirement, (whether or not having the force of law) or in the interpretation or application thereof, relates to:

- i) the imposition or exemption of taxation of payments due to the Bank or on reserves or deemed reserves in respect of the undrawn portion of any Facility or loan made available hereunder; or,
- ii) any reserve, special deposit, regulatory or similar requirement against assets, deposits, or loans or other acquisition of funds for loans by the Bank; or,
- iii) the amount of capital required or expected to be maintained by the Bank as a result of the existence of the advances or the commitment made hereunder;

and the result of such occurrence is, in the sole determination of the Bank, to increase the cost of the Bank or to reduce the income received or receivable by the Bank hereunder, the Borrower shall, on demand by the Bank, pay to the Bank that amount which the Bank estimates will compensate it for such additional cost or reduction in income and the Bank's estimate shall be conclusive, absent manifest error.

17. EXPENSES

The Borrower shall pay, within 5 Business Days following notification, all fees and expenses (including but not limited to all legal fees) incurred by the Bank in connection with the preparation, registration and ongoing administration of this Agreement and the Bank Security and with the enforcement of the Bank's rights and remedies under this Agreement and the Bank Security whether or not any amounts are advanced under the Agreement. These fees and expenses shall include, but not be limited, to all outside counsel fees and expenses and all in-house legal fees and expenses, if in-house counsel are used, and all outside professional advisory fees and expenses. The Borrower shall pay interest on unpaid amounts due pursuant to this paragraph at the All-In Rate plus 2% per annum.

Without limiting the generality of Section 24, the Bank or its agent, is authorized to debit any of the Borrower's accounts with the amount of the fees and expenses owed by the Borrower hereunder, including the registration fee in connection with the Bank Security, even if that debiting creates an overdraft in any such account. If there are insufficient funds in the Borrower's accounts to reimburse the Bank or its agent for payment of the fees and expenses owed by the Borrower hereunder, the amount debited to the Borrower's accounts shall be deemed to be a Prime Based Loan under the Operating Loan.

The Borrower will, if requested by the Bank, sign a Pre-Authorized Payment Authorization in a format acceptable to the Bank to permit the Bank's agent to debit the Borrower's accounts as contemplated in this Section.

18. NON WAIVER

Any failure by the Bank to object to or take action with respect to a breach of this Agreement or any Bank Security or upon the occurrence of an Event of Default shall not constitute a waiver of the Bank's right to take action at a later date on that breach. No course of conduct by the Bank will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Agreement and the Bank Security or the Bank's rights thereunder.

19. EVIDENCE OF INDEBTEDNESS

The Bank shall record on its records the amount of all loans made hereunder, payments made in respect thereto, and all other amounts becoming due to the Bank under this Agreement. The Bank's records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of the Borrower to the Bank pursuant to this Agreement.

The Borrower will sign the Bank's standard form Letter of Credit Indemnity Agreement for all L/Cs and L/Gs issued by the Bank.

With respect to chattel mortgages taken as Bank Security, this Agreement is the Promissory Note referred to in same chattel mortgage, and the indebtedness incurred hereunder is the true indebtedness secured by the chattel mortgage.

20. ENTIRE AGREEMENTS

This Agreement replaces any previous letter agreements dealing specifically with terms and conditions of the credit facilities described in the Letter. Agreements relating to other credit facilities made available by the Bank continue to apply for those other credit facilities. This Agreement, and if applicable, the Letter of Credit Indemnity Agreement, are the entire agreements relating to the Facilities described in this Agreement.

21. ASSIGNMENT

The Bank may assign or grant participation in all or part of this Agreement or in any loan made hereunder without notice to and without the Borrower's consent.

The Borrower may not assign or transfer all or any part of its rights or obligations under this Agreement.

22. RELEASE OF INFORMATION

The Borrower hereby irrevocably authorizes and directs the Borrower's accountant, (the "Accountant") to deliver all financial statements and other financial information concerning the Borrower to the Bank and agrees that the Bank and the Accountant may communicate directly with each other.

23. FX CLOSE OUT

The Borrower hereby acknowledges and agrees that in the event any of the following occur: (i) Default by the Borrower under any forward foreign exchange contract ("FX Contract"); (ii) Default by the Borrower in payment of monies owing by it to anyone, including the Bank; (iii) Default in the performance of any other obligation of the Borrower under any agreement to which it is subject; or (iv) the Borrower is adjudged to be or voluntarily becomes bankrupt or insolvent or admits in writing to its inability to pay its debts as they come due or has a receiver

appointed over its assets, the Bank shall be entitled without advance notice to the Borrower to close out and terminate all of the outstanding FX Contracts entered into hereunder, using normal commercial practices employed by the Bank, to determine the gain or loss for each terminated FX contract. The Bank shall then be entitled to calculate a net termination value for all of the terminated FX Contracts which shall be the net sum of all the losses and gains arising from the termination of the FX Contracts which net sum shall be the "Close Out Value" of the terminated FX Contracts. The Borrower acknowledges that it shall be required to forthwith pay any positive Close Out Value owing to the Bank and the Bank shall be required to pay any negative Close Out Value owing to the Borrower, subject to any rights of set-off to which the Bank is entitled or subject.

24. SET-OFF

In addition to and not in limitation of any rights now or hereafter granted under applicable law, the Bank may at any time and from time to time without notice to the Borrower or any other Person, any notice being expressly waived by the Borrower, set-off and compensate and apply any and all deposits, general or special, time or demand, provisional or final, matured or unmatured, in any currency, and any other indebtedness or amount payable by the Bank (irrespective of the place of payment or booking office of the obligation), to or for the credit of or for the Borrower's account, including without limitation, any amount owed by the Bank to the Borrower under any FX Contract or other treasury or derivative product, against and on account of the indebtedness and liability under this Agreement notwithstanding that any of them are contingent or unmatured or in a different currency than the indebtedness and liability under this Agreement.

When applying a deposit or other obligation in a different currency than the indebtedness and liability under this Agreement to the indebtedness and liability under this Agreement, the Bank will convert the deposit or other obligation to the currency of the indebtedness and liability under this Agreement using the Bank's noon spot rate of exchange for the conversion of such currency.

25. LIMITATION ACT

The Borrower and the Bank hereby agree that the limitation period for commencement of any court action or proceeding against the Borrower with respect to demand loans shall be six (6) years rather than the period of time that is set out in the applicable limitation legislation.

26. MISCELLANEOUS

- i) The Borrower has received a signed copy of this Agreement;
- ii) If more than one Person, firm or corporation signs this Agreement as the Borrower, each party is jointly and severally liable hereunder, and the Bank may require payment of all amounts payable under this Agreement from any one of them, or a portion from each, but the Bank is released from any of its obligations by performing that obligation to any one of them. Each Borrower hereby acknowledges that each Borrower is an agent of each other Borrower and payment by any Borrower hereunder shall be deemed to be payment by the Borrower making the payment and by each other Borrower. Each payment, including interest payments, made will constitute an acknowledgement of the indebtedness and liability hereunder by each Borrower;
- iii) Accounting terms will (to the extent not defined in this Agreement) be interpreted in accordance with accounting principles established from time to time by the Canadian Institute of Chartered Accountants (or any successor) consistently applied, and all financial statements and information provided to the Bank will be prepared in accordance with those principles;
- iv) This Agreement is governed by the law of the Province or Territory where the Branch/Centre is located.
- v) Unless stated otherwise, all amounts referred to herein are in Canadian dollars

27. DEFINITIONS

Capitalized Terms used in this Agreement shall have the following meanings:

"All-In Rate" means the greater of the Interest Rate that the Borrower pays for Prime Based Loans (which for greater certainty includes the percent per annum added to the Prime Rate) or the highest fixed rate paid for Fixed Rate Term Loans.

"*Agreement*" means the agreement between the Bank and the Borrower set out in the Letter and this Schedule "A" - Standard Terms and Conditions.

"*Business Day*" means any day (other than a Saturday or Sunday) that the Branch/Centre is open for business.

"*Branch/Centre*" means The Toronto-Dominion Bank branch or banking centre noted on the first page of the Letter, or such other branch or centre as may from time to time be designated by the Bank.

"*Contractual Term Maturity Date*" means the last day of the Contractual Term period. If the Letter does not set out a specific Contractual Term period but rather refers to a period of time up to which the Contractual Term Maturity Date can occur, the Bank and the Borrower must agree on a Contractual Term Maturity Date before first drawdown, which Contractual Term Maturity Date will be set out in the Rate and Payments Terms Notice.

"*Cross Default Threshold*" means the cross default threshold set out in the Letter. If no such cross default threshold is set out in the Letter it will be deemed to be zero.

