



EXHIBIT 5

COST OF CAPITAL & CAPITAL STRUCTURE

EXHIBIT 5: Cost of Capital & Capital Structure

TAB 1 (of 2)

Capital Structure

OVERVIEW OF CAPITAL STRUCTURE

This evidence summarizes the method and cost of financing Hydro One Brampton's capital requirements for the 2015 Test Year.

In determining the cost of capital Hydro One Brampton has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009. To comply with this report, HOBNI has prepared this application with deemed capital structure of 56% Long Term ("LT") Debt, 4% Short Term ("ST") debt and 40% Equity.

The approved rates of return in Hydro One Brampton's 2011 Cost of Service application were as follows: Return on Equity ("ROE"): 9.66%, Deemed LT Debt rate: 6.62%, and Deemed ST Debt rate: 2.43%.

For 2012 to 2014 the rate of return on rate base continues to be based on the 2011 OEB approved returns noted above.

On November 25, 2013, the Board issued the Cost of Capital Parameter Updates for 2014 Cost of Service Applications as follows. ROE: 9.36%, Deemed LT Debt rate: 4.88% and Deemed ST Debt rate: 2.11%. Hydro One Brampton used the Deemed ST Debt rate parameter from this report, used a different ROE parameter that it forecasted for 2015, and used a different LT Debt rate parameter in this application.

Hydro One Brampton has opted to use different Cost of Capital parameters since the current Cost of Capital Parameter Updates for 2014 report was issued for 2014 Cost of Service filers. The parameters that HOBNI used are expected to reflect market conditions in 2015. HOBNI has forecast a Deemed ROE of 9.71% as a placeholder as submitted in *Exhibit 5 Tab 2 Schedule 1*, and a LT Debt rate of 6.12% as provided in *Appendix 2* of this Exhibit.

Hydro One Brampton understands that the Board will finalize the Cost of Capital Parameters Updates for 2015 Cost of Service Applications for rates effective January 1, 2015 in November 2014, and will update its ROE when the Board releases the final parameters.

HOBNI's weighted average cost of capital for the 2015 Test Year has been calculated as 7.39% as shown in **Table 1** in the cost of capital in *Exhibit 5 Tab 2 Schedule 1*.

Table 1 below presents HOBNI's 2011 OEB Approved, and 2015 Test Year rates of return, working capital allowance and rate base calculations for comparative purposes.

HOBNI has also filed OEB *Appendix 2-OA* presented in *Appendix 1* of this Exhibit.

Table 1: Rates of Return, Working Capital Allowance and Rate Base Calculations

2011 OEB APPROVED RATE OF RETURN		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	6.62%
Short-Term Debt	4.00%	2.43%
Return On Equity	40.00%	9.66%
Weighted Debt Rate		6.34%
Regulated Rate of Return		7.67%

2015 TEST YEAR RATE OF RETURN		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	6.12%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.71%
Weighted Debt Rate		5.85%
Regulated Rate of Return		7.39%

2011 OEB APPROVED WORKING CAPITAL ALLOWANCE	
Distribution Expenses	\$
Distribution Expenses - Operation	4,359,988
Distribution Expenses - Maintenance	3,471,043
Billing and Collecting	4,897,714
Community Relations	569,051
Administrative and General Expenses	6,772,470
Taxes Other than Income Taxes	-
Less: Capital Taxes within 6105	-
Total Eligible Distribution Expenses	20,070,266
Power Supply Expenses	328,509,897
Total Working Capital Expenses	348,580,163
Working Capital Allowance rate of 15%	52,287,024

2015 TEST YEAR WORKING CAPITAL ALLOWANCE	
Distribution Expenses	\$
Distribution Expenses - Operation	4,979,224
Distribution Expenses - Maintenance	5,620,008
Billing and Collecting	6,142,599
Community Relations	900,903
Administrative and General Expenses	7,944,773
Taxes Other than Income Taxes	-
Less: Capital Taxes within 6105	-
Total Eligible Distribution Expenses	25,587,507
Power Supply Expenses	470,431,894
Total Working Capital Expenses	496,019,401
Working Capital Allowance rate of 13%	64,482,522

