

## EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

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1    **OVERVIEW**

2    In this Exhibit, CND is providing evidence regarding capital structure, component costs, and  
3    the calculation of return on equity and debt for the 2014 Test Year. This Exhibit has been  
4    prepared in a manner consistent with the *Report of the Board on Cost of Capital for*  
5    *Ontario's Regulated Utilities* issued December 11, 2009 ("Cost of Capital Report").

6    CND was incorporated January 1, 2000 in accordance with the requirements of the  
7    Electricity Act, 1998, S.O. 1998, c.15, Schedule A.

8    CND is a wholly owned subsidiary of Cambridge and North Dumfries Energy Plus Inc.,  
9    which is owned by the City of Cambridge (92.1%) and the Corporation of the Township of  
10   North Dumfries (7.9%). Share capital consists of 1,001 common shares in the amount of  
11   \$38,224,093.

12   Since CND's last Cost of Service Rate Rebasing Application, there has been no additional  
13   issuances or redemption of any type of shares (common or preferred) and as such, there  
14   has been no profit or loss associated with the redemption of shares.

## CAPITAL STRUCTURE

CND is requesting the deemed capital structure as provided by the Cost of Capital Report comprising: 56% long-term debt, 4% short-term debt, and 40% equity. Such structure is unchanged from CND's current approved structure with respect to its 2010 Cost of Service Application (EB-2009-0260).

Based on CND's requested capital structure and the rate base for the 2014 Test Year, the aggregate Deemed Debt requested is \$79,475,103 and comprises Short-term Debt component of \$5,298,340 and Long-term Debt of \$74,176,763. The amount of Deemed Equity requested is \$52,983,402.

Table 5-1 details CND's proposed deemed capital structure for 2014:

**Table 5-1 2014 Deemed Capital Structure**

Particulars	Capitalization Ratio		Cost Rate	Return
	Initial Application			
	(%)	(\$)	(%)	(\$)
<b>Debt</b>				
Long-term Debt	56.00%	\$74,176,763	4.96%	\$3,682,618
Short-term Debt	4.00%	\$5,298,340	2.07%	\$109,676
<b>Total Debt</b>	<b>60.00%</b>	<b>\$79,475,103</b>	<b>4.77%</b>	<b>\$3,792,294</b>
<b>Equity</b>				
Common Equity	40.00%	\$52,983,402	8.98%	\$4,757,910
Preferred Shares	0.00%	\$ -	0.00%	\$ -
<b>Total Equity</b>	<b>40.00%</b>	<b>\$52,983,402</b>	<b>8.98%</b>	<b>\$4,757,910</b>
<b>Total</b>	<b>100.00%</b>	<b>\$132,458,506</b>	<b>6.46%</b>	<b>\$8,550,203</b>

**Long-term Debt Rate:**

CND is requesting a weighted average rate of 4.77% on Long Term Debt for the 2014 Test Year. The 4.77% is computed based on the weighted average of the following:

- a) The actual rate of 4.962% on the \$35,000,000 Promissory Note payable to Sun Life Assurance Company of Canada;
- b) The actual rate of 4.993% on the \$3,019,708 unsecured Promissory Note payable to the Corporation of the Township of North Dumfries; and
- c) The rate of 4.12% on the amount of deemed debt in excess of the actual long-term debt obligations of CND. The rate of 4.12% is the Deemed Long-term Debt Rate in accordance with the Cost of Capital Parameter Updates for 2013 Cost of Service Application issued by the OEB on February 14, 2013. CND understands that the Board will provide future updates to the Cost of Capital parameters applicable to 2014 Cost of Service Applications. CND's use of a weighted average long term debt rate of 4.12% is without prejudice to any revised Long-Term Debt Rate that may be adopted by the Board in early 2014.

CND has a \$35,000,000 unsecured Promissory Note payable to Sun Life Assurance Company of Canada ("Sun Life Promissory Note") bearing interest at 4.962% per annum, and maturing November 2020. CND requests a debt rate of 4.962% with respect to the Sun Life Promissory Note. Such rate was approved in the 2010 Cost of Service Application Decision. There have been no changes to the terms of the Sun Life Promissory Note since this Decision. A copy of the Sun Life Promissory Note is provided in Appendix 5-1 to this Exhibit.