"*Face Amount*" means, in respect of:

- (i) a B/A, the amount payable to the holder thereof on its maturity;
- (ii) A L/C or L/G, the maximum amount payable to the beneficiary specified therein or any other Person to whom payments may be required to be made pursuant to such L/C or L/G.

"*Fixed Rate Term Loan*" means any drawdown in Canadian dollars under a Credit Facility at an interest rate which is fixed for a Rate Term at such rate as is determined by the Bank as its sole discretion.

"*Inventory Value*" means, at any time of determination, the total value (based on the lower of cost or market) of the Borrower's inventories that are subject to the Bank Security (other than (i) those inventories supplied by trade creditors who at that time have not been fully paid and would have a right to repossess all or part of such inventories if the Borrower were then either bankrupt or in receivership, (ii) those inventories comprising work in process and (iii) those inventories that the Bank may from time to time designate in its sole discretion) minus the total amount of any claims, liens or encumbrances on those inventories having or purporting to have priority over the Bank.

"*Letter*" means the letter from the Bank to the Borrower to which this Schedule "A" - Standard Terms and Conditions is attached.

"*Letter of Credit*" or "*L/C*" means a documentary letter of credit or similar instrument in form and substance satisfactory to the Bank.

"*Letter of Guarantee*" or "*L/G*" means a stand-by letter of guarantee or similar instrument in form and substance satisfactory to the Bank.

"*Person*" includes any individual, sole proprietorship, corporation, partnership, joint venture, trust, unincorporated association, association, institution, entity, party, or government (whether national, federal, provincial, state, municipal, city, county, or otherwise and including any instrumentality, division, agency, body, or department thereof).

"*Purchase Money Security Interest*" means a security interest on equipment which is granted to a lender or to the seller of such equipment in order to secure the purchase price of such equipment or a loan to acquire such equipment, provided that the amount secured by the security interest does not exceed the cost of the equipment, the Borrower provides written notice to the Bank prior to the creation of the security interest, and the creditor under the security interest has, if requested by the Bank, entered into an inter-creditor agreement with the Bank, in a format acceptable to the Bank.

"*Rate Term*" means that period of time as selected by the Borrower from the options offered to it by the Bank, during which a Fixed Rate Term Loan will bear a particular interest rate. If no Rate Term is selected, the Borrower will be deemed to have selected a Rate Term of 1 year.

"*Rate Term Maturity*" means the last day of a Rate Term which day may never exceed the Contractual Term Maturity Date.

"Rate and Payment Terms Notice" means the notice sent by the Bank setting out the interest rate and payment terms for a particular drawdown.

"Receivable Value" means, at any time of determination, the total value of those of the Borrower's trade accounts receivable that are subject to the Bank Security other than (i) those accounts then outstanding for 90 days, (ii) those accounts owing by Persons, firms or corporations affiliated with the Borrower, (iii) those accounts that the Bank may from time to time designate in its sole discretion, (iv) those accounts subject to any claim, liens, or encumbrance having or purporting to have priority over the Bank, (v) those accounts which are subject to a claim of set-off by the obligor under such account, MINUS the total amount of all claims, liens, or encumbrances on those receivables having or purporting to have priority over the Bank.

"Receivables/Inventory Summary" means a summary of the Borrower's trade account receivables and inventories, in form as the Bank may require and certified by a senior officer/representative of the Borrower.

"US\$ Equivalent" means, on any date, the equivalent amount in United States Dollars after giving effect to a conversion of a specified amount of Canadian Dollars to United States Dollars at the Bank's noon spot rate of exchange for Canadian Dollars to United States Dollars established by the Bank for the day in question.

Exhibit 6:

REVENUE DEFICIENCY OR SUFFICIENCY

Exhibit 6: Revenue Deficiency Or Sufficiency

Tab 1 (of 2): Utility Revenue

CALCULATION OF UTILITY INCOME

THI's Utility Income for the 2013TY prior to any increase in distribution rates would be \$76k as shown below.

Table 6.2: Calculation of Utility Income

	2013TY
Total Net Revenues (E6/T1/S2)	\$3,073,865
OM&A Expenses (E4/T2/S1/Att2)	\$2,715,082
Depreciation & Amortization (E2/T3/S2)	\$282,539
Taxes other than PILs / Income Taxes (E4/T8/S3/Att1)	\$0
Total Costs & Expenses	\$2,997,621
Utility Income before Income Taxes / PILs	\$76,244
PILs / Income Taxes	\$0
Utility Income	\$76,244

OVERVIEW OF REVENUE REQUIREMENT

CALCULATION OF REVENUE REQUIREMENTS

Based on the Load Forecast presented at E3/T1/S2/Att1, THI anticipates Distribution Revenues of \$2,944k (E3/T1/S5/Att1) for the 2013TY at currently approved distribution rates. THI further expects Revenue Offsets of \$130k (E3/T3/S4/Att1) for the 2013TY. THI therefore anticipates Total Net Revenues of \$3,074k for the 2013TY before any change in rates.

THI proposes a Service Revenue Requirement of \$3,575k (E6/T1/S2/Att1) for the 2013TY which translates into a Base Revenue Requirement of \$3,444k (E6/T1/S2/Att1) when Revenue Offsets of \$130k (E3/T3/S4/Att1) are taken into account. The derivation of the Service and Base Revenue Requirements is illustrated in the next table.

Table 6.1: Calculation of Distribution Revenue Requirement

	Evidence Reference	2013 Test Year
OM&A Expenses	E4/T2/S1/Att2	\$2,715,082
3850-Amortization Expense	E2/T3/S3/Att2	\$336,228
Total Distribution Expenses		\$3,051,310
Regulated Return On Capital Before		\$590,450
MIFRS Adjustment	E5/T1/S1/Att1	(\$13,316)
MIFRS Adjustment		\$577,129
Regulated Return On Capital		
PILs (with gross-up)	E4/T8/S3/Att1	\$0
Service Revenue Requirement		\$3,574,752
Less: Revenue Offsets	E3/T3/S4/Att1	\$130,345
Base Revenue Requirement		\$3,444,407

EB-2012-0168

Exhibit 6

Tab 1

Schedule 2

Attachment 1

Distribution Revenue Requirement

Tillsonburg Hydro Inc. (ED-2003-0026)

2013 EDR Application (EB-2012-0168) version: 1

August 31, 2012

F1 Distribution Revenue Requirement

Enter adjustments for non-recurring items in 2013

	2013 ☐	Non-recurring	2013 ☐	Comment
	Projection	items (Total)	Normalized	
OM&A Expenses <i>from sheet D1</i>	2,715,082		2,715,082	
3850-Amortization Expense <i>from sheet E2</i>	282,539		282,539	
Total Distribution Expenses	2,997,621		2,997,621	
Regulated Return On Capital <i>from sheet D3</i>	577,129		577,129	
PILs (with gross-up) <i>from sheet E4</i>				
Service Revenue Requirement	3,574,750		3,574,750	
Less: Revenue Offsets <i>from sheet C9</i>	130,345		130,345	
Base Revenue Requirement	3,444,405		3,444,405	

Exhibit 6: Revenue Deficiency Or Sufficiency

Tab 2 (of 2): Deficiency or Surplus

CALCULATION OF REVENUE DEFICIENCY OR SUFFICIENCY

The following table provides the calculation for the revenue deficiency for THI's 2013TY.

Table 6.3: Calculation of 2013 Test Year Revenue Deficiency (E6/T2/S1/Att1)

	2013TY
Utility Income	\$76,244
Utility Rate Base	9,522,071
Indicated Rate of Return	0.80%
Requested Rate of Return	6.20%
Sufficiency / (Deficiency) in Return	(5.40%)
Net Revenue Sufficiency / (Deficiency)	(\$514,201)
Provision for PILs/Taxes	\$0
MIFRS Adjustment	\$13,316
Gross Revenue Sufficiency / (Deficiency)	(\$500,884)
<i>Deemed Overall Debt Rate</i>	<i>4.25%</i>
<i>Deemed Cost of Debt</i>	<i>\$243,079</i>
<i>Utility Income less Deemed Cost of Debt</i>	<i>(\$166,835)</i>
<i>Return On Deemed Equity</i>	<i>(4.38%)</i>

The Indicated Rate of Return is derived by dividing the Utility Income by the Utility Rate Base. The Statement of Rate Base is shown in Table 6.4 below.

The Requested Rate of Return is based on the Board's current default rates and prescribed capital structure as discussed in E5/T1/S1. The Deficiency in Return is obtained by subtracting the Requested Rate of Return from the Indicated Rate of Return. The Net Revenue Deficiency is derived by multiplying the Deficiency in Return by the Utility Rate Base.