2011 OEB APPROVED RATE BASE	
Fixed Assets Opening Balance 2011	269,469,317
Fixed Assets Closing Balance 2011	280,353,547
Average Fixed Asset Balance for 2011	274,911,432
Working Capital Allowance	52,287,024
Rate Base	327,198,457
Regulated Rate of Return	7.67%
Regulated Return on Capital	25,084,052
Deemed Interest Expense	12,441,104
Deemed Return on Equity	12,642,948

RATE BASE CALCULATION FOR 2015	
Fixed Assets Opening Balance 2015	332,295,594
Fixed Assets Closing Balance 2015	348,427,470
Average Fixed Asset Balance for 2015	340,361,532
Working Capital Allowance	64,482,522
Rate Base	404,844,054
Regulated Rate of Return	7.39%
Regulated Return on Capital	29,930,038
Deemed Interest Expense	14,205,895
Deemed Return on Equity	15,724,143

EXHIBIT 5: Cost of Capital & Capital Structure

Appendix 1

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: 2015 - Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$226,712,670	6.12%	\$13,864,207
2	Short-term Debt	4.00% (1)	\$16,193,762	2.11%	\$341,688
3	Total Debt	60.0%	\$242,906,432	5.85%	\$14,205,895
	Equity				
4	Common Equity	40.00%	\$161,937,622	9.71%	\$15,724,143
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$161,937,622	9.71%	\$15,724,143
7	Total	100.0%	\$404,844,054	7.39%	\$29,930,038

Notes
(1)

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

Year: 2011- Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$183,231,136	6.62%	\$12,123,067
2	Short-term Debt	4.00% (1)	\$13,087,938	2.43%	\$318,037
3	Total Debt	60.0%	\$196,319,074	6.34%	\$12,441,104
	Equity				
4	Common Equity	40.00%	\$130,879,383	9.66%	\$12,642,948
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$130,879,383	9.66%	\$12,642,948
7	Total	100.0%	\$327,198,457	7.67%	\$25,084,052

Notes
(1)

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

EXHIBIT 5: Cost of Capital & Capital Structure

TAB 2 (of 2)

Cost of Capital (Return on Equity and Cost of Debt)

OVERVIEW OF COST OF CAPITAL

The following section outlines Hydro One Brampton's assumptions with respect to its cost of capital, specifically: ROE; LT Debt rate, and ST Debt rate.

Return on Equity

Hydro One Brampton has adopted a ROE of 9.71% for the purposes of preparing its 2015 Test Year application. This ROE is the same as that to be submitted in the 2015 Cost of Service application (EB-2013-0416) of the Company's affiliated distribution business owned and operated by Hydro One Networks Inc. This ROE is based on the Long Canada Bond Forecast for 2014 using the October 2013 Long Term Consensus Forecast.

Cost of Debt: Long Term

All long-term debt instruments issued by Hydro One Brampton are held by its shareholder Hydro One Inc. and are based on the actual terms of specific external debt issuances when providing intercompany debt financing to its subsidiaries and their regulated businesses.

Hydro One Brampton has currently issued three promissory notes which are held in their entirety by the parent company, Hydro One Inc. These notes consist of instruments issued on June 1, 2001, September 26, 2011, and January 13, 2012 with a total face value of \$183,000,000. Copies of these promissory notes are provided as *Exhibit 5, Tab 2, Schedule 1, Appendix 1 "Copies of Debt Arrangements with Affiliates"*.

Hydro One Brampton proposes to add \$20 million of new LT Debt in 2014 and \$15 million in 2015. These new debt issuances have an assumed 30-year term, assumed issue dates of July 1 in the given year, and annual assumed interest rates of 4.93% and 5.63% respectively. These rates are consistent with Hydro One Inc.'s Forecast Yield for 2014-2019 Issuance Terms for 30 year notes for the years of 2014 and 2015. Each rate is comprised of the forecast Canada bond yield plus the Hydro One Inc. credit spread applicable to the term.