CND has a \$3,019,708 unsecured Promissory Note payable to the Corporation of the Township of North Dumfries ("Township Promissory Note") bearing interest at 4.993% per annum, and is payable on demand. CND requests a debt rate of 4.993% with respect to the Township Promissory Note. Such rate was approved in the 2010 Cost of Service Application Decision. There have been no changes to the terms of the Township

1 Promissory Note since this Decision. A copy of the Township Promissory Note is attached  
2 in Appendix 5-1 to this Exhibit.

3 CND also has intercompany debt in the amount of \$3,665,000 owing to its corporate  
4 holding company, Cambridge and North Dumfries Energy Plus Inc. ("CND Energy Plus").  
5 This amount represents cash that was advanced by CND Energy Plus, was combined with  
6 CND's cash, and is invested in short-term GICs or similar low risk investments. By  
7 combining the surplus funds available within the corporate group of companies, a higher  
8 interest rate is earned than may be possible if each company invested independently. No  
9 net interest expense is recorded by CND on this intercompany debt as the amount of  
10 interest expense on the intercompany debt is equivalent to the proportion of interest income  
11 earned on the \$3,665,000 as a percentage of the total cash investment for the corporate  
12 group of companies. This investment strategy has been in place since February 2009.

13 The amount of deemed debt in excess of the current long-term debt is computed as the  
14 amount of Deemed Long-term Debt less the amount of the Sun Life Promissory Note and  
15 the Township Promissory Note, which is \$36,157,060.

16 Table 5-2 provides of the computation for the amount of deemed debt which is in excess of  
17 CND's current long term debt.

18 **Table 5-2 Deemed Debt in Excess of Current Long Term Debt**

Deemed Debt in Excess of Current Long Term Debt		
Deemed Long Term Debt Percentage	56.00%	A
2014 Rate Base	\$132,458,506	B
Deemed Long Term Debt	\$74,176,763	C = A * B
Actual Long Term Debt	\$38,019,703	D
Deemed Debt in Excess of Current Long Term Debt	\$36,157,060	E = C - D

19

1    ***Short-term Debt Rate:***

2    CND is requesting a Short Term Debt rate of 2.07% for the 2014 Test year in accordance  
3    with the Cost of Capital Parameter Updates for 2013 Cost of Service Applications issued by  
4    the Board on February 14, 2013. CND understands that the Board will provide future  
5    updates to the Cost of Capital parameters applicable to 2014 Cost of Service Applications.  
6    CND's use of a Return on Short Term Debt of 2.07% is without prejudice to any revisions  
7    that may be adopted by the Board in early 2014.

1    **COST OF CAPITAL**

2    ***Return on Equity:***

3    CND is requesting a return on equity ("ROE") for the 2014 Test year of 8.98%, in  
4    accordance with the Cost of Capital Parameter Updates for 2013 Cost of Service  
5    Application issued by the OEB on February 14, 2013. CND understands that the Board will  
6    provide future updates to the Cost of Capital parameters applicable to 2014 Cost of Service  
7    Applications. CND's use of an ROE of 8.98% is without prejudice to any revised ROE that  
8    may be adopted by the Board in early 2014.

1 **Summary:**

2 Table 5-3 below details CND's rate base, deemed debt/equity ratio, and deemed rate of  
3 return for the period outlined in the filing guidelines and is modeled after OEB  
4 Appendix 2-OA.

5 Table 5-4 below details CND's weighted average cost of debt and is modeled after OEB  
6 Appendix 2-OB

7 **Table 5-3 – Capitalization and Cost of Capital**  
8 **Appendix 2-OA**

Year: 2010 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$58,860,701	4.99%	\$2,938,915
2	Short-term Debt	4.00% (1)	\$4,204,336	2.07%	\$87,030
3	<b>Total Debt</b>	60.0%	\$63,065,037	4.80%	\$3,025,945
	<b>Equity</b>				
4	Common Equity	40.00%	\$42,043,358	9.85%	\$4,141,271
5	Preferred Shares	0.00%	\$ -		\$ -
6	<b>Total Equity</b>	40.0%	\$42,043,358	9.85%	\$4,141,271
7	<b>Total</b>	100.0%	\$105,108,395	6.82%	\$7,167,215

Notes

9 (1) 4.0% unless an applicant has proposed or been approved for a different amount.