1 As Table 6.3 displays, THI has a \$501k revenue deficiency in the 2013TY and therefore
 2 needs to adjust its distribution rates.

3

4 **Table 6.4: Statement of 2013 Test Year Rate Base (E2/T1/S1/Att1)**

		2013TY
<u>Net Fixed Assets in Service</u>		
Opening Balance	6,342,449	
Closing Balance	<u>7,520,472</u>	
Average Balance		6,931,460
 Working Capital Allowance		 2,590,610
 TOTAL RATE BASE		 9,522,071

5

EB-2012-0168

Exhibit 6

Tab 2

Schedule 1

Attachment 1

Table of Revenue Deficiency or Sufficiency

Tillsonburg Hydro Inc. (ED-2003-0026)

2013 EDR Application (EB-2012-0168) version: 1

August 31, 2012

S7 Variance Analysis: Revenue Sufficiency / Deficiency*Review highlighted variances (no input on this sheet)*

		2013 ☐	2012 ☐		Var #	Var %
		Projection	Projection			
Utility Income	(see below)	76,244	254,634		(178,390)	(70.1%)
Utility Rate Base	from sheet G6	9,522,071	9,028,760		493,311	5.5%
Indicated Rate of Return		0.80%	2.82%		(2.02%)	(71.6%)
Requested / Approved Rate of Return	from sheet D3	6.20%	6.20%		0.00%	0.0%
Sufficiency / (Deficiency) in Return		(5.40%)	(3.38%)		(2.02%)	(59.7%)
Net Revenue Sufficiency / (Deficiency)		(514,201)	(305,222)		(208,979)	(68.5%)
Provision for PILs/Taxes *		0	0		0	0.0%
IFRS Adjustment		13,316				
Gross Revenue Sufficiency / (Deficiency)		(500,884)	(305,222)		(195,662)	(64.1%)
Deemed Overall Debt Rate	from sheet D3	4.25%	7.18%		(2.92%)	(40.7%)
Deemed Cost of Debt	from sheet D3	243,079	367,168		(124,089)	(33.8%)
Utility Income less Deemed Cost of Debt		(166,835)	(112,535)		(54,301)	(48.3%)
Return On Deemed Equity		(4.38%)	(3.12%)		(1.26%)	(40.6%)
UTILITY INCOME	from sheets E1 & E2 (except PILS / Income Taxes)					
Total Net Revenues		3,073,865	3,092,473		(18,608)	(0.6%)
OM&A Expenses		2,715,082	2,635,271		79,811	3.0%
Depreciation & Amortization		282,539	202,569		79,970	39.5%
Taxes other than PILs / Income Taxes		0	0		0	0.0%
Total Costs & Expenses		2,997,621	2,837,840		159,781	5.6%
Utility Income before Income Taxes / PILs		76,244	254,634		(178,390)	(70.1%)
PILs / Income Taxes	from sheet E4	0	0		0	0.0%
Utility Income		76,244	254,634		(178,390)	(70.1%)

* In 2013: difference between amounts on sheet E4 for 2013 at existing rates vs. 2013 at new revenue requirement;
in 2012: Net Sufficiency / (Deficiency) multiplied by grossed-up effective tax rate on Utility Income.

EB-2012-0168

Exhibit 6

Tab 2

Schedule 1

Attachment 2

Statement of Rate Base - MIFRS

X22 Rate Base Trend

	2009 Approved	2009 Actual	2010 Actual	2011 Actual	2012 Projection	2013 Projection
Net Capital Assets in Service:						
Opening Balance	5,655,006	5,607,674	5,984,742	5,930,755	5,982,518	6,342,449
Ending Balance	6,830,215	5,984,742	5,930,755	5,982,518	6,342,449	7,520,472
Average Balance	6,242,611	5,796,208	5,957,748	5,956,637	6,162,484	6,931,460
Working Capital Allowance (see below)	2,443,672	2,557,074	2,640,046	2,844,943	2,866,276	2,590,610
Total Rate Base	8,686,283	8,353,282	8,597,795	8,801,580	9,028,760	9,522,071
Expenses for Working Capital						
<u>Eligible Distribution Expenses:</u>						
3500-Distribution Expenses - Operation	714,543	853,629	897,447	744,387	1,053,216	1,093,436
3550-Distribution Expenses - Maintenance	186,092	186,094	170,839	205,657	269,390	275,312
3650-Billing and Collecting	501,622	434,918	484,560	563,328	599,164	596,505
3700-Community Relations	0	0	1,967	5,365	1,000	900
3800-Administrative and General Expenses	459,981	398,456	647,967	709,134	712,501	748,929
3950-Taxes Other Than Income Taxes	0	0	0	0	0	0
Total Eligible Distribution Expenses	1,862,238	1,873,097	2,202,780	2,227,871	2,635,271	2,715,082
3350-Power Supply Expenses	14,428,910	15,174,062	15,397,529	16,738,417	16,473,238	17,212,690
Total Expenses for Working Capital	16,291,148	17,047,159	17,600,309	18,966,288	19,108,508	19,927,772
Working Capital factor	15.0%	15.0%	15.0%	15.0%	15.0%	13.0%
Working Capital Allowance	2,443,672	2,557,074	2,640,046	2,844,943	2,866,276	2,590,610

EB-2012-0168

Exhibit 6

Tab 2

Schedule 1

Attachment 3

Statement of Rate Base - CGAAP

X22 Rate Base Trend

	2009 Approved	2009□ Actual	2010□ Actual	2011□ Actual	2012□ Projection	2013□ Projection
<i>Net Capital Assets in Service:</i>						
Opening Balance	5,655,006	5,607,674	5,984,742	5,930,755	5,982,518	6,127,695
Ending Balance	6,830,215	5,984,742	5,930,755	5,982,518	6,127,695	7,089,160
Average Balance	6,242,611	5,796,208	5,957,748	5,956,637	6,055,107	6,608,428
Working Capital Allowance (see below)	2,443,672	2,557,074	2,640,046	2,844,943	2,844,944	2,575,200
Total Rate Base	8,686,283	8,353,282	8,597,795	8,801,580	8,900,051	9,183,627
<i>Expenses for Working Capital</i>						
<i>Eligible Distribution Expenses:</i>						
3500-Distribution Expenses - Operation	714,543	853,629	897,447	744,387	911,002	974,196
3550-Distribution Expenses - Maintenance	186,092	186,094	170,839	205,657	269,390	275,312
3650-Billing and Collecting	501,622	434,918	484,560	563,328	599,164	596,505
3700-Community Relations			1,967	5,365	1,000	900
3800-Administrative and General Expenses	459,981	398,456	647,967	709,134	712,501	748,929
3950-Taxes Other Than Income Taxes						
Total Eligible Distribution Expenses	1,862,238	1,873,097	2,202,780	2,227,871	2,493,057	2,595,842
3350-Power Supply Expenses	14,428,910	15,174,062	15,397,529	16,738,417	16,473,238	17,213,386
Total Expenses for Working Capital	16,291,148	17,047,159	17,600,309	18,966,288	18,966,295	19,809,228
Working Capital factor	15.0%	15.0%	15.0%	15.0%	15.0%	13.0%
Working Capital Allowance	2,443,672	2,557,074	2,640,046	2,844,943	2,844,944	2,575,200

CAUSES OF REVENUE DEFICIENCY OR SUFFICIENCY

THI's existing rates are based on the Board-approved rates in 2009 following a cost of service rate application, and adjustments to its base distribution rates in 2010-2012 under the Board's Incentive Regulation Mechanism ("IRM"). Price cap adjustments of 0.18%, 0.18% and 0.88% were applied in 2010, 2011 and 2012, respectively, in the IRM rate applications approved by the Board.

As noted previously, THI's Revenue Deficiency for the 2013TY is \$501k (E6/T2/S1/Att1). This deficiency is the result of:

- An increase of nearly 11% in the Net Capital Assets in Service from the 2009 EDR for an amount of approximately \$689k (E6/T2/S2/Att1);
- An increase of about 6% in the Working Capital Allowance Amount from the 2009 EDR that adds approximately \$147k (E6/T2/S2/Att1) to the Rate Base. The reduced Working Capital Allowance of 13% partially offsets a significant increase in the Cost of Power expense that has increased \$2,784k or 19% from the 2009 EDR to close to \$17,203k (E6/T2/S2/Att1);
- The net change in Rate Base is therefore an increase of about \$836k (E6/T2/S2/Att1) or 10% from the last approved values;
- Operating Costs have increased by approximately 47% or \$853k (E6/T2/S2/Att1) since the last EDR, from \$1,862k to \$2,715k in 2013;
- 2013TY amortization expense of \$282k (E2/T3/S2) is \$155k lower than that approved for the 2009 EDR of \$491k (E1/T3/S2/Att1) due to capital additions over the years offset by the change to MIFRS from CGAAP.
- Total Revenue Offsets in 2013TY of \$130k (E3/T3/S4/Att1) is comparable to the 2009 EDR values.