Hydro One Brampton is requesting use of a LT Debt Rate of 6.12% for the 2015 Test Year, which is the weighted average the LT Debt expected to be outstanding.

Specific debt instruments outstanding and related interest costs are summarized in *Exhibit 5, Tab 2, Schedule 1 Appendix 1 "Copies of Debt Instruments with Affiliates"*. As directed by the

Board in Note 1 of *Appendix 2-OB*, HOBNI has prorated the new debt issuances based on the number of months outstanding such that the outstanding LT Debt used in *Appendix 2-OB* is the average outstanding debt for the year for the new debt issuances.

Cost of Debt: Short Term

Hydro One Brampton is requesting use of a ST Debt Rate for the 2015 Test Year of 2.11%, which is in accordance with the Cost of Capital Parameter Updates for 2014 Cost of Service Applications issued by the OEB on November 25, 2013.

Profit or Loss on Redemption of Debt or Preferred Shares

There is no profit or loss on redemption of debt or preferred shares.

Weighted Average Cost of Capital

Based on these capital components, the Company's weighted average cost of capital is 7.39% as illustrated in the following table:

Table 1 Weighted Average Cost of Capital

		2011 Board Approved		2015 Test Year	
	Deemed Capital Structure	Rate	Weighted Average Cost of Capital	Rate	Weighted Average Cost of Capital
Long Term Debt	56%	6.62%	3.71%	6.12%	3.43%
Short Term Debt	4%	2.43%	0.10%	2.11%	0.08%
Equity	40%	9.66%	3.86%	9.71%	3.88%
Total	100%		7.67%		7.39%

Hydro One Brampton will update its Cost of Capital Parameters for ROE and ST Debt for the 2015 Test year in accordance with the Board's most recent Cost of Capital Parameter Updates available at the time of the final decision in this case.

EXHIBIT 5: Cost of Capital & Capital Structure

Appendix 1

Copies of Debt Arrangements with Affiliates

HYDRO ONE BRAMPTON NETWORKS INC.

NOTE

Principal Amount: \$143,000,000
Interest Rate: 6.95% per annum
Due: June 1, 2032

FOR VALUE RECEIVED, HYDRO ONE BRAMPTON NETWORKS INC. (the "Company"), incorporated under the laws of the Province of Ontario and having its principal office and place of business at Brampton, Ontario, **PROMISES TO PAY** to or to the order of **HYDRO ONE INC.** ("Hydro One") at its offices at Toronto, Ontario or at such other place as Hydro One may designate, the principal amount of \$143,000,000 in lawful money of Canada, with interest on such amount at the rate calculated in the manner and payable at the times specified in this Note.

This Note is subject to redemption or repurchase before maturity by the Company, in whole or in part, on the same terms and conditions, *mutatis mutandis*, as those that apply to the Series 2 Medium-Term Notes issued by Hydro One pursuant to an indenture dated as of June 4, 2001 and a supplemental indenture dated as of June 22, 2001 (collectively, the "Indenture") and which were sold by way of a prospectus dated June 4, 2001 with a pricing supplement dated June 19, 2001. Hydro One shall and is unconditionally and absolutely authorized and directed by the Company to record on the grid attached hereto the date and amount of each prepayment on account of the principal paid to Hydro One on a partial redemption or repurchase of this Note and the resulting outstanding principal amount of this Note. Such notations, in the absence of manifest mathematical error, shall be *prima facie* evidence of such prepayments.

The outstanding principal amount of this Note shall become due and payable on June 1, 2032, together with all interest accrued thereon to that date.

The principal amount of this Note remaining from time to time unpaid and outstanding shall bear interest at a rate of 6.95% per annum from the date of this Note, payable semi-annually in arrears in equal instalments on each Series 2 Note Interest Payment Date. The first Series 2 Note Interest Payment Date will be December 1, 2001 for the period from and including November 14, 2001. Interest will be payable in respect of each Series 2 Note Interest Period (after as well as before maturity, default and judgement, with interest on overdue interest at the same rate) on each Series 2 Note Interest Payment Date. Interest on this Note will be computed on the basis of a year of 365 days or 366 days, as the case may be, for the actual number of days elapsed and will accrue from day to day. Capitalized terms not defined herein shall have the meanings assigned to them in the Indenture.