Year: 2014

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$74,176,763	4.96%	\$3,682,618
2	Short-term Debt	4.00% (1)	\$5,298,340	2.07%	\$109,676
3	<b>Total Debt</b>	60.0%	\$79,475,103	4.77%	\$3,792,294
	<b>Equity</b>				
4	Common Equity	40.00%	\$52,983,402	8.98%	\$4,757,910
5	Preferred Shares		\$ -	0.00%	\$ -
6	<b>Total Equity</b>	40.0%	\$52,983,402	8.98%	\$4,757,910
7	<b>Total</b>	100.0%	\$132,458,506	6.46%	\$8,550,203

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**Notes**

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

**Table 5-4 Debt Instruments APPENDIX 2-OB**

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)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	on Demand	\$ 3,019,703	4.993%	\$ 150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	\$ 1,736,772	
Total							\$ 38,019,703	4.96%	\$ 1,887,546	

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)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	on Demand	\$ 3,019,703	4.993%	\$ 150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	\$ 1,736,772	
Total							\$ 38,019,703	4.96%	\$ 1,887,546	

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)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	on Demand	\$ 3,019,703	4.993%	\$ 150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	\$ 1,736,772	
Total							\$ 38,019,703	4.96%	\$ 1,887,546	

Year 2013

1

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	on Demand	\$ 3,019,703	4.993%	\$ 150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	\$ 1,736,772	
Total							\$ 38,019,703	4.96%	\$ 1,887,546	

Year 2014

2

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	on Demand	\$ 3,019,703	4.993%	\$ 150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	\$ 1,736,772	
Total							\$ 38,019,703	4.96%	\$ 1,887,546	

## **APPENDIX 5-1 PROMISSORY NOTES**

Dated November 25, 2005

### PROMISSORY NOTE

This Promissory Note replaces the Promissory Note between Cambridge and North Dumfries Hydro Inc. and The Corporation of the Township of North Dumfries, dated as of 1<sup>st</sup> day of January 2004.

FOR VALUE RECEIVED, Cambridge and North Dumfries Hydro Inc. ("WiresCo.") hereby promises to pay to or to the order of The Corporation of the Township of North Dumfries (the "Township") the Principal sum of \$3,019,708.38 (the "Principal") with interest at the rate specified herein.

#### Repayment on Demand

The Township may demand repayment of all or part of the outstanding Principal with interest at the Established Rate upon two (2) months' written notice of demand to WiresCo.

#### Interest

The outstanding Principal shall bear interest at the Established Rate, such interest to be calculated and paid quarterly, not in advance.

Interest at the Established Rate shall accrue from July 1, 2006 until the Principal is paid in full, with interest on overdue interest at the Established Rate.

The Established Rate is 4.993%.

This Promissory Note is not assignable by the Township without the consent of WiresCo., such consent not to be unreasonably withheld.

DATED as of the 30<sup>th</sup> day of June, 2006.

**CAMBRIDGE AND NORTH DUMFRIES  
HYDRO INC.**

Per:

  
\_\_\_\_\_  
Authorized Signing Officer

  
\_\_\_\_\_  
Authorized Signing Officer

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2

**PROMISSORY NOTE**

**Cdn. \$ 35,000,000**

**November 25, 2005**

**FOR VALUE RECEIVED** Cambridge and North Dumfries Hydro Inc. (the "**Borrower**") hereby promises to pay to the order of **Sun Life Assurance Company of Canada** (the "**Lender**"), at The Bank of Montreal, International Banking, Head Office, Montreal, Quebec, Account No.:24231014457, SWIFT BIC Address: BOFMCAM2 (or such other place as the Lender may from time to time designate), in accordance with the Credit Agreement dated as of November 25, 2005 between the Borrower and the Lender (as the same may be amended, supplemented, revised, restated or replaced from time to time, the "**Credit Agreement**"), the principal sum of **THIRTY-FIVE MILLION CANADIAN DOLLARS (Cdn. \$35,000,000)** with interest thereon calculated and payable quarterly at a rate per annum equal to the rate set out in Section 5.1(a) of the Credit Agreement.