EB-2012-0168

Exhibit 6

Tab 2

Schedule 2

Attachment 1

Rate Base Trend Analysis

X22 Rate Base Trend

	2009 Approved	2013 Projection		
<i>Net Capital Assets in Service:</i>				
Opening Balance	5,655,006	6,342,449		
Ending Balance	6,830,215	7,520,472		
Average Balance	6,242,611	6,931,460	688,850	11%
Working Capital Allowance (see below)	2,443,672	2,590,610	146,938	6%
Total Rate Base	8,686,283	9,522,071	835,788	10%
Expenses for Working Capital				
<i>Eligible Distribution Expenses:</i>				
3500-Distribution Expenses - Operation	714,543	1,093,436		
3550-Distribution Expenses - Maintenance	186,092	275,312		
3650-Billing and Collecting	501,622	596,505		
3700-Community Relations	0	900		
3800-Administrative and General Expenses	459,981	748,929		
3950-Taxes Other Than Income Taxes	0	0		
Total Eligible Distribution Expenses	1,862,238	2,715,082	852,844	46%
3350-Power Supply Expenses	14,428,910	17,212,690	2,783,780	19%
Total Expenses for Working Capital	16,291,148	19,927,772		
Working Capital factor	15.0%	13.0%		
Working Capital Allowance	2,443,672	2,590,610		

Exhibit 7:

COST ALLOCATION

Exhibit 7: Cost Allocation

Tab 1 (of 2): Cost Allocation Model

OVERVIEW OF COST ALLOCATION

THI retained Elenchus Research Associates (“Elenchus”) to complete its cost allocation study for this application. The report prepared by Elenchus with respect to the cost allocation study for the 2013TY is at E7/T1/S1/Att1. OEB Appendix 2-P Cost Allocation is provided at E7/T1/S1/Att2.

TREATMENT OF PRIMARY AND SECONDARY ASSETS

THI does not, at this time, record distinctly assets and expenses into either Primary or Secondary distribution system components. THI will have an appropriate tracking system in place to distinguish between Primary and Secondary distribution system components prior to its next rebasing application.

EB-2012-0168

Exhibit 7

Tab 1

Schedule 1

Attachment 1

2013 Cost Allocation Study

**Tillsonburg Hydro Inc.
2013 Cost Allocation Study**

**A Report Prepared by
Elenchus Research Associates Inc.**

**On Behalf of
Tillsonburg Hydro Inc.**

September 24, 2012



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1 INTRODUCTION

Tillsonburg Hydro Inc. (“THI”) has prepared its 2013 EDR Application as a cost of service rate application based on a forward test year. The relevant filing requirements for this Application are set out in Chapter 2 of the June 28, 2012 update to the document entitled *Ontario Energy Board, Filing Requirements for Electricity Transmission and Distribution Applications* (“Filing Requirements”).

Section 2.10 of the Filing Requirements sets out the expectations of the Board with respect to Exhibit 7: Cost Allocation. The Filing Requirements state:

A completed cost allocation study using the Board approved methodology must be filed. This filing must reflect future loads and costs and be supported by appropriate explanations and live Excel spreadsheets. The 2011 update of the model issued by the Board will be available on the Board's web site.

THI asked Elenchus Research Associated (Elenchus)¹ to assist it by preparing an appropriate cost allocation study for its 2013 cost of service rate application. In addressing this issue, Elenchus was guided by the Filing Requirements and the November 28, 2007 *Report of the Board, Application of Cost Allocation for Electricity Distributors* (EB-2007-0667) (“CA Application Report”) which “sets out the Board’s policies in relation to specific cost allocation matters for electricity distributors”.²

The CA Application Report observes at page 2 that:

The Board is cognizant of factors that currently limit or otherwise affect the ability or desirability of moving immediately to a cost allocation framework that might, from a theoretical perspective, be considered the ideal. These influencing factors include data quality issues and limited modelling experience, and are discussed in greater detail in section 2.3 of this Report.

The “influencing factors” discussed in section 2.3 of the report are:

- **Quality of the data:** The Board notes “that accounting and load data can be improved.” (p. 5)

¹ John Todd, President of Elenchus Research Associates, was the lead consultant for the development and implementation of the methodology used by THI and documented in this report. John Todd’s curriculum vitae is available at www.elenchus.ca.

² Ontario Energy Board, *Report of the Board, Application of Cost Allocation for Electricity Distributors* (EB-2007-0667), November 28, 2007, page 1.

1 • **Limited modelling experience:** The Board observed that “the cost allocation
2 model is complex, and the data required for the model was not always readily
3 available for modelling.” (p. 6)

4 • **Status of current rate classes:** The Board points out that “Any changes in
5 customer classification or load data could have a significant impact on future cost
6 allocation studies” (p. 6).

7 • **Managing the movement of rates closer to allocated costs:** The Board notes:

8 *The Board considers it appropriate to avoid premature movement of rates in*
9 *circumstances where subsequent applications of the model or changes in*
10 *circumstances could lead to a directionally different movement. Rate*
11 *instability of this nature is confusing to consumers, frustrates their energy cost*
12 *planning and undermines their confidence in the rate making process. (p. 6)*

13 In utilizing the Board’s cost allocation model for THI’s 2013 cost allocation study,
14 Elenchus has been cognizant of these “influencing factors” as they apply to THI.

15 **1.1 PURPOSE OF THE COST ALLOCATION STUDY**

16 In the context of a cost of service rate application based on a 2013 forward test year,
17 the primary purpose of the cost allocation study (“CA Study”) is to determine the
18 proportions of a distributor’s total revenue requirement that are the “responsibility” of
19 each rate class.

20 In addition, cost allocation studies provide revenue to cost ratios for each customer
21 class that can be examined to ensure that they generally fall within the Board-specified
22 ranges (or move toward those ranges where appropriate to mitigate rate impacts) and
23 generally are not moving away from 100%.

24 Conceptually, the desired results can be achieved in either of two ways.

25 • **Prospective Year CA Study:** A cost allocation study for the 2013 test year can
26 be based on an allocation of the 2013 test year costs (i.e., the 2013 forecast
27 revenue requirement) to the various customer classes using allocators that are
28 based on the forecast class loads (kW and kWh) by class, customer counts, etc.
29 By definition, this approach will result in a total revenue to cost ratio at proposed

rates of 100%. Assuming there is a revenue deficiency for the test year, the total revenue to cost ratio at current rates will be somewhat below 100%.

- **Historic Year CA Study:** As an alternative, an historic year cost allocation study can be prepared that determines the proportion of costs allocated to each class for the most recent historic year. In the case, the CA Study will rely on actual costs, weather adjusted loads, customer counts, etc. that are not affected by forecast errors. Assuming the costs and loads are relatively stable so that the proportionate cost responsibility of each rate class in the historic year is a reasonable proxy for the 2013 test year cost responsibility, the resulting proportionate cost responsibilities can be used to allocate the 2013 revenue requirement to the various classes.

The THI CA Study uses the first of these methods in order to ensure compliance with the Board's direction in the Filing Requirements that the CA Study should "reflect future loads and cost". Relying on a Prospective Year CA Study is also appropriate at this time since the Ontario economy has suffered over the past three years and, as a result, many distributors have experienced significant changes in the load profiles of their customer classes. These changes could have a significant impact on the allocation of costs to the classes and the resulting revenue to cost ratios. This approach implicitly assumes that the economic recovery will be slow and, as a result, the relative loads of customer classes are more likely to reflect 2013 loads than 2011 loads during the next IRM cycle.

1.2 THI's 2009 COST ALLOCATION INFORMATION FILING

THI's 2009 Cost Allocation Informational Filing ("CAIF") relied on the Board's 2006 Cost Allocation Model ("CA Model") and was prepared in accordance with the September 29, 2006 Board report entitled *Cost Allocation: Board Directions on Cost Allocation Methodology for Electricity Distributors* ("the Directions"), the subsequent (November 15, 2006) *Cost Allocation Informational Filing Guidelines for Electricity Distributors* ("the

1 Guidelines"), and the *Cost Allocation Review: User Instruction for the Cost Allocation*
2 *Model for Electricity Distributors* ("the Instructions").