This Note is not transferable or negotiable without the prior written consent of the Company.

The Company waives presentment for payment and notice of non-payment.

This Note shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF the Company has executed this Note.

HYDRO ONE BRAMPTON NETWORKS INC.

By: 

HYDRO ONE BRAMPTON NETWORKS INC.

NOTE

Principal Amount:	\$20,000,000	Date: September 26, 2011
Interest Rate:	4.41% per annum	
Due:	September 26, 2041	

FOR VALUE RECEIVED, HYDRO ONE BRAMPTON NETWORKS INC. (the "Company"), incorporated under the laws of the Province of Ontario and having its principal office and place of business at Brampton, Ontario, **PROMISES TO PAY** to or to the order of **HYDRO ONE INC. ("Hydro One")** at its offices at Toronto, Ontario or at such other place as Hydro One may designate, the principal amount of \$20,000,000 in lawful money of Canada, with interest on such amount at the rate calculated in the manner and payable at the times specified in this Note.

This Note is subject to redemption or repurchase before maturity by the Company, in whole or in part, on the same terms and conditions, *mutatis mutandis*, as those that apply to the Series 23 medium term Notes issued by Hydro One pursuant to an indenture dated as of June 4, 2001 and twenty-third supplemental indenture dated as of September 26, 2011 (collectively, the "Indenture") and which were sold by way of a prospectus dated August 23, 2011 with a pricing supplement No. 1 dated September 21, 2011. Hydro One shall and is unconditionally and absolutely authorized and directed by the Company to record on the grid attached hereto the date and amount of each prepayment on account of the principal paid to Hydro One on a partial redemption or repurchase of this Note and the resulting outstanding principal amount of this Note. Such notations, in the absence of manifest mathematical error, shall be *prima facie* evidence of such prepayments.

The outstanding principal amount of this Note shall become due and payable on September 26, 2041, together with all interest accrued thereon to that date.

The principal amount of this Note remaining from time to time unpaid and outstanding shall bear interest at a rate equal to 4.41% per annum from the date of this Note, payable semi-annually in arrears in equal instalments on each Series 23 Note Interest Payment Date. The first Series 23 Note Interest Payment Date will be March 26, 2012 for the period from and including September 26, 2011. Interest will be payable in respect of each Series 23 Note Interest Period (after as well as before maturity, default and judgement, with interest on overdue interest at the same rate) on each Series 23 Note Interest Payment Date. Interest on this Note will be computed on the basis of a year of 365 days or 366 days, as the case may be, for the actual number of days elapsed and will accrue from day to day. Capitalized terms not defined herein shall have the meanings assigned to them in the Indenture.

This Note is not transferable or negotiable without the prior written consent of the Company.

The Company waives presentment for payment and notice of non-payment.

This Note shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF the Company has executed this Note.

HYDRO ONE BRAMPTON NETWORKS INC.

By: R. Fumagalli
Name:
Title:

HYDRO ONE BRAMPTON NETWORKS INC.

NOTE

Principal Amount:	\$20,000,000	Date: January 13, 2012
Interest Rate:	3.22% per annum	
Due:	January 13, 2022	

FOR VALUE RECEIVED, HYDRO ONE BRAMPTON NETWORKS INC. (the “Company”), incorporated under the laws of the Province of Ontario and having its principal office and place of business at Brampton, Ontario, **PROMISES TO PAY** to or to the order of **HYDRO ONE INC. (“Hydro One”)** at its offices at Toronto, Ontario or at such other place as Hydro One may designate, the principal amount of \$20,000,000 in lawful money of Canada, with interest on such amount at the rate calculated in the manner and payable at the times specified in this Note.