Upon the occurrence of an Event of Default the entire principal amount of this Promissory Note together with accrued interest and any Make-Whole Payment shall become due and payable in accordance with the terms of the Credit Agreement.

On the Maturity Date any amounts then remaining unpaid, including principal and interest, shall be immediately paid by the Borrower to the Lender without the need for any notice, demand or observance of any other formality whatsoever.

This Promissory Note is evidence of the indebtedness issued pursuant to the Credit Agreement, is subject to and governed by the terms and conditions thereof and the other agreements and instruments referred to in the Credit Agreement, all as more particularly described and provided therein, and is entitled to the benefits thereof. Capitalized terms used but not defined herein shall have the meaning set forth in the Credit Agreement. Reference is made to the Credit Agreement for provisions regarding mandatory and optional payments and prepayments hereof, acceleration of the maturity hereof by the Lender upon the happening of certain stated events, and rates of interest after default.

The Borrower hereby waives diligence, demand, presentment, protest and notice of any kind, and assents to extensions of the time of payment, release, surrender or substitution of security, or forbearance or other indulgence, without notice. Subject to the terms of the Credit Agreement, the Borrower agrees to pay all amounts of principal, interest, and fees under this Promissory Note without offset, deduction, claim, counterclaim, defense or recoupment, all of which are hereby waived by the Borrower.

In the event the Lender or any holder hereof shall retain or engage legal counsel to collect, enforce or protect its interests with respect to this Promissory Note, the Borrower shall pay all of the reasonable costs and expenses of such collection, enforcement or protection, including reasonable legal fees, whether or not suit is instituted.

This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario, and shall be binding upon the successors and assigns of the Borrower and inure to the benefit of the Lender and its successors and assigns. If any term or provision of

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**APPENDIX 5-2**

2

**OEB APPENDIX 2-OA – CAPITAL STRUCTURE AND COST OF CAPITAL**



## Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the last Board approved year and the test year.

Year: 2014

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$74,176,763	4.96%	\$3,682,618
2	Short-term Debt	4.00% (1)	\$5,298,340	2.07%	\$109,676
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$79,475,104</b>	<b>4.77%</b>	<b>\$3,792,294</b>
	<b>Equity</b>				
4	Common Equity	40.00%	\$52,983,402	8.98%	\$4,757,910
5	Preferred Shares		\$ -	0.00%	\$ -
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$52,983,402</b>	<b>8.98%</b>	<b>\$4,757,910</b>
7	<b>Total</b>	<b>100.0%</b>	<b>\$132,458,506</b>	<b>6.46%</b>	<b>\$8,550,203</b>

### Notes (1)

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

## Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the last Board approved year and the test year.

Year: 2010 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$58,860,701	4.99%	\$2,938,915
2	Short-term Debt	4.00% (1)	\$4,204,336	2.07%	\$87,030
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$63,065,037</b>	<b>4.80%</b>	<b>\$3,025,945</b>
	<b>Equity</b>				
4	Common Equity	40.00%	\$42,043,358	9.85%	\$4,141,271
5	Preferred Shares		\$ -		\$ -
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$42,043,358</b>	<b>9.85%</b>	<b>\$4,141,271</b>
7	<b>Total</b>	<b>100.0%</b>	<b>\$105,108,395</b>	<b>6.82%</b>	<b>\$7,167,215</b>

### Notes (1)

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

1

**APPENDIX 5-3**

2

**APPENDIX 2-OB – DEBT INSTRUMENTS**

## Appendix 2-OB Debt Instruments

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

Year 2014

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note	Township of North Dumfries	Affiliated	Fixed Rate	30-Jun-06	On Demand	\$ 3,019,703	4.993%	150,774	
2	Promissory Note	Sun Life Assurance	Third-Party	Fixed Rate	25-Nov-05	15 Years	\$ 35,000,000	4.962%	1,736,772	
3									0	
Total							\$ 38,019,703	4.965%	1,887,546	

### 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)	Additional Comments, if any
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Total							\$ 38,019,703	4.965%	1,887,546	

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Total							\$ 38,019,703	4.965%	1,887,546	

Year 2009 Should 2011

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3									0	
Total							\$ 38,019,703	4.965%	1,887,546	

Year 2008 Should 2010

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
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3									0	
Total							\$ 38,019,703	4.965%	1,887,546	