3 **1.3 STRUCTURE OF THE REPORT**

4 The remainder of this report is divided into three additional sections. Section 2 provides
5 an overview of the THI CA Study, explaining the model run included in the study, as well
6 as the load and cost information used for the run. Section 3 explains the methodology
7 used to develop the 2013 THI model by documenting each step taken in completing the
8 model. Section 4 summarizes the results of the THI CA Study, showing the class
9 revenue requirements and revenue to cost ratios generated by the CA model.

2 OVERVIEW OF THE THI 2013 CA STUDY

2.1 MODEL RUN INCLUDED IN THE THI COST ALLOCATION STUDY

Section 2.10.3 of the updated Filing Requirements specifies that the third table in Appendix 2-P, "...includes the following information for each class" that should be provided based on:

- "The previously approved ratios most recently implemented by the distributor;
- "The ratios that would result from the most recent approved distribution rates and the distributor's forecast of billing quantities in the test year, prorated upwards or downwards (as applicable) to match the revenue requirement, expressed as a ratio with the class revenue requirements derived in the updated cost allocation model; and
- "The ratios that are proposed for the Test Year, which are the proposed class revenues, together with the updated cost allocation model" which is the appropriate 2013 model.

For clarity, the following designations are used.

- **THI-2009:** The THI 2009 revenue to cost ratios.
- **THI-2009 Corrected:** The THI 2009 revenue to cost ratios corrected for a change in the allocation of Primary and Secondary distribution system assets.
- **THI-2013:** The version 3 CA Model with 2013 loads, costs, and revenues.

2.2 LOAD AND CUSTOMER INFORMATION

The updated Filing Requirements specify that "This filing must reflect future loads and costs..." and "If updated load profiles are not available, the load profiles of the classes may be the same as those provided by Hydro One for use in the Informational Filing, scaled to match the load forecast as it relates to the respective rate classes", (Section 2.10.1, p. 42)

The THI 2013 model has been prepared using the following load and load profile information:

- **Annual Loads (kW and kWh, as appropriate) and customer counts:** The 2013 load forecast and customer counts by class being used by THI in its application were also used for the 2013 CA models. THI's load forecast was prepared by Elenchus.
- **Hourly load profile:** The hourly load profiles prepared by Hydro One for the 2006 CAIF were used for all classes.

The hourly load profiles provided by Hydro One for all of the classes for the 2006 model were considered to be appropriate for use in the 2013 models for the following reasons.

1. Elenchus explored alternatives for updating the hourly load profiles by rate class comparable to the estimated load profiles that Hydro One prepared for the LDCs for their 2006 CA Models. Hydro One advised that they no longer have the capacity to produce a significant number of LDC-specific hourly load profiles. As far as Elenchus is aware, no other entity has the necessary information and models to produce comparable quality hourly load profiles for Ontario LDCs. It therefore was not practical for distributors to update their hourly load profiles by class except in exceptional circumstances.
2. There would be little point in investing in updated load profiles without also investing in updated saturation surveys for the residential class in each service area. These are expensive and time consuming to undertake as they involve a survey of a statistically significant sample of customers.
3. With the widespread rollout of smart meters and the collection of smart meter data, Ontario distributors will have better hourly load profile by class data than the Hydro One estimates. Unless there is evidence of a significant change in circumstances, investing in new hourly load profile by class estimates would be a questionable use of ratepayer funds when superior hourly load profile information will be available in the next few years at minimal incremental cost.

4. Both time-of-use commodity pricing and changes to the design of distribution rates can be expected to alter the hourly load profiles of the affected classes.
5. The 2006 hourly load profiles were based on 2004 actual loads and updated hourly load profiles would be based on 2011 actual loads for all classes other than the GS>500 kW.
6. Elenchus relied on actual 2011 hourly load data are available for the GS>500 kW classes (all customers have interval meters) and the hourly load data does not require weather adjustment, making it a straightforward task to determine the updated hourly load shape of these classes in a manner that is consistent with the Hydro One methodology.

2.3 COST INFORMATION

As noted earlier, Elenchus' preferred methodology for preparing 2013 cost allocation models is to use the prospective 2013 test year as the basis for the CA Study, assuming appropriate expense and asset information is available for the 2013 test year. In the case of THI, the financial information for the forecast year has been prepared at the USoA level consistent with the level of detail embedded in the OEB's cost allocation model.³

2.4 TREATMENT OF PRIMARY AND SECONDARY ASSETS

Tillsonburg does not record assets and expenses broken down between Primary and Secondary distribution system.

In order to better reflect cost causality and allocate assets and expenses to customers based on their use of Tillsonburg's distribution system, Elenchus conducted a survey of

³ Some information (i.e., meter counts and some amortization detail) that is used in the Board's CA Model is not explicitly forecasted for the test year. These values were estimated using scaling factors based on prior year ratios. For example, the ratio of meters to customers was assumed to be constant. The portion of the total costs accounted for in this manner was too small for any plausible estimation errors to have a significant impact on the test year revenue to cost ratios.

1 other similar distributors in Ontario and recorded the split of Primary and Secondary
2 assets used by other distributors in their cost allocation studies submitted to the OEB for
3 review.

4 Elenchus surveyed the following asset accounts:

5 **Table 1: Primary and Secondary Accounts Surveyed**

1830	Poles, Towers and Fixtures
1830-3	Poles, Towers and Fixtures - Subtransmission Bulk Delivery
1830-4	Poles, Towers and Fixtures - Primary
1830-5	Poles, Towers and Fixtures - Secondary
1835	Overhead Conductors and Devices
1835-3	Overhead Conductors and Devices - Subtransmission Bulk Delivery
1835-4	Overhead Conductors and Devices - Primary
1835-5	Overhead Conductors and Devices - Secondary
1840	Underground Conduit
1840-3	Underground Conduit - Bulk Delivery
1840-4	Underground Conduit - Primary
1840-5	Underground Conduit - Secondary
1845	Underground Conductors and Devices
1845-3	Underground Conductors and Devices - Bulk Delivery
1845-4	Underground Conductors and Devices - Primary
1845-5	Underground Conductors and Devices - Secondary

6 The following distributors were surveyed:

- 7 • Brantford - EB-2007-0698
- 8 • Burlington - EB-2009-0259
- 9 • Erie Thames - EB-2012-0121
- 10 • Essex - EB-2009-0143
- 11 • Festival - EB-2009-0263
- 12 • Grimsby - EB-2011-0273
- 13 • Guelph - EB-2011-0123
- 14 • Halton Hills - EB-2011-0271

- 1 • Hydro 2000 - EB-2011-0326
- 2 • Kingston - EB-2010-0136
- 3 • Kitchener Wilmont - EB-2009-0267
- 4 • Oakville - EB-2009-0271
- 5 • Port Colborne, Gananoque, For Erie - EB-2012-0112
- 6 • Waterloo North - EB-2010-0144
- 7 • Woodstock - EB-2010-0145

8 The results of the survey produced the following results for Primary and Secondary.
9 Bulk delivery had no recorded values:

10 **Table 2: Results of Primary and Secondary Breakdown Survey**

Account	Average	Minimum	Maximum
1830-4	67%	0%	98%
1830-5	33%	2%	100%
1835-4	64%	0%	91%
1835-5	36%	9%	100%
1840-4	52%	0%	100%
1840-5	48%	0%	100%
1845-4	56%	0%	100%
1845-5	44%	0%	100%

11 The average breakdown between Primary and Secondary distribution system assets for
12 the 15 distributors was used in Tillsonburg's cost allocation study.

3 THI COST ALLOCATION STUDY METHODOLOGY

This section documents Elenchus' methodology for correcting THI's 2009 CA Study and details the steps taken to derive THI's 2013 Cost Allocation Study.

3.1 2009 THI CORRECTED CA MODEL

The only correction applied to THI's 2009 CA Study has been to apply an average breakdown between Primary and Secondary distribution system assets. The summary results from Sheet O 3.3 and O 3.4 of the Cost Allocation Model for the 2009 Approved and the 2009 Corrected Studies are provided below:

Table 3: Summary Results from Sheet O 3.3 and O 3.4

	<i>2009 CA Approved</i>			<i>2009 CA Corrected</i>		
Description	Primary Pool	Secondary Pool	Total	Primary Pool	Secondary Pool	Total
Admin. and General Expense	468,872	468,872	937,744	468,872	468,872	937,744
Operations & Maintenance	875,853	875,853	1,751,706	875,853	875,853	1,751,706
Conductors and Poles						
Gross Assets	361	5,260,853	5,261,214	3,163,377	2,097,837	5,261,214
Acc. Depreciation	- 89	- 1,290,458	- 1,290,547	- 775,959	- 514,588	- 1,290,547
Net Fixed Assets	272	3,970,394	3,970,667	2,387,418	1,583,249	3,970,667

As expected, the introduction of a greater distinction between Primary and Secondary distribution assets impacts the allocation of costs to customer classes and their resulting revenue to cost ratios. As a result and reflecting asset utilization, the smaller customer classes such as Residential have greater costs allocated to them while the largest customer class have less cost allocated to them.