This Note is subject to redemption or repurchase before maturity by the Company, in whole or in part, on the same terms and conditions, *mutatis mutandis*, as those that apply to the Series 25 medium term Notes issued by Hydro One pursuant to an indenture dated as of June 4, 2001 and twenty-fifth supplemental indenture dated as of January 13, 2012 (collectively, the “Indenture”) and which were sold by way of a prospectus dated August 23, 2011 with a pricing supplement No. 3 dated January 10, 2012. Hydro One shall and is unconditionally and absolutely authorized and directed by the Company to record on the grid attached hereto the date and amount of each prepayment on account of the principal paid to Hydro One on a partial redemption or repurchase of this Note and the resulting outstanding principal amount of this Note. Such notations, in the absence of manifest mathematical error, shall be *prima facie* evidence of such prepayments.

The outstanding principal amount of this Note shall become due and payable on January 13, 2022, together with all interest accrued thereon to that date.

The principal amount of this Note remaining from time to time unpaid and outstanding shall bear interest at a rate equal to 3.22% per annum from the date of this Note, payable semi-annually in arrears in equal instalments on each Series 25 Note Interest Payment Date. The first Series 25 Note Interest Payment Date will be July 13, 2012 for the period from and including January 13, 2012. Interest will be payable in respect of each Series 25 Note Interest Period (after as well as before maturity, default and judgement, with interest on overdue interest at the same rate) on each Series 25 Note Interest Payment Date. Interest on this Note will be computed on the basis of a year of 365 days or 366 days, as the case may be, for the actual number of days elapsed and will accrue from day to day. Capitalized terms not defined herein shall have the meanings assigned to them in the Indenture.

This Note is not transferable or negotiable without the prior written consent of the Company.

The Company waives presentment for payment and notice of non-payment.

This Note shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF the Company has executed this Note.

HYDRO ONE BRAMPTON NETWORKS INC.


By: 
Name:
Title:

EXHIBIT 5: Cost of Capital & Capital Structure

Appendix 2

OEB 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.

Year2011

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
1	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jun-01	31	\$ 143,000,000	0.0695	\$ 9,938,500	
2	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	26-Sep-11	30	\$ 10,000,000	0.0441	\$ 441,000	Principle X .5 for 1/2 yr.
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 153,000,000	0.0678	\$ 10,379,500	

Year2012

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
1	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jun-01	31	\$ 143,000,000	0.0695	\$ 9,938,500	
2	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	26-Sep-11	30	\$ 20,000,000	0.0441	\$ 882,000	
3	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	13-Jan-12	10	\$ 10,000,000	0.0322	\$ 322,000	Principle X .5 for 1/2 yr.
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 173,000,000	0.0644	\$ 11,142,500	

Year2013

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
1	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jun-01	31	\$ 143,000,000	0.0695	\$ 9,938,500	
2	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	26-Sep-11	30	\$ 20,000,000	0.0441	\$ 882,000	
3	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	13-Jan-12	10	\$ 20,000,000	0.0322	\$ 644,000	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 183,000,000	0.0626	\$ 11,464,500	

Appendix 2-OB
Debt Instruments

Year2014

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
1	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jun-01	31	\$ 143,000,000	0.0695	\$ 9,938,500	
2	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	26-Sep-11	30	\$ 20,000,000	0.0441	\$ 882,000	
3	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	13-Jan-12	10	\$ 20,000,000	0.0322	\$ 644,000	
4	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jul-14	30	\$ 10,000,000	0.0493	\$ 493,000	Principle X .5 for 1/2 yr.
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 193,000,000	0.0620	\$ 11,957,500	

Year2015

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
1	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jun-01	31	\$ 143,000,000	0.0695	\$ 9,938,500	
2	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	26-Sep-11	30	\$ 20,000,000	0.0441	\$ 882,000	
3	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	13-Jan-12	10	\$ 20,000,000	0.0322	\$ 644,000	
4	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jul-14	30	\$ 20,000,000	0.0493	\$ 986,000	
5	Promissory Note	Hydro One Inc.	Affiliated	Fixed Rate	1-Jul-15	30	\$ 7,500,000	0.0563	\$ 422,250	Principle X .5 for 1/2 yr.
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 210,500,000	0.061153	\$ 12,872,750	

1. Where financing is in place for part of the year, mid year issue date is assumed and interest amount is included in appropriate interest dollar cell.