The revised revenue to cost ratios under the THI 2009 Corrected are provided below with a comparison with the ratios resulting from THI 2009 (Approved):

Table 4: R/C Ratios under 2009 Approved and 2009 Corrected CA Studies

	<i>2009 EDR Approved</i>	<i>2009 EDR Corrected</i>	<i>Range</i>
Residential	1.39	1.22	0.85 - 1.15
GS<50	1.21	0.99	0.80 - 1.20
GS 50-500	0.61	0.72	0.80 - 1.20
GS500-1500	0.42	0.67	0.80 - 1.20
GS>1500	0.10	0.17	0.80 - 1.20
Streetlight	0.46	0.46	0.70 - 1.20
Sentinel	1.57	1.38	0.80 - 1.20
USL	0.80	0.78	0.80 - 1.20

3.2 2013 THI CA MODEL

3.2.1 HOURLY LOAD PROFILE (HONI FILE)

For the THI CAIF, HONI provided data files with three worksheets that were to be used as input to the 2009 CAIF:

- **Data Summary:** actual and weather normalized monthly kWh by class, disaggregated by weather sensitive and non-weather sensitive load for relevant classes.
- **Hourly Load Shape by Class:** GWh by class for each hour in 2004.
- **Input to Cost Allocation Model:** The 1CP, 4CP, 12CP, 1NCP, 4NCP, 12NCP allocators are derived from the hourly load profiles.

The THI hourly load shapes derived by Hydro One for the 2006 CAIF were not updated. However, the demand allocators derived by Hydro One for the 2006 CAIF were revised to reflect changes in the relative loads for the classes from 2004 to 2013. This was done by scaling the hourly load profiles of each class on the Hourly Load Shape by Class worksheet of the HONI file to levels consistent with the 2013 load forecast while maintaining the hourly load shapes.

3.2.2 DEMAND ALLOCATORS (HONI FILE)

The demand allocators used in the THI-2013 CA model were derived using the same methodology as Hydro One used for the 2006 file; however, they were re-determined using the forecast 2013 hourly load profiles resulting from the preceding step. Using the 2013 hourly load profiles by class, the 12 monthly coincident and non-coincident peaks for the rate classes were determined on the Hourly Load Shape by Rate Class worksheet. The allocators were then derived as follows.

- The 1, 4 and 12 NCP values for each class were calculated by selecting the peak in the year (1 NCP), summing the four highest monthly peaks (4 NCP) and summing the 12 monthly peaks for each class (12 NCP), respectively.
- The total 1, 4 and 12 NCP values are the totals of the corresponding class NCP values.
- The 1, 4 and 12 CP values for each class were derived by identifying the hour in each month when the coincident peak occurred and then selecting the peak in the year (1 CP), adding the demands during the four highest coincident peak hours (4 CP) and summing the demand for each class during the 12 monthly coincident peak hours (12 CP), respectively.
- The total 1, 4 and 12 CP values are the totals of the corresponding class CP values, which are the values used to identify the relevant coincident peak hours.

3.2.3 2013 DEMAND DATA (THI-2013 MODEL)

The demand allocators derived in the updated Hydro One file as described in the preceding section were input at the appropriate cells at sheet I8 Demand Data of the 2013 THI CA Model. However, the Line Transformer and Secondary 1NCP, 4NCP and 12NCP values (rows 57-58, 63-64, 69-70) for GS 50-500kW, GS 500-1,500 and GS>1500 kW are not equal to the full class NCP values since not all GS 50-500 kW, GS 500-1500 and GS>1500 kW customers use these facilities. The Line Transformer and

1 Secondary 1NCP, 4NCP and 12NCP values were therefore determined from the full
2 load data NCP values using the ratio of values in the 2006 CA Model.

3 **3.2.4 2013 CUSTOMER DATA (THI-2013 MODEL)**

4 The 30 year weather normalized kWh by rate class which was an input from the Hydro
5 One file at Sheet I6 Customer Data row 27 in the 2006 CA model was replaced with the
6 2013 load forecast in the 2013 CA Model at Sheet I6.1 Revenue row 50.

7 In addition, the demand data (kW and kWh) in rows 25, 26, and 27 of Sheet I6.1
8 Revenue were replaced with the forecasted values. Row 27 was scaled by the
9 percentage change in row 26.

10 The 2013 Distribution Revenue in row 39 was derived using the forecast demand (kW
11 and kWh) and customer counts by rate class and the existing 2012 rates.

12 **3.2.5 2013 REVENUE TO COST RATIOS**

13 Since THI is proposing to set rates that recover its full revenue requirement, the total
14 revenue to cost ratio at proposed rates will be 100% in 2013. The 2013 total revenue to
15 cost ratio at current rates is less than 100% by the amount of the required rate increase.
16 The revenue to cost ratios of the classes reflect the costs allocated to the classes based
17 on the OEB CA Model methodology and the revenues that would be generated at
18 current rates given the forecast demand (kW and kWh) and customer counts by rate
19 class for 2013.

4 SUMMARY OF REVENUE TO COST RATIOS

The class revenue-to-cost ratios as determined in the THI cost allocation models are shown in Table 5, below.

Table 5: Revenue to Cost Ratios for 2013 THI CA Study

	2009 EDR	2013 EDR	Board Range
	Corrected	Status Quo	
Residential	1.22	0.87	0.85 - 1.15
GS<50	0.99	1.05	0.80 - 1.20
GS 50-500	0.72	0.99	0.80 - 1.20
GS500-1500	0.67	1.25	0.80 - 1.20
GS>1500	0.17	2.36	0.80 - 1.20
Streetlight	0.46	1.68	0.70 - 1.20
Sentinel	1.38	0.39	0.80 - 1.20
USL	0.78	2.92	0.80 - 1.20

THI's 2013 ratios (at current rates) reflect the impact of changes in throughput by class as well as changes in costs from 2006 through the 2013 forecast test year.

Table 6 presents the revenue responsibility (i.e., allocation of the total revenue requirement to the rate classes) in each of the models. This revenue responsibility is presented in both dollar and percentage terms.

Table 6: Revenue Responsibility by Rate Class

Customer Class	THI 2009 Corrected		THI 2013	
	\$	%	\$	%
Residential	1,347,060	55.97	2,210,132	61.83
GS<50 kW	462,750	19.23	618,921	17.31
GS 50-500 kW	231,723	9.63	365,063	10.21
GS 500-1500 kW	88,182	3.66	170,642	4.77
GS >1500 kW	181,644	7.55	137,258	3.84
Street Light	73,419	3.05	47,170	1.32
Sentinel	2,364	0.10	16,045	0.45
Unmetered Scattered Load	19,458	0.81	9,524	0.27
Total	2,406,600	100.00	3,574,756	100.00

5 FIXED CHARGE RATES

The THI cost allocation model produced the following customer unit cost per month values:

Table 7: 2013 Customer Unit Cost per Month (\$)

Customer Class Name	Avoided Costs (Minimum Charge)	Directly Related	Minimum System with PLCC adj.
Residential	7.17	9.73	18.65
General Service < 50 kW	20.36	26.75	36.87
General Service > 50 to 500 kW	53.43	68.88	83.38
General Service > 500 to 1500 kW	83.84	111.98	167.18
General Service > 1,500 kW	208.64	262.81	455.13
Street Lighting	1.10	1.54	6.48
Sentinel Lighting	2.26	3.14	10.48
Unmetered Scattered Load	1.96	2.73	7.87

In accordance with Board policy,⁴ the following boundary values would apply for the fixed monthly service charge:

Table 8: 2013 Fixed Charge Boundary Values (\$)

Customer Class	Cost Allocation		Existing Rate	Boundary Values	
	Low	High		Minimum	Maximum
Residential	7.17	18.65	9.91	7.17	18.65
GS<50 kW	20.36	36.87	25.07	20.36	36.87
GS 50-500 kW	53.43	83.38	129.43	53.43	129.43
GS 500-1500 kW	83.84	167.18	1,352.34	83.84	1,352.34
GS >1500 kW	208.64	455.13	1,915.17	208.64	1,915.17
Street Light	1.10	6.48	1,700.59	1.10	1,700.59
Sentinel	2.26	10.48	1.01	1.01	10.48
USL	1.96	7.87	14.75	1.96	14.75

⁴ Ontario Energy Board, *Report of the Board, Application of Cost Allocation for Electricity Distributors* (EB-2007-0667), November 28, 2007, pages 12-13

File Number: EB-2012-0168
Exhibit: 7
Tab: 1
Schedule: 1
Attachment: 2

Date: 28-Sep-12

Appendix 2-P Cost Allocation

Please complete the following four tables.

A) Allocated Costs

Classes	Costs Allocated from Previous Study	%	Costs Allocated from Previous Study - Corrected	%	Costs Allocated in Test Year Study (Column 7A)	%
Residential	\$ 1,181,259	49.08%	\$ 1,347,060	55.97%	\$ 2,210,132	61.83%
GS < 50 kW	\$ 373,931	15.54%	\$ 462,750	19.23%	\$ 618,921	17.31%
GS 50 - 499	\$ 275,279	11.44%	\$ 231,723	9.63%	\$ 365,063	10.21%
GS > 1500 kW, if applicable	\$ 339,313	14.10%	\$ 181,644	7.55%	\$ 137,258	3.84%
Large User, if applicable		0.00%		0.00%		0.00%
Street Lighting	\$ 73,438	3.05%	\$ 73,419	3.05%	\$ 47,170	1.32%
Sentinel Lighting	\$ 2,082	0.09%	\$ 2,364	0.10%	\$ 16,045	0.45%
Unmetered Scattered Load (USL)	\$ 18,947	0.79%	\$ 19,458	0.81%	\$ 9,524	0.27%
GS 500 - 1499	\$ 142,351	5.92%	\$ 88,182	3.66%	\$ 170,642	4.77%
		0.00%		0.00%		0.00%
Embedded distributor class		0.00%		0.00%		0.00%
Total	\$ 2,406,600	100.00%	\$ 2,406,600	100.00%	\$ 3,574,755	100.00%

Notes

- Customer Classification - If proposed rate classes differ from those in place in the previous Cost Allocation study, modify the rate classes to match the current application as closely as possible.
- Host Distributors - Provide information on embedded distributor(s) as a separate class, if applicable. If embedded distributor(s) are billed as customers in a General Service class, include the allocated cost and revenue of the embedded distributor(s) in the applicable class. Also complete Appendix 2-Q.
- Class Revenue Requirements - If using the Board-issued model, in column 7A enter the results from Worksheet O-1, Revenue Requirement (row 40 in the 2013 model). This excludes costs in deferral and variance accounts. Note to Embedded Distributor(s), it also does not include Account 4750 - Low Voltage (LV) Costs.

File Number: EB-2012-0168
Exhibit: 7
Tab: 1
Schedule: 1
Attachment: 2

Date: 28-Sep-12

Appendix 2-P Cost Allocation

B) Calculated Class Revenues

Classes (same as previous table)	Column 7B	Column 7C	Column 7D	Column 7E
	Load Forecast (LF) X current	L.F. X current approved rates X	LF X proposed rates	Miscellaneous Revenue
Residential	\$ 1,558,754	\$ 1,824,003	\$ 2,024,779	\$ 93,537
GS < 50 kW	\$ 540,458	\$ 632,427	\$ 633,892	\$ 14,507
GS 50 - 499	\$ 300,941	\$ 352,152	\$ 351,736	\$ 9,163
GS > 1500 kW, if applicable	\$ 271,726	\$ 317,965	\$ 160,017	\$ 4,656
Large User, if applicable				
Street Lighting	\$ 65,862	\$ 77,069	\$ 54,805	\$ 1,787
Sentinel Lighting	\$ 4,756	\$ 5,566	\$ 8,879	\$ 764
Unmetered Scattered Load (USL)	\$ 23,352	\$ 27,326	\$ 11,038	\$ 392
GS 500 - 1499	\$ 177,671	\$ 207,905	\$ 199,261	\$ 5,538
Embedded distributor class				
Total	\$ 2,943,520	\$ 3,444,413	\$ 3,444,407	\$ 130,344

Notes:

- Columns 7B to 7D - LF means Load Forecast of Annual Billing Quantities (i.e. customers or connections X 12, (kWh or kW, as applicable). Revenue Quantities should be net of Transfomrrer Ownership Allowance. Exclude revenue from rate adders and rate
- Columns 7C and 7D - Column total in each column should equal the Base Revenue Requirement
- Columns 7C - The Board cost allocation model calculates "1+d" in worksheet O-1, cell C21. "d" is defined as Revenue Deficiency/ Revenue at Current Rates.
- Columns 7E - If using the Board-issued Cost Allocation model, enter Miscellaneous Revenue as it appears in Worksheet O-1, row 19.

File Number: EB-2012-0168

Exhibit: 7

Tab: 1

Schedule: 1

Attachment: 2

Date: 28-Sep-12

Appendix 2-P Cost Allocation

C) Rebalancing Revenue-to-Cost (R/C) Ratios

Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year: 2009	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	%	%	%	%
Residential	138.79	86.76	95.85	85 - 115
GS < 50 kW	121.47	104.53	104.76	80 - 120
GS 50 - 499	60.63	98.97	98.86	80 - 120
GS > 1500 kW, if applicable	9.97	235.05	119.97	80 - 120
Large User, if applicable				85 - 115
Street Lighting	45.81	167.17	119.97	70 - 120
Sentinel Lighting	156.94	39.45	60.10	80 - 120
Unmetered Scattered Load (USL)	80.34	291.03	120.01	80 - 120
GS 500 - 1499	42.23	125.08	120.02	80 - 120
Embedded distributor class				

File Number: EB-2012-0168
Exhibit: 7
Tab: 1
Schedule: 1
Attachment: 2

Date: 28-Sep-12

Appendix 2-P Cost Allocation

C) Rebalancing Revenue-to-Cost (R/C) Ratios

Class	Previously Approved Ratios Corrected	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year: 2009	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	%	%	%	%
Residential	121.96	86.76	95.85	85 - 115
GS < 50 kW	98.55	104.53	104.76	80 - 120
GS 50 - 499	71.66	98.97	98.86	80 - 120
GS > 1500 kW, if applicable	16.79	235.05	119.97	80 - 120
Large User, if applicable				85 - 115
Street Lighting	45.82	167.17	119.97	70 - 120
Sentinel Lighting	138.48	39.45	60.10	80 - 120
Unmetered Scattered Load (USL)	78.29	291.03	120.01	80 - 120
GS 500 - 1499	66.90	125.08	120.02	80 - 120
Embedded distributor class				

Notes

1 Previously Approved Revenue-to-Cost Ratios - For most applicants, Most Recent Year would be the third year of the IRM 3 period, e.g. if the applicant rebased in 2009 with further adjustments over 2 years, the Most recent year is 2011. For applicants that have had rates adjusted only under IRM 2, the Most Recent Year is 2006, and the applicant should enter the ratios from their Informational Filing.

2 Status Quo Ratios - The Board's updated Cost Allocation Model yields the Status Quo Ratios in Worksheet O-1. Status Quo means "Before Rebalancing".

File Number: EB-2012-0168
Exhibit: 7
Tab: 1
Schedule: 1
Attachment: 2

Date: 28-Sep-12

Appendix 2-P Cost Allocation

D) Proposed Revenue-to-Cost Ratios

Class	Proposed Revenue-to-Cost Ratios			Policy Range
	2013	2014	2015	
	%	%	%	
Residential	95.85	95.85	95.85	85 - 115
GS < 50 kW	104.76	104.76	104.76	80 - 120
GS 50 - 499	98.86	98.86	98.86	80 - 120
GS > 1500 kW, if applicable	119.97	119.97	119.97	80 - 120
Large User, if applicable				85 - 115
Street Lighting	119.97	119.97	119.97	70 - 120
Sentinel Lighting	60.10	70	80	80 - 120
Unmetered Scattered Load (USL)	120.01	120.01	120.01	80 - 120
GS 500 - 1499	120.02	120.02	120.02	80 - 120
				0
Embedded distributor class				

Note

1 The applicant should complete Table D if it is applying for approval of a revenue to cost ratio in 2012 that is outside the Board's policy range for any customer class. Table (d) will show the information that the distributor would likely enter in the IRM model) in 2013. In 2013 Table (d), enter the planned ratios for the classes that will be 'Change' and 'No Change' in 2013 (in the current Revenue Cost Ratio Adjustment Workform, Worksheet C1.1 'Decision – Cost Revenue Adjustment', column d), and enter TBD for class(es) that will be entered as 'Rebalance'.

Exhibit 7: Cost Allocation

Tab 2 (of 2): Revenue Allocation and Revenue-to-Cost Ratios

1 **ALLOCATION OF LOW VOLTAGE CHARGES**

2 THI is not an embedded distributor and therefore does not charge a Low Voltage Service
3 Rate.

4

1 **OVERVIEW OF BASE REVENUE ALLOCATION**

2 For the 2013TY, THI is unable to precisely determine the value of either components of
3 the distribution system and thus relies on a survey conducted by Elenchus to
4 approximate the share of each class of assets.

5

6 The Revenue to Cost Ratios are presented at E7/T2/S2/Att2.

7

8 The Table of Allocation Results is provided at E7/T2/S2/Att1.

EB-2012-0168

Exhibit 7

Tab 2

Schedule 2

Attachment 1

Fixed/Variable Rate Design

Tillsonburg Hydro Inc. (ED-2003-0026)

2013 EDR Application (EB-2012-0168) version: 1

August 31, 2012

F4 Fixed/Variable Rate Design*Enter the proposed fixed monthly rate for each customer class*

Customer Class Name	Existing Rates (a)			Cost Allocation - Minimum Fixed Rate (b)			Cost Allocation - Maximum Fixed Rate (b)		
	Rate	Fixed %	Variable %	Rate	Fixed %	Variable %	Rate	Fixed %	Variable %
Residential	\$9.91	46.10%	53.90%	\$7.17	25.67%	74.33%	\$18.65	66.78%	33.22%
General Service < 50 kW	\$25.07	37.07%	62.93%	\$20.36	25.67%	74.33%	\$36.87	46.49%	53.51%
General Service > 50 to 499 kW	\$129.43	39.22%	60.78%	\$53.43	13.85%	86.15%	\$129.43	33.56%	66.44%
General Service > 500 to 1499 kW	\$1,352.34	82.20%	17.80%	\$83.84	4.54%	95.46%	\$1,352.34	73.30%	26.70%
General Service > 1,500 kW	\$1,915.17	16.92%	83.08%	\$208.64	3.13%	96.87%	\$1,915.17	28.72%	71.28%
Unmetered Scattered Load	\$14.75	46.99%	53.01%	\$1.96	13.21%	86.79%	\$14.75	99.42%	0.58%
Sentinel Lighting	\$1.01	32.36%	67.64%	\$2.26	38.79%	61.21%	\$10.48	179.88%	-79.88%
Street Lighting	\$1,700.59	30.98%	69.02%	\$1.10	0.02%	99.98%	\$1,700.59	37.24%	62.76%
MicroFIT Generators	\$5.25	0.00%	0.00%	\$0.00	--	--	\$5.25		

(a) per sheet C3

(b) Rates per sheet F2; %s based on # customers/connections (sheet C2) and Base Revenue Requirement allocated to class (sheet F3)

Customer Class Name	Existing Fixed/Variable Split (c)			Rate Application			Base Revenue Requirement \$		
	Rate	Fixed %	Variable %	Fixed Rate	Fixed %	Variable %	Total (d)	Fixed (e)	Variable (f)
Residential	\$12.87	46.10%	53.90%	\$10.00	35.81%	64.19%	2,024,778	725,040	1,299,738
General Service < 50 kW	\$29.40	37.07%	62.93%	\$25.00	31.52%	68.48%	633,892	199,800	434,092
General Service > 50 to 499 kW	\$151.28	39.22%	60.78%	\$130.00	33.71%	66.29%	351,736	118,560	233,176
General Service > 500 to 1499 kW	\$1,516.67	82.20%	17.80%	\$1,352.00	73.28%	26.72%	199,261	146,016	53,245
General Service > 1,500 kW	\$1,127.82	16.92%	83.08%	\$1,915.00	28.72%	71.28%	160,017	45,960	114,057
Unmetered Scattered Load	\$6.97	46.99%	53.01%	\$7.00	47.18%	52.82%	11,038	5,208	5,830
Sentinel Lighting	\$1.89	32.36%	67.64%	\$2.00	34.33%	65.67%	8,879	3,048	5,831
Street Lighting	\$1,415.09	30.98%	69.02%	\$1,700.00	37.22%	62.78%	54,805	20,400	34,405
MicroFIT Generators		0.00%	0.00%	\$5.40	0.00%	0.00%	0	0	0

(c) %s per Existing Rates, Rate based on Fixed % of Total Base Revenue allocated to class (4) and # (e) Based on Rate Application Fixed Rate and # customers/connections (sheet C2)

(d) per sheet F3

(f) Total amount (d) less Fixed am

	3,444,405	1,264,032	2,180,373
	104,248		104,248
	3,548,652	1,264,032	2,284,620

Customer Class Name	Transf. Allowance (\$/kW):		Gross \$ Variable (h)	Resulting Variable		Existing Var. Rate (j)	Base Revenue \$	
	kW	Rate		Rate (i)	per		Fixed (k)	Gross (l)
Residential	0	\$0.00	0	\$0.0261	kWh	\$0.0169	725,040	2,024,778
General Service < 50 kW	0	\$0.00	0	\$0.0194	kWh	\$0.0152	199,800	633,892
General Service > 50 to 499 kW	22,460	\$0.60	13,476	\$2.1365	kW	\$1.7010	118,560	365,212
General Service > 500 to 1499 kW	80,883	\$0.60	48,530	\$1.1666	kW	\$0.9187	146,016	247,791
General Service > 1,500 kW	70,403	\$0.60	42,242	\$2.2156	kW	\$3.7991	45,960	202,259
Unmetered Scattered Load	0	\$0.00	0	\$0.0137	kWh	\$0.0290	5,208	11,038
Sentinel Lighting	0	\$0.00	0	\$19.3715	kW	\$10.6876	3,048	8,879

Tillsonburg Hydro Inc. (ED-2003-0026)

2013 EDR Application (EB-2012-0168) version: 1

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F4 Fixed/Variable Rate Design

Enter the proposed fixed monthly rate for each customer class

Street Lighting	0	\$0.00	0	34,405	\$9.1331 kW	\$12.0665	20,400	54,805
MicroFIT Generators	0	\$0.00	0	0	\$0.0000	\$0.0000	0	0

(g) kW volume multiplied by Rate

104,248

(k) per (e) above

(h) Variable Base Revenue Requirement (f), plus total Transformer Allowances (g)

(l) Gross Variable amount (h), plus Fixed Base Revenue (k)

(i) Gross Variable amount \$ (h), divided by test year volume (sheet C2)

Attachment 2 (of 3):

Revenue-to-Cost Ratios

The next table illustrates the changes in Revenue-to-Cost ratios from the 2009 EDR Approved results with the revised methodology.

Table 1: R/C Ratios for 2009 Approved and 2009 Corrected (E7/T1/S1/Att2)

	2009 EDR Approved	2009 EDR Corrected	OEB Range
Residential	1.39	1.22	0.85 - 1.15
GS< 50	1.21	0.99	0.80 - 1.20
GS> 50-500	0.61	0.72	0.80 - 1.20
GS> 500-1500	0.42	0.67	0.80 - 1.20
GS>1500	0.10	0.17	0.80 - 1.20
Street Light	0.46	0.46	0.70 - 1.20
Sentinel	1.57	1.38	0.80 - 1.20
USL	0.80	0.78	0.80 - 1.20

Overall, the 2009 EDR corrected results tend to improve Revenue to Cost ratios of all classes by bringing them closer to unity.

Proposed Revenue to Cost Ratios

For 2013, THI is proposing to bring all classes above the OEB Range within the upper limit of the range. This applies to all classes above GS>500 kW and Unmetered Scattered Load. The Residential class picks up most of the revenue removed from those classes and sees its ratio improve from 0.87 to 0.96.

Classes with ratios reasonably close to unity are not altered and this applies to GS<50 kW and GS>50-500 kW.

THI is proposing a three-year phase-in process for the Sentinel class. In 2013, the ratio is increased by 21 percentage points, from 0.39 to 0.60 (E7/T1/S1/Att2). The ratio would then be improved by 10 percentage points in each of the next two years. The phase-in is proposed to limit the bill impact on the few customers of that class.

Table 2: 2013 Revenue to Cost Ratios (E7/T1/S1/Att2)

	2009 EDR Corrected	2013 EDR Status Quo	2013 EDR Proposed	2013 EDR Change from Status Quo	OEB Range
Residential	1.22	0.87	0.96	0.09	0.85 - 1.15
GS< 50	0.99	1.05	1.05	0.00	0.80 - 1.20
GS> 50-500	0.72	0.99	0.99	0.00	0.80 - 1.20
GS> 500-1500	0.67	1.26	1.20	-0.06	0.80 - 1.20
GS> 1500	0.17	2.37	1.20	-1.17	0.80 - 1.20
Street Light	0.46	1.68	1.20	-0.48	0.70 - 1.20
Sentinel	1.38	0.39	0.60	0.21	0.80 - 1.20
USL	0.78	2.93	1.17	-1.22	0.80 - 1.20